

DISPATCHESTM

Insights On Brand Development From The Marketing Front

Monday, January 19, 2009

COMMIT TO DOING MORE WITH LESS

**“Another one bites the dust
Another one bites the dust
And another one gone and another one gone
Another one bites the dust, eh”**

Performed by Queen, Released 22 August, 1980

The headline appearing in the January 17, 2009 edition of the Chicago Tribune reads “Circuit City shorts out.” The nation’s second largest consumer electronics chain, founded in 1949, announced Friday that it is closing the doors on its 567 stores. An estimated 34,000 jobs along with the hopes and dreams of many of its workers will sink along with this nearly 60-year old retail chain.

Circuit City is not the only business failing during these difficult economic times. We have lost Steve & Barry’s, Linen’s ‘n Things, Mervyns and Shoe Pavilion and are in the process of bidding farewell to KB Toys, Whitehall Jewelers and Wickes Furniture. The end to business failures does not appear in sight either. At least not as the current recession worsens and consumers hold-on tighter to their wallets.

When the economy is booming failures are few and far between. New businesses and products grow and prosper. Their managers are celebrated for their brilliance and compensated like sports superstars. But when the economy turns then the proverbial wheat is separated from the chaff. We learn: who the really talented managers are; which companies better cater and serve customers’ needs; and the customer perceived value of, and preference for, available products and services. Financial mismanagement, generic positioning, merchandising mistakes, poor customer service, overly optimistic forecasts, similar selling propositions, etc., precipitate and hasten failures during tough economic times like this.

Obviously Circuit City did not have what it takes to survive during this already lengthy and deep recession. The electronic retail firm failed to differentiate itself from competitors such as Best Buy and Wal-Mart. (So it is unlikely that Circuit City will be missed.) These retailers, along with online retailers, were thereby able to squeeze Circuit City and win market share with cutthroat discount pricing on popular electronics. With the cutback in consumer spending the company could not pay bills that came due on the glut of store inventories left unsold from the holiday season.

We’ve spoken frequently of the need for differentiation. It must be relevant to the customer and meaningfully differentiated from competition. But it’s important during this period of economic

contraction that we talk about the need to get our house in order and learn to do more with less. We are talking about eliminating waste and focusing on what really matters. One key area to tackle is the breadth and depth of the product line. In many cases it is just too big for us to handle. For one it dilutes our focus. For another, it is just too costly.

A few months ago my electric shaver died. I must say I had been very, very pleased with it. So I sought to repurchase the same brand and model. This is an example of consumer loyalty in action. The company had what I need and want. Yes, I said, “had” because they no longer offer that model. As I scanned the shelves of a discount retailer I was confronted with a few brands (including mine) and a plethora of models. It made what I had hoped to be a simple decision a very difficult one. I was so confused that buyers’ remorse set-in even before I had made my purchase. (In fact, I’m not very happy with the purchase today. It doesn’t shave close enough, the electric charge is short lived, it takes too long to recharge and the consumables that make it unique are often not in stock at retail.)

Go to the retail shelf for just about any category of products. You’ll find the same situation. Look at the selection provided by marketers of sanitary protection products, or shampoos, contact lens wetting solutions, or soft drinks. You will undoubtedly agree there is a wide, wide selection. This is exacerbated by the many packaging sizes. It’s confusing to potential customers and forces them to work to arrive at a decision. And we all know customers don’t like to work!

Marketers have counted on a broad offering fueled by the next new thing to drive business growth. We tend to believe that we need more products in our line to broaden our customer base (i.e., meet more needs) and engineer sales success by building in planned obsolescence to force replacement, gaining increased real estate at retail to push inventories, etc. A typical practice is to introduce something new to make the forecast, something that the company can make, not necessarily what the customer needs or wants. The new item meets the company’s need for new products or services, not the customers. Or it’s the same thing that every competitor offers. This practice does not add value to the marketplace.

Manufacturers can get away with these practices when times are good. But when times get tough? The Pareto Principle would suggest otherwise. The Pareto Principle, named after an Italian economist and sociologist, Vilfredo Pareto, who found that 80% of the wealth in Switzerland was held by only 20% of the population. Joseph Juran, the quality management pioneer and guru, recognized the applicability of the Pareto Principle, which became known as the 80/20 rule, within the context of inventory management. Dr. Juran referred to it as the “vital few and trivial many.” It means that in most cases a “few” (namely the 20%) are, in his words, vital, while “many” (the other 20%) are trivial. Yet the trivial add significantly to the cost of doing business, dilute resources and, in many cases, undermine our ability to fuel real growth.

This runs counter to our beliefs or, at least, practices. We come to think of more as, well, more. How could less be more? Aldi, a discount grocery based in Germany, is an example of doing more with less. The chain has experienced significantly greater growth than the category over the past few years. And their profit margins are the envy of their competitors. They have even been able to successfully compete with deep discounters such as Wal-Mart. Among the selling propositions used by the company are:

- Top quality at incredible low prices
- Smarter shopping

- Spend a little, live a lot

The basis for the success of Aldi is offering products at deep discounts. But it is able to do this by keeping operating costs to a minimum and passing along savings to customers. One of the ways Aldi is able to minimize its operating costs is by offering significantly less merchandise than its competitors. A typical Aldi store carries 1,300 to 1,400 individual items as compared with 40,000 to 45,000 for a supermarket. Aldi carries its store brand with no more than two outside brands and, in most cases, only one.

It's growth attests to the fact that it has what consumers want. Importantly it has the prices nearly all socio-economic levels want too. In Germany more than 80% of the population claims to have shopped at Aldi (during the preceding 12-month period) regardless of whether they are from blue or white-collar families, low or high-income households.

