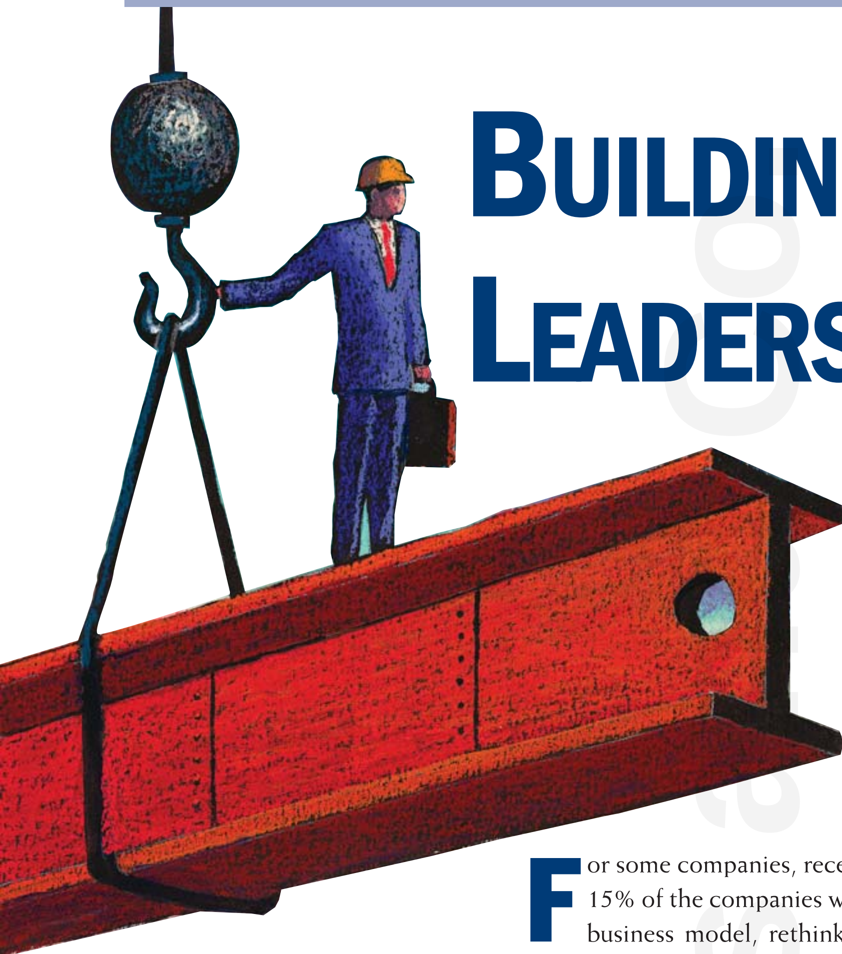
COVER STORY



Building Market Leadership During Tough Times

By Dr. Peter F. Mathias
CEO,
Mathias & Company

and Victor L. Hunter
President,
Hunter Business Direct

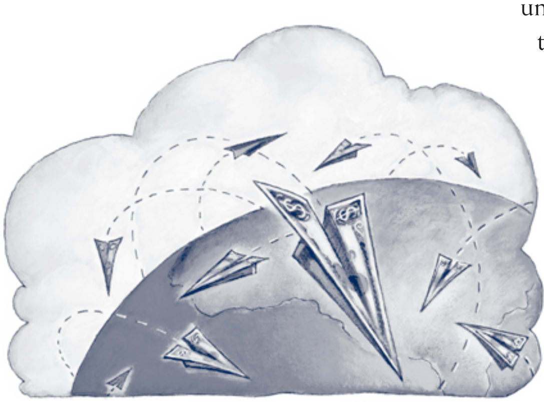
For some companies, recessions are a time of strategic opportunity. In our research, only 15% of the companies will have the conviction, capital and capacity to restructure their business model, rethink their customer relationships and focus on a comprehensive action plan that will establish the foundation for solid economic performance after the economy turns around. Most of the people in senior management positions today have only hazy memories of the last economic downturn almost 10 years ago. For many companies, the recession will be a time of lost opportunity. This article explores what differentiates the behavior of long-term winners and future market leaders in today's downturn.

