
Marketing Notes

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Marketing Anatomy of Specialty Products Companies

Specialty product companies are different from commodity product companies. Generally, specialty product companies have significantly higher margins, more loyal customers, highly defensible niches, better P/E ratios, and are significantly differentiated from competition. Traditional manufacturing companies and commodity sellers can add value by understanding and embracing the business ways of specialty product marketers. This anatomy of specialty companies is useful in setting business direction and marketing strategy.

1. Specialty product companies are truly marketing-driven, vs. manufacturing or financially-driven. This is a complex state of existence, but foremost is their exceptional *customer orientation*. This customer-first culture is real, not empty executive platitudes and slogans.
 2. They know what they are doing in their niche, and their customers know them. They are top-of-mind when a customer is in the market for their kind of product. This strong customer awareness is a reason for strong market share positions, and is one of the high barriers to competition.
 3. Business is driven by application discovery ingenuity, and application selling. Application selling is directly related to problem solving. Specialty companies improve their customers' ways of doing business by lowering costs, reducing rejects, reducing downtime, preventing loss, and enhancing end products. Often the specialty product is sold as an ingredient, additive, or sold to converters, fabricators or original equipment manufacturers.
 4. Prices are set to reflect customer value, not manufacturing cost. Pricing-to-value is based on true "value added," giving the specialty company price leadership and a competitive advantage. Consequently, superb product and service performance is a constant pursuit. Erosion in margins — a slip in price-to-value — is always a result of forgetting how to educate the customer to the "total value", or a failure to innovate.
 5. Consequently, salespeople are consistently taught how to solve customer problems, how to provide service, and how to educate the customer to the true and total value the company provides.
 6. Price structure, and attendant low cost of product, create very high gross margins: 55+% margins are not uncommon.
 7. Product is sold in wide variations, formulations, flavors, line extensions, improvements and new-type products. Product and service points-of-difference, and product tailoring expertise, are clearly noticeable, and are pushed hard by the company.
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8. Field technical service and application engineering — getting the stuff to work — is an important marketing strategy.
 9. The sales revenue of each application tends to be small, and overall sales volume is the aggregate of many small pieces of business. The specialty company is less vulnerable to a single customer.
 10. Sales and marketing expense is a high percentage of sales revenue. This is different from commodity companies.
 11. Specialty companies are niche marketers, and find narrow markets (sometimes application areas) that are uncrowded with competition. A specialty niche product, therefore, is *not* a low volume commodity product.
 12. There is usually a relatively low manufacturing barrier to entry. Market entry does not require a large capital investment. Money is made more on expertise in marketing, then in manufacturing.
 13. R&D is more D (development) than R. Effort is more on applying technology vs. creating new technology. For example, they might be new formulation-oriented vs. new molecule development. They might look for new uses, shapes, conversions, and specials, not a new material. The most valuable R&D people are those more motivated by product commercialization than by publishing technology papers.
 14. The salesforce tends to be more expensive than most: higher compensation, more training required, more support required, more investment in application discovery and prospecting required.
 15. Product tends to be a small part of the cost of the end customer's final product.
 16. Technology is important, but not as important as the ability to sell the technology. The technology is often patented or proprietary, but it is usually the skill of marketing and applying the technology that is the competitive difference.
 17. Some of the barriers to competition are patents, secret formulae, marketing expertise, and customer franchise loyalty. (Patents are not critical). Nimbleness in application identification and quick formulation or tailORIZATION are key. Application selling experience is a big barrier as it is hard to duplicate and expensive to home grow. These, and other factors, lead to high customer satisfaction, the most difficult barrier to surmount.
 18. Marketing emphasis includes heavy focus on end user education: application versatility, quantified benefits, and weaknesses in substitute methodologies.
 19. Salespeople act as missionary salespeople in the early introduction phases of the product cycle, and as consultants when the technology is more accepted. The salespeople become an extension of *their* customers' development, manufacturing, or engineering departments. They often collaborate with customer on discovering new useful applications.
 20. Salespeople are expected to be knowledgeable and professional. They are consultative salespeople highly skilled in handling objections in relationship selling environments. The best have technical backgrounds or extensive apprenticeship, and *then* are continuously taught selling skills.