



# Communiqué

SUMMER 2009 | VOLUME 21, NUMBER 4

BY JOHN HENDERSON

## Change And Transition Strategies— After A Steep Market Decline

A PERSONAL INHERITANCE USUALLY MEANS THAT SOMETHING OF SPECIAL VALUE IS COMING YOUR WAY—MONEY, FAMILY PROPERTY, HEIRLOOM JEWELRY—PRECIOUS COLLECTIONS.

### ABOUT THIS ISSUE

In this issue of the **Client Communiqué**, we discuss the challenges of effectively preparing to execute a transition plan for growth following steep market declines. In most cases yesterday's strategies are unlikely suited for today's marketplace. We outline a series of questions and a method to assess the condition of markets and sales channels. In light of current conditions, we also examine how to position for profitable growth despite operating on shoe string budgets. Finally, the knee jerk reaction in any market decline is often to immediately lower the price. We discuss why lowering price could be the wrong tactic and the potential negative consequences that may arise.

### WHAT'S INSIDE

- 1 Change and Transition Strategies—  
After a Steep  
Market Decline
- 4 Budgets on a Shoe String
- 6 Why Lowering the Price  
May Be a Bad Decision?

**A** company's inheritance is its continued competitive advantage in the marketplace. Preserving its value requires adapting to the market as it changes. **Yesterday's strategies cannot deliver tomorrow's objectives.**

When the market was growing, your business was able to grow with it. In this business environment, market growth will not meet your company's expectations. However, you do have the option to grow by taking share from your competition. Is your company in a strong enough position to do this? Can you withstand the onslaught of competitors who are trying to take your share?

Market environments, like the one we are in now, **always** cause changes in market dynamics. Your company should be questioning the effectiveness of your strategies:

#### **HAVE CHANGES IN CUSTOMERS LEFT YOU UNCERTAIN OF THEIR NEEDS?**

- Different personnel are becoming involved in purchase decisions
- Brand strength has weakened and even specified purchases are qualified with "or equivalent"
- Customers are unwilling to pay for the same technical support

#### **DOES EVIDENCE POINT TO PROBLEMS IN YOUR DISTRIBUTION CHANNELS?**

- Sales volume has dropped and margins are being squeezed
- Gaps are forming in coverage of large customer segments

- Your company is losing importance as part of your distributor's business
- Competitors are achieving significant volumes through non-traditional channels

#### **ARE ESCALATING COSTS EATING AWAY AT YOUR PROFIT MARGINS?**

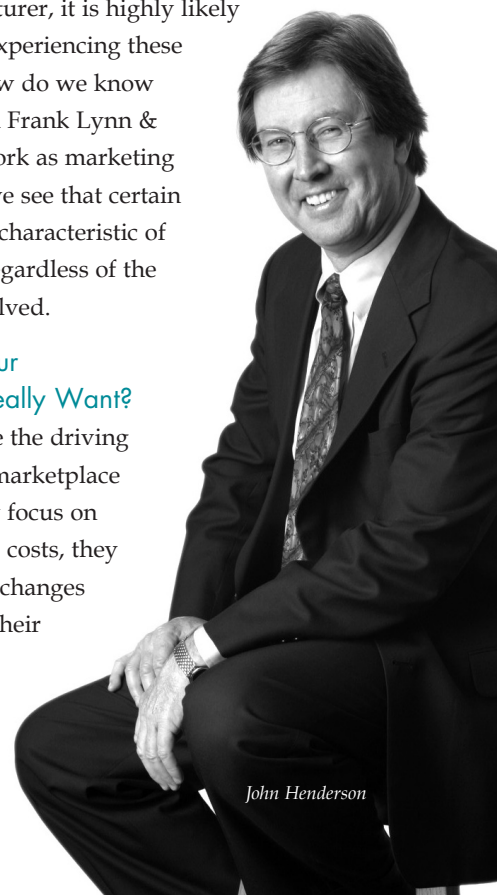
- Some marketing programs may be redundant or currently ineffective
- Is your channel price structure aligned to your goals of increasing market share or reducing your overall distribution costs?

As a manufacturer, it is highly likely that you are experiencing these problems. How do we know that? Through Frank Lynn & Associates' work as marketing consultants, we see that certain dynamics are characteristic of all markets, regardless of the products involved.

#### **What Do Your Customers Really Want?**

Customers are the driving force behind marketplace shifts. As they focus on reducing their costs, they make process changes that redefine their purchase expectations and needs.

*continued »*



John Henderson »

If you see evidence that your customers are changing the way they do business, you need to reappraise your strategy.

Often, they require different types of support. Therefore, it is vital for your business to periodically reexamine their needs.