What Happens to Your Customers in a Recession?

In a recession, the customer's business model comes under increasing pressure, which is transmitted to all parts of the supply chain. The natural behavior of the customer becomes even more exaggerated as customers retreat to what is their core buying pattern and strategic focus. We see four distinct buyer categories and their reactions to the recession results in very different sets of behavior:

- **"Bottom feeders"** become even more price sensitive and shop even more aggressively for the "best buy". For example, one of our sample customers, a commodity product manufacturer shifts to Web-based selling, cuts sales expense by 60% and picks up 16 share points in a one year period.
- Distribution **channel dependent customers** become more support-conscious of the channel and successful niche market manufacturer with 1/8th the share of leader lost control of their channel partners and found 50% of their qualified leads sent to resellers were being transferred to the market leader.
- **Brand loyalists** become more directly involved with fewer suppliers demanding more resources and attention from them. (A sample company shifted to an integrated sales approach with double the number of field contacts [now phone-integrated with field] and grew 7% in a branch level test and control pilot.)

- **Feature / technology** purists become more demanding of integrated solutions. They are often willing to subcontract responsibility for larger sub-assemblies and components of their product to their core suppliers in return for off-loading costs and capital. (A manufacturer assigns a senior executive to a "solutions group" where components are fabricated into a client-specific solution and sold direct. By end of 2001, this work had become a division.)



The exact behavior pattern of your customers will be dependent on the strategy of the customer. A central element of your strategic account program would be to understand how your customer's strategy affects the buying behavior. Successful sales strategies understand the full scope of these different behaviors within the company's portfolio and position their companies to deliver to those customers whose buying behavior matches their own strength.

What Does This Mean for Companies Like Yours?

There will be a "flight to value" as the strong and well-positioned companies gain market share and wallet share with their important customers. Customers perceiving increased "vendor risk" cause this. As these customers eventually come out of the recession and their wallet grows again, those that gained or maintained their wallet share become even more entrenched in the customer's wallet. The well-documented superior share price performance of market leaders versus the second tier players in an industry during a recession is an expression of this underlying fact.

Most customers will likely narrow the choice within their supply chain in order to concentrate their businesses in fewer core suppliers. They will weed out the weaker, less efficient and poorly positioned suppliers. It is of strategic importance to your company to understand how your customers make the decision to narrow their suppliers and how they perceive you. The second tier suppliers will be increasingly marginalized. There will be big winners who will gain wallet share, some survivors and many losers as the customer wallet concentrates. Market leaders are using customer loyalty indexing to identify and manage the drivers of this value within segments.

THERE WILL BE A "FLIGHT TO VALUE" AS THE STRONG AND WELL-POSITIONED COMPANIES GAIN MARKET SHARE AND WALLET SHARE WITH THEIR IMPORTANT CUSTOMERS.

A recession forces customers to retreat to their core businesses. Hence, there is an increased inclination to dramatically reduce the sales, marketing and investment support for secondary product offerings and secondary markets. Therefore, suppliers to the second tier / marginal products of the customers may come under sharply higher pressure to lower cost and assume a higher share of the investments necessary to preserve marginal product lines. These "orphaned" products will require companies to rethink their approach to distributing these products and will have to consider new business models for participating in these product markets. Outsourcing partnerships have grown rapidly in 2001 and are creating new businesses in 2002.

Your strategic account program should be the linchpin of your company's recession strategy. Most companies respond to a recession by becoming internally focused when they should consider the management of their strategic customers as one of the key levers of gaining market position during recessions.

Building a Customer-Driven Agenda for the Recession

During a recession, many companies destroy a significant percentage of their "relationship capital". The company that emerges as a market leader tends to have a comprehensive plan to enhance total relationship capital with core customers during the recession. At a time when many of your competitors will not be able to sustain customer relationships, you have the potential to enhance the value of your company. Building your relative performance in a recession entails building a workable plan that enhances *both* the quality of your customers and the quality of the relationships you have with them.

