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Innovating a Competitive Advantage

For many years the chemicals and plastics industry has fretted over the inevitability of commoditisation, and in the past five years the challenges of increasing competition from labour- and raw material-advantaged producers and the pressures of increasing raw materials costs have turned up the heat significantly. How can the western chemicals industry regain a strong competitive foothold?

The inevitability of commoditisation is known to most marketers from their study of the product-market life cycle curve. The challenge is to know and to anticipate the timing of the life-cycle evolution and then to adjust strategy to address the evolving business and market conditions.

Product differentiation can – at best – provide only limited differentiation during early stages of introduction and growth of a market. Today, it is a relatively simple matter for competitors to “jump on a new product bandwagon”, swiftly eliminating any advantages of product differentiation that may exist in a new product development.

Service differentiation is the next most obvious source of differentiation beyond the product – whether that be based on a delivery/supply chain service (e.g. JIT) or the provision of technical services and support or even joint development and marketing. Here again, it is within the means of most key players in the chemicals industry to develop such services, restricting the value and impact of this avenue of differentiation.

So, what remains available to the chemicals and plastics producer as a sustainable basis of differentiation and – thereby – competitive advantage?

In 2005, MarketAbility completed customer research in several undifferentiated (some would call them “commodity”) chemicals and plastics markets. A key feature of these markets is the high number of established players and the very high levels of satisfaction recorded by customers on the standard aspects of product quality, consistency of quality, delivery, supply and technical services, regardless of supplier. In fact, there was hardly any difference at all in customers’ perception of the performance between suppliers on these “tablestake” items of the offering.

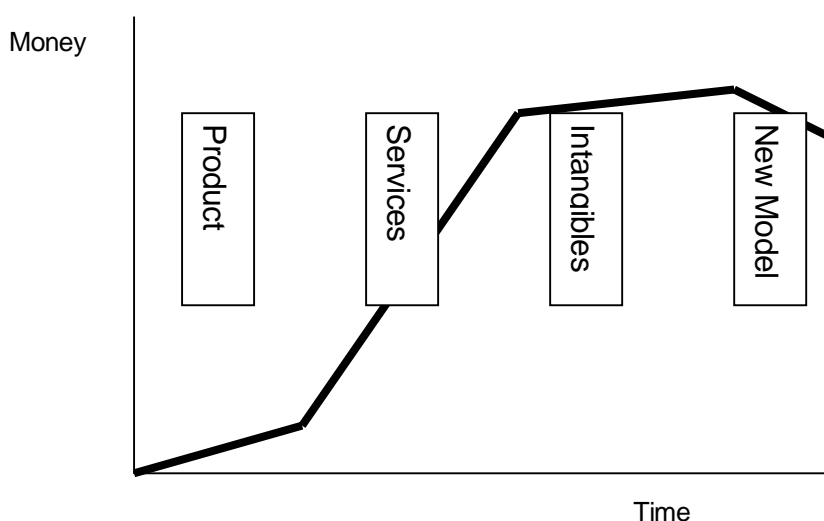
In one such survey, when confronted with the question “Who is the best supplier of *a certain product?*”, over half the respondents were unable to answer the question because they could perceive no difference between the suppliers, underlining the lack of differentiation. Interestingly, when answering the question “What would make a premium supplier of *a certain product?*” not only were all respondents able to answer the question, but the message was very clear and simple – four R’s – what we have come to call the Four R’s of Sustainable Competitive Advantage:

REPUTATION, RELIABILITY, RESPONSIVENESS, RELATIONSHIP.

A clear message: when the product and the service aspects are in order, it is the intangible elements of the offering that make the difference and drive the customer’s choice of supplier.

This should be the best news that any of the major players in this industry have read for some time. Specifically, because these are elements that do not come easily or quickly, these are not the elements that a newcomer or a market outsider can easily reproduce or match – indeed, these are elements that need to be worked on, invested in and built over time. What is more, at least two of them - REPUTATION and RELATIONSHIP – cannot be matched or equalled by any competitor, they are UNIQUE for the individual supplier.

