



# *Marketing to Small Business in a Downturn Economy*

Warrillow Market Insights White Paper

August 2008

## **Management Summary**

The purpose of this report is to provide recommendations to better reach small business owners given the significant shift in economic conditions over the past 12 months. This Warrillow Market Insights White Paper will review the current economic trends, gauge the optimism of small business owners, and provide insight into changing business owner behavior as a reaction to economic contraction. Warrillow will then present recommended adjustments to targeting, messaging, product selection, and customer touch points for in-flight and future marketing strategies, highlighting enterprises that have effectively marketed products and services with the economic downturn in mind.



## Executive Overview: Top Warrillow Recommendations

Over the past year, the U.S. population has been held in rapt attention as key economic indicators continued to underscore a widespread economic downturn. While there is considerable debate over whether the economy is actually in recession, both consumers and businesses are reacting to the threat of contraction signaled by the recent credit crisis, the irrefutable reality of mortgage foreclosures, skyrocketing energy costs, increases in unemployment rates and general softness of consumer spending.

Evidence of large macroeconomic trends is now clear in the individual small business owner's attitudes. The National Federation of Independent Businesses' (NFIB) Small Business Optimism index is at its lowest point since 1979. Inflation has replaced taxes and health insurance as the number-one concern for small business owners, and less than half of the small business market expects sales growth for their company through the end of 2008. With these broad trends as a back drop, Warrillow has used our proprietary data to more deeply indentify and sub-segment changes in small business owner behavior. This analysis reveals that small businesses are preparing for the potential of a rocky road ahead by increasing the focus on their bottom line, re-evaluating their supplier relationships, exercising greater personal control over day-to-day business activities, and cutting back on capital expenditures.

As an enterprise marketer to small business, these changes in behavior have immediate implications for your marketing tactics. Gone are the days of a booming economy where growth reigned supreme as the key marketing message. Here are Warrillow's top five recommendations for enterprise marketers to augment their marketing initiatives over the next year:

- 1. Growth is not the only message** – Small businesses are still highly focused on their ability to acquire new customers. Of all the spend categories investigated, small business owners anticipated the largest spend increase in sales, with 25% of companies expecting greater outlays in sales-specific costs. But cost concerns have made a dramatic comeback in response to economic conditions: 50% of small business report their primary focus is the bottom line this year, up 10 points from a pre-downturn 2001 reading.

*Warrillow Recommendation* – Lead generation and sales growth are still key messages in the small business market, but need to be balanced with cost savings. For example, adopting a product or service that improves productivity was one of the top two reactions reported by small business owners to an economic downturn. Drive a more even mix of cost- and growth-based messaging in the next 12 months of campaigns, reintroducing the bottom-line advantages of your products and services.

- 2. Right-size your existing customers** – Economic pressure drives small business owners to re-evaluate their service provider relationships. In addition to seeking productivity, the



second top reaction to an economic downturn for a small business owner is to switch suppliers. While this represents a great opportunity to steal share, your competitors also have an eye on your existing customer base.

*Warrillow Recommendation* – Enable small businesses to ramp up or down the components of their existing service without penalties for the change. While you may absorb small short-term decreases in revenue, you will create a proactive defense against competitors and position yourself as a partner, rather than a vendor, to your customers.

- 3. Boost self-service capabilities** – In times of economic uncertainty, small business owners' gut reaction is to assume more personal control and rein in their business operations.

*Warrillow Recommendation* – To appeal to small business owners' need for control, boost investment in the self-service tools that enable small businesses to better manage the services you provide to them.

- 4. Head to the public sector** – In tough economic times, small business owners get nervous about disappearing revenue streams and begin searching for contracts and customers in the public sector. These are considered to be of lower risk, since public spending tends to be less discretionary and therefore more stable in the long term.

*Warrillow Recommendation* – Intercept small businesses where they seek access to government and public sector leads. Place targeted advertising on websites or publications which either detail open local, state, and federal government contracts or advise small business owners on breaking into this market

- 5. Shift to "a la carte" and "extended life"** – Margin compression on both ends of a small business owner's product or service reduces their cash flow. Uncertainty about future sales reduces a business owners' confidence in future cash reserves. Add the two together and small business owners will look to conserve working capital and extend the life or utility of their existing investments. Small businesses projecting declines in capital expenditures in the coming year outnumber those increasing by a margin of better than a two-to-one

*Warrillow Recommendation* – Shift your marketing and sales staff from focusing on high-dollar comprehensive products and services to lower-cost components as well as services or warranties that extend the life of existing solutions. These secondary services will be both more appealing to small business owners and likely to provide greater margin to your enterprise to offset near-term inventory cost on larger components.

