

THE STOKELY LETTER



Strategy, Marketing, Mergers & Acquisitions

THE POWER OF THE NEW MARKETING™

★ COST

Market success is all about providing better Value today... and tomorrow. Isn't that how each of us makes our purchase decisions?

The New Marketing delivers greater Value by its focus on **Customer, Convenience, Cost** and **Communication**. These "4 Cs" are becoming the essential success drivers for all businesses.

The Old Marketing and its well known "4 Ps", **Product, Place, Price** and **Promotion** are losing their effectiveness.

Let's compare **The New Marketing** to the Old Marketing.

	THE NEW MARKETING		OLD MARKETING
<i>It's about</i>	CUSTOMER	<i>NOT</i>	PRODUCT
<i>It's about</i>	CONVENIENCE	<i>NOT</i>	PLACE
<i>It's about</i>	COST	<i>NOT</i>	PRICE
<i>It's about</i>	COMMUNICATION	<i>NOT</i>	PROMOTION

This issue of The Stokely Letter will focus on COST.

IT'S ABOUT COST NOT PRICE

Low price is a powerful appeal in today's marketplace. But the essential foundation for the continuing ability to offer lower prices is persistent and imaginative attention to all of the Costs.

Customers are only willing to pay for Costs that add VALUE.....as they define VALUE.

When an organization carries Costs that are not VALUED by the Customers, ultimately the Customers will seek an alternative.

We see this in the rapid growth of lower Cost alternative long distance telephone service providers. AT&T built a bureaucracy of Cost that the marketplace didn't VALUE. Electric utility deregulation is promising a similar scenario, as non value added Costs are eliminated.

"We're in a commodity business....If you aren't the low cost purchaser, you're in trouble." William Lowrie, President, Amoco Oil Company

Finding new ways to operate is what distinguishes many of the low Cost leaders.

Southwest Airlines re-imagined how air service could be provided. They challenged the traditional airline "hub and spoke" Cost structure with their short haul point to point approach. They focus on Costs everywhere. Secondary, and less expensive, major market airport locations such as Chicago's Midway are sometimes utilized. Seating is on a first come/first served basis. Even the traditional airline "meal" has been replaced by their now famous bag of peanuts. Overall Customer satisfaction ratings for Southwest are usually among the highest in the airline industry.

A recent Cost breakthrough is the electronic airline ticket, pioneered by Southwest. First offered in 1994, electronic tickets enable Customers to fly more Conveniently. Now the ticket is simply stored in the airline's computer. The Customer is given a boarding pass at the gate when identification is presented. No more printing, handling (up to 8 separate times) and mailing of millions of tickets. According to industry sources, the Cost of a paper ticket is \$8 while the Cost of an E-ticket is only \$1. E-tickets have been so enthusiastically received by Customers that Southwest reports that 50% of all of their tickets are now E-tickets!

■ DOING WHAT YOU DO BEST

Focusing on all the components of Cost is key. Because Costs are everywhere. Inventory, labor, fixed assets, defects and rework, ineffective and inefficient processes, out of stocks, rent, transportation to name a few. Taking a fresh look at every Cost can lead to innovative new ways to operate.....and provide added VALUE to Customers.

Outsourcing is an example of such an approach. Increasingly, firms are turning to outside experts to perform activities that are not a core competency of their firm. One prime target is logistics.

We used to think about how to move boxes from point A to point B (shipping). Now, innovative ways of reducing Costs of the entire order receipt through fulfillment process (logistics) are dramatically improving efficiency and customer satisfaction. Forbes reports that Skyway, a logistics outsourcing firm, has re-engineered the entire order/sourcing/fulfillment process for Inacom customized computer reseller to cut up to 25% of the elapsed time from receipt of orders to delivery.

"This is not just outsourcing existing functions," says Kip Hawley, Skyway chief executive, *"We want to replace inventory with information."*

The \$25 billion logistics industry, including companies such as Ryder Systems and Hub Group, is providing such services to increasingly Cost conscious firms.

"If you want a 2% cost reduction you pound the table. If you want a 20% cost reduction you work with suppliers."
Ernie Levine, President, Admiral Tool

■ A PASSION FOR COST

Cost is a passion at Boise Cascade Office Products, a worldwide distributor to large corporations. They have created flow charts for every process at each of their 69 locations. If the process doesn't provide Customer Value it is eliminated. Processes that provide Value are continually benchmarked against best practices within their company as well as other companies, such as Federal Express.

At Boise Cascade, Cost is represented by the products offered and the processes to distribute them. They are making large investments in technology to reduce overall process Cost. Simply routing incoming calls to customer service locations in lower labor Cost areas saves the company up to 50% in labor Cost.

Technology is being used to streamline the distribution process through Electronic Data Interchange. Paper, time and human intervention are being dramatically reduced.

"People lead to error, error leads to redundancy, redundancy leads to Cost," states Christopher Milliken, President Boise Cascade Office Products.

■ LOW COSTS AND HIGH RETURNS

Vanguard has developed a leadership position in the mutual fund industry by its low Cost focus. They offer a large number of different "no load" funds which Customers can buy directly from Vanguard without a commissioned sales charge. The company is structured to operate at a significantly lower operating Cost than many of their rivals. They can therefore charge their Customers less in overhead expenses per year. The result is a higher overall total return to Customers with a Vanguard mutual fund that simply performs as well as competitive funds.

Many investors have determined that the lower operating Costs of Index funds, which target to match the overall market performance, offer a competitive advantage to most mutual funds over the longer term. The extra Costs of expensive fund managers and the frequent securities trades they make are minimized by Index funds, which hold a broad portfolio over the long term. This is important when viewing data which indicates that few fund managers can beat the market average over time.

"The simple message of our comparative advantage is: Costs matter." John C. Bogle, Senior Chairman, Vanguard Group

SUMMARY

The New Marketing is replacing the Old Marketing because it delivers the best VALUE to Customers.

Finding innovative ways to continually reduce Cost provides the ability to offer lower prices and enhanced VALUE. Customers over time will only pay for Costs which add VALUE to them....as they define it.

Approaching all Costs from a fresh perspective is key.

How much VALUE does each Cost deliver? How can these Cost functions be re-imagined to deliver even more VALUE?

Outsourcing certain activities to specialists is one attractive approach to effectively reduce Cost.

Our next issue will focus on the power of Communication, and its crucial role in providing vital linkage throughout the VALUE chain.

We look forward to hearing from you! Let us know your thoughts and experiences in creative Cost management.



There is nothing so wasteful as doing with great efficiency that which does not have to be done at all. Peter Drucker

I'm in favor of letting the status quo stay as it is.

Wisconsin Legislator

Find out what you don't do well, then don't do it. Alf

When all is said and done, there is much more said than done.
Sign over a bar in the Outback of Australia

THE STOKELY PARTNERSHIP INC.

BUSINESS GROWTH SPECIALISTS
Strategy, Marketing, Mergers & Acquisitions