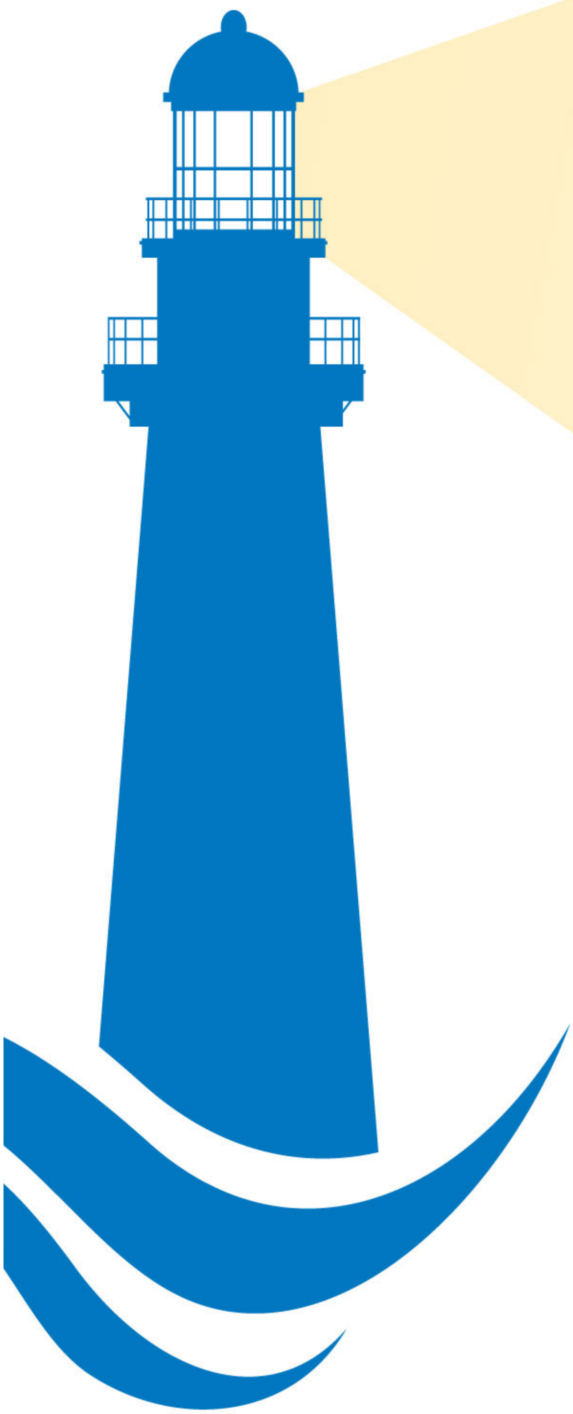

Cut Anything BUT Marketing

by Curtis N. Bingham

CHIEF CUSTOMER OFFICER
COUNCIL

Cut Anything BUT Marketing

How to market smarter AND harder to thrive in difficult times

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Curtis Bingham is the recognized authority on chief customer officers and the first to promote this role as a catalyst for competitive advantage. He is the creator of the CCO Roadmap, a groundbreaking work containing 100+ critical strategies essential for customer centricity. As an international speaker, author, and consultant, Curtis is passionate about creating customer strategy to sustainably grow revenue, profit, and loyalty.

Marketers are faced with huge budget cuts, yet across-the-board cuts are clearly more detrimental in the long run than other cost-savings methods. Research has shown that when companies hold the line or even increase their marketing spend during recessions, they achieve significant gains in revenue and market share both during and especially for two to three years following the recession. Marketers must recognize that the value equations are changing and gather sufficient customer insight so they can: 1.) hold onto their best customers to prevent them from trading downwards to lower-cost alternatives, 2.) attract highly-profitable customers trading from their upmarket competitors, and 3.) be ultra-precise in targeting their highest-potential customers using measurable methods to justify their investments.

How are marketers responding to the economic downturn?

Some marketers are cutting their budgets indiscriminately, which is the altogether too common and the most dangerous of all means of handling an economic downturn.

I spoke with someone in the financial services industry who said that the entire company was facing across-the-board budget cuts of 25%. In general, most would agree that everyone should share in the pain of budget cuts, however, this one-size-fits-all approach doesn't take into consideration the fact that some divisions or products are far outperforming others and contributing a much larger percentage of total margin. Applying across-the-board budget cuts to these highly profitable product lines or divisions results in a disproportionately larger impact on the bottom line, both during and after the recession.

Another trend is that of marketers retreating from mass-market advertising, ie. radio, tv, and newspapers. There were two recent articles in the Wall Street Journal, one saying that radio stations are slashing ad rates, and the other highlighting losses announced by major newspaper chains, both due to decreased advertising sales.

Last week the CEO of a search engine marketing firm told me that this was going to be their best year ever. Many of her clients have retreated from the mass-market advertising primarily because it is so hard to demonstrate ROI with these methods. Consequently, they are turning to search-engine marketing, and returning to direct-, and email-marketing because these methods are much more formulaic. You insert your quarter and out pops a lead.

The final trend that I'm seeing is that of companies cutting in non-customer-facing areas, or areas that don't have significant customer impact, and leaving marketing budgets the same or even increasing them slightly. Research has proven that this is a much smarter strategy.

Why would I want to continue to spend money on marketing?