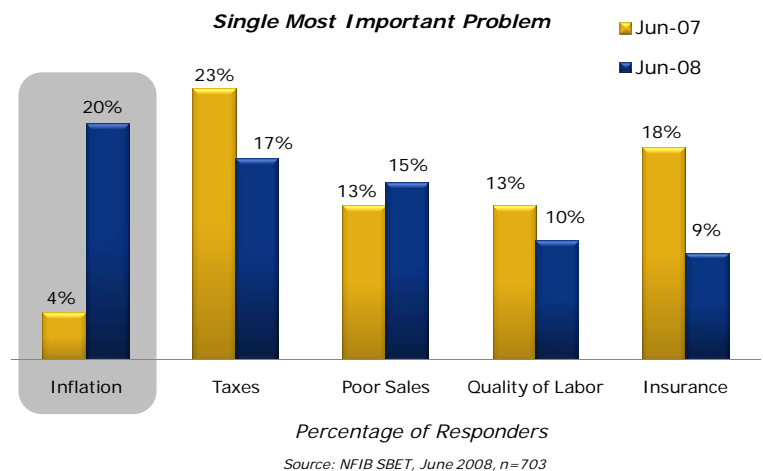
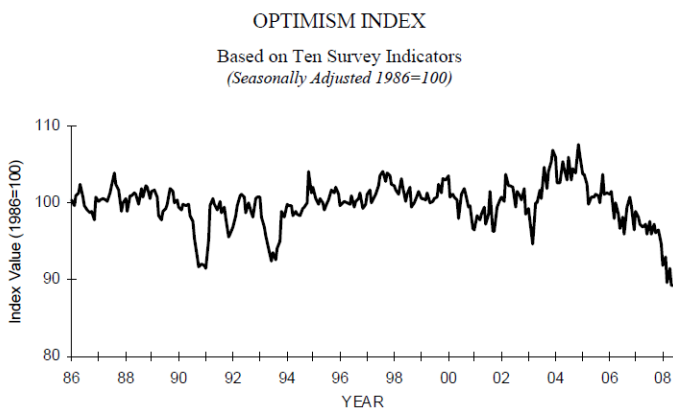
## Key Economic Indicators: Gauging Confidence

According to the National Federation of Independent Business (NFIB), small business optimism is at its lowest point since the oil crisis in 1979 (NFIB *Small Business Economic Trends Report*, July 2008). After a slight rebound in April, the overall confidence reading has fallen below 90 for the second month running – a recession-level reading.

Inflation is now the number-one concern for small businesses, replacing taxes as the single most important problem they face. While twelve months ago only four percent reported concern with inflation, twenty percent of small business owners now cite this factor as the single most important problem they face. There is no doubt that rising energy costs play a key role in this perception. Almost as startling is the decline in those citing availability of insurance as a top concern, down from 18% in June 2007 to only 9% in June 2008.

Although few claim to have been hit hard by the credit crunch, the recent performance of major lenders and credit card companies contradicts this finding. Bank of America, a large lender to U.S. small businesses, has cited weakening credit in the small business market for the past three consecutive quarters (Bank of America Q407, Q108, Q208 quarterly earnings reports). Advanta, a credit card provider that markets exclusively to small business, has seen in-default rates double since June of last year (Advanta Q208 earnings report).

### OVERVIEW - SMALL BUSINESS OPTIMISM

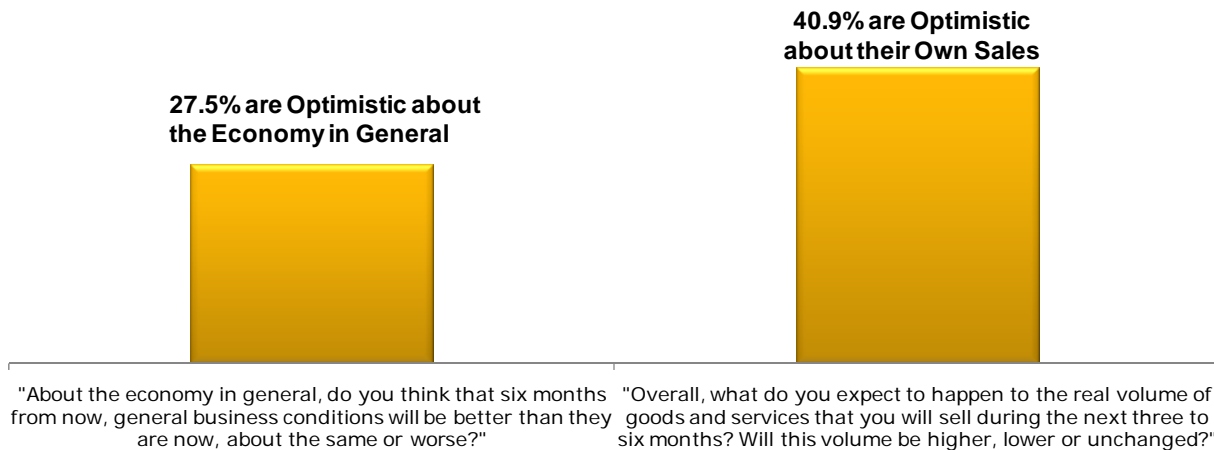


Add declining consumer spending to all of these factors, and we see a profound impact on the small business marketplace. As consumers spend less, small businesses are challenged to find more aggressive go-to-market tactics to sustain their revenue stream. Rising inflation and energy costs are driving increases in the cost of goods for small business owners, eroding their margins from a cost perspective. The pressure experienced on both revenue and cost in turn has a detrimental effect on the dollars available for small business to spend with large enterprises.



