

Surviving through troubled times demands Marketing Excellence

An economic downturn is not the time for companies to start cutting back on their marketing activities, argues Phil Allen

In times of growth and prosperity everyone thinks that they know how to deploy their marketing to best effect. When times get tough, many people think that they can rein in their marketing activities and save money without impacting the business. Wrong.

In times like these, the strategic elements of marketing are critical to sustaining business success and profitability. This is not to suggest that marketing will help you to buck the trend and continue to grow in a recession. What marketing can and will do - if properly and effectively deployed - is to help you through the tough times with the minimum damage and ensure that you are able to capitalise on any opportunities that do arise during the downtime. It will make sure also that you are prepared to exploit any profitable growth opportunities whenever they arise and have you fit and ready to capitalise on the upturn.

Marketing is not just about promotion and advertising. It is a strategic approach to managing a business for greater profit and is absolutely critical, especially when times get tough. Marketing will allow your company to make the right strategic choices and decisions in terms of focus and resource deployment. Fundamentally, marketing is about developing lasting profitable relationships with customers who **prefer** to do business with you, because their experience with your brand is most positive. The relationship and the brand experience must be sustainable through good times and through hard times, when the customer needs and values your support even more.

So what are the key things you need to do right now to conduct a critical review of all key elements of your marketing strategy?

First of all, ask yourself the following questions.

Have you identified segments that consist of groups of customers with similar need, behaviour and value drivers (*Note: a geography, industry sector or application does NOT fit this definition*)?

Do your offerings to each segment look REALLY different from one segment to another?

Are your offerings TRULY differentiated from those of your competitors?

If you answer yes to each of the above questions, then your customers should be delighted to be buying from you, should not be seeking alternatives and should be happy with the value they are receiving from you.

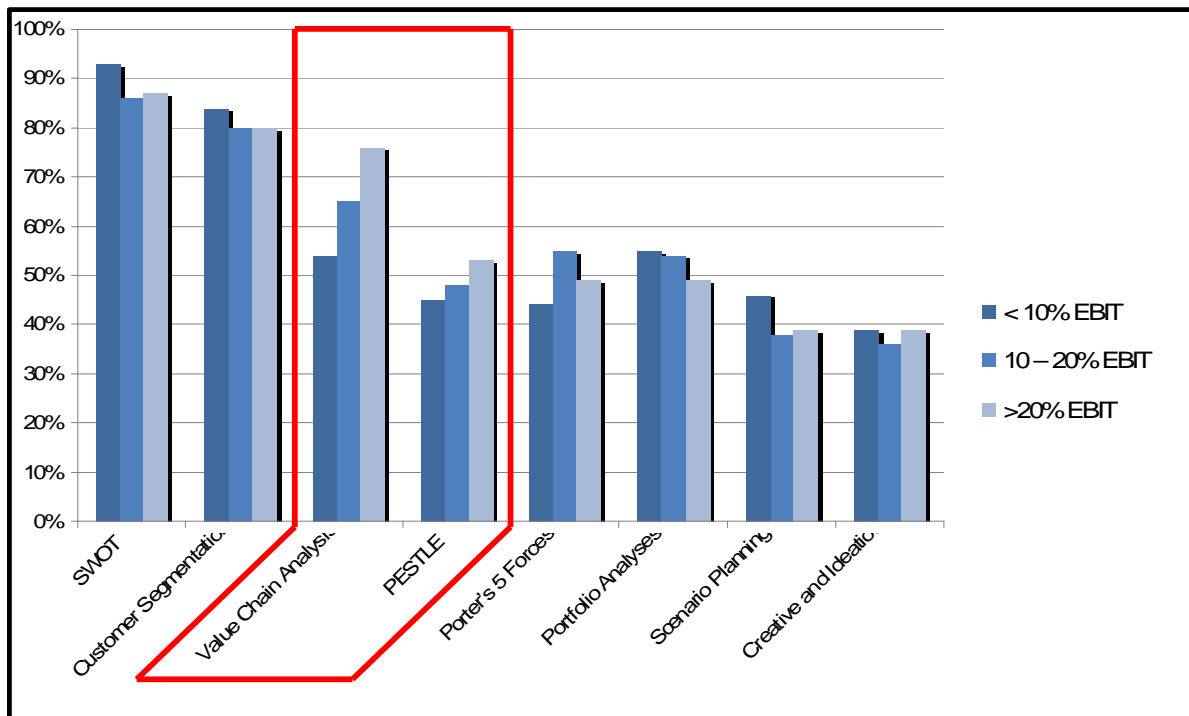
If, on the other hand, your customers are complaining about your offering, about your prices, about your service and are seeking constantly alternative suppliers and confronting you always with competitive offerings, you might need to revisit these questions and your answers to them.

