



Demand Profitable Growth

“The Age of Precision”

How to Make Your Business Thrive in a Recession

The current global recession has drastically reduced the margin for error for every business. While poor alignment with the most profitable demand in the market is never optimal, most businesses can afford these inefficiencies in a strong economy. In a weak economy however, the need to understand precisely where the most profitable growth opportunities are, and how to win them, is critical.

In today’s economy managers face two fundamental choices: *gain efficiencies through supply-focused cost cutting, or determine precisely where the most profitable market demand is and align more effectively with it.*

Thoughts and Comments on Growth

While potentially attractive, the cost cutting approach has several significant limitations:

- **It is unlikely to be rewarded.** Wall Street consistently rewards demonstrated profitable growth much more than it does cost cutting.
- **It may not be realistic.** The vast majority of businesses have aggressively attacked their cost base in recent years, so most will have relatively little, if any, cost left to be eliminated.
- **It’s not sustainable.** The reality is there is only so much cost that can be taken out of any business; unfortunately you can’t just keep going back to that same well.
- **It could be highly detrimental to the business.** Without precise knowledge of the most profitable demand in the market — and what it values — reducing costs could unintentionally make offers less attractive to key customers or even alienate them.

vs.

Developing new insights into demand can drive dramatic improvements in a company’s cost and revenue positions:

Improving Cost Position:

- **Reduce production costs.** Lacking insights into demand, businesses tend to develop offers that under-deliver on the key benefits that profitable customers value most, while adding costly ‘bells and whistles’ that don’t add value.
- **Improve sales and marketing ROI.** Without a precise understanding of demand, businesses tend to chase any and all customers with communications and positioning strategies that rarely hit the mark.

Improving Revenue Position:

- **Volume expansion.** An improved understanding of demand brings new customers to the brand while simultaneously cementing relationships with existing customers, both of which drive volume improvements.
- **Increased pricing power.** New insights into demand ensures development of products which deliver against the key needs of target consumers, and for which consumers are willing to pay a premium.

Does your business have the characteristics of precise alignment with profitable demand?

Characteristics of Precise Alignment with Demand

Target Consumer Understanding	Deep, proprietary knowledge of what motivates and is valued by the most profitable consumers
Need State Understanding	Actionable insights into the need states experienced by consumers, including key benefits target consumers seek in high value need states
Product Offerings	Specifically designed to deliver against target consumer demand, by need state, in the most effective manner
Pricing Power	Offers command significant price premiums
Message/Communications	Motivating and compelling to target consumers

In our experience, leveraging insights into the most profitable market demand enhances alignment and improves efficiencies. Businesses that do not have a precise understanding of demand have fundamentally weaker economics.

The brief consumer products case example that follows demonstrates the critical benefits gained from a precise understanding of profitable demand. Precision that begins with an understanding of the most profitable demand to target, what they value most in potential offers, what messages are most compelling to them and what ways are most effective to reach them.

For a key strategic brand at a major food manufacturer, developing a more precise understanding of demand led to a dramatic turnaround in sales, a return to profitable growth and a complete shift in brand targeting, positioning and portfolio strategy.

Client Situation

- Major food manufacturer experiencing flat to declining growth on a historically key strategic brand
- In-market communications and trade spend increasingly reactive in nature given dwindling brand power/relevance
- Management believed there was no remaining growth potential in the core business – or promise of growth through the existing brand portfolio strategy – and was seeking to expand the brand into new adjacencies

Demand Strategy Approach

- Identified most profitable consumer segments and need states, and what is most compelling to them
- Developed brand positioning and overall brand strategy, which were specifically designed to motivate the most valuable consumer segments and need states
- Executed Customer Demand Analysis™ (CDA) to identify tangible product features which are both most valuable to target consumers and most profitable for brand to offer
- Optimized brand portfolio strategy to maximize profitable growth while minimizing required capital investment

Results One Year After Completing the Strategy

- Turned around brand sales growth, from -1% to +15%
- Returned brand to profitable growth - only brand at manufacturer to simultaneously grow share, sales and margins in that year
- Reduced brand costs across its sub-premium products by eliminating packaging, supply chain & formulation components not motivating to target consumers
- Regained pricing power through improved alignment with target consumer needs
- Rebalanced trade spend behind the most profitable, more premium SKUs
- Revamped target consumer and need states
 - From single males to households with teens (who exhibit a 200+ spend index in the category)
 - From BBQ to after-school/afternoon snack
- Increased brand consideration among households with teens by +8 percentage points while holding marketing budget flat (enabled by precision marketing at video gaming and extreme sports outlets)

Even in the current recession, this brand continues to enjoy unprecedented volume, revenue and profit growth, and in fact has surpassed its profit targets by nearly 30% this year. For several years running this brand has enjoyed +20% sales growth CAGRs and has recently achieved the #1 share position, successfully usurping this position from a very strong, entrenched competitor. The management team recognizes that while their previous strategy seemed solid, it actually lacked precision. Had they continued to follow their previous strategy, with little precision around target segments, need states and brand strategy, the brand would certainly not have realized the record-breaking growth it has achieved recently.

To learn more, please visit:
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