

...the Economy Dichotomy

- Research...
 - 65% of the time
 - Businesses operate in other than "Boom" economies
 - Contracted/Transitional Economies represent...
 - Greatest market opportunities
 - Greatest risks
 - Hyper-competitive markets
 - Most dramatic changes in Buying behavior
 - Yet "non-Boom" Economies are predominated by...
 - "Seat-of-the-pants" strategies and tactics
 - Guesswork
 - Yet...market dynamics in "non-Boom" economies and transitions are largely predictable and addressable



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The Research...

- After the melt-down, we started tracking...
 - Consumer behavioral changes
 - Business behavioral changes
 - Business's response to behavioral changes
 - How Business changed buying behavior
 - Which core competencies were critical
- Global/Cross-industry
 - Financial Services, Telco's, Retailers, Travel, Manufacturing, Consumer Goods Manufacturers
- Small Businesses to Fortune 100
- Interviewed
 - Consumers, Businesses, Economic Forecasters



Observation: Deep understanding of C & B behavior & data-driven – minor adjustments
 Others – Bankruptcy...
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Start with Behavioral Basics...

Lessons Learned: Inadequate understanding of how Consumer & Business buying behavior changes over cycles



Observation: Radical Behavioral Change (Business & Consumer) in economic cycles
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Buying Changes over Cycles

No B2B without B2C...., great gift...

- Three Primary Buying Dimensions (Sciences)
 1. How Consumers satisfy their low/high-order needs
 - Rational/low-order consumers
 - Intuitive/high-order human beings
 2. Rationalize satisfying needs as value tradeoff
 - What they get... vs.
 - What they pay
 3. Economic Cycle Context: monetary conditions/fear
 - Re-prioritization of low/high order needs
 - Rebalancing of Value Tradeoff



Observation: Human Beings are behaviorally simple, e.g. 7 primary emotions
 We overcomplicate our approach and ignore these behavioral fundamentals
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How Consumers satisfy needs

- Buying Dimension #1
- We are rational, low-order consuming robots



Observation: Most approach as mostly rational / low-order
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How Consumers satisfy needs

- Test for rational, low-order consuming robots
 - Who researches product features and then price shops?



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How Consumers satisfy needs

- We are also intuitive, high-order beings



Show us you know us
Show us we're important
Respect us
Show me we can trust you

Observation: Most significantly underestimate high-order needs in buying process

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How Consumers satisfy needs

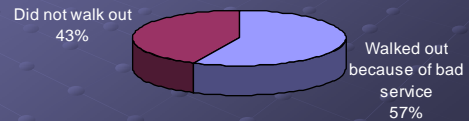
- Test for intuitive, high-order beings
 - Who has been ready to buy and because of how you were treated, you refused to make the purchase?



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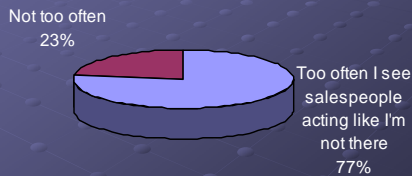
High-Order Buying Science

High-Income Customers (<\$75,000)
Walking Away from Bad Service



Aggravating Circumstances
Public Agenda
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High-Order Buying Science Customers Feelings Ignored



Aggravating Circumstances
Public Agenda
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How Consumers satisfy needs

1. Research shows a hybrid
2. Hybrid mix changes with economic cycles

Give me the best product, at the right price (low-order consumer needs) and treat me like a person (high-order people needs) in the process of selling and servicing that product



Observation: Most miss importance of this mix and shift in economic cycles

Value tradeoff changes over cycles

- Buying Dimension
 - Most underestimate Economic Cycle Impact
 - Perceptions of value is dynamic
 - Change over economic cycles



