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A New Strategic Tool For Managing The Economic Recession: Creating Shareholder Value With Lateral Marketing

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Abstract

Mortgage crisis, which started in 2007 and is still ongoing, has caused a big economic recession in the world economy. That recession made business managements to do important strategically and institutional reactions alongside globalization of markets, changing in industrial structure, information revolution and increasing of customer expectations. Such that, if investors perceived that company stock in an unattractive market and has no competitive advantages, they would give up investing. The main determinant of investing on a company for investors is the company's ability of managing profitable investment opportunities. Managing profitable investment opportunities provide creation of shareholder values by increasing the market value of business. Lateral marketing is the newest and effective way to help businesses while managing profitable investment opportunities and creating shareholder values. Lateral marketing provides businesses to create new product and services for making better existing jobs, to make decision based on lateral thinking phenomenon and to gain competitive advantages on the market.

The aim of this study is; assessing the share holder value creating talents of enterprises during economic recession periods for survive and improve their economies by using lateral marketing instrument. In this context, the shareholder value and lateral marketing concepts in literature analyzed and the capacity of companies on creating shareholder value by using lateral marketing assessed. Thus, the study is theoretical and original. The basic assumption of study is, by creating share holder value economic recession might exceeded.

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1. Introduction

Social scientist divided economic development of western world in three parts; agricultural age, industrial age and information age. The first age was based on agriculture. The physical labor is the driving force for obtained welfare. The second era of industrial revolution began to slowly took its place mechanization replaced muscle power and factories replaced agriculture. Thus, both agricultural and industrial productivity increased by an incredible way. While agricultural age had lasted over two thousand years, industrial age lasted only two hundred years. 1960s were the end of industrial age and beginning of information age. Manufacturing employment began to fall in all development countries. Service sector has become the new focusing area for growing up.

The last period of 20st century witnessed the distress that had come up with birth of information age and death of industrial age. In this troubled period, many companies merged. Communism collapsed in former Soviet Union and in other small satellite nations. Southeast Asia faced on economic crisis. All these edged the second wave industries and corporations out [1]. After 1997 Asian financial crisis, 1998 Russian financial crisis, 1999 Argentine economic crisis and Mortgage crisis which started in 2007 and is still ongoing are the significant economic crises are the world faced [2]. Along with the globalization of markets, changes in industrial structures, information revolution and increasing of customer expectations, manager took strategic and institutional decisions. During the economic recession, if investors perceived the company was in unattractive markets with no competitive advantage, they would not want to invest inherently. Due to these reasons, firm value drops, attracting resources becomes difficult and company should be bought by the others [1].

Firm value increase with making existing jobs better, shareholder value is created when market value of shares exceed book value. Main determinant of market value is the ability of managing profitable investment opportunities [3]. Lateral marketing is the newest and effective way to help businesses while managing profitable investment opportunities and creating shareholder values. Lateral marketing provides businesses to create new product and services for making better existing jobs, to make decision based on lateral thinking phenomenon and to gain competitive advantages on the market. The success and profit of enterprises would ascend with gaining new customers by satisfying hasn't existed needs, usage areas, situations and markets yet by the help of lateral thinking concept in economic recession periods. Thus, increasing competitive advantage in market increases the market value of the business and shareholder value rise [4]. In the following section, the concepts of shareholder value, lateral thinking and lateral marketing are examined particularly.

2. Economic Recession

Economic recession encloses crucial and forceful fluctuations exist beyond acceptable limits of product, service, and factor of production or foreign exchange market prices or quantities [5]. Economic recession is defined as not only growing in countries' national income but also decreasing in accomplished complex and contradictory situations which are not estimated for other businesses and industries. While some of enterprises are in a difficulty, some of them try to survive and not to lose their gains and the others reduce price. However, they need to do more than reducing price to get rid of the economic recession [6].

At the end of the 2000s, the economic recession caused radical changes in business and market environment. Most of companies regulated their marketing strategies for improving their economies. During the economic recession the only truth is that economic recessions and crises will end up. The

period of economic recession is known as “frugality age”. At this period, consumers’ buying behavior is changed completely. Suspicion and lack of confidence are occurred against the business and marketing activities. Competitive structure of markets which are shaped with the effects of economic crisis creates new situations or suppliers [7]. The most important lesson is learned from the previous economic recession and crisis is nothing will be the same again for businesses even if the economy goes better. Economic recession covers a period in which existing business models, which have to get change, crashed because of changing markets and people. In this period, “strategic evolution” and “strategic positioning” become important. Strategic positioning or strategic evaluation is expressed that businesses change their own organization to change the leadership of market recession or bring businesses into conformity with economic recession period [8] .

