Strategic Marketing of Green Industry Products


Dr. Marco A. Palma
Assistant Professor and Extension Economist
Texas AgriLife Extension Service
Texas A&M University System
mapalma@tamu.edu
Outline

- The Economy and US Consumption
- Understanding a Recession
- Strategic Marketing
- Understanding the Customer
Turning Point clickers

TEST QUESTION
Historic Economic Indicators

Dow Jones
1900-2011

S&P 500
1960-2011

Nasdaq
1978-2011

Source: StockCharts.com
Civilian Unemployment Rate

Civilian Unemployment Rate (UNRATE)

Shaded areas indicate US recessions.
2011 research.stlouisfed.org
Consumer Confidence Index

Current Reading: 69.9 (Final)
Previous: 64.1 (Change 5.8)

Source: Market Harmonics
Turning Point clickers

QUESTION #1
Real GDP in Canada
Adjusted Unemployment in Canada

Adjusted Unemployment Rate in Canada (CANURAMS)

2011 research.stlouisfed.org
Imports in Canada

Imports of Goods and Services in Canada (CANIMPORTQDSMEI)
Source: Organisation for Economic Co-operation and Development

2011 research.stlouisfed.org
Exports in Canada

Exports of Goods and Services in Canada (CANEXPORTADSMEMI)
Source: Organisation for Economic Co-operation and Development

(Billions of Canadian Dollars)


2011 research.stlouisfed.org
Spending During Recessions

<table>
<thead>
<tr>
<th>Cutting Back Selectively</th>
<th>Decreased spending over period average</th>
<th>Increased spending over period average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education (e.g., tuition, textbooks)</td>
<td></td>
<td>90</td>
</tr>
<tr>
<td>Reading (e.g., newspapers, magazines)</td>
<td></td>
<td>53</td>
</tr>
<tr>
<td>Personal insurance, pensions</td>
<td></td>
<td>43</td>
</tr>
<tr>
<td>Health care (e.g., health insurance, services)</td>
<td></td>
<td>29</td>
</tr>
<tr>
<td>Food at home</td>
<td></td>
<td>28</td>
</tr>
<tr>
<td>Entertainment (e.g., tickets for events, trips)</td>
<td></td>
<td>-6</td>
</tr>
<tr>
<td>Housing</td>
<td></td>
<td>-10</td>
</tr>
<tr>
<td>Tobacco products</td>
<td></td>
<td>-13</td>
</tr>
<tr>
<td>Cash contributions</td>
<td></td>
<td>-28</td>
</tr>
<tr>
<td>Apparel and services</td>
<td></td>
<td>-45</td>
</tr>
<tr>
<td>Transportation</td>
<td></td>
<td>-70</td>
</tr>
<tr>
<td>Personal-care products and services</td>
<td></td>
<td>-78</td>
</tr>
<tr>
<td>Food away from home</td>
<td></td>
<td>-110</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>-10</td>
</tr>
</tbody>
</table>

Average growth in U.S. consumer expenditures for recession (1990-91 and 2001-02) compared with average growth for entire period (1984-2006). Index: Average growth for entire period = 0.
So, What is a Recession anyway?
Definition

The National Bureau of Economic Research or NBER officially declares a recession has occurred based upon:

“significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.

A recession begins just after the economy reaches a peak of activity and ends as the economy reaches its trough”.  (www.nber.org)
Illustration of a recession

Source: John Penson, Dept of Agr. Econ, TAMU
The key question today is **how long** and …

Source: John Penson, Dept of Agr. Econ, TAMU
Illustration of a recession

…and how deep the recession will be

Source: John Penson, Dept of Agr. Econ, TAMU
Recessions in the 20\textsuperscript{th} Century

