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Shifting Markets the Right Way

When Companies Do the Market Two-Step, CMOs Must Keep Them From Two-Timing Existing Customers

By Erik Sherman

Published: April 09, 2007

Everyone knows Intel. With a great brand and overwhelming market share, it's no surprise people associate it with PCs. And that success is exactly why the company is changing its marketing.

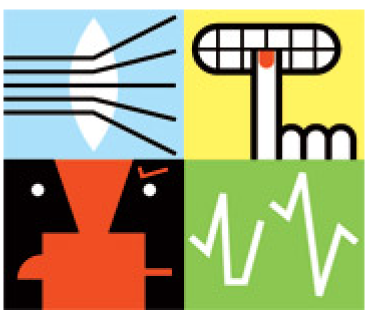


Illustration: Anders Wenngren

Four internal factors that stall growth: loss of focus, loss of nerve, lack of consensus and inconsistency

Once synonymous with computers, processors are now in TVs, desk-top boxes, cellphones and washing machines. PCs may connect to the rest of the electronic world, but they're no longer the natural center. "The single biggest problem we have is that people are so much more comfortable with technology," says Don MacDonald, Intel's VP-global marketing. When PCs don't seem to matter so much, neither do their components -- and that's not good news if you're Intel.

Identifying and tackling new markets

When the world changes, businesses that stick with what they've always done only decline. To survive, a company must identify and tackle new markets as they evolve. And it's up to CMOs to attract them without losing the customers that still provide the revenue.

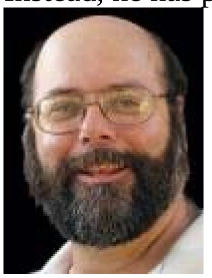
For Intel, the numbers were clear: Mature markets supplied only half its revenue. Real growth lay elsewhere: the developing world, mobile devices and -- most important -- new uses of technology. Yet Mr. MacDonald had to maintain the existing sizable revenue stream with the newest Core 2 Duo processors.

"It's not as tough a decision if you're in an OK market or limited market and want to make a shift," says David Fields, managing director for Ascendant Consulting, a marketing consultancy in Ridgefield, Conn. "[But] companies are addicted to the money. To put your current market at risk for a new market which may or may not [pay off] is the challenge."

Broader message for Intel

With myriad devices and industries all using processors, there were too many for even a company like Intel to address as it once did the PC market. So in 2006, Mr. MacDonald risked a wholesale market redefinition. He now associates Intel's brand with four major user interests: digital health care, digital home and entertainment, enterprise, and mobility. "Our definition has become less PC-centric and more processing-centric," he says.

Branding and marketing strategies and tactics required overhauls. Back in 2003, the company name on the Centrino chip, for instance, "was so small, so trivial, that even I couldn't tell there was an Intel brand on there," Mr. MacDonald says. Now the name is prominent on all products. He also emphasized integrated marketing. "The idea of just using an advertising campaign is gone," he says, adding that in constant dollars, the effective media spend is probably half what it was as recently as five years ago. Instead, he has put greater emphasis on PR and channel support.



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Choosing new markets, of course, is tricky. "There's a tendency out there to look for growing, attractive markets and to say, 'Let's research these and try to determine how we can approach [them],'" says Phyllis Ezop, president of Ezop & Associates, a business-strategy consultancy in La Grange Park, Ill. But shortsighted research will make a mistake appear to be a logical decision -- like Nestle trying to move its KitKat brand into other candy products in 2004. "People were getting confused," she says. "They went into all sorts of new flavors, and people wondered where the old one was."

Doing one's homework

LG, meanwhile, started with in-depth research before moving into high-end U.S. appliances in 2000. Long a supplier of microwave ovens and air conditioners under the Gold Star brand, the company had seen thin profits in the late 1990s. But the research showed market opportunities that were appearing with changing consumer lifestyles. For example, people wanted washing machines as close to bedrooms as possible but didn't like the noise and vibration of top-loading washing machines. Few appliance companies had the quieter front-load technology that was widespread in Europe and Asia.

