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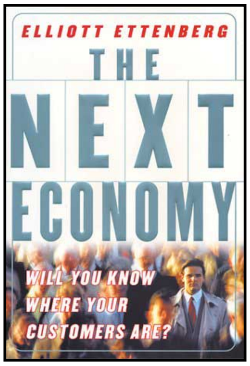

The Next Economy

Will You Know Where Your Customers Are?

by Elliott Ettenberg
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220 pages

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Take-Aways

- The New Economy was like the California gold rush, which boomed and quickly ended.
- Though the New Economy failed, it provided the foundation for the Next Economy with its technological breakthroughs, especially the Internet.
- The Next Economy, just emerging, is characterized by consumer power and the increasing demand for good service and value.
- The years 2001 to 2006 will be a time of transition and confusion.
- The Next Economy will be divided between megabrands and microbrands.
- There is little future for the mid-sized company.
- Standards of customer service will define success in the Next Economy.
- Technology must be harnessed to improve customer relationships.
- Target customers based on their values, associations and loyalties.
- Focus on your best customers using quintile management.

Rating (10 is best)

Overall	Applicability	Innovation	Style
8	**9**	**8**	**8**

Relevance

What You Will Learn

In this abstract you will learn: 1) How the technology-based economy of the 1990s changed business and why it ultimately failed; 2) How marketing has failed to keep up with changes in technology and business, and 3) A series of practical tools and strategies that you can use in creating and marketing your own products and services.

Recommendation

Elliott Ettenberg offers a wealth of new tools and strategies that you can apply to your business. His focus is on marketing, but not in any traditional sense. Instead, he analyzes how the technological advances of the 1990s have altered the competitive landscape and proposes an inventive and practical list of post-New Economy business practices. *getAbstract.com* strongly recommends this book not only to marketing professionals, but also to anyone charged with developing business strategy.

Abstract

The Collapse of the New Economy

The New Economy failed because the companies that comprised it brought out many products and services that weren't ready in the excitement of the moment. It was like the California Gold Rush of 1849, which quickly ended, leaving a small number of success stories and countless broke 49ers. But like the gold rush, it provided the foundations for the Next Economy. The key changes introduced by the New Economy include:

"The much-vaunted Internet-based New Economy is finished. Its longevity was not measured in decades or years but in months."

- Making technology a key driver of the economy;
- Stimulating growth in a stagnant economy;
- Showing the power of information as a driver of economic growth.

Over the last 10 years, almost all aspects of business have been reinvented, due to computerization, just-in-time supply-chain management, enhanced distribution and logistics and other changes triggered by information technology. However, marketing has experienced little change, and has had less and less ability to influence consumer purchasing decisions. In the wake of the collapse of the New Economy, there is a need for new marketing tools and metrics to measure the effects of marketing campaigns. This need is critical, since two-thirds of the economy is based on consumer spending, and most of the remainder rests on it indirectly.

"We have to begin to dismantle the old business models that we built around efficiency and technology and use the pieces to reconstruct a business model based on customer knowledge."

From New to Next

The Next Economy is just now emerging. It is characterized by an increasing demand from customers for good service and value, and companies will need to change their priorities from satisfying shareholders to delighting customers. This shift is the third that the marketplace has experienced since the middle of the 20th century:

- The Old Economy was based on products and services. The key measure of success was share of market and the typical company sought to build scale and efficiency.
- The New Economy was based on information. The key measure of success was the speed in getting to the market and the number of people visiting a site. A big emphasis was placed on improving technology.

- The Next Economy will be based on knowledge. The measurement for success will be profits and share of wallet. The emphasis will be on reaching, serving and retaining customers.

“The new model says that the only thing that matters is the customer relationship itself and that once a company builds this relationship, it can readily transfer the equity it represents into other areas. It’s the new version of the old department store concept.”

The New Economy broke through the Old Economy for just a short period from 1999 to 2000. As the 1998 Christmas season approached, thousands of companies launched business-to-consumer companies and a frenzy of publicity and advertising accompanied their launch. But even as Internet commerce expanded, it remained only a small percentage of retailing, and most companies were left struggling to survive with too few customers and high losses.

Yet, despite the Internet shakeout and end of the New Economy, the Internet did reach more people more quickly than any comparable development in communications, and it’s still growing. By 2004, Internet commerce is expected to increase to $6.8 trillion, though even successful e-tailers won’t be putting many off-line retailers out of business. Rather, online commerce will continue expanding as an adjunct to regular retailing.

Profile of the Next Economy

The Next Economy is still emerging. The years 2001 to 2006 will be a time of transition and confusion, since every period of significant change is marked by some confusion. Old business models are being dismantled and new ones are being developed. In this case, the old business model is based on efficiency and technology and will be shifting to one based on customer knowledge. By about 2006, you can expect demand-side consumption to be the big driver controlling business priorities.

“In the virtual world the large will survive based on economies of scale. The small will survive based on service and expertise.”

The two big winners of this Next Economy will be the megabrands and the microbrands, which will pursue two different strategies:

- Megabrand Strategy: This approach is based on becoming the preferred supplier for as many products as possible, such as Amazon and eBay. This strategy attempts to develop a good customer relationship, which it then transfers into other areas, much like a department store. Companies that choose this strategy face the risk of price competition, which can result in deteriorating profit margins.

- Microbrand Strategy: This approach is based on finding a niche, where you gain customer support from selling service and expertise, such as a site like Mainlygourmet.com, which specializes in gourmet foods.