1. Have you selected the right customers? Most companies select their customers opportunistically rather than systematically. There are many examples of leading companies that have selected a customer portfolio whose wallets have contracted disproportionately during a recession. For example, having a high percentage of dot.com customers may have been positive a few years ago, but in today's market the traditional buyers are at a premium.

A recession is a good time to evaluate who are your "defining customers" – customer selection is the heart of corporate strategy and the foundation of a good strategic account program. The problem will be that there is a convergence on the few good customers during a recession. The quality of your customer portfolio is an indicator of your economic value. A disproportionately high percentage of high-risk customers who suffer a substantial wallet contraction during a recession will introduce substantial volatility in the economic value of the enterprise. For example, Sun Microsystems and Cisco have lost substantial market value because a large percentage of their high growth customers just stopped buying during the slowdown.

MOST COMPANIES SELECT THEIR CLIENTS OPPORTUNISTICALLY AND END UP SELECTING A CUSTOMER PORTFOLIO WHOSE WALLETS CONTRACT DISPROPORTIONATELY DURING A RECESSION.

2. Careful customer selection naturally leads to a rigorous segmentation of your customers' buying behavior. It requires revalidation of your product set, core value-added communications and services within each segment. This requires grading and management of investment to return within segments. It requires revalidation of most effective (and desirable) communication medium – often increasing the touches, but with more immediate and lower cost medium.

Critical Tools:
Segmentation and grading (always grading within segments)

Key Measures:
1. Investment within segment
2. Sales expense to revenue by customer grade

Strategy:
Product line penetration within existing accounts

3. Do you have the right relationship with your strategic customer? During a recession, the value created in the customer relationship drives your overall profitability. It is a good time to evaluate what type of relationships you would like to have with strategic customers in each of your segments. For example, your revenues may all be concentrated in the slow growth part of their wallet, but that may be less recession sensitive. How many of your strategic customer relationships are really profitable? And how can you change your product mix to further enhance profitability? A recession makes it imperative to introduce very strict measurement standards for customer profitability.

4. Have you initiated a strategic dialogue with your strategic customers? Customers expect their core supplier to be actively engaged with them during times of economic stress. If you are not continuously creating value while difficult decisions are made at the customer, it is unlikely that your company will have share of mind. As a core supplier, you need to help shape the customer's thinking on how the company can compete more effectively in a recessionary market place. If the customer thinks your way, he will likely give you a bigger role in the wallet of the future.

Look objectively at your core strengths. Search those customers facing activities that best support these core strengths. Become a more valuable strategic partner by becoming more focused on fewer things that bring greater value to your customer.

Critical Tool:
Customer strategies / Activity Mapping (Link your activities to core strengths)

Key Measure:
Loyalty Index with supporting business drivers

Strategy:
Focus through your customers to help them be more successful. Resist at all costs the temptation to be of more value to more people.

5. Have you had measurable impact on your customer's new business model? Customers look to their core suppliers to help them transform their business model in response to unfavorable economics. What role have you played in making this happen? Those suppliers who have had a high impact will have higher share of wallet during the recession and will maintain it after the recession as the wallet grows.

6. Have you invested sufficiently in your strategic customers? Customers expect their core suppliers to provide them with lower overall costs / prices in return for a higher share of their wallet. Have you understood the economic trade-offs involved? To what extent should you trade off higher share of wallet for lower margins? How do you handle issues of cross-subsidization?

Investing sufficiently in your strategic accounts requires grading. A practical example:

First: From your active customers, separate the top 40% by count (your core customers).

Second: Take the "core" accounts and grade into five grades by count (i.e., 1000 accounts).

Top 5% (50)	=	AA grade
Next 15% (150)	=	A grade
Next 25% (250)	=	B grade
Next 25% (250)	=	C grade
Next 30% (300)	=	D grade

Continued on page 17

Continued from page 15

Third: Set investment strategy based on a constant sales-expense-to-expected-revenue across all grades.

Fourth: Shift dollars in a recession *to* Grade A & C customers *from* Grade B & D customers.

Result: Grade A will yield greatest increase in dollars. Grade C will yield greatest increase as a percent of dollars within the grade.