Observation: Can be predominate buying factor yet an afterthought

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B2C Strategies/Case Studies

Opportunity if you're proactive, Threat if you're reactive

- Low-order/Value Tradeoff
 - What I Pay – Low Price
 - Manage Discounting (low)
 - Market up-segment
 - Market down-segment
 - Manage Price Perception
 - Unbundle Products/Services
 - Reposition Value Proposition
 - Redefine Value Proposition
 - Reframe Competitive Set
- High-order/Value Tradeoff
 - What I Get
 - Manage Price Perception
 - Manage Payment Fear
 - Reposition Value Proposition
 - Redefine Value Proposition
 - Transcend the Economy Conversation
 - Relieve fear / anxiety

Observation: If one business could do these proactively in cycles, they'd be unstoppable

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Manage Low-order Discounting

- Lessons learned
 - Plan pricing strategy scenarios relative to Brand Pricing Tolerant
- Can your Brand handle it?
- Brand Hierarchy
- Contracted Christmas Season
- Abercrombie and Fitch
 - J. Crew
 - High-end brand
 - Brand Tolerant of Low-order discounting
 - Started at 50% discount
 - Added another 20%
 - CEO pricing strategy
 - Brand-intolerant of Low-order discounting
 - No discount...
 - 60% volume decrease
 - Brand protection

J.CREW



Brand-Tolerant of Low-order discounting

Abercrombie & Fitch



Brand-Intolerant of Low-order discounting

Observation: Fear overtakes fact-based decision making

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Manage Low-order Discounting

- ForgeLine
 - Automotive Customer Wheels
- High-Brand Position
- Business disappeared
- Business survival sale or Layoffs
- Radical Production Cuts
- Damage to the brand?
- Expectations of new price point?
- Black Friday Sale
 - Overwhelming Response
 - Filled Production lines
 - Full Employment
- One-time sales/anomaly do not affect Brand integrity



Observation: Fire Sales work if perceived as anomaly

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Market Up-segment

- A Travel Company looks up-market...
 - ...although they considered theme parks premium travel
 - Marketed to segment above
 - Research showed families who ordinarily travel internationally were looking for domestic alternatives
 - Conserve \$
 - Avoid negative social stigma
 - Marketing campaign to address this niche
 - High-end magazines/Business flights



Observation: Went after low-order need with high-order dimension

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Unbundle Products/Services

- Good rule of thumb
 - Unbundle products and services in contractions
 - Bundle in expansions/recoveries
 - High important of "lowest price" dimension
 - Economy expands, customers willing to pay a higher price for bundled services
 - XYZ Airlines
 - Scrutinizing flights to determine
 - Costs of each bundled services
 - Customers utilized those services
 - Low utilization rates - Checked bags, Meals, Alcoholic drinks
 - Small % Business travellers checked baggage
 - Leisure travelers only checked bags roughly half the time
 - Maintain Brand integrity
 - Unbundling helped change behavior
 - Packed less
 - Only a minority of travelers financially affected



Observation: Free bundled services creates overuse, and ↑ costs

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Unbundle Products/Services



Lessons learned

- A Travel Company compared...
 - Bundling versus Unbundling
- Survey results
 - "We'll pay higher prices for bundled vacations"...
- Actual behavior
 - Opted for less expensive, unbundled options



Observation: Fun is hard to plan they would do
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Reposition Value Proposition

- Lowest Price
- Reposition Value Prop
- Drinking milk is "cool" to
- ...Milk as a bargain
 - Dairy industry hired personal finance guru Suze Orman to champion milk as a bargain.
 - "recession marketing"
 - Urging people to buy merchandise that saves them money.



