



Marketing: Mumbo-jumbo or leading-edge business strategy?

For many in the chemicals and pharmaceuticals industries marketing is something of a black art, with little or no scientific substance, unclear processes and concepts – and that's just what the marketers themselves think about it!! In this article, I'd like to try and shed some light on the true substance and value of marketing to the chemicals and pharmaceuticals industries. Let's start by examining the word "MARKETING", which suggests that it is about "MARKETS" or perhaps "GETTING TO MARKETS". But what is a "MARKET"? And how do I "GET TO A MARKET"?

A market is a group of customers who have a need for certain products and services which provide a valued benefit to them and for which they are prepared to pay a certain amount of money, based upon the value of the benefit they derive from the product(s) and service(s). This amount is generally reflected in the price of those products and services.

So $M = XC$ {common needs for derived benefit}.
 $P = V$ {C derived benefit}. Where M is the Market, X is the number and C is the customer with a certain need for a derived benefit, P is the price and V is the value a customer puts on the derived benefit. So the size of a market in monetary terms is $€M = XC€P$ (the number of customers with a need for the derived benefit times the value they put on receiving that benefit). Not so very complicated.

But why is it then that so many chemicals and pharmaceuticals marketers struggle? Well one root cause for their struggling is that they fail to define markets in this way. Many chemicals and pharmaceuticals marketers see the market as an aggregate of sales of products by

her/him and her/his competitors:
 $M = \sum C_1 - C_x$, where M is the Market,
 $C_1 - C_x$ = the sales revenues of
him/her and her/his competitors.


This is the starting point for the errors of thinking and judgement that pervade the commercial corridors of these industries – a totally false premise as a basis for all the business and marketing strategising and tacticking. So perhaps it is no wonder that many companies in these industries are not doing so well in their markets just now and perhaps it is a wonder that these industries have ever been very successful in their markets, which has maybe been a matter more of luck than good strategy and judgement.

Markets are NOT about products, markets are about CUSTOMERS. Customers who have a need that can be fulfilled by a chemical or pharmaceutical product delivered in a certain form and quantity, applied in a certain formula, developed by a reliable supplier in collaboration and co-operation with the customer. The customer is prepared to pay a certain price for the product/service/solution provided by the supplier, based on the value to her/him of the benefit derived. Actually, we can also develop a formula for this customer value: $CV = DB/RC$, where CV is Customer Value, DB is Desired Benefit and RC is Relative Costs. CV quantifies what the customer gets divided by what the customer has to give up to get it. A desired benefit is something the customer really wants, something that matters to them and for which they're willing to pay. Relative Costs is more than price. Cost is what the customer has to give up to acquire the Desired Benefits derived from your products or services, which is more than the price

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of the product or service. The formula is a ratio, rather than a simple subtraction, because the purchasing decision by the customer is a trade-off.

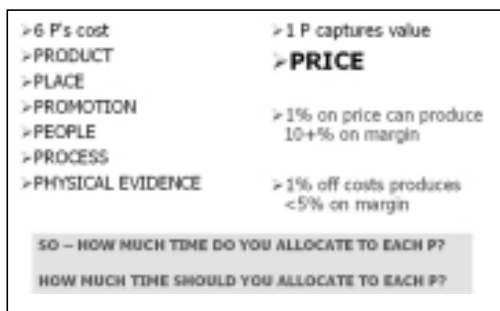


Figure 1

A product or service is perceived to have value when the customer perceives the value ratio to be $\geq 1.0/1.0$. This value really does make a difference to the customer, and so it is more likely to prompt a positive decision to purchase. If the ratio is $\leq 1.0/1.0$, then you haven't created value or the perception of value for the customer. To increase a value ratio, you have to either increase the Desired Benefits and/or decrease the Relative Costs.

Buyers of the same product will have different value ratios. A high-quality, research-driven innovator of pharmaceutical preparations and treatments is likely to be more focused on the Desired Benefits component of the value ratio and to be less concerned about the Relative Costs. Conversely, a volume producer of me-too generics is likely to be more of a price buyer.

