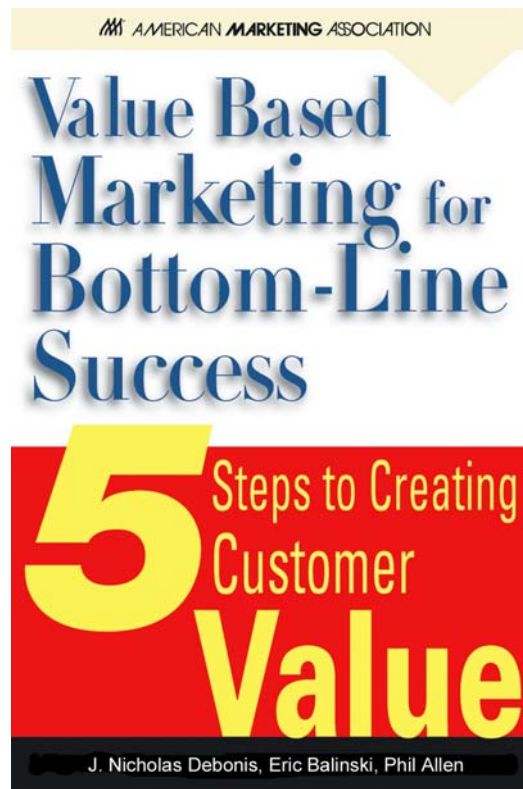




18 September, 2002

The Modern Marketer's Milking (S)Tool

The three-legged (s)tool for marketing success: Segmentation, Differentiation, Implementation



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About the Author

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

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

Phil is the founder of the Customer Value Management Circle of Excellence (www.customer-value.com), a learning and sharing organisation for all involved and/or interested in managing customer value and building customer loyalty.

With Dr. Nicholas de Bonis and Eric Balinski, Phil is co-author of the book "Value-based Marketing for Bottom-Line Success", which will be published in fall 2002 by McGraw Hill

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

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The Modern Marketer's Milking (S)Tool

The three-legged (s)tool for marketing success: Segmentation, Differentiation, Implementation

Based on my thirty years of marketing and sales experience, primarily in the chemicals and plastics industries, I have reached the conclusion that the three key and critical factors needed for success in any market are: a meaningful segmentation, a strong and sustainable differentiation and a highly effective implementation. These three elements must be combined to provide any business with a basis for profitable success and growth. In this article, I'd like to share with readers some of my thoughts around each of these topics, challenging some of the conventional wisdom and insisting that, whilst each factor is important in its own right, it is the powerful combination of the three that really brings better business results. In fact, it is often a weakness in one of these three factors that causes a business to fail.

A Meaningful Segmentation

All marketers are familiar with the concept of segmentation. Most marketers in the chemicals and plastics industry have relied upon faithful old recipes for segmentation, based on industry sector, application or geography. Whilst such segmentation schemes have had their merits in the past, I would challenge this today and argue that a meaningful segmentation has to be built around customer needs and behaviour. In fact, our experience is that the most meaningful customer segmentations are built around the key determining factors in selecting a supplier (usually from a list of qualified "probables"), what we would call *buying decision determinants*. So what would or could such determinants be?

Let's consider the situation of the buyer – the customer. They wish to purchase quantities of product to a certain specification. Their first step is to identify a number of potential suppliers, all of whom have the capability, competence and know-how to manufacture and deliver the required materials in the required quantities in a timely fashion. So, all of those criteria so often quoted as possible bases for segmentation – product performance, delivery and scale of production – are in fact NOT *buying decision determinants*, but they are *qualifiers*. In other words, they are the criteria used to qualify potential suppliers on to the list of "probables". Only now does the important selection process begin, whereby the buyer defines the *buying decision determinants*, which will actually form the basis of the selection of the supplier.

It is these criteria that we must seek when we are developing a meaningful segmentation. They are more difficult to identify, not least because the customer does not always wish to share this information with the supplier or may not even be able to describe the criteria clearly and accurately. Fortunately, there are many purchasers who are willing to share this information, provided that we (the marketers) ask the right question; I have found many purchases willing to share with me not only the list of criteria, but also my company's ranking against those criteria.

