Pre & Post-programme Reading

Marketing Strategies in a Downturn

(…are not radically different from boom time strategies…
you just have to be much better at *everything* you do.)

*"A **good scare** is worth more to a man than good advice."*
Edgar Watson Howe (i.e. The teacher appears when the student is ready.)

*"The pessimist complains about the wind; the optimist expects it to change; the realist **adjusts the sails**."* William Ward

Presented by

Ian Rheeder

Chartered Marketer (SA)

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Downturn Marketing & Sales Strategies

Exploit the opportunities an economic downturn brings.

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Finding success in a downturn economy is quite credible; it just requires the superior application of what you were taught at marketing school.

On average a recession lasts for two years, follows a boom and is generally defined as two quarters (6-months) of consecutive falling GDP. And boy did we witness a boom during 2005 – 2007. In November 2007 SA's economy confidence index (market sentiment index) was at a record high of 147, and in the next two consecutive quarters lost 36 points, wiping out a 5-year gain. The BCI (business confidence index) was also at an 8yr low in Sep 2008. On the 26 May 2009, Stats SA announced that SA was officially in a recession (The recession started when SA's GDP contracted Q4/2008 by -1.8%. Q1,Q2,Q3/2009 was -6.4%, -3%, +0.9%. The real 2009 annual GDP decreased by -1.9% vs. 2008. 2008 GDP grew by +3.7%). So it comes as no surprise that there are many sectors in steep decline (i.e. new car sales down 37.7%, June 2009, and in 2010 we still feel the downturn. However,
I've arrived at the strategic perspective that marketing strategies during turbulent times are not fundamentally different from boom time strategies – the apparent difference is that your innovative strategies just have to be so much more polished. As demand starts fading, the fragile organisations must ask, *"How can we maximise our performance with smaller budgets and do more with less?"* The robust should ask *"Who can we attack during the downswing, whilst strengthening our differentiation?"* The overall theme of this article therefore is to exploit *and* recession-proof the economic downswing to maintain your growth strategy, during *and* after a recession.

1. Segmentation, Targeting & Positioning (STP Strategy)

Ask what competitive position you desire for your product? Leadership, niche, harvest (milk) or divest?

Imagine dating the wrong customer segment, only to find out after years of servicing, that it was a waste of time? During a recession this risk is exacerbated – so get your **STP strategy** right in a disciplined attempt to protect your bottom line, and enjoy picking low hanging fruit on the subsequent upswing. Madame Zingara were adored by their SA segment, and at the peak of their SA cycle, folder immediately (Feb 2009) when they pitched their tent in London.

Consider the following when writing your **recession proofed marketing plan**.

- Have a relentless focus on customers. In his article, "*Rediscovering Segmentation" (HBR, Feb 2006), Daniel Yankelovic the segmentation guru, suggests that we* segment our markets using **customers' *problems*** as our criteria. "Problem" segmentation is especially critical in a business-to-business (B2B) environment. Call meetings to just discuss what problems you will be attacking with your **Competitive Unique Selling Propositions (CUSPs).** Targeting your competitors' dissatisfied or underserved segments now becomes a viable opportunity. Yankelovic also stresses targeting first time buyers is a good idea (i.e. first time homeowners), as their minds are 'clean-open' to receive anyone's proposition. I.e. Bonitas medical aid is dethroning Discovery by focussing on the emerging market. Men's skin cream is also untapped.

- Rather target your **satisfied and attractive opportunity segments** vs. your low return headache segments. Alternatively, consider dropping non-profitable, slow paying, unsatisfied Customers in these segments, *or* raise their price to milk them. So find your niche - land a few big Clients that values your 'package-deal', and get rid of a few 'costly' customers (remove the crud) – thus start positioning your offer to strong **'recession proofed' segments** now. For example targeting consumers over the age of 40 have less debt and may be unaffected by high interest rates (Sunday Times, 2008).
- Focus on a clearly defined Customer segment. "*If you chase 2 monkeys, both will escape*", explains Neil Rackman, and all you would have done is 'half-sell' to both of them. Make your targeted Customers feel safe in a recession by 'attacking' them with superior service. In the 1973 recession, IBM coined the risk reduction phrase *"Nobody ever got fired for buying IBM.",* very clever.
- *"They warn that lamenting on 'historical techniques' may foolishly make you target the wrong segments. Marketers should rather review their customer segments, advertising and salesforce strategies. They highlight that **B2B firms you should look at every single customer separately**."* (The McKinsey Quarterly's 2009, Issue 1, pp.68-75.)
- However, only consider maintaining unprofitable segments if handing them over to your competition is strategically unwise. For example, YKK zippers may hold onto a large, but unprofitable 'fashion zipper' segment for two reasons; 1) it keeps the competition weak and distracted , and 2) so YKK remains a strategically convenient one-stop-shop.
- Consider strategically withdrawing from weak segments where your CUSPs (Competitive Unique Selling Propositions) aren't valued much, and refocus that energy on profitable segments you can dominate with your CUSPs. After the downswing, reconsider the viability of all the segments again.
- Know exactly what your **CUSPs are per segment**. Target and competitively position each by forcefully promoting your revitalised CUSPs.
- Gause's Law states that two species competing for exactly the *same* market cannot stably coexist. One player (may be you!) will become **1) extinct, or 2) both firms will uneasily coexist. So rather, 3) attack or 4) go niche.** Target new attractive segments where the competition is weaker, and attack these already weakened competitors with your superior positioning of CUSPs.
- The McKinsey Quarterly's (2009, Issue 1, pp.68-75) in-depth recessionary study looks at how marketers, on a smaller budget, should operate in an economic downturn. They warn that lamenting on 'historical survival techniques' may foolishly make you target the wrong segments. Marketers should rather review their customer segments, advertising, geographic and salesforce strategies. They highlight that B2B firms you should look at every single customer separately.

Case Study: Madame Zingara

Madame Zingara, the South African born dinner theatre spectacular, was adored and valued by their local segments. **Then, at the peak of their SA cycle they folded almost immediately when management pitched their antique 'tent of experiences' in London.**

At R800.00 per couple (without beverages), Madame Zingara's tent-of-dreams opposite Monte Casio (SA), was sold out before they even pitched for trade on the 18th August 2008. Why? Because they ditched what the average restaurant offered, and innovated an experience. They created a 'spiegeltent-theatre', and ditched fixed premises and a long a la carte menu. They were trading in an uncontested market and could have demanded even higher prices… but they were blinded by their success and perused a new 'attractive' segment.

Unfortunately their perfect formula was short lived. They were liquidated a few months later (Jan 2009) because of huge debts incurred by investing in London during the UK recession. **Cash flow problems, due to *targeting the wrong customer segment* destroyed a great formula - they collapsed.**

Madame Zingara's Grave Mistake

Sold out hit in SA – flopped in London.

Their **Business Strengths**	The **Market Attractiveness**	**FINAL SCORES:** 49-100 = go for it!, 29-49 = cautious growth
Madame Zingara in South Africa vs. London		
10/10 Excellent word-of-mouth and reputation in SA	10/10 Very little competition. Playing in uncontested space.	10 x 10 = **100 (SA)**
5/10 Need to rely on expensive advertising.	1/10 Deep recession. Strong competition.	5 x 1 = **5 (London)** [5]

The above table illustrate the *Feasibility Study*. With a score of 5/100, why did Madame Zingara leave their golden egg in Johannesburg and even attempt to target London?

The below diagram assists in understanding consumer's downswing psychology, and the four broad segments which emerge during a recession. For instance the majority of consumers fall into the

"Pained-but-Patient", who for instance, will postpone a gearbox repair, or instead of purchasing a new car, will repair the existing car. The authors recommend you take a *scalpel*, not a cleaver when cutting budgets – do a case-by-case analysis, but increase spend where necessary, and never stop doing market research. Price becomes very important.

STABLE MARKET — MIXED MARKET — DECLINING MARKET

RISK of SALES DOWNTURN →

BEHAVIOUR CHANGE ↑

	ESSENTIALS (Survival Items, Needs)	→ TREATS (Indulgences)	POSTPONABLES (Wants not Needs)	EXPENDABLES (Unnecessary)
Slam-on-Brakes *LSM1-10*	Low price, Switch brand, No-name brand	Reduce or stop treats	Stop big ticket items & luxuries	Stops purchases (i.e. holidays)
Pained-but-Patient *General 80%*	Looking for discount or switch, stocks up, economises	Cut back, or looks at value packs or specials	Delay, repair vs. replace, less features to save	Almost stops
Comfortably Well-Off *LSM 10 or little debt*	Continue with favourite brand, may eat out less or at home	More selective, selective where eat	Negotiates harder and wants best.	May reduce consumption, organic to non-organic
Live-for-Today *YUPPIE*	Continue with favourite brand, happy-go-lucky	Continue with favourite brand	May postpone	Maintains consumption

Source: Quelch JA, Jocz KE : How to Market in a Downturn, Harvard Business Review, April 2009, PP52 - 62

In the preceding boom time, consumers, caught up in the "wealth-effect", bought everything on credit and are now feeling the pinch. To summarise **demand decreases** so the marketer needs to create more **value for money**. As the collective psyche of their piers change, their lifestyles may now be less extravagant too. There is less disposable income, "essentials" become "treats". Almost all consumers, except the relatively young and fancy-free segment re-evaluate where they want to spend their discretionary income. (Source: Quelch JA, Jocz KE: **"How to Market in a Downturn"**, Harvard Business Review, April 2009)

Marketing Tactics

	ESSENTIALS (Survival Items, Needs)	→ TREATS (Indulgences)	POSTPONABLES (Wants not Needs)	EXPENDABLES (Unnecessary)
Slam-on-Brakes *LSM1-12*	Emphasize Price	Shrink sizes, *"You deserve it" positioning*	Provide low cost financing	DIY. Awareness adverts
Pained-but-Patient *General 80%*	Bonus packs to increase stockpiling	Loyalty points, frequency programme	Lower cost models, fighter-brand, focus repair services	Awareness ads, improve core products benefits
Comfortably Well-Off *LSM 12 or little debt*	Continue awareness advertising	Emphasis quality, affordable alternative	Promote, *"Save if buy now, or miss out"*	Advertise benefits of *"impressing wealthy friends"*
Live-for-Today *YUPPIE*	Remind *"You can't live without it"* positioning	Advertise *"seize the moment"*	Offer payment plans	Offer exciting new products