Let's consider some basic facts about Strategic Marketing. Whether in good times or bad, there are some key aspects of marketing that we should always remember.

Value-based marketing starts with a detailed understanding of the market value chain, in order to identify the real customers whom you are serving – not always and not only the customers to whom you sell directly, but often also their customers and even their customers' customers and on down to the final consumer. This means gaining a deep understanding of the entire market value chain and of the different needs and value-drivers of the various customers at each level in the value chain, which leads to a customer needs and value-based segmentation – an essential basis for constructing a compelling and differentiated offering to address the needs and values of these customers in a targeted way.

Our recent Strategic Marketing Benchmark Study¹ shows a clear correlation between companies using Market Value Chain Analysis and their achievement of higher levels of profitability.

Chart 1: Market Value Chain Analysis and PESTLE generate more profit



Source; Strategic Marketing Benchmark Study, GEMS Europe, ECMSA, Market Planning International

Understanding in depth and detail what drives customers at each level in the value chain can often help you to identify value elements in your offering of which you had previously been unaware. It also involves understanding what customers do not value. The essential question you need to answer is: **what is the customer WILLING to pay for?**

Customer Value Segmentation is an important basis for choosing your strategic direction – you must target the segments that are most attractive and where you have the greatest competitive advantage, de-emphasising those less attractive segments where you cannot differentiate your offering. This is a critical strategic choice in order to ensure that you deploy your resources where they will have the greatest impact on your sustainable profitable long-term growth and your short-term survival.

Based on many years of experience in helping clients to discover meaningful customer needs- and value-based segmentation, GEMS Europe GmbH has developed a Dynamic Customer SegmentationSM Model to help clients kick-start their efforts towards a more meaningful customer value segmentation. Using this and related marketing tools we have typically experienced an improvement of between 5% and 20% in bottom-line profits.

One key beneficiary of such customer value segmentation expertise was Dow Corning, who launched their acclaimed and highly successful Dow Corning/Xiameter dual-branding strategy based on a novel customer needs-and value-based segmentation. This marketing success story has continued since 2002 into its sixth successful and profitable growth year in 2008.

In a recent conversation current Dow Corning Chief Marketing Officer, Brian Chermiside, confirmed the importance of customer segmentation in "simplifying our view of the market such that all of our C-Executives 'get it' and are able to lead their respective groups to support and implement the strategy. In a recent review to account for the current economic situation it also enabled us to quickly agree important adjustments to our strategy in response to the changing market conditions."

Once you have identified the customer value segments you will target, then you must set about identifying what elements of your offering can deliver that value and how you can differentiate your offering from those of your competition. This is where you need to study carefully and comprehensively the product, service and intangible elements of your offering and be able to quantify the value to the customer of those offering elements, building a picture of the true and complete value of your offering and quantify the value to the customer as a basis for understanding the pricing potential.

Further experience of GEMS Europe GmbH in connection with differentiation is the discovery of the **4R's of Sustainable Differentiation**SM – essential elements of any compelling customer value proposition: Reputation, Reliability, Responsiveness and Relationshipⁱ.