There is a respectable body of research that has shown the effects of marketing through previous recessions. In general, those companies that have maintained or even increased their marketing budgets have fared very well:

1974-1975 recession years

American Business Press (ABP)/Meldurm & Fewsmith published a study in 1979 and found that "Companies which did not cut marketing expenditures experienced **higher sales and net income during those two years and the two years following** than those companies which cut in either or both recession years."

1981-1982 recession years

McGraw-Hill Research's Laboratory of Advertising Performance analyzed the performance of some 600 industrial companies during this economic downturn. It found that "**business-to-business firms that maintained or increased their marketing expenditures during the 1981-1982 recession averaged significantly higher sales growth both during the recession and for the following three years than those which eliminated or decreased marketing**."

Cahners and the Strategic Planning Institute (SPI) found similar results: "**During a recessionary period, average businesses do experience a slightly lower rate of return relative to normal times**. However, expansion times do not generate a higher level of profits than normal periods as might be expected." This phenomenon was explained by an analysis of changes in market share. "During recessionary periods," said the report, "**these businesses tended to gain a greater share of market**. The underlying reason is that competitors, especially smaller marginal ones, are less willing or able to defend against the aggressive firms." The study then pointed out that those businesses that increased media **advertising expenditures during the recessionary period "gained an average of 1.5 points of market share**."

1990-1991 recession years

Management Review asked AMA member firms about spending during the 1990-1991 recession. The data showed that **most firms that raised their marketing budgets enjoyed gains in market share**. "The keys to gaining market share in a recession," concluded Management Review, "seem to be spending money and adding to staff. Firms that increased their budgets and took on new people were twice as likely to pick up market share.

While the Marketing ROI may be diminished during a downturn, those companies that have historically continued or even stepped up their marketing have reaped the rewards both during the downturn and for two to three years into the rebound.

What should I do to succeed?

There are three areas to focus on: target customers at risk of trading down from you, customers trading down from higher-tier vendors, and precisely targeting new customers.

It is clear that customers in both the B2B and B2C world are trading downwards. In November, the Wall Street Journal reported that luxury emporiums and high-end retailers posted as much as 17% decline for the month of October. The only retailer that grew? Wal-Mart by 2.4%! Consumers are fleeing the high-priced stores for the discounts—not for the challenge but for the necessity.

I was speaking with a CEO of a B2B manufacturing company who said that his biggest risk is that customers will move downmarket to find a cheaper alternative to his. While the need for many products is not diminishing, the value equation is shifting dramatically. If you sell high-end computer equipment, software, or even office supplies, the extra features that used to be a necessity are now a luxury.

Customers are trading down, and there are three actions you need to take:

- Ensure that you keep high-priority customers that are at risk of downsizing YOU
- Attract customers that are downsizing your upper-tier competitors
- Narrowly target only your highest priority and most profitable prospects in your current market segments

The most important thing you can do is to keep your most critical top-tier customers. If they leave, odds are high that you'll never get them back when the rebound occurs. The most critical thing to do is to spend time with them to **understand how their value equation is changing**. What are they going through? What are their new requirements, given the harsh reality of lost customers, postponed projects, and sweeping budget cuts? How is their willingness to pay for your goods and services changed? How can you continue to add value—and at what price? What changes do you need to make in order to prevent them from trading downwards to your lower-priced competitors?

You also have an huge opportunity to steal high-profit customers from your upper-tier competitors. You need to identify these prospective customers and learn more about them. What functionality or service do they now deem "optional"? What attributes of your products and services might they value the most? By understanding customer's needs in this new segment, you may be able to bring these new customers into your franchise and if you play your cards right, you'll keep them through the rebound.

Finally, you need to focus special attention on your most profitable prospects. Now is the perfect time to ensure that you understand exactly what they need, want, and are willing to pay for. It is too costly to waste money, time, and opportunity trying to reach marginally profitable prospects with minimal likelihood of closing. Using in-depth customer insight, cull out your highest potential prospects and begin marketing to them using the channels and media that are most likely to reach them and that provide the highest measurability. In these times, that is most likely going to be related to some sort of direct-response or search engine marketing. There are many, many very creative ways to reach your prospects without spending huge sums of money for intangible results.

Conclusion

Experimentation and even failure can yield some of the greatest advances, yet dragging customers through needless mistakes and experiments can damage even the best customer relationships. Following these key recommendations from chief customer officers can help you shorten the time to success with your innovative programs as you avoid the mistakes of others and experiment in ways that truly, positively enhance customer and company value while enriching the customer experience.

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About CURTIS N. BINGHAM

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About THE CHIEF CUSTOMER OFFICER COUNCIL

The Chief Customer Officer Council is the first of its kind; a member-led peer-advisory network offering unparalleled insight into the critical issues facing CCOs. It was created to provide a safe environment where CCOs can share ideas, concerns, and build best practices that well help them, their companies, and especially their customers succeed. The Council includes CCOs from diverse industries, purposefully cross-pollinated with the most forward-thinking companies, large and small. For more information, visit www.ccocouncil.org, email info@ccocouncil.org or call 978-226-8675.

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Are You Experimenting at Your Customer's Expense? – In this article by Curtis N. Bingham, you'll learn seven ways to drive more profitable customer behavior, while minimizing the risk of negative consequences for your customers and their loyalty to your brand.

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