Segmentation Exercise:

Vertical Segmentation by: e.g. Industry Sector	Horizontal Segmentation by: Problem Solved				
Segments	**Moisturiser** Day & Night	**Cleanser**	**Toners**	**Masks**
Black Female ☺	Brand Efficacy, Very Price sensitive, Social Club	Brand Efficacy, Price, Social Club	Brand Efficacy, Price, Social Club	Brand Efficacy, Price, Social Club
White Female	Brand Efficacy, Price	Brand Efficacy, Price	Brand Efficacy, Price	Brand Efficacy, Price
Direct Sales Force (Black)	Train, High Commission	Train, High Commission	Train, High Commission	Train, High Commission
Direct Sales Force (White)	Train, High Commission	Train, High Commission	Train, High Commission	Train, High Commission
Retailer (B2B) Business-to-business Salons, Gyms	Good GP%, high listing fee, advertising	Good GP%, high listing fee, advertising	Good GP%, high listing fee, advertising	Good GP%, high listing fee, advertising
Ladies' Clubs, Existing or Create new	Train, High Commission, Social Club	Train, High Commission	Train, High Commission	Train, High Commission

Vertical Segmentation by: e.g. Industry Sector	Horizontal Segmentation by: Problem Solved				
Segments Channel				

2. Attack and/or Attack-proof (Desperate times – desperate measures)

"Know your enemy – and learn about his favourite sport … **keep your friends close – *and your rivals even closer."*** (Nelson Mandela, Time, 21 July 2008)

15% of today's market leaders in 2009, clawed their way to the top during the 2000 downswing (Williamson and Zeng, HBR, Mar 2009, p66).

> Your share price, job security, salaries, benefits, growth opportunities… are all on the line if you think you are *not* at war within your industry sector. In fact, Michael Porter says the ultimate form of corporate social responsibility (CSR) is keeping your company profitable, and thus paying economy boosting taxes – so don't feel guilty about attacking.

Here's why we need to know how to attack the Industry Leader?
If you're the industry leader, **you need insight into how *you* will be attacked.** Has the success of your past blinkered your future? Secondly, if you're *not* the leader, **you may need to attack the leader** (or your nearest competitor) to gain market share and/or improve profitability. In a **hypercompetitive** 'ocean' there are probably only unattractive untapped segments - there's a reason the leader *is* 'fishing' his segment… and a reason why they have *not* targeted the sardine-scented air-freshener market – so sometimes the only way out is to attack.

> *"Toyota, Dell, and Wal-Mart all play rough, and play to win. No need to apologize for enjoying making your competitors squirm."* G Stalk & R Lauchenauer
>
> Southwest Airlines has an extreme hardball attitude, and in 2008 they were the only domestic US airline to post a profit: "*We came. We saw. We kicked tail.*" They did not just want a Competitive Advantage; they wanted an ***Extreme* Competitive Advantage**. In several cities where the competition was fiercest, Southwest employees came to work wearing camouflage outfits and battle helmets.

Careful… keep doing your research fast and frequently, as some companies with strong financials will see **this crisis as opportunity to attack**; this is what is exciting. What's good about a slump - it's an opportunity to exceed your targets. Many competitors understand that ***'sometimes the tree of your economic freedom needs to be nourished with a battle'***. But beware of counter-attacks - you may become the hunted if you do a *frontal attack* on a strong leader. Rather go unnoticed by flying below the radar with a *flank-attack*. **Case:** Red Bull has done this by stealing Coca-Cola's shelf-space, and could now do a frontal-attack. Interestingly, if you are the industry leader, you should understand how the underdogs will attack you. Ask "*What attributes vs. the competition would you choose to gain a Competitive Advantage?"* Become acutely alert to segments not adequately serviced during a recession, especially if they are *your* segments. **Rock the industry by innovating new key success factors (KSFs). Case:** Apple iPod thought up a whole load of new KSFs and now plays in uncontested space that is unaffected by Sony's Discman.
Three beneficial strategies to consider bomb-proofing your organisation would be: *1) "How to attack your industry leader?", 2) "How to attack well guarded markets?", and 3) "How to attack your low cost rivals"*

Michael E Porter's Suggestions. (Chapter 15: Competitive Advantage)
Porter channels all his experience on Competitive Advantage into his book, and reduces it down to **4-Rules to tackle your leader**. (Competitive Advantage: "*The most influential management book of the last century.*" Financial Times)

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Porter's 4 x Rules (Detailed hereunder & hereafter)

1. **Don't Imitate the Leader 100%,** but reach *parity* on some of their Key Success Factors, but don't attempt a frontal attack on their strengths.
2. **Have a clear Sustainable Competitive Advantage thrust:** (i.e. generic Low Cost and/or Differentiated strategic thrust). **Innovate and dominate new Key Success Factors (KSFs).** For example McDonald's developed a new KSF called toys for kids, and iPod innovated software to replace a CD.
3. **Reach Parity on some KSFs:** offset leader by being equal on some of their KSFs, but as stated above, also dominate some KSFs that they cannot.
4. **Blunt Leaders Retaliation:** choose KSFs they can't easily imitate

</td></tr>
<tr><td colspan="3">3 x How do we do it?</td></tr>
<tr><td>1. Reconfiguration</td><td>2. Redefinition</td><td>3. Pure Spend!</td></tr>
<tr><td>Look at entire value chain activities, Superior production, Superior 8P Mix, Service, Sales Team, Forward Integrate, Reposition the Product. I.e. Clicks</td><td>Change the rules. Go global. Go very niche. Wal-Mart defined their industry as 'logistics'. Deintegrate/ disintermediate. Or work with a related industry.</td><td>Risky. 'Buy' market share by throwing superior resources at the problem. The challenger does not have a CA, thus silly & risky. Spend is last resort.</td></tr>
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Porter's Attack Strategy is expanded upon below.

a) Cardinal Rules: Attacking your Leader

1) Don't Imitate the Leader 100%:
A leader's job is to scare off attacks by investing heavily in their brand-heroes whilst also keeping their new product funnel full of new embryos. But tackling a leader head on at their stronghold, known as a **frontal attack**, requires a force *several* times superior than that of the opponent's. In the short-term, fly below the radar and rather use the leveraging forces of an **indirect attack**, a 'Blue Ocean Strategy' or develop a Key Success Factor that the leader can't or won't want to tackle (see p.26 -27). Don't tackle head-on with an ***Imitative* Strategy** – with their frontal attack on Coke SA, Pepsi was annihilated with a counter-attack in 2000. However with the re-launch in 2005, piggybacking on Ceres fruit juices, Pepsi found a different strategy through innovating a new **Value Chain**. Change the rules-of-the-game. If you imitate you will be attacked with *little time* to gain a Cost or Differentiation advantage - the leader will thus exhaust you because that can, whilst typically making themselves even stronger.

2) Have a clear Sustainable Competitive Advantage: (i.e. Low Cost and/or Differentiation). Like Amazon, you may need to drop your *price radically*, but then immediately enjoy global *economies-of-scale* to recuperate the discount.

Choose a relevant 'hot' Key Success Factor (KSF) or Generic Competitive Thrust.
i.e. **Low Cost, Differentiation, Pre-emptive Move, Synergistic Alliance or find a Niche Segment**, and make sure you can sustain it throughout your battle. An innovative **Business Model** can make an offensive from your competitor impossible. Apple brought out their iPod (2002) which relies on its iTune software; forcing huge **switching costs**, created by iTune. Look at another industry's business model and apply it to your industry - Amazon.com to DVD rental business, embraces a new and different set of Key Success Factors. Attack your competitors' weaknesses and take a toehold. Most companies don't even know what their CA is; hardball companies know exactly which KSFs they're wielding. Have a will to win, and realise that your KSF will give you a gap before the enemy can imitate you. Your low cost and/or differentiated strategy should give you better GPs; then reinvest the profit to widen the gap. Retailer Wal-Mart focussed heavily on Low Cost in the form of logistics. They **Reconfigured** the value-chain, and **Redefined** their Industry to 'logistics'. Assisted by super-computers, they radically dropped their inventory and transportation costs. **Case Clicks – corporate pharmacy:** The retailer Clicks has 30% of the SA cosmetics market (2008) and knows that beauty products are unaffected by a downturn, luring volumes of shoppers into their stores. They also 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.

3) Reach Parity on some other Key Success Factors: Apart from your 'hot' Key Success Factor or CA above, choose **other Key Success Factors (KSF)** which the opponent is good at, and reach proximity/parity on these.

Offset the competition by at least being *equal* on some of *their* KSFs (no.3 above), *but* leverage your 'hot' KSF (no. 2 above) for a no-contest situation.

4) Blunt Leaders Retaliation:
When Pepsi took on Coke SA with a **frontal-attack**, Coke responded by taking Pepsi on with 'distribution'. Pepsi could not retaliate. Southwest airlines attacked the major airlines in the USA by dominating small routes. Traditional airlines had invested too much in the main routes to be seen as a 'straddler' of both, but more importantly, **they did not have the KSFs/CA to retaliate**, and the 'gap' was just too wide. Leaders also may not want to upset the equilibrium (i.e. Montblanc vs. Bic) - if they were focussing on the premium price segment, they would cheapen their image by dropping prices. Toyota's production system is their CA; nobody will attempt to take them on there…the gap is already way too wide! The leader may also be fast asleep (Harley Davidson), and not realise the profitability of the 'small-engine' market (Honda). They also may not be able to meet your Low Cost or Service advantage, and by the time they do, your gap may be too wide.