Observation: Major branding shifts possible
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Redefine Value Proposition

- Redefine what value means
 - Value also mean performance
 - Long-term perspective on price
 - Craftsman tools
 - lifetime replacement guarantee
 - Consumer justifies paying more because of guarantee
 - Higher perceived value
 - Consumers pinching pennies
 - aren't willing to sacrifice softness of Charmin



Observation: Not just about purchase price
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Manage Price Perception

- A Travel Company (low-order)
 - Perception that A Travel Company is more expensive
 - Economic alternatives
 - Family Unions, Local parks, less-expensive theme parks
 - As economy worsens, price perception differential increases
 - Research shows once perception is created, customers will not seek to validated or disprove it
 - Needed spark or compelling heuristic to prompt exploration behavior
 - i.e. a reason to begin to believe
 - Affordability advertising campaign
 - "Oh wow?! Really!?! It's that affordable!?!"



Observation: Once perceptions created, consumer won't seek to disprove
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B2C High-order needs

- Business Strategies to address high-order "What I get"
 1. Manage Price Perception
 2. Manage Payment Fear
 3. Reposition Value Proposition
 4. Redefine Value Proposition
 5. Transcend the Economy Conversation
 6. Relieve fear / anxiety



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Manage price perception...

- A Travel Company's Price perception can impact low and/or high-order
- Not "I want lowest price"
 - "You took advance of me" (over-charged me)
 - "I feel disrespected"
 - Heightened price sensitivities to "lightning rod items"
 - Hyper-sensitivity in down-economies
 - Emotional perceptions of prices relative to the actual monetary change
 - Retail – lightning rod items
 - Travel Co.
 - Customers regularly buy a bottle of water in everyday life
 - ...they know what they usually pay
 - Take family on vacation
 - See of bottled water are 50-100% higher
 - Feel taken advantage of
 - Experience declines
 - Souvenir hat is 200% higher
 - Feel lucky to buy it
 - Past history of this particular product



Observation: Price can have low and/or high-order dimensions
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Manage Payment Fear

The Stats about Consumer Economic Condition

- 47% - worry about losing job
 - 08' 28%
- 71% - know someone who lost job in past 6 months
- 47% Both High/low income workers fear Job Loss
 - 08' 20% \$50,000 or more worried about job loss
 - 08' 35% \$50,000 or less worried about job loss
- 65% - worried about paying bills
 - 08' 46%
- 69% worry stocks/retirement investments will drop
 - 08' 59%
- 53% worry they don't have enough to retire
 - 05' 34%

Observation: Walk a mile in your customer's shoes...

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Manage payment fear

- Hyundai
 - "Buy any new Hyundai and if in the next year you lose your income, we'll let you return it."
 - "We're all in this together. And we'll all get through it together."



Observation: Hyundai was the leader, got biggest impact; all others followed...

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Redefine Value Proposition

Target Stores

- a new day
- the new commute
 - Bike 59.99
- the new gym
 - Gym ball 11.88
- the new movie night
 - DVD 13.00
- the new barber shop
 - Clippers 14.99
- the new family room
 - tent 70.49
- a new day
- new ways to save



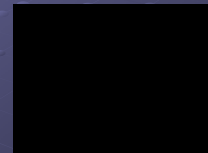
Observation: As good as it gets...

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Relieve fear / anxiety

Allstate Insurance

- Reassuring actor Dennis Haysbert
 - President David Palmer "24"
 - Reminds viewers it got started in 1931 during the Great Depression
 - "And through the 12 recessions since, Allstate has noticed that "after the fears subside, a funny thing happens: People start enjoying the small things in life. It's back to basics, and the basics are good."
 - Home and auto insurance, apparently, are among the basics



Observation: Safe Harbor in the storm message – very effective...

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Missed the Mark

CareerBuilder.com

- Missed its mark...
- Their message...
 - "You don't like your current job"
 - "We can help you find another"
- Better...
 - "We're the best at finding you new jobs in tough economies"

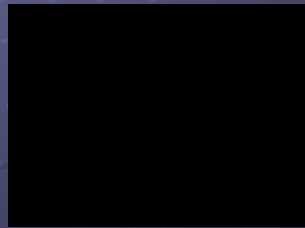


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Transcend the Economy Conversation

DOVE

- Transcends Economic cycles
- 8,818,762 views



Observation: Pinnacle of messaging...