Yet despite this, many business owners remain cautiously optimistic regarding the performance of their own businesses. In a recent study, Warrillow identified the gap between business owners' perception of the economy in general and their perception of the real volume of goods or services they expected to sell in the next three to six months. While only 27.5% are optimistic about the economy in general, nearly 41% thought their sales would increase and 40% expected no change in overall sales volume.

### Business Owner Optimism



Source: Warrillow & Co., S/S 2008, n=2036

While small businesses are hardly out of the woods, the dynamic, resilient nature of entrepreneurs continues to make this an attractive market. There is no doubt, however, that the attitudes and priorities of the small business owner have changed compared to the economy boom in the preceding four years. In the following sections, Warrillow will investigate changes in small business behavior and attitudes through the lens of the enterprise marketer, and will organize recommendations for improved targeting, lead product selection, messaging and customer touch points across the small business market.

## Targeting Small Businesses in a Downturn Economy

Small businesses' reactions to economic pressure create unique opportunities for marketers, assuming they can accurately identify which business has which reaction. Warrillow data suggests small business industry verticals and business tenure provide insights into both who, and what, to target in the business marketplace. Start-ups emerge as among the most resilient in attitude toward the economy and, as a result, the most likely to continue to respond to a growth-oriented message. Conversely, manufacturing and wholesale small businesses appear to be the most concerned about revenue and, as a result, are planning the largest investment in

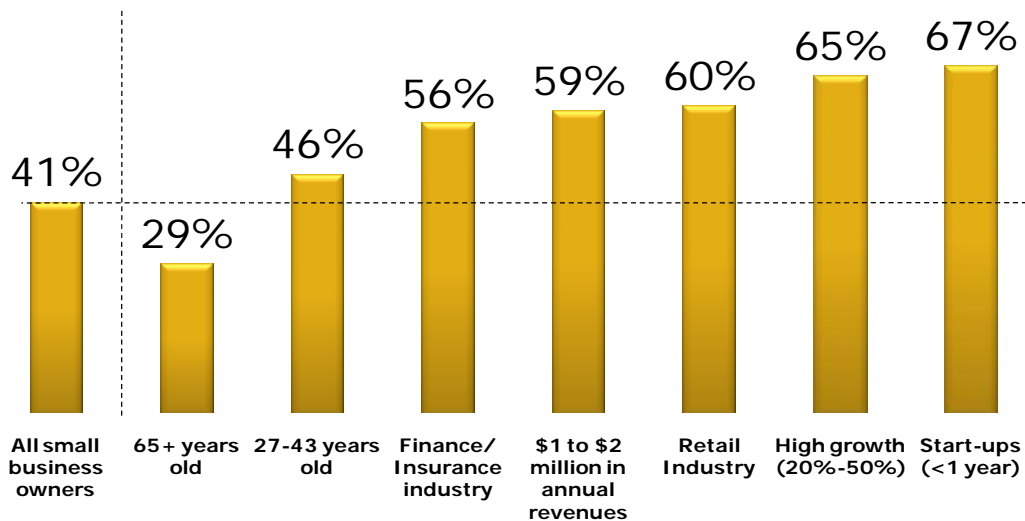


sales over the coming year. This group will respond to a sales-specific message, but are looking to sustain themselves rather than aggressively grow their business. Finally, small businesses are broadly turning to the public sector as a source of revenue stability, creating a new point of aggregation for enterprises to leverage in reaching the overall market.

**RECOMMENDATION #1: TARGET THE OPTIMISTIC – START-UPS**

Warrillow market insights reveal that start-ups represent an ideal market opportunity in an economic downturn. They continue to view their growth potential with unflinching optimism and, from the point of view of business tenure, have an increased need to invest in enterprise products and services. Target your economy-themed marketing campaigns at start-ups, and tap into their positive view of growth and beating the odds.

**% of small business owners who expect sales to increase in next 3 to 6 months**



Source: Warrillow & Co., S/S 2008, n=2036, small business with less than 100 employees

While 41% of all small business owners expect sales to increase in the next three to six months, 67% of companies less than one year old expect to see growth.