Timing when to attack? When you have the latest **technology**, when the leader is **asleep** or management is **complacent**, their customers have **changed** radically, if you have a new superior **business model**, if you can dramatically reduce your **input cost** or increase **quality**, if the **leader does not have a CA**, if the leader's parent company is only worried about **short-term results** and does not support the SA concern, **PESTGEL** environment (Political, Economic, Socio-cultural, Technological, Global. Environment & Legal factors), and/or if the leader has serious issues in **Porter's 5-Forces Model** (i.e. Competitive forces, trends/strengths Buyers, trends/strengths of Suppliers, new Entrants and Substitutes.)

"Induce your competitors not to invest in those products where you expect to invest the most…that is the fundamental role of strategy."
Bruce Henderson, Founder of Boston Consulting Group

b) Attacking Well-guarded (attractive) Markets

(Based on Davis Bryce & Jeff Dyer, HBR May 2007)

Introduction
Markets with large GP% attracts attention like bees to a honey pot. The carbonated soft drink players (Coke/Pepsi/Cadbury Schweppes) enjoy GPs of 60% and 17% return on assets (ROA). The authors cite that late entrants (Cell C) into *well-guarded/attractive* markets made 30% less than late newcomers in unattractive industries, *but* those **who do get in *early* (i.e. Vodacom & MTN) make 700% more** than unattractive industries. Porter's 5-Forces: "How Competitive Forces Shape Strategy", (HBR Mar 1979) offers key insights!
To attack attractive well-guarded markets, Bryce & Dyer suggest Porter's strategy above, but chose to highlights these three attacking components.

1. **Reconfiguration** of Value Chain	2. Leverage **existing** assets & resources	3. Establish a **Niche**. Appeal to just some.
Entrants should change the **activities** or the **sequence** of activities they perform to deliver value to customers. Find a technological advantage, or model different to competitors. Sell through Website… **reconfigure the industry's normal value chain.** Use global **direct** sales & Marketing networks. **Low-cost Business Model can destroy the leader later!** (Skype, launched Aug 2003, Dec 2006 had 100 million customers)	Companies use what they **already** have, often supplementing their assets & resources with a **partner's** to overcome their entry barriers. **Low cost advantage = use existing retailers, etc.** Interrelationship synergy. Excess production capacity. Place new product on **existing 'shelf-space'.** Wal-Mart own their own store, thus developed their own high GP% Cola. Toys "R" us are now also Babies "R" us. Should McDonald's also rent out DVDs?	Enterprises develop offerings with features that don't initially appeal to mainstream customers but attract customers in a **fringe segment.** (Red Bull can now take on Coke & Pepsi's profitable customers). Virgin only has 1% Cola share in USA. Red Bull has 65% Hi Energy share. (2005). High price for best features, advantages & benefits (FABs), or low price for less. Sketchers did *not* have laces…did not take on Nike directly – but can now.

Case Study: Microsoft's Ebox took on Sony & Nintendo directly (2001), and made US$ 4.5b losses by 2006 – their margin was -30%. Jakks Pacific Toymax was launched at the same time, and made US$97m op-profit in 2005. Their secret? They aimed at the **price sensitive pre-teen market,** *not* the well-guarded market.

Case Study: Coca-Cola, PepsiCo & Cadbury Schweppes set up three barriers to entry: Brands, Bottling & Distribution, and Shelf Space. Richard Brandson took them head-on with a tank driving through a wall of cans in New York, and today only has 1% shelf space/market share. Red Bull did a flank attack by gaining shelf space with a high GP% small package, but did not initially target supermarkets. Red Bull is growing at 35% pa and now has shelf space in supermarkets with 67% share-of-throat in the high-energy drink category, and now are competitively positioned to take on Coca-Cola. In SA, Pepsi's current strategy is reconfiguration - they leverage off Pioneer Foods infrastructure – when they distribute Ceres fruit juice, Pepsi is on the truck.

c) Attacking Low-Cost Rivals by Nirmalya Kumar (HBR Dec 2007)

As **low-cost usually translates to low price**, and it's inline with what most consumers want. It's therefore not surprising that12 of the top-25 Forbes' Richest People 2006 inherited low-cost businesses (Sam Walton (US$80b), Aldi Theo (US$32b), Mittal Steel (US$23.5b), IKEA US$28b, Dell (US$17b)).

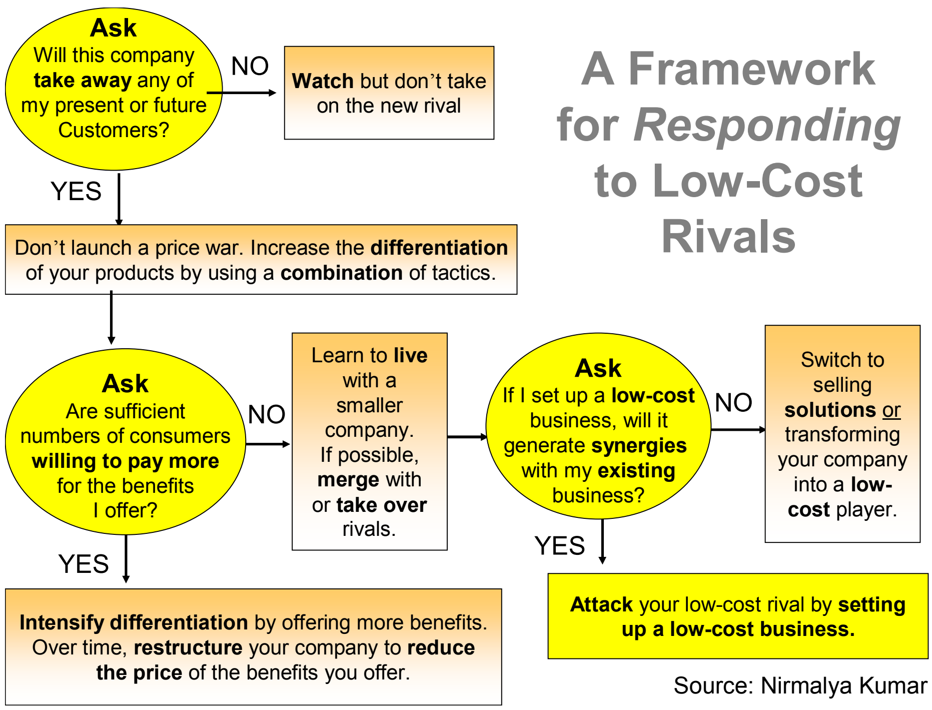
Kumar warns that traditional rivals have blinded us to look at disruptive 'low-cost' competitors, some of which have **different business models** mushrooming all the time. Ignore them, and you will eventually vacate some of your entire segments. Market leaders normally respond with low price, hurting themselves even more in the process, further aggravated by strong low-cost rivals *differentiating* themselves against the leader.

Kumar's 3 basic rules

1. *Focus on just **one** or **few** segment/s; be <u>very</u> focussed in other words.*
2. ***Basic product** or **Solution Provider (one benefit)** better than rivals (your CA).*
3. ***Super-efficient operations**: **low costs** to create "everyday low prices".*

Two Options: 1) Become a **Solution Provider**, or 2) Transform into a **Low-cost player**

Case Study Aldi supermarket (Germany): Overall, they got the basics right. Aldi has just 700 stock-keeping-units (SKUs), whereas the average supermarket has 25,000 SKUs. Aldi has small stores, with 95% in-house brands. They have excellent economies-of-scale on their SKUs, thus suppliers offer low prices. A small range also equates to small start-up cost for franchisees. Stores are in cheaper side-streets. Shopping trolleys require a deposit, thus are returned. All stores charge the exact same national price (not 'local' price). Their average mark up is 13% vs. industry at 29%. Their **asset-turn** equates to a very high EVA/ROE. However, their service is excellent.



Source: Nirmalya Kumar

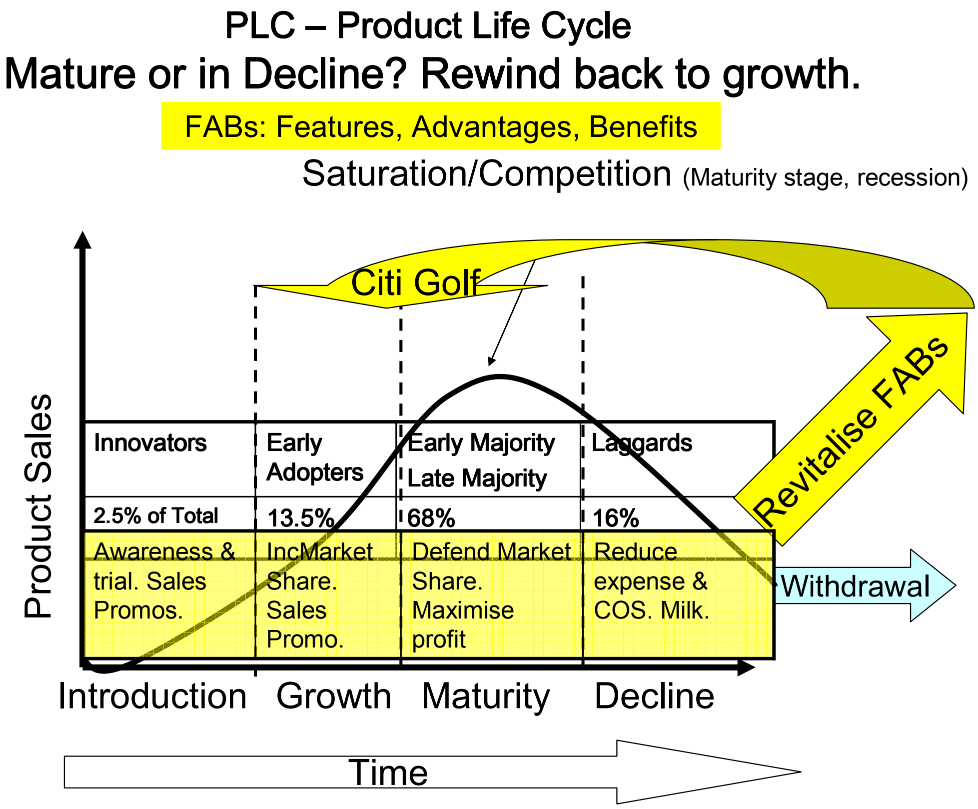
3. Marketing Mix Strategies:

The Marketing 8P Mix is: Product, Price, Placement (your distribution), Promotion, People (your staff), Processes/systems, Physical Facilities (corporate id, building, staff uniform) and Productivity & Quality/Partnerships. (See Appendix 1, p.21)

*"The purpose of a business is not to make money but to satisfy the Customer. Follow effective **action** with **quiet reflection**. From the quiet reflection will come even **more effective action**."* Peter F. Drucker. But don't forget Drucker also said this: *"You can either **take action** or you can hang back and hope for a miracle. Miracles are great, but they are so unpredictable."*

i) Product Innovation Funnel: (Necessity is the mother of invention.)