“The Internet is just another medium, and information in itself does not add value. Knowledge adds value. And for knowledge to emerge from the flood of information in which we’re all drowning, customers must be able to access and manipulate that information in simple, easy-to-use ways.”

The distinction between the big and the small is occurring simultaneously on the Internet and in the bricks-and-mortar world. There is little future for the midsized company.

Technology will continue to play a large role in this Next Economy, but it will be harnessed to serve the customer. One reason behind the failure of the New Economy was that the technology it relied on was not user-friendly, especially for baby boomers, who hold much of the economic power in society today.

A high standard of customer service will be a hallmark of success in the Next Economy. It will not be enough to serve as an intermediary, which is the role most e-tailers have chosen. Companies must use technology to customize their products to meet the particular interests and wants of individual households and customers.

The Next Tools

Customers have gained the power. They are better educated and have a better understanding of how to buy. Because technology has freed consumers to purchase products and services from a wide variety of sources, intense competition has emerged among sellers. Much to the dismay of the professionals, marketing has not been able to head off these trends. The following symptoms illustrate marketing's new impotence:

"The winners will be the companies that figure out how to take the next step in the development of the Internet — using online technology as a way to improve, enhance, personalize and deepen customer relationships."

- Shrinking consumer loyalty — Customers are ready to shift their business from brand name to brand name or even to private labels and products from new companies;
- Declining banner loyalty — Customers go from store to store for food or other products in an environment in which a few big stores sell a wide variety of brands, resulting in a big problem of retailer infidelity.
- Disarray in the marketing department — Marketers move from one product, brand, or company to another and companies forget about long-term growth.
- Immunity to advertising — Due to growing advertising clutter, ads might be enjoyable and exciting, but they aren't selling.
- Declining profit margins — Caused in part by the advancing rate by which products become obsolete and lose value.

The Next Strategies

Your first step in devising a marketing strategy for the Next Economy is to get rid of the four Ps model of creating brand value: product plus place plus promotion divided by price. Product is less significant because technology allows quick product duplication and private labels have grown in power. Place once meant access to consumers, but delivery systems are more sophisticated today, so people can buy anywhere. Promotion is less effective, with ads becoming more memorable than brands and sales promotion producing diminishing returns. The focus on price and costs rather than value has contributed to declining customer loyalty.

"In the Next Economy, the relationship will be based on customer service. And it will be described as responsive."

Once you've rid yourself of the Ps, you'll need to apply new tools to your business:

1. Want Segmentation. Instead of targeting by demographics, turn the information you get about customers into knowledge about their wants. Use CRM (customer relationship management) to build an even more intimate relationship between your brands and your best customers to build a profitable brand loyalty. What's important is not categorizing customers by their demographic markers — age, income, residence — but by why they buy, since many customers in the same demographic category buy for different reasons.

2. Quintile Marketing. This is a segmentation strategy for identifying and focusing on your best customers, while you prevent your worst customers from distracting you from this effort and costing you money. To do this, first take all of your customers and rank them in order according to how much they spend with you each year. In some cases, factor in the frequency of purchase, so you can distinguish between those who spend a lot, but don't create a long-term relationship, and those who spend more frequently.

   After gathering your data and ranking your customers from the most to the least sales volume, divide them into five equal groups or quintiles — the higher the quintile the more important the customer. Ask these more lucrative customers what's most

"Marketers must learn to segment and target customers in terms of their values, associations, and loyalties."

important to them, so you can understand why they buy and how to expand your relationship with them. Focus on your quintile one and two customers.

3. The Four R's. Once you've identified your top two quintile customers, use the four R's and the two core competencies associated with each to create a marketing strategy that is meaningful for these customers. To build relationships, the two core competencies are service and experience. For service, think about the customer's entire encounter with your company and think of every customer contact as a serviceable opportunity or medium for delighting that customer. To develop the retrenchment strategy, the two core competencies are technology and convenience. Look at ways to bring your store, brand, or service into the customer's home or office and provide quicker, more efficient service.

   To develop more relevancy, link your brand directly to the main purchase motivators for that product or service category using the core competencies of expertise or merchandising. To better offer rewards, use the core competencies of stature and time, so you can reward your consumers for doing business with you. Through stature, you offer the prestige or the pleasure that consumers get from an association with a particular brand or store.

4. Developing Co-Marketing and Concierge Marketing. Finally, think about customer involvement along a spectrum in which high-involvement products and services lend themselves to branding. For low-involvement products, you can use sponsorships to associate yourself with other things important to the customers, or co-market with a number of brands to create a combined sense of relevance.

   In horizontal co-marketing, the big new trend in the Next Economy, you share your top customers with other companies. For instance, use joint marketing and offer rewards for buying multiple combinations of these products. As for concierge marketing, look at ways to provide consumers with outsourced products and services from other providers, much like a decorator brings in many different services and producers for a homebuyer.

"Today's emerging reality is the greatest buyers' market in history."

"The day of the intermediary is fading rapidly. If marketers hope to remain relevant, they must find new ways to add value to the buying experience for their customers."

About The Author

Elliott Ettenberg is Chairman and Chief Executive Officer of Customer Strategies World Wide. He was formerly the chairman and CEO of Bozell Retail Worldwide. He speaks in North America, Europe and Asia on strategic marketing issues, and has been featured in *The Wall Street Journal*, *USA Today*, *Advertising Age*, *CNNfn*, and *CNBC*.

Buzz-Words

Co-marketing / **C**oncierge marketing / **M**egabrand / **M**icrobrand / **N**ext Economy / **Q**uintile management / **S**hare of wallet / **W**ant segmentation