<table>
<thead>
<tr>
<th>Dates of Recession</th>
<th>Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept. 1902-Aug. 1904</td>
<td>23</td>
</tr>
<tr>
<td>May 1907-June 1908</td>
<td>13</td>
</tr>
<tr>
<td>Jan. 1910-Jan. 1912</td>
<td>24</td>
</tr>
<tr>
<td>Jan. 1913-Dec. 1914</td>
<td>23</td>
</tr>
<tr>
<td>Aug. 1918-March 1919</td>
<td>7</td>
</tr>
<tr>
<td>Jan. 1920-July 1921</td>
<td>18</td>
</tr>
<tr>
<td>May 1923-July 1924</td>
<td>14</td>
</tr>
<tr>
<td>Oct. 1926-Nov. 1927</td>
<td>13</td>
</tr>
<tr>
<td>Aug. 1929-March 1933</td>
<td>43</td>
</tr>
<tr>
<td>May 1937-June 1938</td>
<td>13</td>
</tr>
<tr>
<td>Feb. 1945-Oct. 1945</td>
<td>8</td>
</tr>
<tr>
<td>Nov. 1948-Oct. 1949</td>
<td>11</td>
</tr>
<tr>
<td>July 1953-May 1954</td>
<td>10</td>
</tr>
<tr>
<td>Aug. 1957-April 1958</td>
<td>8</td>
</tr>
<tr>
<td>April 1960-Feb. 1961</td>
<td>10</td>
</tr>
<tr>
<td>Nov. 1973-March 1975</td>
<td>16</td>
</tr>
<tr>
<td>July 1981-Nov. 1982</td>
<td>16</td>
</tr>
<tr>
<td>July 1990-March 1991</td>
<td>8</td>
</tr>
<tr>
<td>March 2001-Nov. 2001</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: National Bureau of Economic Research
Recessions in the 20th Century

<table>
<thead>
<tr>
<th>Dates of Recession</th>
<th>Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept. 1902-Aug. 1904</td>
<td>23</td>
</tr>
<tr>
<td>May 1907-June 1908</td>
<td>13</td>
</tr>
<tr>
<td>Jan. 1910-Jan. 1912</td>
<td>24</td>
</tr>
<tr>
<td>Jan. 1913-Dec. 1914</td>
<td>23</td>
</tr>
<tr>
<td>Aug. 1918-March 1919</td>
<td>7</td>
</tr>
<tr>
<td>Jan. 1920-July 1921</td>
<td>18</td>
</tr>
<tr>
<td>May 1923-July 1924</td>
<td>14</td>
</tr>
<tr>
<td>Oct. 1926-Nov. 1927</td>
<td>13</td>
</tr>
<tr>
<td>Aug. 1929-March 1933</td>
<td>43</td>
</tr>
<tr>
<td>May 1937-June 1938</td>
<td>13</td>
</tr>
<tr>
<td>Feb. 1945-Oct. 1945</td>
<td>8</td>
</tr>
<tr>
<td>Nov. 1948-Oct. 1949</td>
<td>11</td>
</tr>
<tr>
<td>July 1953-May 1954</td>
<td>10</td>
</tr>
<tr>
<td>Aug. 1957-April 1958</td>
<td>8</td>
</tr>
<tr>
<td>April 1960-Feb. 1961</td>
<td>10</td>
</tr>
<tr>
<td>Nov. 1973-March 1975</td>
<td>16</td>
</tr>
<tr>
<td>July 1981-Nov. 1982</td>
<td>16</td>
</tr>
<tr>
<td>July 1990-March 1991</td>
<td>8</td>
</tr>
<tr>
<td>March 2001-Nov. 2001</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: National Bureau of Economic Research
Recessions in the 20th Century

- There have been 13 recessions since the great depression of 1929
- ≈ a recession every 6 years
- A regular component of the business cycle
- Bubble of over-valuation of goods
Business cycle

- Entry/Exit of businesses because of excess profits/losses
- Zero profits in the long run
- Who will survive?
- It is about Efficiency and Consistency
- Differentiation
Competitive Strategies

- Cost of Production/Price
- Product Differentiation (branding)
- Vertical Integration

- Which one is right for you?
Turning Point clickers

QUESTION #2
Strategic Marketing

- Most business managers have heard “effective marketing is the key to profitability”
- But what is marketing?
- Tendency to associate marketing with selling or advertising and promotion
Marketing is the total system of business activities designed to (1) plan, price, promote, and distribute products that (2) satisfy the wants/needs of current/potential customers, while achieving the (3) businesses’ objectives.
Strategic Marketing

- The major emphasis is the customer
- What do we need to do to be the most successful business?
- Provide customers what they want, when and how they want it.
- It is easier to sell customers “what they want to buy” than selling them “what we grow”
The marketing Planning Process