No one wants their product or industry in the 'maturity', or 'decline' phase, but a downturn can **pre-maturely rewind, fast-forward or erase your products during their product-life-cycle (PLC).**



A product typically follows 4 stages during its product-life-cycle; ***introduction*** (a 'question mark' requires awareness & trial), ***growth*** (a 'star' enjoys market share growth), ***maturity*** (a 'cash cow' needs to defend its market share or face shakeout), and ***decline*** (a 'dog' requires reduced expenses and/or revitalised features). Interestingly during the product life cycle (PLC), a recession can create *pre-mature* 'maturity & decline'. However, a recession does not automatically catapult your product to a growth phase, unless you're lucky. **But recessionary luck can be on your side by automatically making your 'boom time question marks & dogs' fast-forward**

or reverse on the PLC. **Case Citi Golf or Opel Lite:** For instance, the Citi Golf reverses back to an attractive growth phase in a downswing; but unfortunately however, the new model (i.e. Jumbo Golf) may now be unaffordable, automatically making a boom-time 'growth' product a 'dog' in a downswing. Boom-time products about to be launched may thus need to be mothballed (Toyota 2008). Consumers just want their **basic needs** met; **wants** met may be viewed as an expensive luxury. However, the marketer who meets both wants and needs at the best price – will win. During the great depression of the 1930s, the emergent leaders developed **value-for-money strategies**; this has become a strategic imperative in boomtimes, let alone a downswing. Consumers worldwide are feeling the double whammy of *inflation*, whilst unwisely are also *aspiring* for even more material possessions. **Case McDonald's:** Consumers work harder and longer, and cut back on expensive restaurants in a downturn. Riding on the currency of these new consumer habits, McDonald's strategy speaks volumes. McDonald's reported a 10% growth during the global slump (CNN, 6 Aug 2008) due to consumer down-spending and thus recognising McDonald's value-for-money recession-deal. Consumers also don't care too much for health products when they're in survival mode. So, without doing much, due to McDonald's *convenience* (people have less time in a downturn and may work longer hours to meet targets), and *affordability* (less money), McDonald's is reversed back to a growth phase on its PLC. McDonald's also attacked and hurt their competitors with a wide range of coffee and breakfast products, further reinforcing their **'recession-package-deal'**. Adapt or die - McDonald's advertised 4,000 new jobs, whilst Starbucks at 46% less turnover, retrenched 4,000 workers (Aug 2008). Starbuck's reactive response – a bottomless cup of coffee.

See the recession through your customers' eyes - for instance, small luxuries like lipstick buck retail recessionary trends giving rise to Estee Lauders' market indicator, 'the lipstick index'. **Lipstick is seen as a 'necessity'**, allowing ladies quick escapism from all the other large household sacrifices they've made. In the Allure Beauty Index (USA April 2008), 75% of respondents said they would give up other indulgences before they would stop buying their favourite beauty products. **Comfort products** like chocolate, scatter cushions and coffee are known to bucks the slump. Pots and pans also show growth sales due to consumers cooking more at home.

It's a good idea to revisit the trends exposed by **Porter's Five Forces**, whilst considering your 8P Marketing Mix Decisions. 1) **threat of *substitutes*** (customers switch to less expensive remedies) 2) **bargaining power of your *buyers*** (bargain hunting), 3) **threat of new *entrants*** (low cost importers*)*, 4) the **bargaining power of your *suppliers*** (they could forward integrate & cut you out), and 5) your ***competition*** (they launch new products and services). For example, due to competitive forces buyers may have developed a **new shopping-list of wants**; the basic-product for instance may not be as important now as the expected/augmented-product (i.e. value-added guarantee, after-sale service, and/or interest rates offered). Your product-life-cycle may have also become stale, and like the Citi Golf **now requires a few revitalised features/benefits** to regain its growth PLC trajectory, and extravagant models *about* to be launched may need to be mothballed.

Withdraw weak products (low profit margin/slow moving 'dogs') that are likely to fail, and research & revitalise new economy 'question-marks & recession-stars' that Customers desire, which should also offer superior gross profit margins for you. As with new creative adverts, **pre-test these new products** before rolling them out nationally. **Call meetings *just* to brainstorm how you will be solving Client's problems** and possible shifts in product positioning during their life-cycle. Psychological positioning is what you wish to do to the *minds* of your targeted audience (i.e. Volvo is safe). So what is your customer-centric **positing statement per product**?

> *"People would **rather die than think**. In fact they **do."***
> Bertrand Russell 1872 - 1970. Founder of analytic philosophy.

A high price is a cue to superior quality (Montblanc). A deliberate price increase in certain segments may be credibly seen to re-position a valuable CUSP benefit in a *new* segment that is *not* feeling the recession (i.e. 2008 - Richemont's luxury goods in Dubai - Montblanc, Cartier, Van Cleef & Arples are doing 20% of their turnover just in the Middle East). Consider a **broader product portfolio to support each targeted segment**; so whatever the economic climate, you will always attract Customers with your portfolio's CUSPs. As SA's demographic is becoming younger, BMW launched their 1 Series. Vehicle facelifts are also prematurely launched to entice would-be buyers to purchase sooner. Relevant products, even during a recession, can attract price premiums. Depending on the competitive force-field, attempt to not drop the quality or price of your premium products, rather stress their CUSPs, thus cleverly positioning them as value-for-money 'deals'. Never forget the **80/20 Principle** and focus on the 20% of the products (and Customers) that will equate to 80% of your profits.

> *"If you don't have a **competitive advantage,** don't compete."*
> Jack Welch, General Electric

During a downturn, **expand, improve and market your service offer** as consumers postpone the upgrade of expensive items – for instance gearbox and windscreen repairs skyrocket.

ii) Price: (price x volume – costs = profits)

*"The significance of any strength or weakness, is ultimately a function of relative **Cost** or **Differentiation**."* Michael E Porter

Cost-innovation is the new competitive platform - it changes the rules of the game or the traditional business model. Unlike mere cost cutting, cost-innovation is creating *much* more value for less price and cost. For example, how can you decrease your costs and increase your service? Always attempt to cut costs without cutting corners, but spend extravagantly on areas which will give obvious disproportionate returns. Price will affect Cash Flow, COS, SG&A, and R&D spend.

As we perceive to have **less buying power** (discretionary income), most buyers play it safe and **control spending.** With SA's high interest and inflation (PPI 18%, CPI 13%, Sep 2008), this controlled spending is most apparent for **credit sensitive products** - for instance products purchased on credit terms like cars, appliances, furniture and property are hardest hit. Note that these credit sensitive industries now not *only* face low sales but also increasing **bad debts** and **non-performing loans**. Interestingly, due to negative media talk during a recession people experience **'the poverty-effect',** even though many consumers are in fact cash flush. During boom times the opposite is true; everyone experienced **'the wealth effect'**. For example when your property price doubles you *feel* rich, which consumers rationalise to spending more on credit. But the poverty-effect forces customers to **ponder longer** on decisions when sacrificing their budgets. Times, July 2009, suggested that even prostitutes weren't taking the recession lying down – but were offering recession specials to senior citizens and throwing in a shuttle service.

When possible, increase your **perceived value** by maintain a high price: "***South African consumers are historically less price sensitive*** *than consumers in many other countries. For example, only 26% of South African consumers claim to be largely price driven, compared to 42% of UK and a remarkable 66% of Indian consumers."* (Foster, Charles, MD of Millward Brown, SA: "Hang tough!", Strategic Marketing, Issue 2, 2009)

Mr Price (value brand/low-priced SA clothing retailer) in Sep 2008 showed 45% year-on-year growth, breaking all records during a very tough retail downswing. Mr Price was also not concentrating on selling apparel on credit, and did not feel the **credit crunch** like other retailers. High-end retailer Stuttaford's reaction to the downswing was the discontinuation of 10 brands, lowering their inventory and making space for faster moving stock-keeping units (SKUs). Dropping your price, unless you can really afford a GP% sacrifice, may seem attractive but it comes with the challenge of struggling to increase it at a later stage… so dependent on the competitive force-field, at least attempt to maintain your price. **Low cost advantage** (i.e. Mr Price, Pep Stores) is driven by three things, **economies-of-scale** (high volume), **low-cost input** (cheap labour/supply-chain in Malawi) **and low overheads** (no-frills stores/value-chain). However in our current inflatory climate (especially if you are maintaining price leadership through low cost manufacturing), your product's **input costs *will* increase** (due to PPI & CPI inflation and excess production capacity/idle staff), and thus as you *attempt* to maintain price, your gross profitability margin will be hurt. This GP margin (%) generation is crucial as it funds all your **selling, general and administrative expenses (SG&A**). In fact it's a common complaint from many businesses that they are 10% up on the previous year's sales, but their disproportionate input costs (i.e. 18% PPI) have destroyed their profit margins (see appendix 2). It's a double whammy- your cost to produce and SG&A has increased, whilst your buyers are demanding a discounted price. **So *differentiate* to charge a premium** to make up for your increased input costs. But unlike premium brands, if your product is the low-price leader, then aggressively emphasise your **penetration** pricing, **as low price is a *very* relevant recession CUSP.** To reduce inventory, consider lowering the price of slow moving product. But, keep reinforcing your most relevant recession CUSP