As a manufacturer in a maturing market, you may be seeing symptoms that your customer segments are changing:

*Has the buying decision moved from technical user to purchasing agents?*

**THIS SHIFT INDICATES A CHANGE IN POSITIONING FOR YOUR PRODUCT:**

- Price must be competitive
- Brand preference may not carry the sale
- Products formerly not considered from a quality standpoint, including private-label, may get a second look because they cost less

*Are customers turning to central sourcing, either through broad-line channels, integrators/aggregators or packaging of related products?*

If you do not have access to these broad-line suppliers or the desired mix of products, you may be phased out as the competitors fill these needs.

*Are customers unwilling to pay for technical support?*

They may be relying on their own technical knowledge, pressuring you to unbundle product and services.

*Is the buying structure in the market changing?*

In some cases, consolidation and buying cooperatives will allow customers to act as a more powerful unit, demanding different buying options.

*Are non-product considerations having a greater impact on purchase decisions?*

You may need to add options to the sale to increase your value as a supplier:

- Annual contracts
- Leasing and special financing
- Vendor-managed inventory

If you see evidence that your customers are changing the way they do business, you need to reappraise your strategy. Only by looking to the market to determine which customer segments are changing and to what degree, can you truly assess the probable impact on your channels and your business operations.

### How Are Your Channels Changing?

Changes in customer demands have required that distributors change their businesses in order to succeed.

- Some are recycling their business, looking for new products to support with technical expertise
- Others are moving to broad-line distribution
  - expanding their breadth of product offering
  - expanding regional and national distributor chains by buying up other distributors
- Many are finding a niche, driving to a smaller but surer customer base
- The rest have been unable to effectively change their business and will exit

You may already be seeing symptoms that your channels are moving in these different directions:

*Are your channels complaining about margin pressure, trying to offset it by cherry-picking lines?*

*Is vendor rationalization becoming an issue as channels take on new product lines while also trying to reduce the overall number of vendors?*

*Are channels calling for changes in support and delivery requirements, some asking for less, some asking for more?*

*Are you seeing gaps in the coverage of some customer segments?*

*Are your channels deemphasizing your lines?*

*Are your distributors trying to push costs back into your business?*

The grievances being voiced by your distributors, as well as your own concerns, imply that some action must be taken:

- You may need to adjust your channel mix
  - adding new types of distributors if you are selling through a single channel
  - reducing the number of distributors if you have expanded to the point of over-distribution
  - renegotiating distributor roles if some customers require a more direct relationship
  - change the distributor's compensation to reflect the new roles they perform
- You must be critical of your distribution costs
  - if you are paying high-margins for services not rendered, you may be double-costing the system
  - if you are not competitive with margins, you may become vulnerable to replacement by another supplier
  - if you are adding extra costs by requiring unneeded support, you may make your distributors less competitive in the marketplace

To take the appropriate actions, you must dispel the confusion over which direction your channels are moving. Using market information, you can sort your channel mix to see what changes have occurred. You can measure their collective coverage and identify your problem areas. In addition, you can pinpoint which costs and business practices are out of line.

### Market Share Positions Will Change

Over the years, we have witnessed that market share positions change rapidly during periods of marketplace "stress." Increases of 5 to 10 share points, in two to three years, is not uncommon. And, the cost of changing market share during these periods of stress is often much lower. "Take share strategies" require a change in your marketing approach and a targeted investment. Manufacturers must cause buyers to do something different from what they have done in the past. Ideally, the changes you make will create a "sustainable unfair competitive advantage." This means that you will want to achieve a positive customer

reaction to the changes you have made while limiting the competitor's ability to respond. In this market environment, we know that many manufacturers are totally unprepared to respond.

To determine what changes are required, manufacturers need an in-depth understanding of their customers/market segments and insight into the changes they have made in their brand sourcing decision processes. Those that are first to figure out what has changed in their markets, will gain share.

"If we don't change direction soon, we will end up where we are going."

— PROFESSOR IRWIN COREY

### We Can Help

Frank Lynn & Associates, Inc. can be your link to the market. We believe that a successful marketing program must begin with a profound understanding of the market's dynamics and economics. In every consulting assignment, we follow a disciplined approach of first learning the logic of a market and then addressing the relevant issues on a team basis with our clients.

Why is Frank Lynn & Associates unique as this link? We are unique because we have developed a consulting approach that blends expertise in market dynamics with specific marketplace knowledge. Our firm has over 35 years of experience in bringing advanced thinking and in-depth market understanding to client firms in a wide variety of industries. Our clients feel that this enables Frank Lynn & Associates to provide special value.

### SUMMARY

*If your company is dealing with the problems of shifting customer needs, changing channels and limited growth, we can help. Call John Henderson at 312/558-4828 or email at [jhenderson@franklynn.com](mailto:jhenderson@franklynn.com) to find out how our consultants can help you tackle these issues now.*