But for true marketers, a price buyer is a value buyer. For a price buyer, price is an important value driver and is a big component of the Relative Costs denominator in the value ratio. The price buyer sees no differentiation in physical product nor in the basic services of each supplier. Typically, price buyers are sophisticated and knowledgeable users of what they are buying. If these customers are chosen as target customers to pursue, the challenge for the supplier becomes forming the organization's processes, resources and people to serve those target customers profitably. Actually pure price buyers are very rare, and this is the true challenge of the value-based marketer in the chemicals and pharmaceuticals industries. Even in some large markets for undifferentiated products, we can discover new value drivers for what were regarded as "Lowest Price Buyers." For example, the reduction in total cost of acquisition or the ease of doing business with a supplier can be more valuable to such customers than pure lowest price, which raises an issue worth discussing.

In the customer value ratio, price is just one factor of Relative Costs. This means that, rather than thinking of price in terms of supplier

costs plus margin, value-based marketers perceive price in terms of value to the customer. The more value you deliver in terms of Desired Benefits to Relative Costs, the more price is impacted. The less value you deliver, the more price is commoditized.

If you can't establish a positive value ratio for the customer in any aspect of the offering, price is irrelevant. Instead, you must challenge whether that element of the offering is relevant or appropriate. As customers' needs change over time, you must either make regular checks with customers to maintain your understanding of their value set and how that affects price or you must develop proactively new value offerings based upon your knowledge and insights about your customers and their (unmet) needs.

So how can you become a value-based marketer? In any market segment and to any customer there is a lowest price offering. In understanding and setting price, I recommend that you start with this offer, as this is the low-point benchmark against which you must compare and contrast your offering. Once you've described the lowest price offering, you need to be able to build a logic and an argument to justify the scale of difference in your price compared to that low point. Then

determine and quantify how the customer benefits from additional elements of your offering and what those elements are worth to the customer.

Every customer value segment has specific elements of its value set, which – if fulfilled – will attract a non-price-sensitive response. The key is to identify these elements. This forms the basis of your pricing decision and your price argument/justification.

Most marketers give far too little attention to the Price "P" of the marketing mix and this is one of the main reasons why they give marketing a bad name and a bad reputation in the company. Of the traditional 4 "P's" (Product, Place, Promotion, Price) and the modern 7 "P's" (Product, Place, Promotion, Price, People, Process, Physical Evidence), there is no escaping the fact that Price is the ONLY value-creating and value-capturing "P" in the marketing mix (Figure 1).

So my advice to all you chemicals and pharmaceuticals marketers out there is to spend a bit more of your valuable time on Price if you want to be a value-based marketer. When I say spend more time on Price, I don't mean reacting to buyers' pressures to drop the price or competitors' price-cutting. Spend more time on understanding the true value of your offering to your customers and reflecting that in your price to them. Spend more time working out how to fulfil the unmet needs of your customers and reflecting the benefits they derive from that need fulfilment in your price to them. Spend more time working out how and why your offering is different from and better than the competitor offering – NOTE I am using the word OFFERING, not product. Every offering consists of PRODUCT BENEFITS + SERVICE BENEFITS + INTANGIBLE BENEFITS which add up to a total customer value which should be reflected in the price.

Clearly, the simplest way to provide, create and capture customer value is to have the best product; and many offerings began life as a better product, which – at the time the product was launched – offered superior benefits and value to the customer. If you cannot make your product look better to your customer or if your competitors catch up by offering the same or a similar product, then you have to make the offering look better some