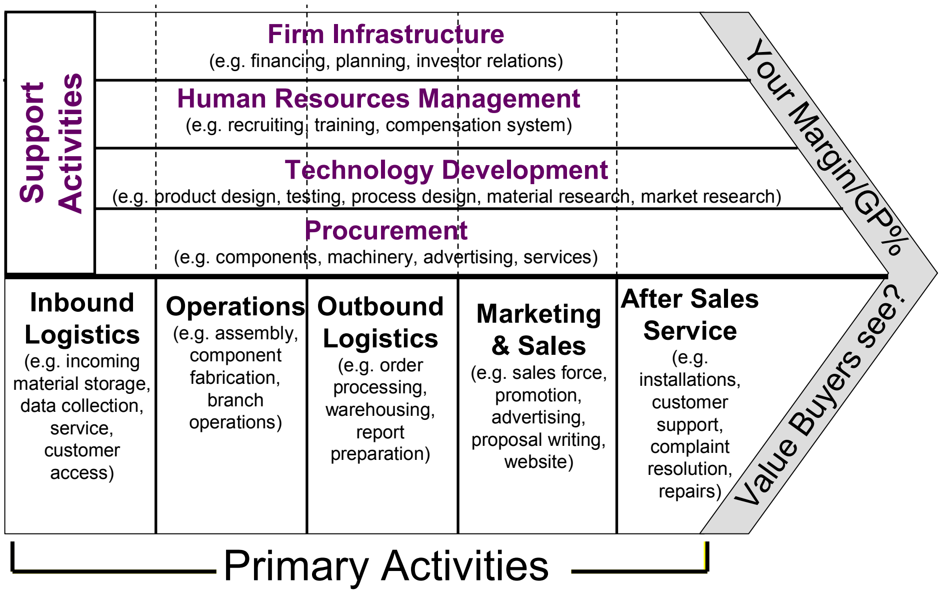
associations/product attributes, by reminding your target segment that your brand has a **superior price-performance ratio**.
Remember that some companies in a recession will have less cash, which can seriously impact their ability to spend on **new product development (NPD)**, advertising and service innovation, allowing other organisations the opportunity to **attack by exploiting these relative weaknesses.**

Watch that Clients don't go out of business leaving **your invoices unpaid**. Pay your creditors as late as possible and consider **extending *your* line of credit** in case you need the cash. **Cash flow** is still the main reason 90% of South Africa's new businesses fail during their second year of operation. As stock repurchases are done at higher prices, operating cash flow can declined significantly. Concentrate on reducing routine **sales, general & administrative (SG&A) expenses** of servicing high-cost-clients, and use the saving to service your valuable segments. **Reduce SG&A expenses:** ask suppliers to re-quotes on *everything* (i.e. insurance, hotel rates, fleet lease, software, bulk discounts, interest rates, etc). Employ commission only sales agents. **Work from home**, and by avoiding traffic, increase your productivity this way too. **Pay staff for performance**, not just for showing up at work. Consider **outsourcing** at a lower cost, manage your **inventory levels**, and rather **rent** to boost your cash-flow. **Remote Account Management (RAM)** works, with some Customers even preferring this account servicing style. Phone, e-mail, postcard and SMS them, but don't drive there every time.

Careful you don't discount your core products; a 10% discount can easily shatter your bottom-line, so do your number crunching carefully (see appendix 2). Avoid grooming your segments to *only* consider purchasing when you run price specials; but rather maintain your market share by **honey-coating the deal through** rebates, volume discounts, economy packs, customer training, free installation, free maintenance; but maintain your image by attempting to keep your list price high. Run **sales promotions** (especially in B2C/FMCG) like price specials from time-to-time, but *not* all the time. However, offer bulk-discounts and COD-discounts *anytime*. **Case Qantas, Australia, 2008:** Qantas hurt its main domestic rival Virgin; analysts said Qantas was better able to cushion the slump because they had a *stronger* **frequent flyer program (loyalty/continuity programme)**, so their customers were less likely to shop around for the best fares. However, you must factor in your 'price-discount' when forecasting, and make sure it's grounded in accurate research before launching.
What is your **economic denominator** that all work associates should watch like a hawk? In 'Good to Great', Jim Collins stressed you should know what economic denominator your business model needs to focus on the hardest. 'Great' companies are totally committed to a particular economic denominator like profit/employee, pilots/airline, staff/passengers or clients, average number of products/client purchased or GP%. For example, Southwest airlines watches the *staff-to-passenger ratio*, and because it's the best, are the only profitable domestic airline in the USA (Aug 2008).

Study the entire value-chain/supply chain and collaborate with your partners. Build in incentives for improved stock turn to make all associates alert to efficiencies.

Foundations of Competitive Advantage
<u>The Value Chain</u>



Competitive advantage resides in activities. (Michael E. Porter, 1985)

"The ability to sustain an advantage from cheap labour or even from economies of scale - these are the old paradigms. These paradigms are being superseded. Today, the only way to have an advantage is through ***innovation and upgrading****".* Professor Michael Porter, Co-Chair, Global Competitiveness Report. 2007

iii) Placement:

(Topics - Lowered cost, Best GP%, Reconfigure). **Reconfiguring** your **value-chain** must be considered to 1) lower the **cost-of-sale**, 2) lower **expenses**, and 3) **innovate** your product's CUSPs. Think about forging collaborative synergies with related industry partners. Choose the most motivated **channel-to-market** that will move the highest volume at your best GP%. As there is an amplified **oversupply** of products in a recession, you will have to look at offering extraordinary CUSPs to motivate your channel 'captains'. A smaller stock keeping unit (SKU) or large **value-pack** both may be the answer to the cash strapped economy-pack bargain hunter. Consider changing the rules-of-the-game, and boost your gross profits by cutting out the middleman. If you do **disintermediation (forward integration),** make sure you innovate new **forward-integration strategies** like Customer Relationship Management (CRM software) to serve this market yourself. Revamp your online presence through interactive websites, blogs, webinars and online surveys.

Location: The four rules of retail are **location, location, location and stock turn per square meter**. Relocating your shop by just 10 meters can easily double your turnover. Think location, feet past store, convenience (one-stop-shop), security, traffic jams and cleanliness.

Look at you entire Supply Chain Management (SCM) with the view to increase stock turn whilst reducing obsolete inventory, and still improve customer service.

iv) Promotion of your brand:

(Topics - PLC decisions, Positioning, Crumple of the 'middle', High Involvement Products vs. Low, do you drop your price or offer other incentives, personal selling & KAM vs. advertising, Ad Agencies, Media Vehicles, share-of-voice, Creatives, Brand Equity Model)

The most persuasive words you can use are: Discover, Easy, Health, Money, Guaranteed, New, Safe/Safety, Proven, You/Your, Love, Results, Save, Now, Benefit, Fun, How to, Free. (University of California study)

During the **product life cycle (PLC),** a recession can create *pre-mature* 'maturity & decline', which means that your promotional strategy should match this. The premature-m*aturity phase*, marked by fierce competition and saturation, should be matched by exceptionally persuasive advertising, hitting both the heart (i.e. humour or sex, esp. in B2C) and mind (meaningful benefits, especially in a B2B environment). When competition is rife, differentiate, improve service and offer your channel better incentives to sell. To maximise cash flow, the premature-*decline*, should be matched by radically reducing advertising and personal selling to 'milk/harvest' the declined market using this low-spend/low-cost adoption, or make a concerted effort to revitalise your dogs' benefits, and target a niche. In 1980 the Citi Golf's **PLC was rejuvenated** by emotional TV adverts (Golfs taking off like fighter jets), and because its features were also revitalised annually, the Citi Golf has been a recession beater and holds the world record for its sustained PLC. The other option is to divest (pull out) whilst you can still sell off your assets.
During tough times, strong brands reduce our risk of failure. So when it comes to **high-involvement** products (i.e. car, which are normally bought on credit) we tend to go for a brand, however when it comes to low-involvement products (i.e. sugar, flour), lower priced **generic** (non-brand) versions are attractive. In the same vein, Pick n Pay's **no-name** products, which interestingly *are* in fact strong brands, are pushed heavily to 'make your money go further'. Low-end retailer, Shoprite, posted a 51.4% rise in headline earning per share (Sep 2008); their secret is twofold. Low-end everyday value and market development throughout Africa. So looking at the spectrum of brands, brand leaders (Parker pens) and generics/bottom brands (Bic pens) do well or even better in a downswing, and the exclusive **brands right at the top crumple** (Mont Blanc). Consumers down-trade from luxuries (Mont Blanc pens) to strong but trusted brands (i.e. Parker), and from strong brands to generic no-name brands. The 'crumpled-brands' are *neither* value leaders (i.e. Mr Price, Pep, Ackermans, Bic) nor good trusted value (Parker), but are just *too* exclusive and often have a **confused or under positioning** to justify the purchase during a downswing. The brand must **attack the customer's problem** - so large discounts are not always the solution to the *recession-proofed* consumer looking for a luxury item. Mercedes

Benz in Sep 2008 advertised their value-offer using 4.5% below prime as the lure, but did not drop the price of the car. Audi reacted by saying *"We don't need to attract customers with all the toppings, our products are already a value-deal."*

Looking at ***personal selling*** *(two-way communication)*, calling on your most valuable and loyal existing Customer's has superior results versus finding new ones. They are also the easiest to **cross-sell & up-sell** to (Gallup and Weeks & Kahle surveys), and give you free **word-of-mouth** referrals. For instance a Gauteng based hairdresser deliberately cross-sells to the whole family. **Social-networking**, especially amongst generation-Y (born after 1980), is a mainstream media vehicle, and thus the **refer-a-friend (RAF) viral marketing** method should be exploited. The HR Chally research revealed that a salesperson's effectiveness now accounts for 39% of a B2B Customer's choice of a vendor, so keep your sales force motivated – they're the sharp tip of the business writing instrument. As with promotions, salespeople need to remain in the Customers' mind as a **value-for-money** option, which pays even bigger dividends when the economic slump lifts. Consider a proactive **Key Account Management (KAM)** mindset – when you see a strategic Client don't just pop-in, be a Management Consultant and enthusiastically assist them with their business strategy. Suggest positive ways to improve *their* strategy. Interview *their* Clients for some great ideas, and reveal the results to them in a formal presentation. Immediately ask them for **service feedback**; *"What three things do we need to do to enhance our relationship?"* find out what their new needs and wants are. At no extra mailing cost, send them a valuable article/newsletter inside their next monthly statement. Another very cost effective form of two-way communication is the **Internet**. For global firms, the Internet channel-to-market zeroes distance and erases time zones.