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Transcend the Economy Conversation

Facilitated and participated in a community conversation...

- Views: 8,912,014
- Ratings: 8,888
- Comments: 4,046
- Favorited: 30,495
- Length: 1:15



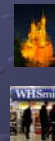
- \$50,000 to create
- Costs \$.00657 per view
- 40% ↑ in Product Sales
- Better ROI From YouTube Than Super Bowl
- Increase Brand Stature
- "No wonder our perception of beauty is distorted"
- Take part in the Dove Real Beauty Workshop for Girls
- Campaignforrealbeauty.ca
- The Dove Self-esteem fund

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Affirmation: Strategic Competency

Information Competency Required

- A Travel Company
 - Pricing model and strategy
 - Analytics against Consumer behavior/pricing
- WH Smith
 - Caught up in over-expansion in good times
 - Beyond Core competencies
 - Inability to effectively manage cost infrastructure



Observations: All excellent business strategies but...

- ...you need excellent information to execute them well; and
- ...flexible cost infrastructures are key

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Affirmation: Strategic Competency

A Travel Company

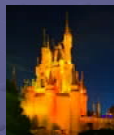
- When economy contracted...

Analytics against...

- Managed when/how to pull out of discounting mode
- Customer's economic alternatives
- New shift in market segments – up and down
- Spending dynamics of discretionary products areas
- Pre-purchase planning lead times
- Brand tolerance for pricing
- Social stigma of spending in down economies
- Lightning Rod items

Cost-optimized against

- Employee hours
- Service Levels



Observation: High "tough" on top, heavy information/analytics underneath....

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Affirmation: Strategic Competency

WH Smith

- New CEO initiates "back to basics" focus
- Focused on core information competency

When economy contracted...

- Had to more efficiently manage process of recalling books back to book publishers
- Information infrastructure enabled faster recall
- Reduced FTE's to manage process (1 FTE from each buying area)
- Saved millions of £'s in inventory carried costs

When economy contracted

- Sales declined - Had to more effectively manage employee scheduling
- Significant staff reduction
- Fine tuned to peak customers hours
- Profile store transactions by time of day
- Link data with staffing budgets
- Negotiate their employment contracts with their staff to align with the working hours
- Relative to busy/slow store hours - No impact on service levels

When economy contracted

- Average market basket contents shifted
- Dynamically adjust inventory



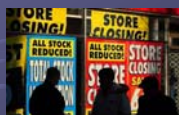
Observation: Great lesson for everyone... refocus, flexible infrastructure costs enabled by detailed information

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Affirmation: Strategic Competency

WH Smith's competitor

- Woolworths
 - Closed 807 stores
 - Fixture on London's High Street for 100 years
- Survived in the good times
- Forced to close in the tough times
- Causes
 - Disconnected with Customers/Behavior
 - Lack of Information Competency



Observation: What not to do...

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Loyalty under pressure

Lessoned Learned

- Know which types of Loyalty you create
- Know their strength across cycles
- Know the Financial benefits



Observation: Each type of loyalty is radically different

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Loyalty under pressure



Organizations pursue "Marriage"
← (long-term loyalty)

- Customers want...
- Date only... 
- Multiple partners
- Date as long as you have competitive products & treat me well
- **Economic Cycles place tremendous pressure on loyalty...