Strategic Marketing is all about retaining profitable customers by providing them with a uniquely positive and superior experience related to your brand. Each and every customer contact opportunity must include a reinforcement of the superior value that you offer to your customers, building the belief for the customer that you are truly their supplier of choice and preference. If you build this belief over time and reinforce your position as the supplier of choice, then selling in price increases becomes a much easier task and retaining customers against lower priced competition also becomes possible, especially in hard times. This demands a thorough understanding of the customer value proposition throughout the organisation, with each individual understanding their contribution to delivering the positive customer experience and with every customer contact reinforcing the positive experience of the customer value proposition to the customer.

Once again there is strong evidence from our Strategic Marketing Benchmark Study showing a clear correlation between companies where there is a full understanding of the customer value proposition internally and the achievement of higher levels of profitability. Going beyond the basics of Strategic Marketing that we have outlined above, some other questions you should be considering right now to tackle the hard times include:

Where are there opportunities to create and capture value, even in the downturn?

You should be planning for all accounts to be visited in the coming weeks to discuss with them the implications of the economic situation for them and to understand their current priorities and plans for survival or for opportunity exploitation. For instance, customers might be looking to eliminate and reduce costs, improve efficiencies, replace expensive technologies – where can you contribute to these customer efforts and help your customers to survive or even become more competitive and more successful?

Which customers are really the ones I want to retain, which are the most profitable and loyal?

Internally, you should be reviewing all customer and market portfolios with a view to eliminating those with least profit, growth and volume potential and focusing on those with the best profit, growth and volume potential.

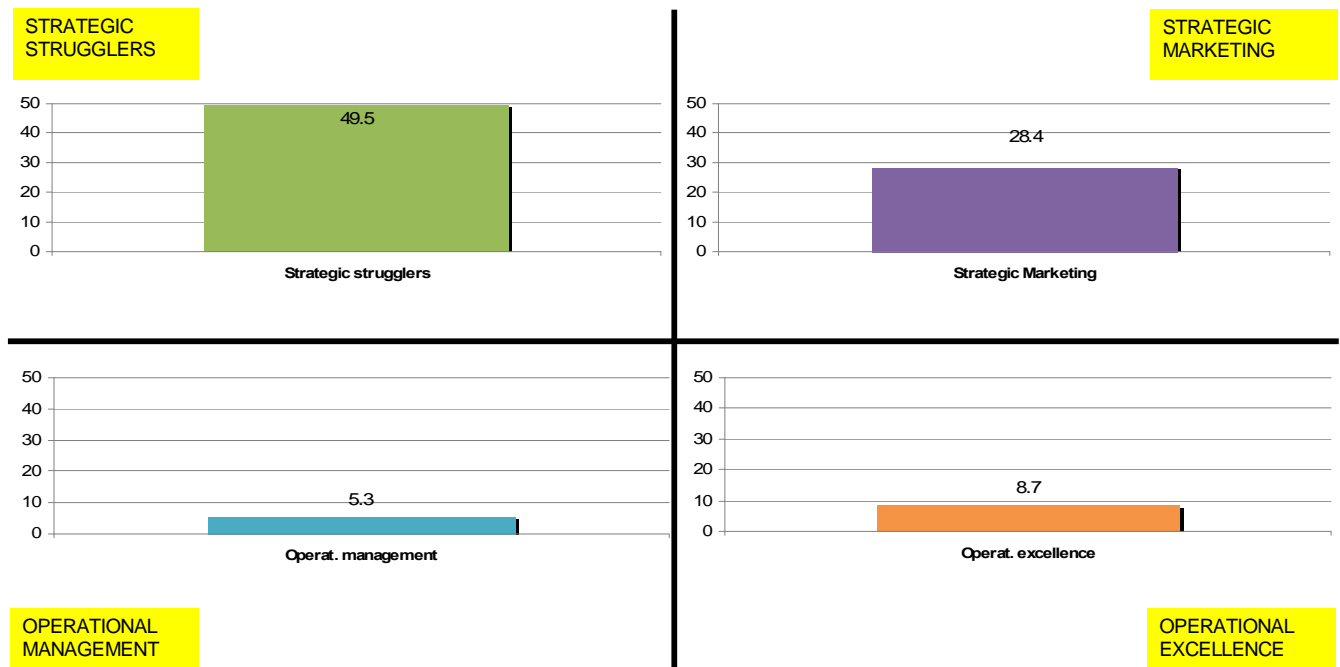
Which parts of my offerings and specifically which products should I discontinue?