"It takes 10 years to become a financial expert, but an entire lifetime to become a brand expert, then you retire and the expertise is lost." Dr. Anton Rupert 1916 – 2006, Creator of Mont Blanc, Dunhill & Cartier, billionaire & workaholic, SA Journal of Marketing, Feb 2006.

Advertising does not make Clients buy in the short-term, so use ***sales promotions*** in the form of **discount coupons, creative contests, frequency programmes** and strong **point-of-purchase/sales (POP/S)** teasers in the short-term. Harvard Professor John Qulech says that this is no time to cut advertising.

"Whilst it was true that companies which cut marketing spend enjoyed superior returns during recession, ***they achieved inferior results once the recession ended****."*
(Foster, Charles, MD of Millward Brown, SA: "Hang tough!", Strategic Marketing, Issue 2, 2009)

It is well-known that brands which increase their advertising during an economic downturn, while their competitors cut back, can increase market share and their return on investment, and it won't cost them as much as in non-recessionary times. (Management Today, March 2009, p.22). **Point-of-purchase (POP)** and in-store media are particularly effective, as research shows that purchase decisions are often made just before the sale is made (i.e. beer). As much as 75% of buying decisions are taking place at POP, and the store has now become the new frontier for the hearts & minds of the consumer with all senses being targeted. During the product growth phase, enjoyable ***sales promotions*** ('specials') have immediate impact on sales, and done with taste (competitions, sampling), do not necessarily hurt your brand's image. The Peppers & Rodgers Group tell us that the most effective marketing vehicle for companies to establish customer relationships is ***direct marketing***, it's therefore not surprising that *direct mail* accounts for 50% of marketing dollars spent yearly in the USA! The DMA's Participation Media report (Precision Marketing, 25 July 2008, p.3, UK) suggests that **customer magazines** are *"the most relevant and informative form of direct marketing."* Direct marketing can also be used to prompt feedback, track trends and up-sell/cross-sell, and is the easiest form of promotion to track your ROI. Cut costs and share a mailing list with a partner, but whatever you do, start collecting names for permission based database marketing. In March 2009, roughly the start of SA's recession), direct agencies were breaking all records. *"Online marketing is flourishing because of the global recession, not despite it."* (ITWeb, 10 March 2009). Traditional agencies receive about 15% commission for placing an advert, so are not too keen to advise you to use direct marketing. **Penalise your agency** for ineffective campaigns & creatives – now's the time to calculate **your return on marketing investment (ROMI),** and maximise your ad-spend. Millward Brown's research shows evidence that the marketer whose share-of-voice (SOV) is larger than their share-of-market (SOM), is likely to grow market share. Reminiscent of this theory, Nestlé *was* the chocolate leader but Cadbury advertised during the Second World War and emerged the new UK leader. During the war, Nestlé did however launch Nescafé coffee **(recession product)** which became the staple drink of the US military, contributing to increased sales during a wartime economy. The golden rule is, find a **media vehicle** (i.e. radio, TV, print) and dominate it throughout the recession; this way you can also find economies-of-scale in bulk media discounts. If you are already dominating a promotional vehicle, maintain it but make sure your messages are relevant and loaded with CUSPs to ensure your ROMI. According to Admap's econometric model (Feb 2006), ***creatives*** (enjoyable & high-impact adverts) are all important and was ***second only to market share as a predictor of profit***. Find a synergy and cleverly integrate your communications - for instance, a *dual integrated approach* is best; according to new research from Thinkbox and the Internet Advertising Bureau, when TV *and* online adverts are used together, consumers are 50% more likely to buy the products (Media Week, UK, 6 May 2008, p.10).

Weakened competitors will probably cut back on ad-spend, which means that just *maintaining* your budget will be a relative *increase* in ad-spend.

Looking at the **brand equity** model (BE: loyalty, perceived quality, awareness & associations), ***associations*** are the most important to leverage off. The temptation may be huge to cut great associations (i.e. safety features or reliability) to save cost, however after the recession your brand equity may be left damaged for life; especially when your fiercest competitor cleverly advertises the difference.

PR in the form of editorials, TV/Radio appearances, public seminars, and sponsorship are easily up to five times more **credible image builders** than advertising.

7 x ways to Economise on Advertising
Source: Quelch JA, Jocz KE: *"How to Market in a Downturn"*, Harvard Business Review, April 2009, PP52 - 62

1. Reduce 30 second to 15s TV spots
2. Drop TV and flight frequently on radio
3. Rifle targeting approach, with tracking of ROI (return-on-investment)
4. Cooperative (shared) ads with a non-competitive brand
5. Extend an existing campaign vs. bring out a new campaign
6. Consolidate media buying at one agency for best bulk discount
7. Buy as the rates fall during the downswing, rather than buy long-term at the start of the downturn

V) People:

"Courage is not the absence of fear – it's inspiring others to move beyond it." (Nelson Mandela's 1st Lesson of Leadership, Time, July 2008)

Jim Collins suggests you ask *"What can we be best in the world at?"*, and *"What are our core people deeply passionate about?"*

If your firm is a ***service business***, the big 'P' is not product but ***people***, however remember that *all* businesses have a service aspect to them. In the July/Aug 2008 Harvard Business Review, p.123, the authors J Heskett, T Jones, G Lovemore, W Sasser & L Schlesinger cite the following factors, in order of importance, are responsible for **employee satisfaction**: satisfaction with the job itself, training, pay, advancement fairness, treatment with respect and dignity, teamwork, and the company's interest in employee well-being. To retain talent, offer flexi-time (especially for parents), and a wider range of unforced perks to make up their package. Taco Bell discovered that their stores with the lowest **staff turnover** enjoy 55% higher profits and 100% more sales than the stores with high resignations. The authors also mention that the top 20% of **loyal customers** provide all the profit, and these profitable customers cover the losses incurred dealing with less loyal customers.

A feeble knee-jerk reaction to a downswing is to drive your staff harder. Whatever you do, **getting people motivated** to implement your new **exciting vision** requires strong leadership, yet a massive recent survey (Predictive Index) revealed the number one cause of resignations was "my boss". "*Yes, we Can!*" was the call of Barack Obama. So, it's not just about the balance sheet and income statement, but more about human capital (training, employee motivation, skills development and talent retention), a loyal customer base, brand equity and a motivated channel-to-market. If retrenchments are happening in your industry, your people (staff) need to be **reassured** that there will be no layoffs, or if you are retrenching, **counselling and training** will improve your profitability through increased morale and productivity.

> *"If you work just for the money, you'll never make it, but if you **love what you're doing** and you always **put the customer first**, success will be yours."*
> Ray Kroc (1902-1984) American businessman, founder of McDonald's Corporation

In her book Hot Spots, *"Why some companies buzz with energy and innovation – and others don't" (2007)*, Lynda Gratton easily convinces us that a too highly *individually* incentivised employee will be tempted to knowledge hoard and not co-operate with the team. It is thus apparent after reading her book that managers need to cleverly **incentivise the team too**. It's not all about great individuals, but **great relationships *between* great people.**
Remember that the sales force is the sharp tip of the pencil; mess with them in a recession and you mess up the entire business writing instrument. A sales manager's most important job is to improve their morale, not achieve sales targets. **Achieving objectives is just a by product of energised salespeople.**
One of the most powerful marketing disciplines during a recession is Customer Experience Management (CEM), and is what the Customer-*centric marketing-concept* is all about. If Customers are delighted at every interaction and *touch-point*, surely those *moments-of-truth* are the ultimate Competitive Unique Selling Proposition (CUSP)? CEM done well, accounts to psychological positioning or how you want to exist in your Customer's mind?

As the structure of your organisation changes to adapt to the new marketing plan, consider **multi-tasking** to best utilise your staff. This must be explained, as people need to understand that this is the time to be **extremely flexible and responsive**.

What is Customer Experience Management (CEM)?

Humans have ***five senses*** which should be seen as channels to access them. Often referred to as a left and right brain, these 'channels' have both rational and psychological receptors. To peak the psychological or emotional receptors, imagine this service company's 'physical facilities' – the reception area's appealing décor (sight) is infused with the aroma of fresh coffee brewing (smell), you sit down on a leather couch which gently squeaks as you test its surface (touch and sound), the complimentary coffee and chock-chip cookies are world class (taste). The well-groomed receptionist has the warmest smile, tone of voice and handshake.

> *"Employee **self-sacrifice** is rarely a **sustainable** resource. Instead, **design a system** that allows the average **employee to thrive**."* Frances Frei, HBR April 2008

It's important to note that **there will *always* be a Customer Experience**, but the experience should be purposefully designed to differentiate your service and improve your price-performance-ratio, thus also reflect your desired brand positioning or essence. Customers in your targeted audience will pay higher prices for this emotional experience, and when intertwined with a great rational experience too (i.e. best price), becomes a powerful marketing cocktail.

In this economic climate customer retention strategies for B2B brands are taking priority over acquisition strategies. Brands need to make themselves more attractive or 'sticky' so that it is more 'awkward' to defect. Richard Perry of Gyro International says that B2B brands should be looking at spending up to 50% of their marketing budget on the **retention and growth of existing customers**: "whatever your advertising budget is, put the same into your CRM". Over the last couple of years CRM has made a big comeback as customer retention programmes have been perceived as business rather than marketing initiatives (B2B Marketing, March 2009, pp34-36).