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Loyalty under pressure



Behavioral loyalty
Transactional loyalty
Most prevalent type yet not sustainable

Sustainable
Functional loyalty
Cognitive loyalty
Emotional loyalty
Contractual loyalty

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Loyalty under pressure

- Behavioral loyalty
 - Simplest form
 - Weak competitive value due to susceptibility to switching-costs in contracting economies (High Risk)
 - (1) Value 'supplier' > Value 'competitor' - Switching Costs
 - Expensive food store close by. Only prefer it because less expensive food store which is further away, require more effort and time
 - (2) Value 'supplier' < Value 'competitor' - Switching Costs
 - If less expensive food store opened new store close by, likely switch stores, if perceive value wasn't too different



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Loyalty under pressure

- Cognitive loyalty
 - Most sustainable form of loyalty.
 - Not related to switching costs
 - Relationship between business & customer
 - Value (closely related to Customer Sat) is higher than competitor
 - High customer sat. also reflect superior product-features (tangible and intangible) that increase the value perceived by the customers
 - Repeated satisfaction typically leads to increased (conditional) trust
 - Supplants a consumer's need for a certain level of additional information




Observation: Who has ever owned a dog?

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Loyalty under pressure

- Contractual loyalty
 - Purchases through formal agreement
 - B2B
 - Subscriptions: newspapers/magazines
 - Cable, telephone, or broadband services
 - Can instigate dissatisfaction
 - feel trapped



Metrics

- Share of market under contract
- Frequency distribution of contract profitability
- Frequency distribution of customer share of wallet
- Contract renewal rates (perhaps by inception date cohorts)
- Incidence of contract expansion into new product lines or business units
- Customer referral frequency
- Effective price changes at renewal

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Loyalty under pressure

- Transactional loyalty
 - Repeat purchasing without any contractual obligation
 - Customer wants widgets, and you sell widgets
 - Price, value perception, and convenience
 - Better deal at any time and will switch without hesitation
 - Easy to stimulate with promotions/rewards
 - Customers' perception of the switching cost



Metrics

- Changes in recency-frequency-monetary value by customer segment or cohort group
- Velocity of change in segment mobility
- Cross-category purchase behavior and trends
- Latency (gaps between transactions)
- Frequency distribution of transaction value

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Loyalty under pressure

- **Functional loyalty**
 - product's very attributes perceived as superior
 - One wireless phone company may provide better reception near the customer's home
 - Nike - if you have wide feet and Nike's shoes fit
 - First hope to differentiate
 - Tangibly, palpably different yet relevant to the category purchase
 - Lock up portion of market that prioritizes your advantaged function
- **Metrics**
 - Top-of-mind awareness on key functional dimensions
 - Changes in perceptions of key functional attributes vs. those of competitors
 - Willingness to recommend
 - Price elasticity



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Loyalty under pressure

- **Emotional loyalty**
 - "feeling" part of loyalty
 - Individual's values, ego, sensibilities, intangibles
 - Identify with brand
 - Starbucks - seek nonfunctional benefit from association/experience
 - Holy Grail - most often sought, least often attained
 - Ability to withstand challenge to the relationship
 - Forgive minor errors in experience
 - Price premiums in brands have no differences in form, function, value/convenience
- **Metrics**
 - Attitudinal surveys on key attributes
 - "like me"
 - "a brand I can trust"
 - "the right brand for the times"
 - Competitive brand preference
 - Price insensitivity
 - Problem tolerance
 - Resistance to competitive offers
 - Overall brand preference




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B2B Strategies


- **Business Strategies to Address low-order needs**
 - Low-order needs
 - Reduce costs
 - Dominant Priority
 - High-order needs
 - Business Transformation
 - Address Marketing Myopia
- **Building the Business Case to Buy (B2B)**



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High-Order B2B Strategy


- **JetBlue Airways**
 - American low-cost airline
 - Exploited Market Niche
 - Outrage of Private Jets
 - Big Three auto CEOs flew private jets to ask for taxpayer money
 - Citigroup will not take delivery of a brand-new \$50 million corporate jet
 - Ousted Merrill Lynch CEO personally cough up \$1 million he spent remodeling his office after brokerage was rescued with billions in taxpayer cash
 - Ford exec spent \$517,560 in one year to commute from his Florida home to Detroit