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18 September, 2002

Such *buying decision determinants* might include: commitment to the business, easy to do business with, technical service and competence, commitment to joint r&d or may be less tangible factors based on relationship or history.

Once these factors have been identified, the modern marketer can begin to group customers according to their *buying decision determinants* and hence derive their customer segmentation based on need or behaviour.

Working with a chemicals industry client, we helped them to move away from a more conventional industry sector-based segmentation to a customer needs and behaviour-based segmentation.

Before our intervention the segments used by our client were

- Automotive
- Construction
- Formulators
- Industrial
- Special Applications

Following an analysis of customer *buying decision determinants* and customer buying behaviour, our client based future marketing strategies on this new segmentation:

- Innovation seekers
- Hassle-free buyers
- Cost reducers by co-development
- Low-price buyers
- Captive users

On the face of it, this may not seem to be an earth-shattering discovery, but it formed the basis of a turnaround in the prospects of that business. In particular, it led to increased market share in targeted segments and it enabled a better understanding of why business had been lost. It led to the development of multi-functional, multi-regional segment teams – a new basis on which the business was managed. These teams developed and defined differentiated offerings in terms of product & services and acted as keepers of the segmentation scheme (updates). These teams steered the development of the business. This new perspective brought focus and helped resource allocation, which had been misguided in the past. It also led to changed information and accounting systems to support the new way of working.

Sometimes, the segmentation can be made more meaningful by using two dimensions in the segmentation perspective. Staying with the example from above, one can derive additional insight and understanding sometimes by grouping customers according to the needs-base and according to industry sector:

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| | Automotive | Construction | Formulators | Industrial | Special Applications |
|---------------------------------|------------|--------------|-------------|------------|----------------------|
| Innovation seekers | | | | | |
| Hassle-free buyers | | | | | |
| Cost reducers by co-development | | | | | |
| Low-price buyers | | | | | |
| Captive users | | | | | |

In some chemicals markets, where there are only a small number of customers, segmentation may be superfluous and each customer may be large enough and unique enough to be handled individually and independently, in which case we would be looking at key account management.

Segments should be profiled as follows:

Target Customer

Description of Customer

Names of Customers in this segment

Qualifying Needs

Determinant Needs

Unmet/Poorly Met Needs

Segment Size and Trend.

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A Strong and Sustainable Differentiation

Staying with our chemicals industry client. The needs-based segmentation enabled the client to derive clear and distinctive offerings – value propositions – for each target customer segment, focusing the differentiation on the key needs of the segment:

A dedicated and specific r&d effort for customers in the INNOVATION SEEKERS segment

Easy ways of doing business for customers in the HASSEL-FREE BUYERS segment

Joint development programmes to reduce manufacturing and process costs for the COST REDUCERS BY CO-DEVELOPMENT segment

Special low price deals with no frills and extras for customers who were LOW PRICE BUYERS.

These relatively simple value propositions were effective because no one else was targeting such offerings at the customers to whom they were appealing and relevant, because no one else had identified the customers into such segments.

Using need and behaviour-based segmentation provides the marketer with a direct link into the development of a strong and sustainable value proposition that is relevant to the customer and therefore appealing to them.

We use a very simple model to effect this linkage.

Taking these key items from the segment profile,

Target Customer

Description of Customer

Names of Customers in this segment

Determinant Needs

Unmet/Poorly Met Needs

we build our value proposition, focusing on developing key elements of our offering to address the determinant needs and/or the unmet and poorly met needs, because these are factors that the customers in this segment will truly value and/or they are criteria that would cause the customer to switch their allegiance from a competitor to our offering.

