

Price is important: So, how can I avoid competing on price?

04.04.2005 - "Price is important: So, how can I avoid competing on price?" was a key question posed at the recent ECMSA and MarketAbility Management Briefing in Zürich, Switzerland where an audience of senior executives from the chemical and plastics industry participated in discussions.

The fact that price is important to all buyers was confirmed by Ian Telford (Global Purchasing Director, The Dow Chemical Company) but the good news for marketers and sellers in the chemical and plastics industry was that - it's not the only game in town. Price is always going to be an important consideration to any buyer, Telford reiterated, but he also hinted that there are other factors that buyers must also consider. The buyer has an obligation to satisfy the needs of his or her clients, the production, technical and business leaders within the corporation. Buyers often do not have the ultimate say in what to purchase, nor when and how much to purchase; these criteria are mostly dictated by the client. But the buyer may not wish the seller to know that and will deploy a multitude of techniques to avoid declaring any risks and weaknesses in his or her negotiating position. The onus, then, is upon the seller and marketer to observe and listen to the purchaser in order to ascertain the true facts of the situation.

John Stokoe (Senior Consultant, Deloitte) went on to confirm another widely held belief that all chemicals and plastics products are heading unavoidably towards commoditisation. "It is merely a matter of time", advised Stoke, "but calculating that time frame and exploiting the non-commoditised period is the true challenge for the chemical and plastics industry, for that is where they can make their profits and realise the return on their investments."

Providing valuable services is another way to capture additional value from customers and to avoid the inevitability of price competition. Creative development of new services is the direction preferred and adopted by Distrupol, the specialised plastics distribution arm of Univar Europe. Thomas Andersson (Business Manager Distrupol Impact) explained Univar's novel marketing channel ChemPoint, an e-Marketing route that offers extended reach, low cost to serve and the ability to effectively prospect through the application of leading edge technology aligned with pure marketing

principles, and which delivers faster than 'traditional channel' growth rates and significantly higher return on sales ratio. Based on the experience with an actual example, Thomas demonstrated a 73% increase in sales and 166% improvement in gross margin within a rolling twelve month period.

Phil Allen (CEO MarketAbility) challenged the gathered cross-section of chemicals and plastics marketers, sellers and commercial leadership to look beyond the obvious and adopt more enlightened marketing strategies. "If you always do what you've always done, you will always get what you always got....if your lucky. I don't like to rely on luck," claimed Allen. "This industry creates a huge amount of value for its customers and then proceeds to give that value away. Commercial management must lead the way by discovering markets or sectors of markets where they can develop and sustain a leadership position. It is rare in this industry that a single company can dominate the market or even a specific product category. But companies can discover market segments where they can develop a leading or even dominant position. Dow Corning has shown with its creative and enlightened Xiameter business model that it is possible to invent a new business model that delivers value to both customer and supplier and that is profitable." The challenge is to look beyond the obvious and the previous practice to don a new pair of spectacles - customer's spectacles - and try to see things from the customer point of view. Customer value is the basis of market success and business profitability.

Once a company has discovered the basis for a profitable business, then they have to build a position of strength and be able to defend it. Paul Hague (B2B International) provided the final pieces of advice to the audience at the management briefing. "Sustainable differentiation is built in the brand. A brand is something that is unique by definition. Building a brand is not just about logos and ads but about obtaining a position in people's minds. A brand attracts new customers to the brand and it creates loyalty amongst customers. Measuring the value of the brand can be achieved by simple trade-off questions. Building the brand requires a focus on the touch points that are distinctive to our brand and that matter to the customer."

A reoccurring question asked by the audience was - Can branding really be applied to chemicals and plastics products? Customers still know that it's the same molecule they are buying whether it's from Dow or BASF or Huntsman.

In response Allen pointed out that - Customers do have preferences and do demonstrate loyalty to longstanding suppliers of good quality products and services. The challenge then is how to quantify and capture this value - two of the topics picked up by Allen and Hague during the second day when they led the group through an interactive workshop to learn some key tools, techniques and tips to help them not to compete on price. "We do not sell products, we sell a complete offering made up of product, service and intangible elements each of which contribute to the overall unique selling or value proposition," Commented Allen. Customer value should be the basis for developing a market segmentation around which to build and deliver those differentiated offerings.

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