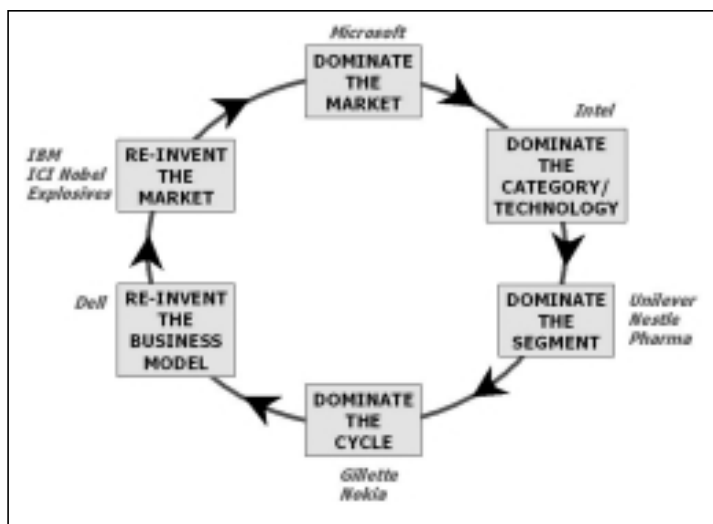


Figure 2

About the Author

PHIL ALLEN runs the Marketing Excellence Practice, MarketAbility, serving a broad base of clients in industrial, chemicals, energy and pharmaceutical 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 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.org), 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: 5 Steps to Creating Customer Value", (www.pentadigm.com) which was published in December 2002 by McGraw Hill in collaboration with the American Marketing Association.

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.

Find out more about MarketAbility at: www.marketability.org

struggle with the concept of differentiation through intangible elements of the offering, such as brand image.

Re-defining business models has also not been widespread in the chemicals and pharmaceutical industries, but there are some isolated examples of success. Dow Chemicals' e-epoxy.com business model for standard epoxy products has re-defined that business and significantly improved both market position and profitability. Dow Corning's Xiameter business model is transforming the way standard silicone products are marketed and has also been a re-sounding success after just eighteen months of operation.

Re-defining the market is an even bigger challenge, but has been achieved even in the chemicals industry, albeit on a limited scale. ICI Nobel Explosives re-defined their explosives business to quarries as "right-sized stones" and transformed it into a profitable business again (for more information there is an IMD case study describing the story).

So, if you think marketing is a lot of mumbo-jumbo and vague utterings about products, supply chains and promotions, think again or get a new job. There's a lot more to marketing than meets the eye and a lot more profitability to be made with value-based marketing applied to chemicals and pharmaceuticals businesses.

In a series of articles, starting in the PharmaChem directory to be published shortly and continuing over the next five issues of PharmaChem, Phil Allen will continue his challenge to chemicals and pharmaceutical marketers to adopt a customer value-based approach to their marketing.

other way. This might be achieved by adding some service or services, which are relevant to and valued by the customer – for example: better delivery, better availability, analytical and technical services.

If the product and service combination cannot be differentiated from the competitive offerings in the customers' mind, then you have to seek, find and add into your offering some intangible benefits (such as trust or relationship or brand image). If you cannot make the combined offering of products, services and intangible benefits look different and better than your competitors' offerings, then you must re-define the market you are serving.

So, this gives us a clue to some key stages in value-based marketing:

1. Invent a new product and try to protect it's differentiation
2. Extend the differentiation of the product by adding services or providing total solutions
3. Extend the differentiation of the offering by exploiting the intangible benefits

4. Re-define the market in which you are playing

It also gives us a hint to the keys for marketing success (Figure 2):

1. Dominate the MARKET (e.g. like Microsoft)
2. Dominate the CATEGORY or TECHNOLOGY (e.g. like Intel)
3. Dominate the SEGMENT (e.g. like Nestlé, Unilever and some Pharma companies)
4. Dominate the CYCLE (e.g. like Gillette, Nokia)
5. Re-Invent the BUSINESS MODEL (e.g. like Dell)
6. Re-Invent the MARKET (e.g. like IBM)

Inventing products is something in which the chemicals and pharmaceuticals industries have excelled in the past and to some extent still do excel in today. Some chemicals and pharmaceutical companies have also led the way to differentiation through the provision of services and solutions.

But scientists – and let's face it, most of the industry's marketers come from a science background – seem to

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