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So the value proposition template will be:

Target Customer

Description of Customer

Names of Customers in this segment

Value to the Customer, where we describe specific elements of our offering to address key buying determinants

Superior Value to the Customer, where we describe how our offering addresses these needs better than the offerings of our competitors

Value/profit to us, where – as a check for ourselves- we express how we will make money out of this offer

In today's fast changing world, where competitors quickly adjust and respond to our offerings, we must strive constantly to keep put offering ahead and more attractive to the customers in a target segment than our competitors' offerings. This demands a continuous review of customer needs and behaviour and an ongoing adjustment and fine-tuning of the value proposition to keep is sustainable.

Marketing is a dynamic and not a static activity.

More than ever, strong and sustainable differentiators are to be found in the service elements of an offering or even in the less tangible elements of customer and brand loyalty and relationship marketing. Gone are the days where mere product performance is good enough to differentiate on a sustainable basis. Today's marketers in the chemicals industry MUST be constantly on the lookout for new and better services and ways of easing business transactions and building customer loyalty as a basis for sustainable differentiation.

If Starbucks can do it with an undifferentiated black liquid, the creative talents of chemicals marketers should not be too stretched in finding non-product bases for differentiation in their offerings.

A Highly Effective Implementation

Neither a meaningful segmentation nor a strong and sustainable differentiation are enough to provide business success without a highly effective implementation. This is probably the greatest hurdle of all for many companies to overcome. Great at analysis and interpretation and full of good ideas to offer their customers, even some of the great chemicals companies still fail, because they cannot implement effectively. Often this is due to lack of communications between functional "silos" or between business "silos" and central support function "silos"; sometimes there is the frustration of "paralysis by analysis" – too much deferring of decisions by an over-zealous demand for even more knowledge and detail, rather than getting on with the business.

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The third leg of our modern marketing milking (s)tool is the leg of implementation and the critical key to successful and effective implementation is to ensure that ONLY those actions get implemented that are relevant and critical to the delivery of the value proposition for a target segment.

In order to secure this linkage, we recommend building a bridge from the needs and behaviour-based segmentation through the value proposition to the implementation plan.

In the previous section we demonstrated the link between the segment profile and the value proposition, linking the determinant, unmet and poorly met needs to the customer value and superior customer value elements of the value proposition to ensure a sustainable differentiation.

The final part of our modern marketing milking (s)tool is the **linked action plan**.

| Superior Customer Value | Offering Element | Action Detail | By Whom | By When | Time Needed | Desired Outcome | Milestones |
|---|---|---|---------------|-------------------|---------------|--|--|
| 1. First to market at their customer with innovative, leading edge products | First exposure to innovations from our R&D labs | Define a monthly R&D outputs review with customer | Gerald Boffin | 31. November 2002 | 2 Person days | Customer and we have scheduled for the entire coming year monthly R&D reviews to ensure that they can benefit from our latest technology and ideas first | '30. September 2002: contact with customer; 31. October draft meeting schedule |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |

No, it's not rocket science, it's just straightforward action planning – but how many of you REALLY operate linked action plans, where there is a genuine link from segment need to value proposition element to actual action?

In all of my 30 years in marketing and sales I have never seen anyone operating an action plan like this. But if you do and if you apply it rigorously, and if you use it in combination with a meaningful segmentation and a strong and sustainable differentiation, you can have an impact on your business.

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Good and effective marketing is often just about doing the simple things, but doing them well.

The modern marketers milking (s)tool is a three-legged support for marketers in the chemicals industry, who need to cut to the chase and get results. It is not offered as a panacea for marketing challenges, but is proposed as a **MINIMUM** requirement for effective marketing. All three legs of the stool need to be intact if it is to provide you with an effective seat for your marketing plan.

If you do not have a customer segmentation based on needs and behaviour and focusing on the *buying decision determinants*, I urge you to re-visit and re-examine it.

If you have not build clear links from the determinant, unmet or poorly met needs from your customer profile into your customer value proposition, I urge you to re-work them accordingly.

If you do not have genuine links from the segmentation through the value proposition to the action plans, then how do you know that the really important things are being done – the things that will deliver value to your customers and win you the profitable business opportunities.

In concluding this article, I'd like to lay down a challenge to any reader. Please send me your segmentation, value proposition or action plan or send me your marketing plan and I will be happy to deliver you a constructive critique.

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