21st century, major changes around the global market and economic recession have created pressure to be more effective on today’s businesses. Competitive capitalism taught businesses being successful with meeting consumers’ needs better than their competitors. Profitability of business depends on ability to offer products and services which consumers want to purchase. Finding products and services attractive by consumers is the function of market environment. While a computer, a retail store or a bank service is attractive today, it should be unattractive tomorrow. Technological changes, global competition, economic recession and changing demands age the old solutions and create new opportunities for new solutions [9] .

According to Welch (2009), in economic recession period, it is not possible to make an effort for only getting through the storm. The aim must be to suit new dynamic periods. In the recession periods, shareholders, consumers, competitors and suppliers should have different expectations and behaviors. Therefore, new threats and opportunities are predicted and marketing strategies should suit this new threats and opportunities [10]. This is an important issue for perceiving company as profitable by investors and creating shareholder value.

3. Shareholder Value

To struggle with the current economic recession, creating shareholder value is the newest and most effective way. Shareholder’s gain increase when the dividends or share prices rise. In competitive capital markets, gains, which are acceptable for shareholders, are required for business survive. Shareholder value is a long-term concept. It is related to setting up long-term businesses. Most high-tech companies’ values (Nokia, Dell, Cisco and The Gap) demonstrate that shareholder value overrate growing companies even if they have never made profit [1].

In macro environment of 21st century, a tremendous historical change, which restructures the business world and social structure, has been taking place. These changes can be called as post-industrial society, global village, third wave, or information age [11]. The reasons of the change in this century can be listed as globalization of the markets, change in industrial structures, information revolution and rising customer expectations. Information age brought about radical changes in global markets and competition. In many sectors, companies, which do not operate globally and cannot develop marketing capabilities, are forced to withdraw from the market. In recent years, in international scale, both products, service and capital trade has been increased extremely. GATT and WTO worked as a moderator in opening new markets and reducing trade barriers that prevent trade between countries. Information age also changes the structures of profit opportunities for the enterprises. Many markets, which were in the center of the economy in the past, now are abandoned since they do not create profit opportunities for western businesses anymore. New markets creating new huge profit opportunities are emerged for the enterprises that can take action quickly and assess these opportunities. In the countries experiencing the information age, the employment has shifted to the rapid growing service industry. Services constitute two-thirds of economic output in developed countries. As living standards continue to rise, consumers are spending more money on

services than they spend on goods. Health, education, travel, financial services, entertainment and restaurants are growing markets. Information technology has become a big industry.

Rapid scientific and technological change is fundamentally reshaping many industries. Today's most fundamental change is the result of change in information technologies. The change process begun in 1960's and 1970's with the advent of computers, and became obvious in 1990's with the widespread use of the internet. In 2001, only ten years later than World Wide Web had emerged, a fundamental change was occurred in the business and the society. Over 200 million people can communicate at universal and open standards from their offices or homes for free. Information revolution started to change marketing from mass-personalization and standard products to one-to-one marketing. For innovative businesses, this leads to higher profit margins, higher loyalty and a larger share from customer spending [12].

Information age has provided a considerable increase in customer expectations. Consumers are expecting higher quality, more competitive prices, and better and faster services. The most important reasons of aforementioned expectations were the globalization of competition and the removal of the arrangements in the market. When markets are opened to today's aggressive international competitors, non-cost effective enterprises and the ones which are not customer-based could not survive [13]. Enterprises can survive only if they can adapt themselves to the rapidly changing environment. This changing environment determines what customers would find attractive. Changing environment also determines the existing technologies necessary to produce and market the products and services. Therefore, for the competitive advantage in the market, companies should make plans for the use of resources. Change in marketing is so drastic such that all of the companies should go into a radical strategic and organizational change. Globalization, new industry structures, rapidly changing technology and new consumer expectations weaken the old markets; besides create tremendous opportunities to the companies, which adapt themselves to the changing environment rapidly.