7. Have you innovated / redesigned your service offering? A long-term trend for strategic account programs is to increase the sales of ancillary services that are bundled with their core product. Have you repositioned your company with its core customers to sell more services, (which are often less recession sensitive)?

8. Have you integrated your customer coverage team? Recession provides companies with an opportunity to rationalize and streamline their cost of coverage. The recession provides an opportunity to dramatically reduce the sales / customer costs around a robust / focused customer strategy. Perhaps the biggest internal opportunity for companies is to redesign the entire customer coverage model by better integration within the company between sales / services / operations and product manager. This could be further enhanced by better integration with the customer organization through e-enabling the sales / customer interface process.

More effective coverage models are built around accountability and integration of contact medium.

First, accountability of the channel and of the sales force. Marketing must be more accountable to customer needs.

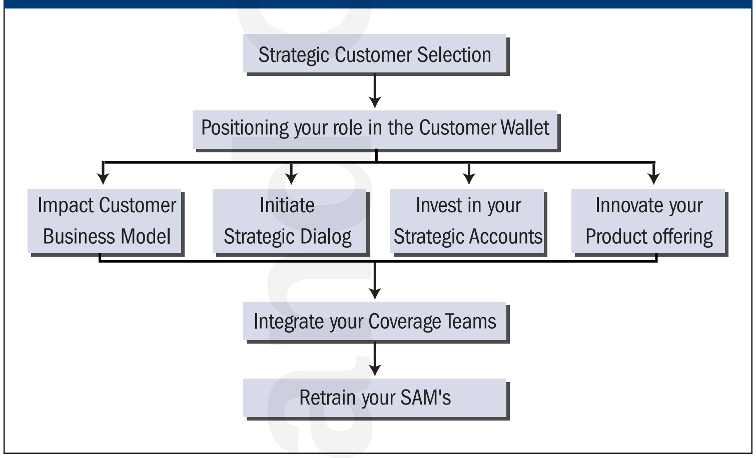
Critical Tools:

- Closed-loop lead management for more systematic follow through in the sales process
- Product launch tools for more accurate targeting of the customer

Key Measures:

- Percentage of qualified leads closed in (y) months
- Velocity and success rate of new product launches

A Recession Roadmap: Retooling Your Strategic Account Management Process for the Recession



Strategy:
Listen carefully to the customers and make your customer touch points more accountable to your customers

Second, integration of contact medium to incorporate higher leverage communication technologies that improve quality while lowering the cost of customer interaction.

Critical Tools:

1. Integrated communication plan by grade
2. Value-based contacts by contact medium

Key Measures:

1. Sales expense / grade
2. Increase in number of valued touches per grade

Strategy:
Increase touches of lower cost valued communications

9. Have you retrained your sales force? During a recessionary period, the sales force and SAM's need to invest in becoming more customer-centric, particularly focusing on:

- Understanding customer strategies,
- Understanding customer / product profitability,
- Developing breakthrough customer plans, and
- Developing senior relationships with clients in order to acquire share of mind and transform themselves from being product-centric to customer-centric.

Get customer feedback on "how you're doing" to your SAMs. Customer satisfaction drives higher productivity and retention of your best SAMs.

This may be a valuable opportunity for you to do a SAM loyalty study and isolate those drivers and activities within your organization that have the greatest impact on SAM loyalty.

The challenge for Sales / SAM Program Managers is to use the recession to increase the importance of strategic customers to their companies and to improve the quality of relationships these companies have with their strategic customers. While many of these issues would be just as relevant in good times, they assume a central importance in a recession. The recession forces customers to rethink the basics of their business model. Core suppliers need to redefine the dialogue they have with their strategic customers – from one delivering products / services and value to one of institutionalized relationships where the supplier comes out of the recession more deeply embedded into the business system of the customer.

Peter Mathias is CEO of Mathias & Co. in Phoenix, Arizona. You can contact Peter at 480-940-4739 or peterfmathias@mathiasco.com.

Vic Hunter is President of Hunter Business Group in Milwaukee, Wisconsin. You can contact Vic at 414-203-8066 or vhunter@hunterbusiness.com.