Perform Situation Analysis → Determine Marketing Objectives → Formulate Marketing Strategies → Implement Tactical Procedures → Evaluation And Control
Sources of Information

- State or National trade associations
- Landscape contractors and architects
- County extension agents and horticultural specialists
- Texas Department of Agriculture
- The internet
- Your customers
Determining the demand for your products will take some research:

- Trade Magazines
- Government Statistics
- Private Marketing Firms
- Internet Searches
- The competition
- Your Customer

*** It is important to know what your customers are looking for…
Crop Mix

Pricing Strategies

Know Your Cost
Pricing Strategies

Crop Mix

Know Your Cost

Profits!
Crop Mix

Pricing Strategies

Know Your Cost

Profits!
Product Life Cycle -

- Introduction
- Growth
- Maturity
- Decline

Sales

Profits

Time
Know your Cost

Why is important to know my costs?

• Identify items with low cost -- Comparative Advantage -- *GROW THEM*

• Identify items with high cost -- Comparative Disadvantage -- *REDUCE THEM*

• Determine your “*Price Floor*”
Know your Cost

Costs are different for every grower because:

• Size of Operation
• Location
• Managerial Practices
• Time of the year
• Market Channel
• Volume of production
Know your Cost

Costs are different for every grower because:

• Size of permanent crew
• Availability of labor
• How quickly you pay suppliers
• Etc…..
Every firm has different costs, **CALCULATE YOUR PER UNIT COSTS!!**
Pricing Strategies

How to differentiate your product?
--remember-- real or perceived

• Quality image
• Name your cultivars
• Follow changes in consumer tastes and preferences
• Add value and let your consumers know...
Pricing Strategies

Add value by adding service:

- Credit
- Delivery
- Special wrappings
- Special containers
- Cards
- Care tags
- Brand names
- etc
Crop Mix, What to Grow?

• Meet your customers’ needs.

• Crop mix allows you to transform your marketing opportunity into customer loyalty, growth in sales and profits.

• Complex (number of varieties, etc.)

• Keep focus on the opportunities and be open to try new varieties.
Crop Mix, What to Grow?

• Look into Industry Trends -- identify opportunities--

• The industry is becoming more diversified…

• Also, consumers are “willing to pay higher prices” for desired services and features (real or perceived): Quality, uniqueness, convenience, locally grown products, organic, diversity, etc.

• DIFFERENTIATE YOUR PRODUCT!!!
Product Differentiation

Which color would you prefer?
Product Differentiation

BLUE-ELASTIC
RED-INELASTIC

If $P \uparrow$ - TR $\uparrow$ in RED
Product Differentiation

If $P \uparrow$ - TR$\downarrow$ in BLUE (elastic)
Product Differentiation

If $P \uparrow - TR \uparrow$ in RED (inelastic)
Sales and Service

YOU are important to Yourself

- Personal Success
- Personal Satisfaction
- Family Stability, security and enjoyment

Be yourself.
There is something that you can do better than any other. Listen to the inward voice and bravely obey that.

(Unknown)
Understanding the CUSTOMER

Consider the effect of marketing efforts

Marketing efforts

Prices of substitutes

Consumer’s incentive to purchase (PV-P)

Firm’s incentive to sell (P-COGS)

Objective value (OV)

Perceived value (PV)

Product price (P)

Cost of goods sold (COGS)

$0
Understanding the CUSTOMER

- Tastes & preferences
- Visiting patterns
- Demographics
- Eating/gardening habits
- Entertainment styles
- Price sensitivity
Customer Lifetime Value (CLV)

- Customer lifetime value is the net profit earned from sales to a given customer during the time that customer purchases from your business.
- CLV, as a sales focus, is about how the customer is treated over time.
- Lifetime value is a measure of customer loyalty.
Satisfied Customers Tell Three Friends,

Angry Customers Tell 3,000

PETE BLACKSHAW

The New Realities of Running a Business in Today’s Consumer Driven World
Questions

Dr. Marco Palma
Assistant Professor and Extension Economist
Texas AgriLife Extension Service
Texas A&M University System
mapalma@tamu.edu
hbin.tamu.edu