Improve your Service, especially if you have more time to do so

In a slump, your staff should have **more time on their hands** which should be used for superior service, staff & customer training, research & customer exit interviews. Professional managers have a responsibility to keep their staff motivated. In a downturn your **staff and customers are a lot more stressed and impatient** (esp. working mothers), which poses a tough challenge - your customers are looking for **faster service**, however your staff may be unable to meet expectations as they are just as likely to be as impatient and stressed. This negative state of mind can easily lead to lethargy, and what's more, it's contagious. Don't place dead birds on live eggs.
The 80/20 Principle: Call a meeting to discover what the 20% of issues are that cause 80% of your complaints and Customer defections.

Research: Professor Russel Abratt advises, "The importance of market research and intelligence is vital – so don't cut costs there." (Strategic Marketing, Issue 2, 2009). If you have more time on your hands, listen up. A credit card service organization made phone calls to question cardholders who had stopped using their cards, which lead to the immediate re-instatement of 30% of the defectors (HBR, 2008, Aug, p.125). One bank did an experiment and phoned half their Customers to gain service feedback, this act reduced their churn by 50% and they did nothing else but just interview them! The psychology behind this is **Customer's felt cherished** that they were asked for feedback.

4. Developing your Primary Strategy to Differentiate

Markitects' ID Matrix

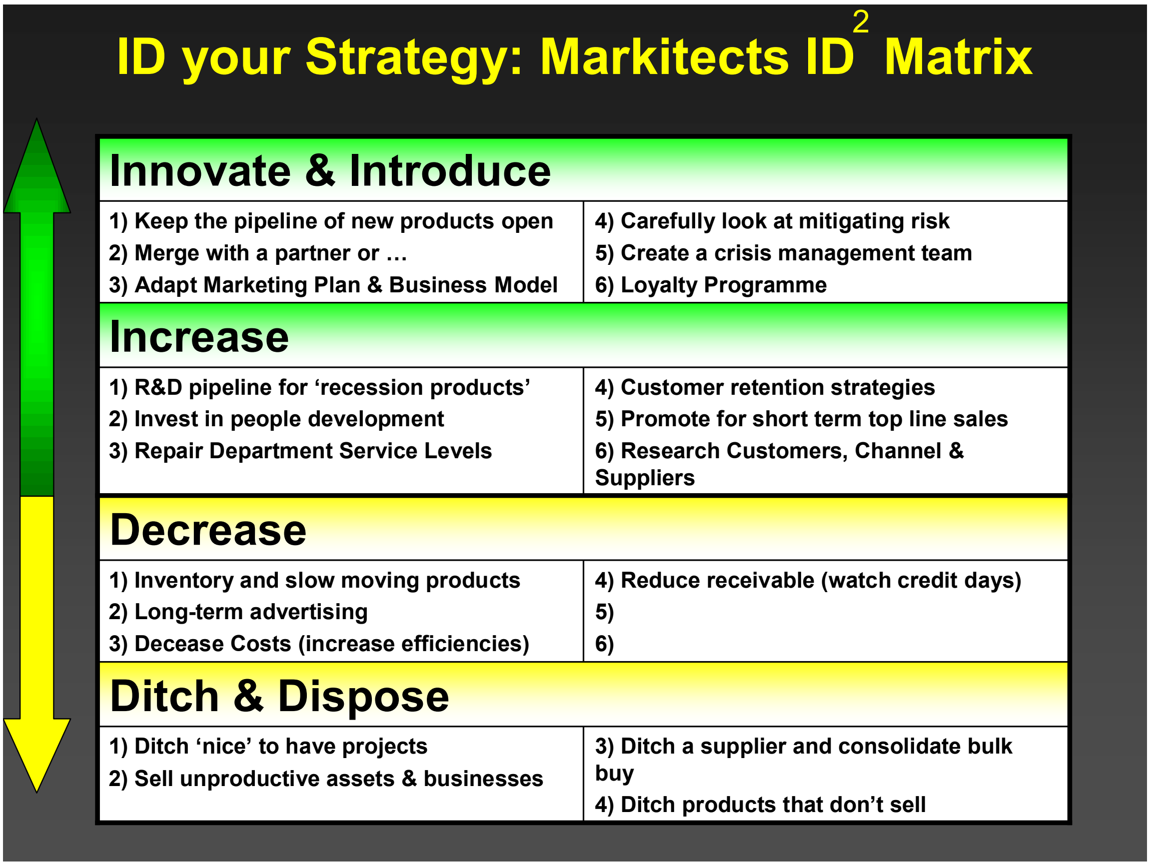
The question is… *"How will you compete?"* Managers have a real responsibility in guiding their firms through this uncertain period, and fortunately marketers have the thinking-edge, because they have carefully selected marketing models at their disposal. Strategy is about out competing your competitors. Or, find a space where these is no competition - Blue Ocean Strategy describes this as 'uncontested-space' or niche marketing.

Using your **revitalized Vision Statement** as a framework, and having completed a thorough analysis (Objectives, KSFs, SWOT, PESTGEL, Key Issues, Segmentation, etc) for a particular Strategic Business Unit, you can now disseminate the strategic ideas into the below ID Matrix. Markitects Consulting developed this **step-by-step guide to create a snap-shot of key strategic data**. The matrix assist creative thinking and embraces Michael Porter's strategic model of Low Cost (Ditch, Dispose, Decrease), and Differentiation (Innovate, Pre-empt, Introduce, Increase). The ID Matrix also embraces Eliminate-Reduce-Raise-Create Grid from Blue Ocean Strategies, by W Kim & R Mauborgne, 2005, p.36. Once the four quadrants are completed, the strategic ideas can be processed into **Primary, Secondary, Defensive and Ditch/Stop/Ignore Strategies**. *"Strategy is frequently referred to as what businesses choose not to do, as this trade-off fuels another attribute which is more relevant to your Customer."* Francis X. Frei (HBR, April 2008) explains this concept well. "*It is tempting to think 'If I'm a really good manager, then I don't have to cede anything to the competition.' This well-intentioned logic can lead, ironically, to not excelling at anything*." Companies that try to do it all, in other words, are vulnerable to attacks by highly focused entrants.

As a forerunner to selecting your Primary Strategy, complete the ID Matrix for each Strategic Business Unit (SBU).

Case 1 – Apple iPod: A case in point would be Apple's iPod vs. Sony's Discman. Apple *Innovated & Introduced* software, *Increased* the play-list capacity, *Ditched* CDs and a bass control completely, and *Decreased* the physical size and volume output. Savings are made by *Ditching & Decreasing* superfluous characteristics; this cost saving creates an opportunity for *Innovating & Introducing* more relevant benefits.

Case 2 - Dell: *Decreasing* services levels and inventory for Dell Computers allowed them to *decrease* their price, because in the 8P Mix an attractive price was more relevant to their Customers than speedy delivery and service. Very strategic! *Decreasing* the bulkiness of a Nikon vs. a Kodak camera, whilst also *increasing* the quality was very strategic for Nikon's success.



Case 3 – Madame Zingara: In a downturn you better have a Competitive Unique Selling Proposition (CUSP). 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).

Conclusion

During a drought, some will thrive and exploit the fragile. Sometimes the fragile may be the industry leader; so if you are the leader, you need to understand how you will be attacked. Michael Porter has the best advice on attacking and cushioning an attack. Those who survive natural selection will be stronger, more experienced and will improve their DNA. Lastly, never forget that constantly implementing a **small series of changes, results in a big transformation.**

*"Management by objectives works if you **first think through** your objectives. 90% of the time you haven't. Almost all of our **problems** stem from action **without thought**."* Peter Drucker

Summary:

7 x *Deadliest* Recession/Downturn Sins:

1. **Objectives** are **Strategically Meaningless** and don't mobilize the company's troops
2. **Wrong Segmentation, Targeting & Positioning Strategy**(STP Strategy)
3. **Lack** of **Research & Development**, thus wrong/irrelevant downturn Product Range. Thus, no Competitive Advantage.
4. **Not mapping** out the **Customer Experience Cycle**, which results in shocking service
5. **Oblivious** of your industry's **Key Success Factors**. Thus finding **Competitive Advantage** is a mystery or just a shot in the dark
6. **Oblivious** of who to *consciously* **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)

*"A **good scare** is worth more to a man than good advice."*
Edgar Watson Howe (i.e. The teacher appears when the student is ready.)

*"The pessimist complains about the wind; the optimist expects it to change; the realist **adjusts the sails**."* William Ward

Summary continued…

5 x Major Downturn 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. People are tired of boring restaurants, and Madame Zingara have targeted the relatively debt free 40-somethings market in SA (corporate & consumer).

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:** Innovate new product benefits, new complementary services, reposition your image, lower your costs and position yourself as the value leader

In a downturn you better have a Competitive Unique Selling Proposition (CUSP).

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.

