Marketing Tip of the Month by:

Ian Rheeder CM (SA)

Downturn-exploiting Strategies

"No problem can stand the assault of ***sustained thinking."*** Voltaire

"Pain is temporary. Quitting lasts forever." Lance Armstrong (1971 –)

"The strength of the wolf is the pack. The strength of the pack is the wolf." Rudyard Kipling, poet and writer

On the 7th October 2008, I'll be one of 11 speaker work-shopping this subject.

Book for 1-day Seminar at www.psasouthernafrica.co.za,

Early bird rate cut off is 17th Sep for the above seminar.

ian@markitects.co.za

www.markitects.co.za

5 x Major Exploitation Opportunities

1. **Research** and **Target** new attractive **Segments**, i.e. find **'recession-proofed' Customers**

Bonitas medical aid is currently dethroning Discovery by targeting the *new* emerging market of previously uninsured. Madam Zingara at the peak of their business cycle in Johannesburg, targeted London and went out of business instantly – they targeted the wrong segment.

2. **Attack** a weakened competitor (use your 4-rules of attacking.)

Adidas *consciously* attacked Nike, now makes more profit than Nike does. This is enormously strategic – but do it *consciously*.

3. The most obvious… **Lower Costs** to create a **Cost-advantage**: exploit economies-of-scale, low-cost input (COS) and low overheads (SG&A expenses).

Review your entire Value-Chain to improve your GP%. Innovate your processes – backwards (supply chain) and forwards (channel-to-market)

4. **Differentiate and/or Bring out a Downswing Product:** Invest in New Product Development (NPD). Innovate new product benefits, new complementary services, reposition your image, lower your costs and position yourself as the value leader.

At R400 per person (without beverages), Madame Zingara's tent-of-dreams opposite Monte Casio, was sold out before they even pitched for trade on the 18th August 2008. Why? They ditched and disposed of what the average restaurant offered, and innovated an experience. They innovated 'spiegeltent-theatre', and ditched fixed premises and a long a la carte menu. However, listen up; they were liquidated in Jan 2009 because of huge debts incurred by expanding into London during the UK recession. - cash flow, due to targeting the wrong customer segment destroyed a great formula. (see Segmentation section).

5. **Change the rules of the game – Innovate and find a new Key Success Factor (KSFs):** reconfigure value-chain.

SA retailer, Clicks, have diversified and embarked upon in-store dispensing pharmacies, finding that these stores grew 100% faster than other stores. This new Key Success Factor (business model) is the new-rule of the game, giving them a first mover advantage. Clicks have taken 10% of the total SA prescription market, enabling the cross-selling of their core store products. Their business model is now hurting Dischem, but that's not their intention; 90% of the pharmacy customers buy something from the shop front.

7 x ***Deadliest*** **Recession Sins:**

1. **Objectives** are **Strategically Meaningless** and don't mobilize the company's troops
2. **Wrong Segmentation, Targeting & Positioning** (STP Strategy)
3. **Lack** of **Research & Development**, thus wrong/irrelevant downturn Product Range. No Competitive Advantage.
4. **Not mapping** out the **Customer Experience Cycle** = shocking service
5. **Oblivious** of your industry's **Key Success Factors**. Thus finding **Competitive Advantage** is a mystery or a shot in the dark
6. **Oblivious** of who to **Attack**; and **unaware** of an Attack
7. **Incorrect** blend of **Promotion** (Account Management & Advertising; in B2B too much emphasis on advertising; in B2C inefficient advertising)

PPI 18%, CPI 13% (@35% GP)

Column A:
Increases in COS & Expense forces profit down by 95%.

Column C:

Price increase of 15% is required to counteract the COS & Expense increases.

	Norm	A **Increase COGS by 18%, Exp by 13%**	B **Same as A but also increase Price 10%**	C **Same as A but also increase Price 15%**
Turnover	1,000,000	1,000,000	**1,100,000**	**1,150,000**
COS Cost of Sale	650,000	**767,000** **+18%**	**767,000** **+18%**	**767,000** **+18%**
Gross P	350,000 GP 35%	233,000 GP23.3%	333,000 GP30.3%	383,000 GP33.3%
Expense	200,000	**226,000** **+13%**	**226,000** **+13%**	**226,000** **+13%**
Net Profit	**150,000** **Norm**	**7,000** **-95%**	**107,000** **-28%**	**157,000** **+4,7%**

i.e. don't sell more units, but increase price in B & C.

The above diagram shows the staggering effect of the PPI & CPI on a company's production costs and expenses. Column A shows a 95% decrease in profits, when the price realised is *not* increased.