- Ensure you define start-up programs with a strong position on small business consultation
- Provide a compelling financial incentive
- Offer clear calls to action that don't alienate the optimistic small business owner

Bell Canada's start-up campaign is an example of effective execution of these core recommendations.



**The Tactic:**

Bell Canada bundles telecom services targeted at start-ups.

**Key Takeaways:**

- ❖ Position frontline as **consultants**:  
 "Our start-up experts will work with you..."  
 Note: while Bell positions its reps as "start-up experts", when a Warrillow analyst called (mystery shopping as a small business owner), in this particular case, the conversation focused on up-selling rather than consulting.
- ❖ Use key words when **naming** your bundle:  
 "Bell Business **Essentials** Bundle"
- ❖ Provide a **relevant gift** with purchase:  
 "Get 250 business cards" (partnership with NEBS)
- ❖ Make the **call to action** easy:  
 "1-888-383-6819"  
 Bell's toll-free number gives direct access to small business reps (no IVR).

**Expertise that gets your start-up off the ground.**

No matter what your business, Bell can help you set it up for success. Our start-up experts will work with you to help build your business with the right technology mix. That way, you can connect with the people who matter most – new clients, employees and suppliers.

Take advantage of our new Bell Business Essentials Bundle, designed especially to get start-ups going. Or, call a dedicated start-up expert today to find the best solution for your business.

**Introducing Bell Business Essentials Bundle.**  
 One business line + voicemail + business Internet high speed access

Starting from **\$63.93** for the first six months!

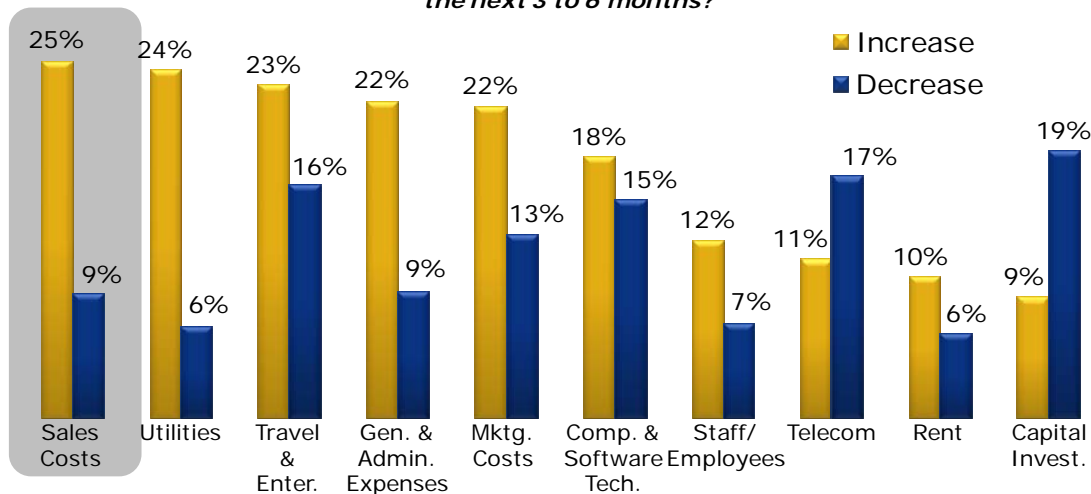
- Save \$437 for the first year\*
- Choose your own phone number, such as 416 555-5080!
- Receive a business listing in both White and Yellow Pages!
- Get 250 business cards (\$100 value)!

1 888 383-6819 bell.ca/startbusiness

**RECOMMENDATION #2: TARGET THE PESIMISTIC – POSITION YOUR PRODUCT OR SERVICE AS SALES DRIVER**

In a recent Warrillow survey, small business owners were asked to forecast their spending over the next six months. Sale expense was a key area of spend increase reported, with roughly three times the number of small business owners expecting to increase spend compared to those planning to decrease investment in sales costs.

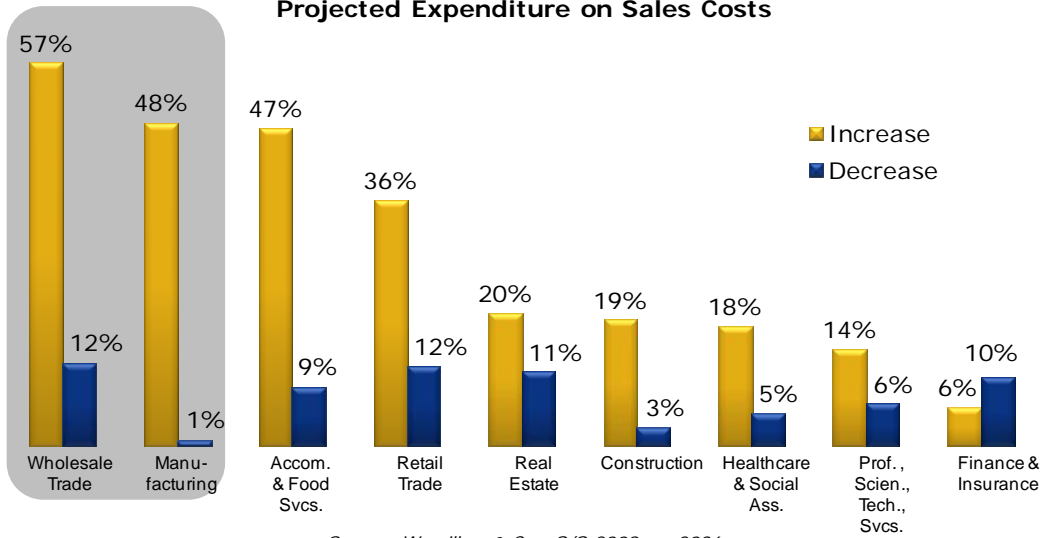
*"Which of the following best describes your plans for your business in the next 3 to 6 months?"*