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High-Order B2B Strategy

- **JetBlue Airways**
 - Full page Ad in LA Times
 - Campaign's message
 - "If you still want to fly with all the luxury amenities that you are used to having in your corporate jets
 - private video monitors
 - full leather seats
 - Cocktails
 - "...and you don't want to incur the wrath of negative public opinion OR GUILT about using your corporate jets..."
 - "...come fly with us
 - "We've got you covered"



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Business Transformation

- **Marketing Myopia**
- **Assemble Automotive Side Mirrors**
- **Automobile market tanked...**
- **What is it that we really do?**
- **We assemble things?**
- **Side Mirrors to Blenders**

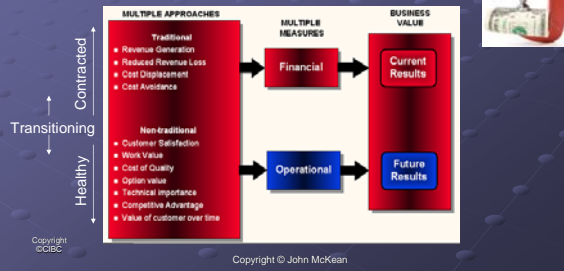




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Business Case to Buy (B2B)

- Building the Business Case to Buy (B2B)
 - Both traditional and nontraditional business



Business Case to Buy (B2B)

- Building the Business Case to Buy (B2B)
 - Web Specific Business Cases
 - Sales, Leads, Conversions, Subscribers, Usability metrics, Returning visitors, Page views per visit, Time on page, Time on site, Bounce rate, Form/shopping cart abandonment rate, Next pages, Links clicked (heat maps), Eye-tracking, Internal searches, SEO metrics, Number of back-links, Quality of back-links, Google cache date, Google bot (robot) visit frequency, Last time Google bot visited, Pages indexed, Page-Rank "pass rate", Alexa Rank, Compete Rank, Social Media metrics, Bookmarks on delicious, Bookmarks elsewhere, Social news submissions, Tweets (Twitter mentions), Niche social site sites votes, Number of "thumbs up" on Stumble Upon, Stumble Upon reviews feedback, Technorati Blog mentions, Google BlogSearch Links

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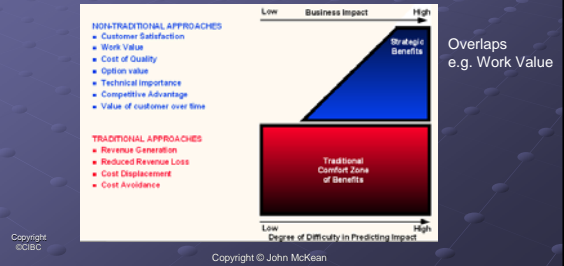
Business Case to Buy (B2B)

- In tough times
 - \$ gets tight
 - Hurdle rates are raised
 - Shut certain money flows off
 - allow other money flows
- Assess where and how money is still flowing (or not flowing) for your perspective client
- Understand and then position your value proposition toward that money flow
- Quantify the impact your value proposition will have on that area

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Business Case to Buy (B2B)

- Building the Business Case to Buy (B2B)
 - Impact: Big versus Fast



Summary

- Plan for full range of Economic Scenarios
 - Cycles/Transitions
 - Proactive = significant opportunities
 - Reactive = significant risks
- Track "Collective consciousness" of current & future
- Address all 3 B2C dimensions of Buying in context of Cycles/Transitions
 - Low and High-order needs
 - Value tradeoff - What they get and What they pay
 - Context of Economic Cycle/Conditions
- Know Loyalty types of your customers and risks
- B2B - Know your bottom-line business case
- The Losers
 - Over extended/unfocused in good times
 - Weakness in several key competencies, e.g. information, costs
 - Primarily reactive
- The Winners
 - Innovative Marketing Strategies
 - High Strategic Competencies
 - Information, Flexible Cost Infrastructure
 - Proactive in good times, Proactive in Tough times

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