Value of a business entity increases in an attractive market, if it develops sustainable competitive advantage over its rival entities. An attractive market and a formula indicate that the entity can earn more than cost of capital. In this case, the entity can easily attract outside resources, take over some other companies and manage the growth. Investors, of course, do not want to invest if they think that the entity is stuck in an unattractive market and does not have competitive advantage. Therefore, the value of the entity decreases, it cannot attract outside resources, and unavoidably, as a consequence, it is taken over by another entity. Value of the enterprise does increase by improving the business. Judgments of the capital market over expected financial performance of the business affects the ratio of the company's market value[1]. Shareholder value is created when market value of the shares exceeds the book value. The main indicator of the market value is the ability of the enterprise to manage the profitable investment opportunities. Shareholder value analysis allows comparison of alternative marketing strategies by the management. Management objectively evaluates which strategy has higher probability to increase the market value. For an entity, the key to creating economic value is the ability of having competitive advantage in changing market environment or the ability of maintaining achieved competitive advantage. Marketing strategy that will bring any future sales growth and assumptions with respect to the profit margin and investment are involved in the valuation process [14]. However, marketing is needed for the success of the shareholder value analysis done by the managers. Shareholder value does not make sense without marketing. The principle of shareholder value is that the shareholders of the entity provide most of the earnings to their investments. Shareholder value analysis is a tool in the calculation of estimated growth, profit or shareholder value created from investment. Shareholder value analysis does not indicate how managers develop strategies to accelerate the growth, improve profit margins and return of investments. These are the objectives of the marketing strategy.

The share holder value analysis basis on; "economic value exists if only enterprise yields more than capital cost" assumption. According to economic theories economic gain exists in competitive markets if only enterprise has advantage in terms of costs or product. Without a unique advantage, competition drags profit to capital cost level. Creating value is to create a sustainable competitive advantage and create a

good reason for a customer to buy from you regularly instead of other enterprises. Marketing presents tool for such kind of advantage creations. These tools are; observing and analyzing customer needs, analyzing the competition, measuring customer preferences and to enrich them. Effective marketing provides share holder analysis to be dynamic and growth oriented. Without marketing, share holder analysis is static. Analysis only focuses on strategies for diminishing costs and raising cash flows.

That's why share holder value analysis became an important subject for enterprises in competitive markets especially during recession periods for not to lose the supports of share holders, to survive, to protect competitive advantage against competitors and most important is for economic healing. Nonetheless the possibility of perception of customers that share-holder value analysis supports a real enterprise performance related with marketing strategy applications. That's why created share holder value by lateral marketing will provide a high value for enterprises [15], [1]. Lateral marketing concept analyzing in a detailed way below.

4. Lateral Marketing

Lateral marketing bases on lateral thinking concept. Lateral thinking is looking for new ways more than following logical steps for observing a problem. Lateral thinking is different from changing, innovation or creativity concepts but benefit from them. Alternation or change consists shifting to a new situation from a current situation. But innovation is not needed for change. Innovation is forming something into a new thing. For example; to dismiss half of the employees for drawn down costs, is a great change. However to discover completely a new method for reaching customers is an achieved innovation. A person or an organization might be creative but might not be innovative. Creativity is a talent. But innovation is related with finding creative ideas and application of them. Innovation also comprehends; applications of new job processes, new methods, market and job strategies and radical alliances related with them. In this context lateral marketing and other concepts would denote as below:

To change: To shift from a situation to another one.

Creativity: Creative talent.

Innovation: The act of introducing something new, a thing that is introduced as novelty

Lateral Thinking: To look for new ways for solving that problem, not to approach with logical steps.

Lateral thinking concept had broached by Edward de Bono in 1970 for illustrating the set of techniques for approaching the problems in radical and different ways; not directly, contrary indirectly. In the first half of twentieth century intensively grocery stores were serving customers. In 1920 a man called Michael Cullen suggested a different view point. Cullen asked this question: If we invert the operation format of groceries and allow customers to find their goods by themselves and allow them paying after, what happens? Doubtless majority counter: Customers needs serve. They don't like to do all the job for buying. People will astonished when nobody help them for shopping. This is ridiculous, etc. But Cullen insisted on this idea and invented the first supermarket of the world: King Kullen Store in New Jersey. Simple but as much a strong idea. This idea changed the behaviours of customers in shopping and also transformed the plan of cities. Little corner grocers on main streets died and big self-service super-markets supersede them. Michael Cullens idea is a lateral thinking harvest. The difference between lateral thinking and creative thinking, change and innovation is; not to serve any new grocers, is serving a complete new approach for shopping [16].

Lateral thinking based "Lateral Marketing" is a working process that produce innovative product and services when apply on current products and services; enclose which hasn't existed needs, usage ways, situations or targets. That's why it's a high possibility process for creating new market or categories. According to this definition:

“Lateral marketing is a process. This process is systematic. Run in a organized and ranked way. Apply on existent product, service or job. Lateral marketing creates an innovation. In many case this innovation would be a sub-category or market”.

Lateral marketing perform for finding solutions to these questions:

- Which alternative needs I can satisfy when I change my product?
- How many different needs I can implicate to my product to distinguish it from current ones?
- How can I reach non-potential customers by changing or alternating my product?
- What kind of differentiations I can serve to my existent customers?
- How can I use my product in different ways when I change it?
- What kind of products would enclose benefits of my existent product?
- For what kind of other needs my product would be use?
- What kind of other products would be produced from my existent product?
- What kind of substitute products would be produced for assault to my product?