Source: Warrillow & Co., S/S 2008, n=2036

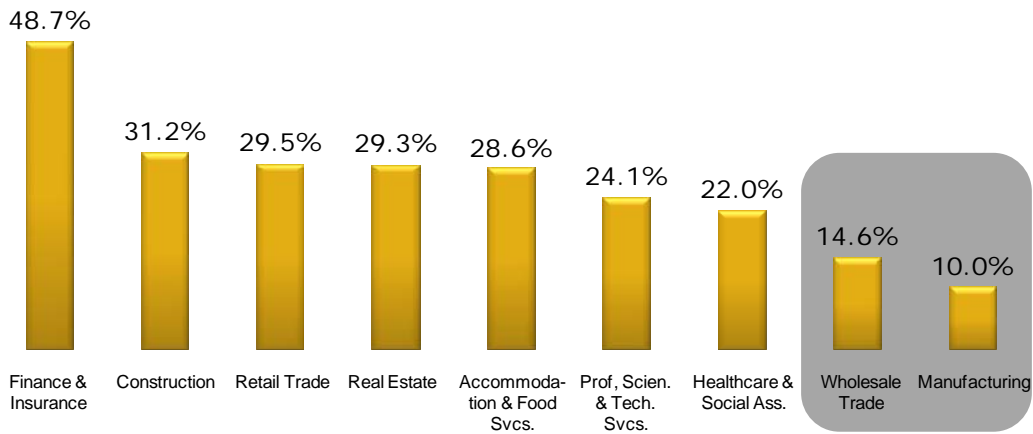


### Projected Expenditure on Sales Costs



At first glance, small businesses specializing in manufacturing and wholesale goods appear to be extremely growth oriented, with approximately half of business owners planning increased sales spend. When we review the optimism level of these two groups, however, a different story emerges:

### Economic Optimism by Industry

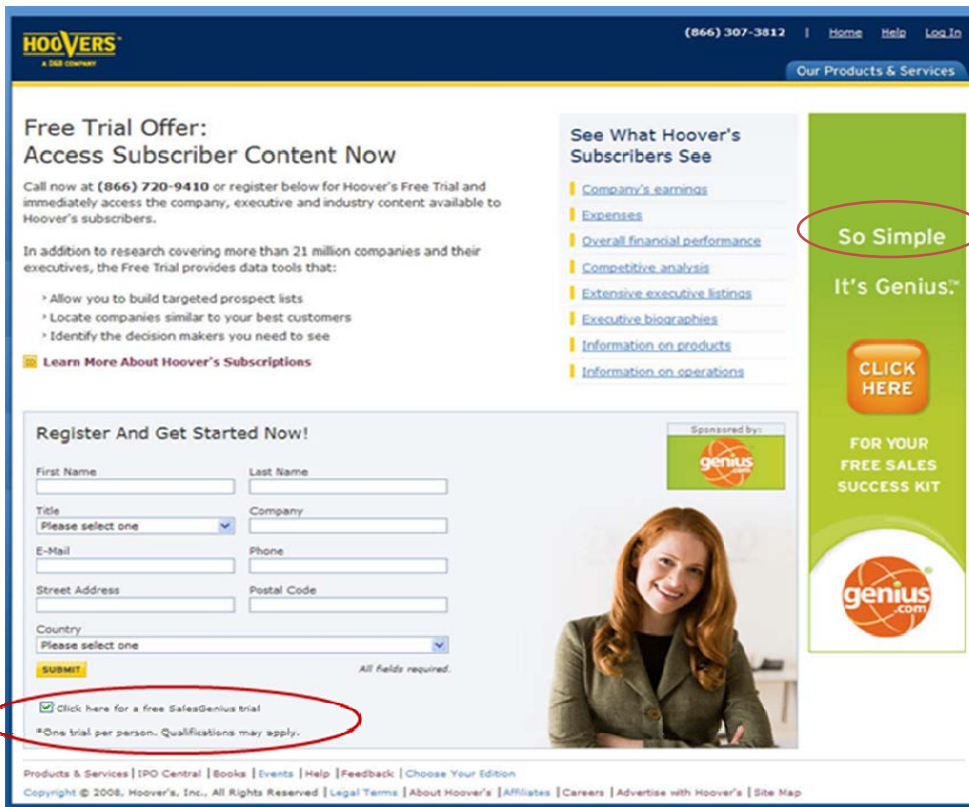


Manufacturing and wholesale business are among the least optimistic of all small business verticals, due in no small part to the heavy burden energy costs and inflation place on their businesses. The planned spend in these two groups, as well as retail, accommodation, and food service industries, make them attractive targets for sales-based messages. Keep in mind,



however, that sustained revenue, and in many cases survival, is the main motivation, not high growth.

Genius.com is a great example of how to not only execute the aforementioned sales driver positioning, but also partner with another provider in the small business owner's sales process. Genius.com's core offering is a web-based lead management and sales tracking tool that helps businesses better track and manage their leads through the marketing and sales lifecycles. Their approach to this trend was to partner with Hoovers, a major provider of business lists and lead information. By integrating its free trial within Hoover's free subscriber registration form, the company communicated its intention to help small businesses acquire new leads and better manage them to produce closed deals.



- Integration at point of customer registration conveyed a strong sense of integration and partnership – joint value proposition
- Positioning on simplicity rather than growth
- Dramatically better performance than traditional banner advertising – improved cost per lead with 80% increase in efficiency
- Improvement in total number of high-quality leads

### RECOMMENDATION #3: INTERCEPT SMALL BUSINESSES LOOKING FOR GOVERNMENT CONTRACTS TO DRIVE SALES GROWTH

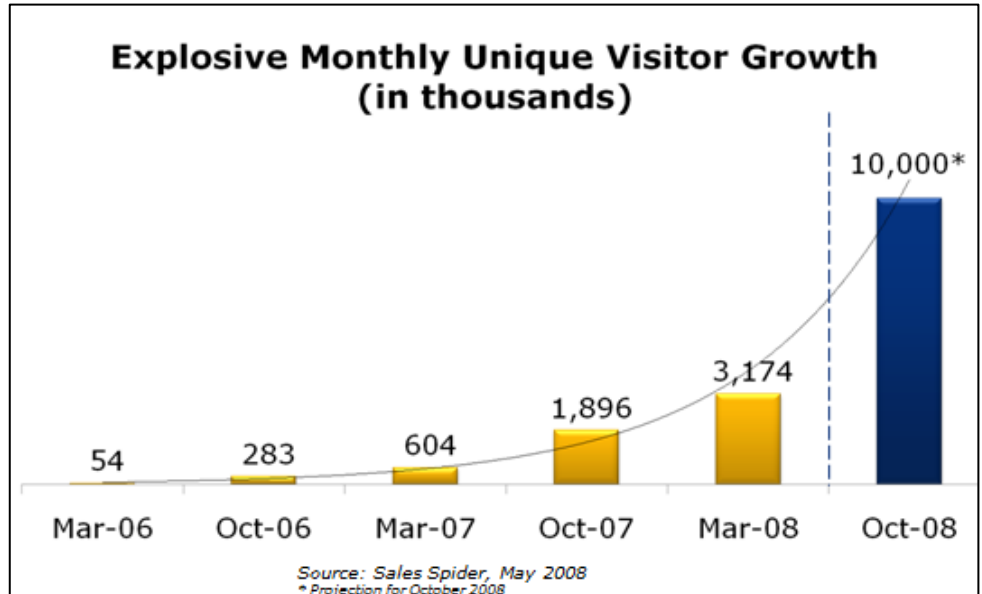
Small business owners are seeking public contracts that are less susceptible to negative economic impacts in an effort to develop more stable revenue sources. Since public contracts are generally less discretionary in nature, the perception is that they are a better bet over the long haul. There is ample evidence that demand is growing for public contracts in the small business sector. Sales Spider, a lead generation company that helps small businesses find



government contracts, has tracked dramatic growth in unique visitors to its website, a trend that has been fueled, at least in part, by recent economic conditions.

This movement toward local, state, and federal contracts as a revenue stream creates a new aggregation point through which marketers can reach small businesses. Publications and websites that post open public sector contracts, as well as those advising small businesses on the nuances of bidding and operation with government agencies, such as SCORE.org,

represent prime advertising opportunities. For example, Sales Spider offers significant homepage space for small-business-specific banner advertising. If you're considering banner advertising, ensure your ad leads with strong engagement-based messaging that offers a strong incentive to click through.