Now is also the time to review the products and offerings portfolios to your target customer segments and decide which ones can be eliminated, based on their least profit, growth and volume potential.

A similar critical review of all elements of your marketing strategy should be conducted at this time in order to be sure that you only invest in those elements of the strategy that are geared to your survival through a highly focused and selective customer targeting strategy. This will also lead to a re-alignment and a re-evaluation of resources.

Far too many B2B companies neglect strategic marketing both in good times and in bad. Once again this is reflected on our benchmarking study, where almost 50% of participants described the company they are working in as Strategic Strugglers, where they know that they need to change, but either do not know how or are held back by institutional memory and baggage.

Chart 2: 50% of Companies are Strategic Strugglers – They need to change but don't know how



Source; Strategic Marketing Benchmark Study, GEMS Europe, ECMSA, Market Planning International

GEMS Europe GmbH prides itself on working with clients at a very practical level to develop value-creating strategies and convert them into results through effective implementation. . In closing I'd like to describe the success we have had in two specific cases from our B2B client portfolio, which are featured on the next page.

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Case example 1

Company X gets a wake-up call as many of its longstanding key customers complain about price levels and threaten to switch to the competition. The firm operates an innovation-based business model that does not allow for very low prices. The realisation also dawned that client was presenting the same offering to every customer, taking no account of what the customer really valued. This led to a poor overall brand experience at the customer and a confused and unclear image of client's brand and what it stood for. It also led to a perception of poor value for money.

Following needs and value-based customer segmentation, company X discovered very clear and distinct customer segments, valuing very different offerings. One obvious distinction emerged between customers seeking low or competitively priced offerings with little or no extras and customers seeking solutions. Hence, the company adopted a dual branding strategy.

One brand represented a new solutions approach for customers who valued one or more of the following: innovation, new products, tried and tested solutions, technical support, responsive service etc

The second brand was built around a new and innovative low priced business model to serve customers demanding large volume, standard products at competitive prices.

Result: low-priced business volume retained at healthy profit margins; solutions business grows and develops several hundreds of millions of dollars of new business based on services and solutions previously unidentified.

The dual branding strategy enables the company to achieve sustainable profitable growth throughout the economic cycle. Company X outperforms all others in its market and grows profitably at above market rates

Case example 2

Company Y operates in an undifferentiated – 'commodity' - product market where market prices are known and there are 10 equally competent competitors. Following needs and value-based customer segmentation, Company Y adopts a differential pricing strategy based on well-defined product, service and intangible offering elements to four distinct customer segments with very different needs profiles. Company Y achieved price differentials of between 5% and 50%, depending on customer value segment.

RESULT: low-priced business clearly identified and separated from customers who value special services, relationships or offerings for which they were willing to pay a premium. Despite being active in a market for an undifferentiated - 'commodity' - product Company Y has evolved a sustainable strategy with differentiated offerings to targeted segments at very different price levels, gaining multiple millions of Euros bottom-line profit as a result.

ⁱ Strategic Marketing Benchmark Study of Chemicals, Plastics and Other B2B Markets completed and published by GEMS Europe GmbH and Market Planning International Ltd in collaboration with ECMSA (European Chemicals Marketing and Strategy Association). More information from phil.allen@gems-europe.com

ⁱⁱ The 4R's of Sustainable DifferentiationSM were discovered during a customer research project in a market that most would call a "commodity" chemical.

When asked the question: Who is the best supplier of *commodity chemical*? more than half of respondents could not answer the question – all suppliers looked the same.

When asked the question: What would make a premium supplier of *commodity chemical*? respondents answered: Reputation, Reliability, Responsiveness, Relationship.