Similarly, three-door refrigerators represented no more than 10% of the total market, yet consumers were starting to show a preference for them. LG decided developing front-load washers and three-door fridges would open a premium slice of the appliance business in an otherwise saturated market.

"We started very slowly [in 2000] ... with a few strong regional channels," says Joon Jun, president of LG Electronics USA and corporate CMO in the U.S. "We didn't have enough experience in the [American] major-appliance market at that time; we had to learn."

Regional markets let the company test concepts and responses, with national channels coming several years later. LG concentrated marketing on in-store product displays, organically building brand recognition and public relations. In 2006, the company finally completed its channel expansion -- and only then started a major advertising campaign for the products.

Changing brands, markets costly
Another part of the marketing challenge was allocating resources. "When you decide to change your market or brand, the cost is huge," Mr. Jun says. Success also required support from all other parts of the company. In addition to the marketing focus, LG had a dedicated, local product-development team and South Korean factory-operations experts staying in the U.S. for support.

When shifting markets, a company needs deep commitment throughout the organization -- because eventually the going will get tough, usually because of internal resistance. Steve McKee, president of Albuquerque, N.M., marketing firm McKee Wallwork Cleveland, has studied fast-growth companies -- certainly one description of new market efforts -- and has found that when they fail, it is because of internal factors.

The companies lose their way and don't take the actions necessary to keep growing. Volkswagen, for example, forgot what its brand communicates and tried to sell a luxury model, the Phaeton. "[It] was a disaster waiting to happen at the very start, which anyone could have told them," Mr. McKee says of the ill-fated 2004 initiative to introduce the model in North America. "A Volkswagen does not cost $80,000." Reportedly, the company plans to reintroduce the model here in the near future.

Sometimes a company such as Starbucks tries to expand its markets the easy way by extending its brand only to find that a name alone doesn't necessarily solve a company's problems.

Counterproductive management
One danger is when managers are so protective of an existing market that they don't want anything in the company to become a challenger. George T. Haley, director of the University of New Haven's Center for International Industry Competitiveness, points to Kodak as a classic example. Beginning with its version of an instant film-to-disk camera, which took fuzzy pictures, "they had a series of product-development failures and too exclusive a focus on their traditional film products," he says. "They had a comfort zone, and they were trying to force the marketing into the direction and the product solution they wanted, and that just doesn't work." Although Kodak has made a recent move into the ink-jet-printer market, trying to capture consumer attention with lower-cost cartridges and a more expensive machine, Mr. Haley thinks the company ultimately will lose there as well. "The question remains: Are people going to accept that their brand equity is so superior to Lexmark, to Epson -- to all their other competitors? I don't think that's the case." Essentially, the Kodak move is a pricing strategy, rarely a sign of market leadership.

Sometimes the only solution is to transition into a different business, as Western Union did when it sent its last telegram in January 2006. In 1980, its revenue from money-transfer services exceeded that from telegrams. The 20,000-odd messages Western Union relayed in 2005 were largely sentimental gestures on the part of customers, as e-mail, telephone and fax had long provided cheap alternatives for instant communication.

From messages to money
But stopping the telegram service only acknowledged the transition. To Western Union, the process of looking at new markets and evaluating old ones is constant. During the past 10 to 15 years, "we've seen a strong growth of the consumers who are moving from one country to another who are using our services," says Donna Rossi, global brand director.

Some consumers might want to send money to a friend or relative in need. Customers in the U.S. sending funds domestically may require instant transfer, while those directing cash to another country might find overnight availability of funds in an aging parent's bank account to be fast enough.

While constantly creating new service options, Western Union tests the concepts in different parts of the world, seeing which places will take to specific offerings.

They're all very different businesses, but Intel, LG, Western Union and other companies successful in shifting markets all recognize that changing markets means getting close to new customers without losing touch with the old. And by keeping customers close, the transition will be as smooth -- and as profitable -- as it can be.