- Enterprise advertisers' messages have evolved from "awareness raising" to "targeted, engagement-based messaging" resulting in faster conversions
- "Free trials" and "discounts" have proven to be increasingly effective in the past 12 months
- Average click-throughs are up 30%–50% from one year ago
- Conversions (click-throughs to sale) are up by more than 100%



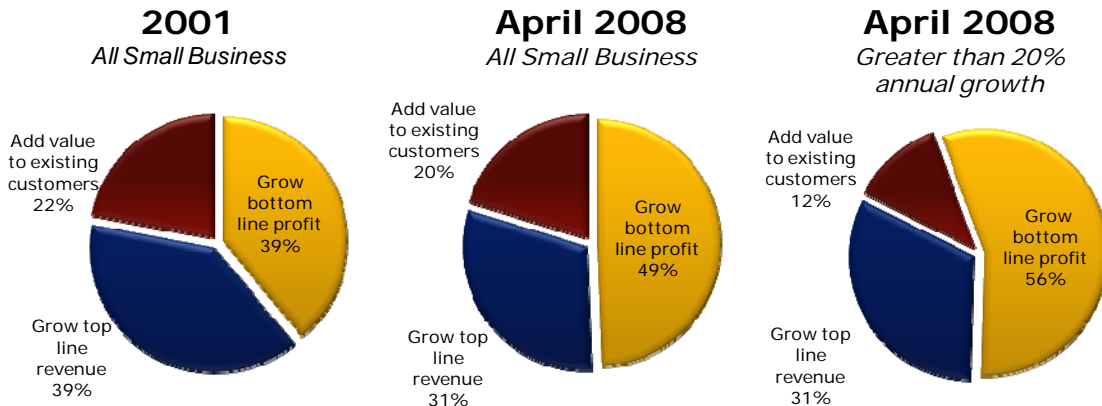
# Small Business Messaging and Product Leads in a Downturn Economy

The economic realities and pressures of the last twelve months have created a significant change in small business owners' attitudes and behaviors. These shifts need to be acknowledged in the messaging and offer choices made by enterprise marketers to achieve the greatest resonance with and response from small business owners. From an attitude perspective, economic stress is driving a resurgence of profit vs. revenue in the small business owner's mind. This resurgence should be reflected in messaging to small business owners that is more balanced between bottom-line factors such as cost, productivity and efficiency vs. the growth-centric messaging of the past. Small business owners' greater focus on profit is also driving two key behaviors: an increased likelihood to switch providers and a decreased interest in making large capital investments. Marketers and sales organizations will need to respond to these behaviors by altering product options for existing customers and shifting to smaller "a la carte" products for new customers.

## RECOMMENDATION #5: BRING BACK THE BOTTOM LINE

Growth has been the primary, and exceedingly effective, selling point for small businesses through the economic boom of the last few years, and small businesses are still highly focused on their ability to acquire new customers. The uncertainty in the broader economy is beginning to mute the drive for growth, and business owners are shifting more emphasis toward the profitability of their businesses. Fifty percent of small business report their primary focus is the bottom line this year, up 10 points from a pre-downturn 2001 reading. Despite a strong revenue trajectory, high-growth businesses (business with greater than 20% annual revenue growth) are even more profit-oriented than the average business, with 56% reporting a profit orientation for the coming year.

*"Thinking of the year ahead, select one of the following statements that best describes your goals for the year ahead"*

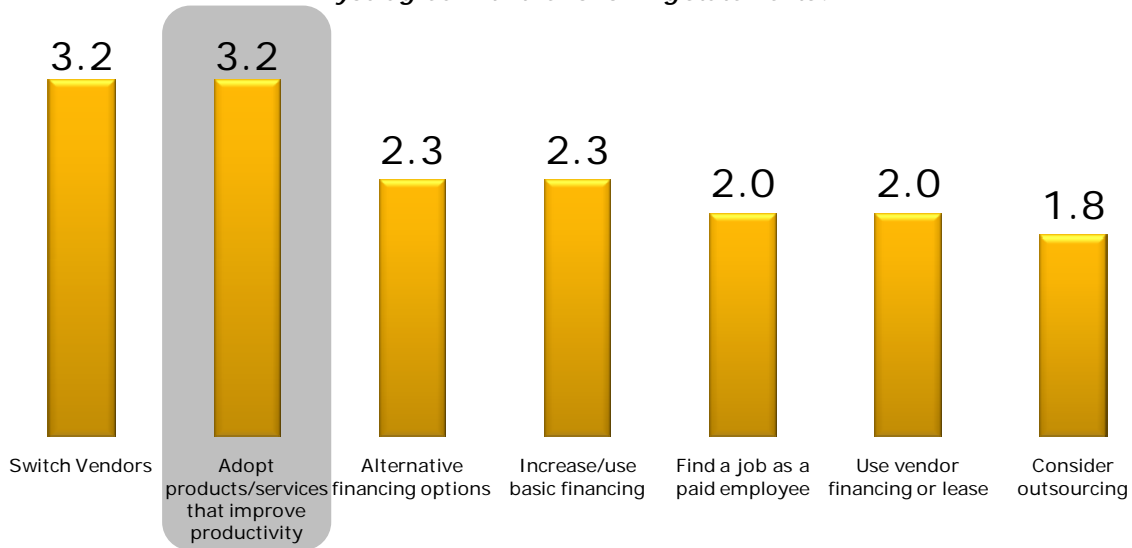


Source: Warrillow & Co., S/S 2008, n=2036



Lead generation and sales growth are still key messages in the small business market, but need to be balanced more with bottom-line-oriented messages. For example, adopting a product or service that improves productivity was one of the top two reactions reported by small business owners to an economic downturn.