Lateral marketing is a three phased process. This process starts with choosing one of the other elements of product, market or marketing mix (price, promotion, distribution). Enterprise has two ways to go in this phase; (1) to choose a product or service in the market which enterprise already active (2) to chose a product or service in the market which enterprise coerced to compete. When enterprise wants to apply lateral marketing to this market, enterprise should try to create differences cover the needs that hasn't satisfied before, cover a benefit of the product or usage area hasn't exist before and cover the customers hasn't targeted before. When enterprise wants to apply lateral marketing on the current product, enterprise should differentiate this product into another shape to serve for new a condition that hasn't been used before. Enterprise should chose one of the other elements of marketing mix (price, promotion or distribution) and try to differentiate change them in to a new form for satisfy customer needs better. In this way, enterprise could get new customers by transforming its current market, product and service to innovative product and services which enclose hasn't exist needs, usage areas, states or targets yet. Thanks to this, enterprise might redouble its profit and competitive advantage by presenting products and services which beyond expectations of customers.

Lateral marketing process goes ahead by stating the new product which displace laterally of current product. According to figure-1 an enterprise wants to apply lateral marketing on a chosen product. Enterprise wants to produce new products which satisfy the need that hasn't existed before by adding new features to the current product. This new product will create a new market that hasn't displayed activity before. The product in the sample is cafeteria. Enterprise implicates new customers to its target market by adding internet service to the cafeteria.

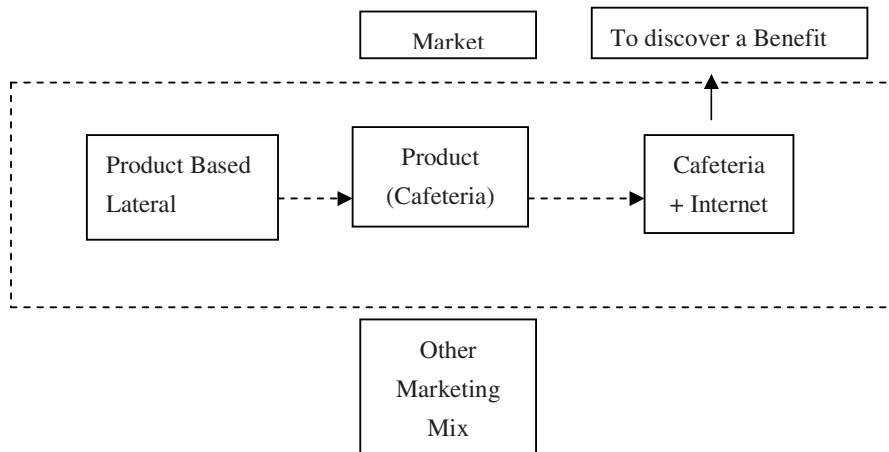


Fig. 1. Focused Product: Integration of Cafeteria and Internet

After the application of lateral marketing to the product a gap exists in the market. The existing of this gap is the first step of lateral marketing process. There might be six different applications for creating a gap in the market. These are; (1) To substitute the product. (2) Inversion of the product (3) Combination the product with another product (4) Exaggerating the product (5) Eliminate the product (6) Reordering the product. These applications create a market gap for lateral marketing. This gap indicates a market that none of other enterprises serviced before. This gap will help create new categories. The new product which stands for the old one and creates a market gap that never serviced before will provide sub categories and innovative commercial formulas. Thus enterprises would gain income by adding new potential customers that were not customers before during economic recession periods. According to the sample in figure-1; enterprise creates a market gap that competitors haven't serviced yet, by integrating the internet service to current cafeteria services. Internet cafe creates a different benefit that cafe provides to its customers before. Thus, enterprise implicates new customers which hasn't serviced as non-potential before to its target market.

The last and the third stage of lateral marketing is; building up new connections. Connections build up with customers. Target is; analyzing the customers by expurgating the important knowledge components. In this milestone enterprise should build up a valuation. Valuation doesn't spell as; good or bad, logical or unlogical, positive or negative, beneficial or ineffectual. Valuation is expurgating the valid results and observations from knowledge which gathered from customers only. There are three possible techniques for valuation:

Monitoring the customer purchasing process, step by step: In this milestone, the whole customer purchasing process from characterising the needs to after purchasing behaviours must be considered. In every level of this process, the features of customer and every valuable idea should be scrutinized for enhancing the existing products and services.

