

Marketing News

JULY 16, 2001

WWW.AMA.ORG

A PUBLICATION OF THE AMERICAN MARKETING ASSOCIATION

ECONOMY • *The downturn's advantage*

Slowdown uncovers a better brand plan

By MICHAEL DUNN

The first half of 2001 has been marked by mass layoffs, nosediving stock prices and the ongoing tech meltdown, challenging senior level decisionmakers to manage their businesses in a manner that drives shareholder value and profits. Since increasing sales is difficult in today's economy, the inevitable focus is on how to reduce costs and responsibly cut what is usually called discretionary spending.

But what counts as discretionary spending varies by company, and its definition for any particular enterprise speaks volumes about the CEO's priorities, the company's commitment to building long-term profitable customer relationships and its understanding of the organizational capabilities that truly drive customer value. If senior management considers a brand to be a strategic weapon—a key asset that creates sustainable competitive advantage—they will not subject their brand marketing to discretionary spending cuts. Rather, they will nurture the brand and find ways to keep it relevant, even during rocky times. In fact, shepherding a brand involves more than just getting better ad agency creative or better leveraging marketing spending. Brand commitment requires a philosophical commitment to putting the customer, his evolving needs, connection to the company and reason for believing in what the brand stands for at the center of all company actions and culture.

In the most holistic sense, the brand provides not only strong protection against competition but insulation against deteriorating economic conditions. It is a key tool for gauging customer circumstances so that the company can recalibrate its approach in order to remain relevant—that is, company management must understand the customer's emotional and social "context" for making decisions. During economic slowdowns, customers may prioritize more and differently, allowing fear and uncertainty to seep into their psyches. But they still make purchases, and they continue responding to brands they consider relevant, whose core value propositions resonate and which are flexible enough to accommodate any changes or disturbances to their psyches.

With investment dollars scarce, companies must still prioritize their spending. When prioritizing resources—gauging which aspects of the business mix should be modified, optimized, maintained or reduced—marketers may ask themselves:

◆ What is my core customer's mindset right now?

◆ How does that affect the brand relationship?

◆ Are the key touch points where my brand creates its strongest bond with my customer the same as they were last year, or have they shifted (that is, are customer care and reassurance more important now than breadth of product mix or fast delivery)?

◆ Is the company still investing adequately in the organizational capabilities that are critical to delivering against the brand's long-term promise?

Consider how three corporate leaders Palo Alto, Calif.-based Hewlett-Packard Co., Seattle-based Starbucks Corp. and San Jose, Calif.-based eBay Inc. have fared in understanding the importance of their respective brands even in a down economy. Recently, Hewlett-Packard's (HP) stock has been depressed and its financial results disappointing. Still, HP continues to invest in its brand and what it stands for: innovation, or what CEO Carly Fiorina calls "invention." The company has been conducting a high-profile communications campaign focused on "reinventing" HP, part of a broader plan to reconnect with its innovative heritage while reinventing the way it builds customer relationships.

Meanwhile, despite continued uncertainty, Fiorina refuses to reduce costs at HP Labs. She will not back away from her front-end organizational change initiatives, designed to lead to better sales and service for HP's core customers. Ultimately, she may forgo additional spending on the "reinvent" communications campaign, but given her other choices, this might be the least brand-damaging alternative.

For its part, Starbucks has turned specialty coffee into a billion-dollar business, thriving by focusing on how the consumer wants to receive its offering: the full experience, including the ambience and service level. It invests in building its brand by ensuring that customers have a consistent, positive, enveloping experience, leading to loyalty and strong word-of-mouth. This has insulated Starbucks in this economic period; despite consumer belt-tightening, Starbucks still boasts crowded coffeehouses with rising comparable-store sales. The experience's affordable nature has been coupled with its eye on the basics, such as service improvements that allow Starbucks to satisfactorily serve growing numbers of customers during peak morning rush hours or innovative new product introductions, such as iced drinks, to drive non-peak hour sales.

If anything, Starbucks is taking advantage of the downturn by boosting investment in the branded

customer experience while competitors cut back. The company is launching its Coffee Ambassadors program, designed to ensure that Starbucks, at 50,000 employees, has the same passion and knowledge about coffee that it had as a 3,000-employee firm. It also recently announced a partnership with Microsoft to install technology in retail stores that will give visitors a direct Internet connection.

Auction site eBay, on the other hand, wants to extend the brand beyond its core collectibles business with the aim of creating a global trading destination. This kind of transformation is difficult in any economic environment, but eBay is doing it by implementing a few key strategic imperatives, including product category expansion (cars, computers, sporting equipment, toys), pricing format extensions (named prices and fixed prices) and making it easier to shop by offering services such as credit cards, insurance, shipping and "Buy-it-now" options. Moreover, eBay is consciously taking advantage of customers' heightened sensitivity to value during a recession to move toward this broader positioning more quickly, whether serving as the liquidator-of-preference for dot-com computer and networking equipment, or as the vehicle to put \$50 to \$100 cash in the typical eBay seller's pocket. Its savvy brand understanding may mean eBay is one of the few businesses to not only use the downturn to reposition its brand, but to turbocharge growth.

Indeed, smart companies will use the slowdown to reassess and shore up their brands in line with changing customer needs and perceptions, and use it as their guide to ensure everything they do with their limited resources is focused and relevant. Companies should not let the mistakes of a bull market, enabled by an erroneous view that "brand equals a lot of advertising," scare them away from making true brand investments. They should use the lull to reconnect with their brand in a way that will guide them through an economic downturn and position them out front and running when the recovery begins. ■

The brand provides... insulation against worsening economic conditions

Michael Dunn is president and CEO of Prophet, a San Francisco-based strategic professional services firm.