Differentiators through the Life Cycle



What this is actually telling us is that the major players in this industry have done a great job to build and develop such a high standard of excellence in basic products and services that the customer finds it extremely difficult to differentiate on this basis. This should be seen as a very positive thing. The downside is that this capability is easily replicated by other players, even newcomers. Also, all the key players in the industry have achieved similar levels of excellence – hence the lack of differentiation.

So, now is the time for those key players to push themselves beyond their comfort levels of product and service and this must be led from the top. The challenge to the leaders of this industry is – where do we go from here?

The answer is a tricky one, because we are talking about entering the world of intangible elements, lacking the clear structure, formulae and predictability of our beloved chemicals with their hexagons and rings. We are talking about the world of perception and image, “touchy, feely” things that are anathema to most chemists and chemical engineers.

We are talking here about branding and about relationship management.

A few of the more enlightened players are beginning to move in this direction – BASF’s “The Chemical Company” campaign, being a prime example. When will others have the courage to follow this lead and create their individual and *significantly different* image and reputation?

Brand image and reputation must speak to the values of the customer and must appeal to the customer, if they are to encourage a customer preference. Leaders must encourage a stronger emphasis and focus on customer value and customer perceptions as a basis to build a stronger image, reputation and relationship for their company that can deliver far more sustainable value than an interminable focus on cost, efficiency and production.

Focus on customer needs and value is NOT about giving the customer everything they want, nor even everything they need. It is about understanding what they are **willing to pay for**, delivering that efficiently and profitably, capturing the value back through the price. Focus on customer needs and value drivers can and does lead to higher prices and better margins.

Customer loyalty is not about customers who just continue to place orders, true customer loyalty is a positive intention to stay with a supplier and is reflected in a higher level of customer retention. If you are being confronted constantly with challenges on price and threats to switch to alternative suppliers, you are a long way from customer loyalty and retention. This is where the elements of reliability and responsiveness can play their roles, supporting the development of a stronger reputation as the basis for a lasting and sustainable customer relationship.

The investment in developing a stronger reputation and relationship built on responding to customer needs and value drivers will lead to improved customer retention, which can save a vast amount of wasted effort, energy and cost in trying to replace lost business and customers with new, an effort which can amount to anything from 5 – 20 times more than the cost of retaining and delighting the customers we already have.

Ultimately, and if all else fails, you may need to re-define or re-invent your business model to serve a new or re-defined market, such as Dow Corning has done with creation of Xiameter and the differentiation of the Dow Corning solutions offering and Basell are emulating with Alastian.

Some simple tips for management:

INVEST in the development of a truly differentiated image and reputation.

ENCOURAGE a focus on understanding customer needs and value drivers (not on product).

DEMAND a customer need and value-driven segmentation as the basis of commercial business strategies, one which is dynamic and reflects the changing needs of customers through the life cycle.

INSIST on the development of complete and differentiated offerings going beyond product and service to include intangible elements (reputation, reliability, responsiveness, relationship), where you are more likely to build a sustainable differentiation.

LEAD innovative thinking beyond products and services and into intangibles and new business models.

PUSH for pricing linked to customer value and not constrained by narrow-minded focus on competition. Customer value is where the real value is.

EMPOWER your people to focus on the customer, understanding customer needs and value drivers and release them from the straightjacket of product, production and capacity driven thinking. People must be encouraged and enabled to break their old habits.

MEASURE your performance based on customer-driven parameters. Include rigorous won/lost-business analysis and customer retention in your measurement processes.

About the Author

Phil Allen runs the Marketing Excellence Practice, MarketAbility, serving a broad base of clients in chemicals, plastics, energy and other industrial and B2B sectors covering all aspects of improving business profitability through applied practical marketing excellence, customer value management and key account management. He counts more than 30 years of practical experience in marketing and sales.

MarketAbility operates both at global and local levels around the world.

In a recent profile of MarketAbility on EuroNews, Juan Senior, International Business Writer, praised MarketAbility for its unique and practical approach to business value creation.

He is co-author, with J. Nicholas de Bonis and Eric Balinski, of the book "Value-Based Marketing for Bottom-Line Success", published by McGraw Hill in 2003. Visit <http://www.pentadigm.com>

Phil is also President of GEMS Europe GmbH (A Global Excellence Marketing and Sales excellence practice) and a partner in CSI for Profit – creating profits for clients by applying Customer Segmentation Intelligence.

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