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How Context Affects Value in Small Business Marketing

By J D Moore

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Here's another Marketing Comet principle: Value is always 100% subjective.

"But \$1 is worth a \$1, and some items are commodities with fixed values right?" Well, without going into economics the value of \$1 changes (mostly based on perception). Even commodities have markets. A cup of coffee is worth absolutely nothing until somebody is willing to trade \$3 for it.

The following comes from Judgment in Managerial Decision Making by Max Bazerman: Read this scenario twice – first with the words parentheses and excluding words in brackets, and second with words in brackets and excluding the words in parentheses.

You are lying on the beach on a hot day. All you have to drink is ice water. For the last hour you have been thinking about how much you would enjoy a nice cold bottle of your favorite beer. A companion gets up to go make a phone call and offers to bring back a beer from the only nearby place where beer is sold (a fancy resort hotel) [a small, rundown grocery store]. He says that the beer might be expensive and asks how much you are willing to pay for it. He says that he will buy the beer if it costs as much as or less than the price you state. But if it costs more than the price you state, he will not buy it. You trust your friend, and there is no possibility of bargaining with the (bartender) [store owner]. What price do you tell him?

20 years ago, the median prices were \$2.65 for a beer from the resort and \$1.50 for a beer bought from a store. Same thirst, same beer – 76% price difference. In Bazerman's book he is speaking about a concept called transactional utility – the value you place on the deal you are getting as opposed to the value you place on the commodity.

Why is this important to small business marketing? It shows clearly that controllable factors can affect what people are willing to pay for your products or services. Obviously, you would like to be able to maximize what you can charge – while still keeping your customers.

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If you have a retail storefront – keeping it clean, comfortable, and in good repair can affect how people perceive the value of what you are selling. Your packaging is important, so are your business cards, web site, and everything else your customers see. Investing in a polished, congruent image is a good idea.

I still like the \$3.95 pork fried rice from the hole-in-the-wall Chinese takeout, but I won't pay \$8.95 for it. However, when I go to the sit-down Chinese restaurant with the white tablecloths, the nice decor, and the waiters in bow ties – I have no problem paying \$11 for fried rice. The quality of the food might be better, but is it 178% better? It doesn't matter – because I'm not even making that calculation when I choose to eat there.

What can you do to increase the perceived value of what you are offering?

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Moving Out: Outsourcing is Here to Stay

By George Schildge

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In today's climate of business, CEOs and executives are cautiously optimistic about the economy and their company's future growth. They realize that they still need to market to drive profitable growth and increase the company's value, but the financial strings are being tightened. However, there is a clear growing trend for companies, regardless of size and industry, to outsource (or a term used not too long ago sub-contracting) an element of their business. Why does this trend continue to grow, and how do executives assess their needs? Outsourcing is not a passing fad, but clearly a paradigm shift that can change a business model for the better.

Outsourcing involves the use of resources outside of the organization to perform specific tasks required for the business. However, there are a variety of ways to use these resources, including business process outsourcing and co-sourcing. Business process outsourcing involves the selling off one part of the business to create positive cash flow and probable gains in productivity and quality. Co-sourcing involves retaining part of the service in-house, and off-loading or outsourcing a portion to a third party partner. This is the one we will discuss, and in our case the marketing function. Companies often forget to ask the basic question: What business are we in? Too often the need to perform various functions and to keep a business running does not allow management to step back and ask this question. The answer should bring management to the fundamental product/service that generates revenue for this company.

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In the book "Living on the Fault Line" (HarperCollins, 2000) by Geoffrey Moore, described an outsourcing concept. He says, all employees should be focused on core activities—that is, things that contribute to the company's competitive advantage and increase shareholder value. The opposite of core is context—activities that do not contribute to competitive advantage. Context activities should be outsourced.

For example, your head of marketing was hired to develop and coordinate strategies, direct tactics and their implementation, to generate more sales leads by new customers, while maximizing the loyalty and profitability of current customers. That is her "Core" function. However, over time she has developed a talent for public relations and as a result has become the Communication Manager of the company. She edits the company web page, makes changes, etc. These responsibilities (those of PR Manager) can be described as "Context."

This is how most companies handle the "Context" with respect to positioning, messaging, and public relations, three tasks for marketing. A similar example could be used for any marketing tasks. It is not their core responsibility and yet, they take it on. The problem with "Context" is that it often takes on a life of its own and begins to obscure what the "Core" should be. The example above was selected because it represents what actually happens for most small to mid-sized companies. What management needs to consider is the effect that "Context" has on productivity, return-on-sales, ROI and the general operation of the business.

Outsourcing allows companies to focus their resources and control their head count. This form of

operations allows the company to hand over full responsibility for the outsourcing function within clearly defined management guidelines and then monitor the performance. When you break down the costs of a full marketing department internally, versus the cost of outsourcing with an external partner, the business case begins to tip in favor of not allowing the "Context" to conceal the "Core." The following elements would be common to build out a high-quality and stable relationship in a typical small organization with gross sales revenues of \$20 million.

Annual Salaries for a full marketing department and programs can cost approximate \$1,350,000 annually vs. \$1,050,000 to outsource the same or better activity.

Consider the example of a high performance marketing partner that offers you results, flexibility, and reduction in staff and overhead. Companies can typically have equal if not better results, while maintaining product and service quality for a fraction of the cost by turning to an expert in sales and marketing. And what is the cost of a bad hire? The commonly referenced cost of a bad hire is 2.5 the times annual salary. In most small to mid-sized organizations, marketing can be outsourced while they focus on the core.

Cost is clearly the most popular reason for outsourcing. However, strategic reasons such as improving company focus on core business and improving quality are next.

Why companies decide to let "Context" take over and drive the business can usually be attributed to lack of information. Many businesses and marketing specialists believe that by keeping everything internal the sales growth is more efficient. It's hard to find sales and marketing experts that have years

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of experience and are all aligned with the top line growth objectives. Companies who are not using marketing as part of their "Core" focus usually do not have the teams of marketing experts to handle the needs of their marketing. As a result, the "Context" begins to take over leaving less and less room for the "Core." So, is it worth "controlling" all of your marketing functions? Is this an area of your business that is core to your success? Probably not.

It is important for a company to focus on the things that add value and make it competitive. If you build software, stick to doing those things that help you to build better software, and outsource all those things that can be outsourced. The more focus you place in "context" areas, the harder it becomes for you to do your "Core" well. When you take into account the cost of what it really takes to do it right, the business case cannot be ignored.

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