The more items you offer the more inventories you and your customers carry. The more costs you carry too. In this environment it is essential to minimize costs and maximize focus. We need to learn to do more with less in order to avoid biting the dust, or losing our competitive position.

How can we as marketers do this? Here are a few suggestions to consider.

BOATS & HELICOPTERS:

1. **Check for segmentation versus fragmentation** – Here's one way to tell if you have segmentation or fragmentation. Is your brand positioning and your marketing plan based upon a customer segmentation model you conducted? Do you have marketing research evidence of it? If you answer "no" to either of these questions then it is not likely you have meaningful segmentation unless it is by: a) luck; or b) following a smarter competitor. More than likely your broad line reflects fragmentation. You're eating your own lunch, not your competitors'.

Here's another question. Do your new items reflect a product improvement versus broadening your customer base? If so then maybe it should be/have been introduced as an improved replacement for the old item, not an additional item in your line. An additional item that is really an improvement to an existing item typically contributes to fragmentation versus segmentation. The incremental lift may not be worth the added costs associated with it.

Some smart retail customer, like an Aldi purchaser, is someday going to ask, "How does this help me gain incremental customers and sales as opposed to merely fracture into smaller units the sales that I have?" A smart marketer will anticipate this question and if s/he can't answer it then would evidence his/her wisdom by not introducing it or introducing it to replace an existing item.

One other thought to consider. What is the source of volume for each item in your line? If it takes more market share from your brand than competition then it probably means you are engaged in fragmentation.

Cutting to the chase, let's go back to the first question. If you don't have a segmentation model its time you create one. It will help you create a differentiated brand positioning

that provides you with an opportunity to create brand loyalty and develop a highly rationale line of products or services.

2. **Conduct a thoughtful sales and financial analysis** – Okay senior managers, what percent of total sales are you getting from various brands in your company portfolio? Group brand managers, what percent of brand sales are you getting from each product line offering? Brand managers, what percent of sales are coming from each item in the line? Know this! It's important stuff.

Know too what each of these is costing the organization, fully loaded. (A common mistake is to look at the incremental cost as opposed to the fully loaded cost. This practice contributes to introducing items that really don't pay their way to the company and/or undermine the valuation of the company.) If they don't meet company benchmarks, or average, then consider discontinuing these brands, product lines and/or items.

One other thing to know also, what will your customer do if you discontinue the brand, line or item? If they will stay in your franchise then there's no loss, only gain. If they will go to a competitor then you have to go back to your segmentation model and brand positioning strategy. If they represent transactional purchasers as opposed to brand loyalists then it is probably wise to say goodbye and wish them well. The Pareto Principle also holds that 20% of your customers represent 80% of your headaches. As difficult as it appears sometimes letting go is the best thing you can do.

3. **Disintermediate and Dematerialize** – Rationalizing your product offerings is one way to manage financial wellbeing. But we should not forget a couple of other ways to reduce unnecessary costs. One is disintermediation. This is about eliminating unnecessary intermediaries in the supply chain. Amazon.com is an example of disintermediation. There are no stores. They're able to offer discounts to consumers using a different business model that enables them to be proactive with customers. Private label brands represent another example of disintermediation. The result again is being able to offer similar products at lower prices. UPS is running a television commercial that shows disintermediation in action. They claim they offer one billing, one network and one driver. In this case the result may not just be cost containment but better servicing. And, Apple with its stores not only enhances brand image and value but also boosts profits through disintermediation by not limiting themselves to traditional electronic retailers.

Dematerialization is about cutting out materials. Aldi and Whole Foods, as well as other retail grocers sell bags and invite their customers to reuse them so as to minimize costs and environmental waste. It seems that many products are not coming with preprinted instructions. Instead the instructions may be downloaded cutting out production and paper costs.

Disintermediation could give you a leg-up on competition in addition to lowering operating costs. Dematerialization will not only lower costs but may serve to convey a modern, up-to-date impression.

4. **Avoid cutting that which makes the company and brand more competitive** – At this stage many companies are cutting whatever is not nailed down. There is good cost cutting

and bad cost cutting. Good cost cutting is about eliminating waste and non-productive activities. These cuts have no negative impact on the brand today or in the future. Then there's the bad cost cutting. It's mindless cutting of discretionary funds with no consideration for the impact on brand competitiveness today and/or in the future. Pull activities such as advertising and organizational competency enhancement such as training are often mixed-in with the good cost cutting and hurt the brand and company. The result may not be immediately felt but they undermine competitiveness. And you can't make-up the erosion on long term performance, customer perceptions, etc. It is important to discriminate between good and bad cost cutting. Avoid bad cost cutting. If you don't provide your management with sound rationale to preserve good spending you will be mandated into, and stuck with, bad cost cutting! And your brand's health will pay for it.

5. **Renew your focus** – Now its time to invest in those brands, lines, items and activities that will lift company sales and profits, enable you to stay afloat during the recession and be poised for renewed brand vigor when market conditions improve. Don't shy away from making choices. Not making choices puts the fate of your brand in the hands of chance not rational thought. Making choices regarding where to focus goes beyond brands, product lines and items. It needs to include marketing mix elements and initiatives too. More on this in a future DISPATCHES article.

Business as usual isn't going to work in the current economic environment. For some companies it will be about doing what it takes to survive. For others it is about doing what it takes to maintain competitiveness and provide a platform for future growth. We need to be more thoughtful and creative in managing our brands and businesses. Commit and find ways to do more with less!

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