Appendix 1:

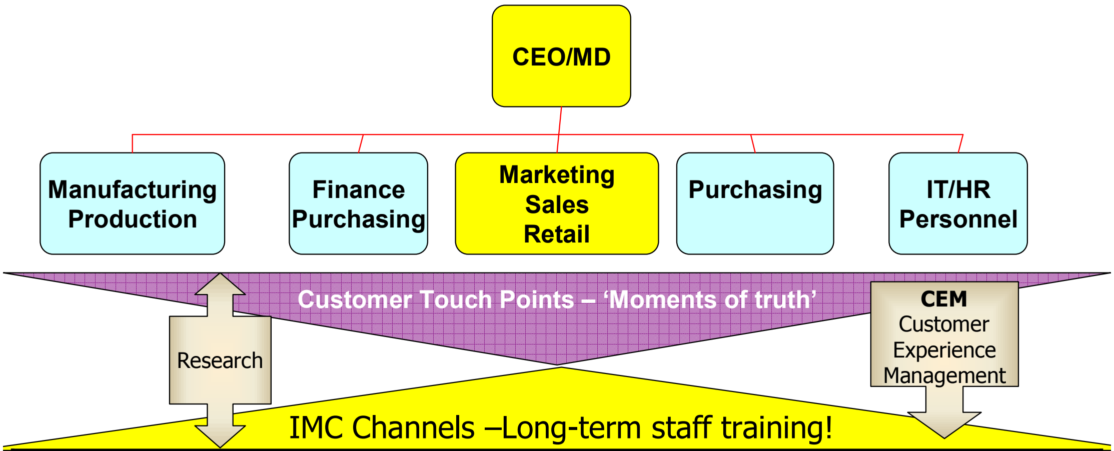
4Ps for **Product** Marketing

Product	Price	Placement	Promotion
Objectives	Objectives	Objectives	Objectives
Quality	Your cost/price	Location of store	Positioning of brand
Packaging	Competitor's price	Receipt of goods	Advertising/WOM
Training	Customer's price	Ordering process	Face-to-face selling
Warranty	Discounts	Speed of delivery	Direct Marketing
Returns	Payment Terms	Stock levels	New Media/Internet
Guarantees	Increases	Agents	Sales promotions
Range of	Basic price	Distributors	PR/Publicity
New Product Dev.	Price lists	Coverage	Sponsorship

Another 4Ps for **Services** Marketing

People	Processes	Physical Evidence	Productivity/Quality
Your Staff's skills	IT Systems	Physical Facilities	Total Quality (TQM)
Service Efficiency	Control	Premises	Operations (OE)
Capabilities	Planning	Peripheral evidence	Economies-of-scale
Dress	Invoicing	Staff professionalism	Flexibility
Motivation	Information	Stationery	Mass customisation
Training	Research	References	**Partnerships**

The 8P 'Controllable' Marketing Mix



Advertising (ATL & BTL)	**Direct Marketing**	**Internet**	**Sales Promotion**	**Public Relations**	**Personal Selling**	**Outdoor**	**Customer Service**	**Event Marketing**
Radio TV Print Newspaper **Sponsorship** Packaging Direct Marketing Internet Sales Promo Outdoor	Radio TV Print Newspaper Mail order Direct Mail Telesales (in) Telesales (out bound)	WWW Site Virtual & Reality SMS E-mail Track metrics	Jack Daniels Ladies in bars Onsite/Offsite Staff training, uniforms Shelf-talkers POP Give-aways Demos Coupons Flyers Posters Gondola ends	Training Editorials Launches Press conference	Face-to-face Telesales	Bus stops Billboards Dustbins Taxi's Street-pole Sports fields Posters Banners Roadshows	Technical Service Sales Operations Accounts Claims Dispatch & Delivery Intermediaries Franchisee Franchisor	Exhibitions Training Conferences Seminars Incentive tour Sponsoring event

Promotion or Integrated Marketing Communication (IMC)

Appendix 2:

Aug 2008, 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.

Price Rule: For *Immediate* Performance

Nail the 'Price' Segment that Values you the MOST! (Go for 'D') 10% = 33%!

	Norm	A Reduce Expenses by 10%	B Reduce COGS 10%	C Increase Sales Volume 10%	D Increase Price realized by 10%	E Drop Price realized by 10%
Turnover	1,000,000	1,000,000	1,000,000	**1,100,000**	**1,100,000**	**900,000**
COS Cost of Sales	500,000	500,000	**450,000**	**550,000**	500,000	500,000
Gross P	500,000	500,000	550,000	550,000	600,000	400,000
Expense	200,000	**180,000**	200,000	200,000	200,000	200,000
Net Profit	**300,000**	**320,000 +6.6%**	**350,000 +16.6%**	**350,000 +16.6%**	**400,000 +33%!**	**200,000 -33%!**

Which market segment will pay the most, or value your product the most?

Look at the alarming result of a10% discount (column E) - 33% less net profit; and what's more this example has not factored in increased input costs. Column D illustrates the positive outcome of increase the price by 10% - 33% more net profit.

SA's Economic Positives

1. South Africa has an excellent commodity sector. (gold, platinum, coal, agriculture, etc)
2. Excellent agricultural land with abundance of labour
3. SA is a springboard into the rest of Africa, also an emerging market
4. 2010 Football to boost tourism and GDP
5. Weak rand boosts exporters in 2008, but in 2009 strengthens considerably to below R7.3/US$

SA's Economic Negatives

1. Huge GDP 'gap' between quarters! GDP contraction Q4/08 was -1.8%, Q1/09 -6.4%. The real 2009 annual GDP decreased by -1.9% vs. 2008, where the 2008 GDP grew by +3.7%).
2. Crime: fuelled by poverty, unemployment and HIV
3. Lack of skills: fuelled by migration, poverty & HIV
4. Power instability & thus lowered capacity to produce

5. Corruption in almost all emerging markets. (I.e. it's rife in China too)
6. 2008 High SA Inflation: CPI 13%, PPI 18% (Sep 2008)
7. 2009 is down radically. CPI 8.5% & PPI 5.3% (Mar 2009)
8. Weak rand hurts importers 2008, but strengthens nicely to R7.3/US$ in March 2010. Its strength now hurts exporters.

Downturn Quotes

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

"Don't find fault, find a ***remedy****."* Henry Ford

"In the middle of difficulty lies ***opportunity****."* Albert Entstein

"You can either ***take action*** *or you can hang back and hope for a miracle. Miracles are great, but they are so unpredictable."* Peter Drucker

"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

Ten crucial questions that Professor Malcolm McDonald has prepared for Boards of Directors to ask of their marketing colleagues:

1. Do we know and understand our **key target markets**?
2. Do we address **real segments** in our key target markets?
3. Do we know our **sources of differential advantage** in our key target markets?
4. Do we all agree on the **prioritization of our markets** and segments?
5. Are the objectives for **revenue growth and market share realistic**?
6. Are our strategies (including products, services and solutions) **consistent** with the objectives?
7. Have we assessed dispassionately (objectively) the **risks** associated with our strategic marketing plan?
8. Considering the risks, have we calculated whether the strategic marketing plan **creates or destroys shareholder value**?

9. Have we agreed the measurement of **effectiveness metrics (ROI)** we want reported to us and their frequency?
10. Overall, are we happy that the time, effort and expense involved in developing marketing strategies are **really worth it (ROI)**?

Further Reading
http://www.ogilvyonrecession.com/europe-africa-middle-east/home.php

Ian Rheeder, Chartered Marketer (SA)
A facilitator who consults. A consultant who teaches. A teacher who speaks.

Qualifications: Ian Rheeder is a Chartered Marketer (CM), the highest professional marketing qualification recognised both in South Africa and Europe. Ian is also a registered training Assessor with Services SETA South Africa, who is registered to facilitate almost all their Marketing & Sales programmes.
Brief profile: Ian is currently a strategic consultant and official adjunct faculty at the 38th best business school in the world, The Gordon Institute for Business Science (Financial Times, 2009). Prior to starting Markitects Consulting in 2005, his last big corporate position was Marketing & Sales Director of the global zipper giant, YKK. Ian's competitive advantage is his depth of experience in both the marketing and sales functions. He considers it a privilege to do *exactly* what he wants to do, which is share this knowledge and experience.
Lecturing responsibilities at GIBS - 25 Strategic Marketing Programmes Written: Marketing Strategy, Strategy, Leadership in a Customer-centric Service Organization, Personality Profiling (For Selling, Negotiating Skill & Consumer Psychology), The 7-Deadliest Marketing & Sales Sins (The worst mistakes firms make), Success in a Recession & How to Attack the Industry Leader, Downturn-Exploiting Strategies, Marketing Management, Sales Management (planning, organising, leading and controlling your team), Customer Experience Management, Customer Care & Services Marketing, Business Research Methods, High Trust Selling Techniques, Key Accounts Management (KAM), Negotiation Skills with Objection Handling, Body language & personality profiling, Promotional Strategy, Sponsorchip Marketing, Managing a Marketing Campaign or Project, Marketing for Profit, Stakeholder Relationships, Presentation Skills. (Hundreds of references are available on request.)
Published research and books: Next white paper will be delivered to SA Marketing & Research Association (3 June 2010) on researching Customer Satisfaction. Ian is a prolific writer and is widely published, almost monthly, by marketing journals. The South African Institute of Chartered Accountants (SAICA) hired Ian to write his first book *"A Marketing*

Guide for Accounting Professionals", 2008, published by SAICA (ISBN 0-86983-248-4), Ian's second book, "*Psychologies of Successful Leaders",* will be published in 2010. He has written 25 public training programmes, extending from Key Account Management to Recession Marketing Strategies. Sample Ian's DTI sponsored talk on Downswing Strategies, www.youtube.com/ianrheeder (3-minutes). Current research on the psychology behind "What makes individuals, managers and leaders successful."
Professional memberships: Founding member of the SA Marketing Association, and is the President of the Professional Speakers Association (Johannesburg Chapter) see www.PSASouthernAfrica.co.za)
Consulting involvement: Ian is currently a strategic marketing consultant and facilitator. Having consulted on and researched 30 international brands whilst at Markitects and Group Africa (now EXP Agency), he gained his broad FMCG & B2B experience. Ian has 11-years senior Marketing & Sales Management experience, and 7-years consulting & facilitation experience with major blue-chip companies, and has done international work for The Department of Trade & Industry (DTI) South Africa.
Significant achievements: Company turnarounds and switching from a successful electrical engineering career (Rooivalk helicopter project) to marketing. Chosen as external faculty at GIBS since 2007. Amongst 10 other speakers, in Oct 2009 was voted best speaker at an international insurance marketing conference. Amongst 11 other speakers, in Oct 2008 was voted second best speakers (after Clem Sunter) at a Recession Conference in Midrand.
Contact details: Parktown North, Johannesburg **E-mail:** ian@markitects.co.za **Web address:** www.markitects.co.za, http://www.psasouthernafrica.co.za/members/resume.asp?ID=139