Ability of presenting benefits and positive ideas: In this milestone alternative processes developed for bringing positive effects on customer who is not satisfied from existing products and services. The aim is trying to show the positive sides of the product which customer hasn't satisfied. For this purpose, the benefits, usage area and some other features like price of the product shown to the customer with different aspects of view.

Create a probable environment: This environment consist of perceptible components like; place, state and time. Than it made enabled reaching to this environment by customer. Enterprises should develop satisfactory products before all else, than should introduce them in a perceptible environment. But the most important thing is to drag customers in this environment.

At the last stage of lateral marketing process, it gain importance to get in touch with customers. The aim of this communication is to assess the satisfaction level of customers from products and services and perform solutions. At the end of lateral marketing process, enterprises get three important output [4]:

Same product, new utility
 New Product, new utility
 New product, same utility

5. To Create Shareholder Value With Lateral Marketing

The last decade of twentieth century was a prosperity period for most of the companies of developed countries. Strong demographic increase and better life expectancies contributed to this period. Economic stability and presence was ruling in this period. Marketing had a growing role in the structure of enterprises. Marketing departments was using great budgets due to create new products and to put them on the market, to try goods by communicating with customers and train them, to make them purchase the same products again and to create brand attachment. However this success runs into risk with beginning of 21st Century. Brutal competition began to seen in 21st Century; the reasons are below:

- Delivery or Logistic activities became more important than other marketing instruments in packaged goods market.
- The number of competitors decreased but the number of brands increased.
- Product life cycle shorten to considerable time gaps.
- Buying a good became more cheap than to repair it.
- Digital technology triggered a new era in markets.
- The number of patents increased.
- Specific product breeds radically increased.
- Markets are hyper fragmented.
- Advertisement saturation reached highest degrees. The hyper fragmentation of media makes it hard to serve new products.
- “Take a place in customers mind” capacity decline.

As a result of all these reasons, markets became much more competitive. In such kind of market circumstance innovation must be basic competitive strategy of firms. However the success rate of new products is decreasing. Lateral marketing seems as a good way for solving this problem. Lateral marketing allows firms to produce innovative products and services which targets hasn't known or existed needs, situations and usage areas yet. Enterprises would implicate new customers to their target markets. From the investors side, the market of the enterprise should be attractive, the performance of the enterprise in this market should be high and most important; the firm should have competitive advantage in this market. Especially in recession circumstances, in a competitive market, an enterprise which has inapproachable products will have higher competitive advantage according to their competitors. Such kind enterprises evaluated by investors as alluring investment chances. The market value of these enterprises rise. A market value above the capital cost creates shareholder value for enterprise. It means new sources for enterprise. Enterprise might use these sources which gather from its investors, for survive from economic recession. Consequently, lateral thinking and lateral marketing would give chances to

enterprises for obtaining competitive advantage on the market and gives opportunity to create shareholder value [1],[4].

6. Result

The great changes on the global market and recession together create compulsions on enterprises due to being more efficient in twenty-first century. It's not enough to circumvent the storm in recession periods. It's needed to accommodate to the new era which is coming after recession period. In such kind of circumstances the shareholders, consumers, competitors and suppliers began to have new and different expectation and behaviors. That's why; enterprises should forecast new opportunities and threats in the market and should harmonies their marketing strategies to these new opportunities and threats. As a result of this, enterprise would perceive as profitable by investors and its market value would increase and would create shareholder value. Shareholder value exists when the market prices of share certificates gets over the book value of share certificates. The main determinant of market value is the talent of managing profitable investment opportunities. This talent might enhance with the help of lateral marketing.

The value of an enterprise rises, if enterprise perceived as it's applying a competitive advantage strategy in an attractive market. Attractive market and a strong formula means enterprise could get more income then it's capital cost. In this condition enterprise could easily achieve to draw new resources and growing up. If investors perceive that enterprise began to live in an unattractive market and hasn't got competitive advantage, naturally avoids to invest [1]. In this condition the value of enterprise decreases. Lateral marketing would provide competition talent in a competitive market for enterprises.

When lateral marketing apply on existing products and services, this application comprehends; the needs, situations, usage area and targets that hasn't awake or exist yet. Lateral marketing achieve this by new innovative usage way of existing products or innovative product or services. Thus; this is a high chance process of creating new markets or categories [4]. Lateral marketing would serve new solutions to enterprises for finding new markets and new customers, in recession periods. By lateral marketing enterprises would generate their existent products - services and would get unprecedented new products and would gain new markets and customers. The share holder value means new investors. Enterprise would use these new resources which gather from new investors to survive from economic recession.

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