*“Thinking of a period of economic downturn (such as recession), on a scale from 1 to 5, where 1 means “do not at all agree” and 5 means “agree completely”, to what degree do you agree with the following statements?”*



Source: Warrillow & Co., S/S 2008, n=2036



Drive a more even mix of cost- and growth-based messaging in the next 12 months of campaigns, reintroducing the bottom-line advantages of your products and services.

A Hewlett Packard flash advertisement currently running on Entrepreneur.com captures the essence of the recommendation. There are a multitude of options to position the benefits of the given color printer for a small business owner, but invoking the common quality vs. cost trade-off is an excellent way to appeal to both aspirations for growth – via the need to keep a high-quality business reputation and the economic pressures of today – not just cost, but *cutting* costs.



Sprint ahead

Ever wish there were more of you?

Sprint ahead P.O. Box 7969 Shawnee Mission, KS 66207-0867

Multi-task like there are six of you. And get savings for all of you.

The new Palm® Centro™. Only \$99.99. After \$25 paid-in-month. Requires new activation and 2-year agreement. See details inside. Exclusively from Sprint.

For Business Customer:  
Sample A. Sample  
1234 Sample Street  
Sampletown, USA, 12345

Sprint was smart about how telecommunications and mobile productivity solutions could support small businesses in a down economy. Their choice of the Centro smart phone with voice, text, email, IM and mobile broadband web surfing was a smart play – it appeals to business owners’ need to do more with less in this environment, with clever cloning advertisements.

- Centro mobile device enables small businesses to increase multitasking capability, leading to better productivity
- Capabilities: voice, text, email, IM, and web drive owners’ need for productivity

- Campaign resulted in the Centro becoming Sprint’s #1 selling smart phone from October 2007 to April 2008

### PITFALL: OUTSOURCE AND SMALL BUSINESS OWNERS

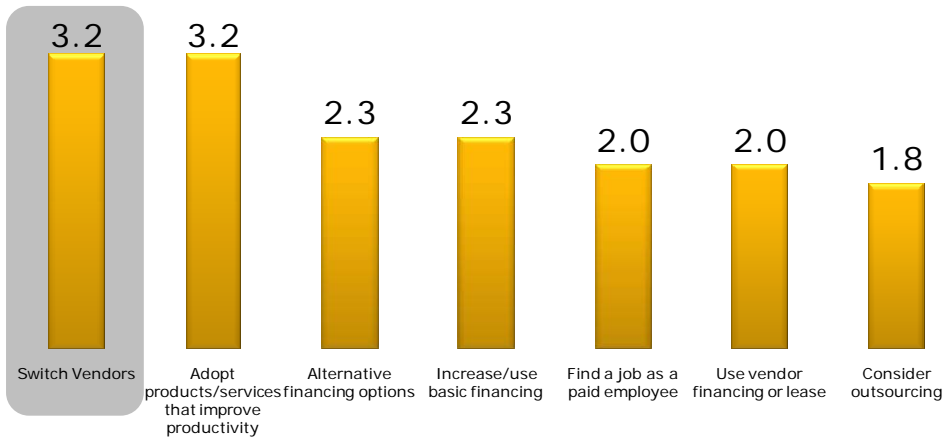
In most corporations, outsourcing is a logical choice to cut costs either in periods of economic stress or in areas where the company does not see competitive advantage. This is not the case for most small business owners. Despite the financial pressure exerted by the current economy, small business owners ranked outsourcing as the least likely action they would consider using<sup>1</sup>. As you reinstate cost consciousness into your marketing plans, steer clear of positioning yourself as a value-added outsourcer lest your message fall on deaf ears.

<sup>1</sup> See Bar Graph on page 12

## RECOMMENDATION #6: RIGHT-SIZE YOUR EXISTING CUSTOMERS' PRODUCTS

Small business owners take a hard look at existing relationships during downturn economies, reporting switching vendors as one of the top two actions they would consider as a response to pressure.

*"Thinking of a period of economic downturn (such as recession), on a scale from 1 to 5, where 1 means "do not at all agree" and 5 means "agree completely", to what degree do you agree with the following statements?"*



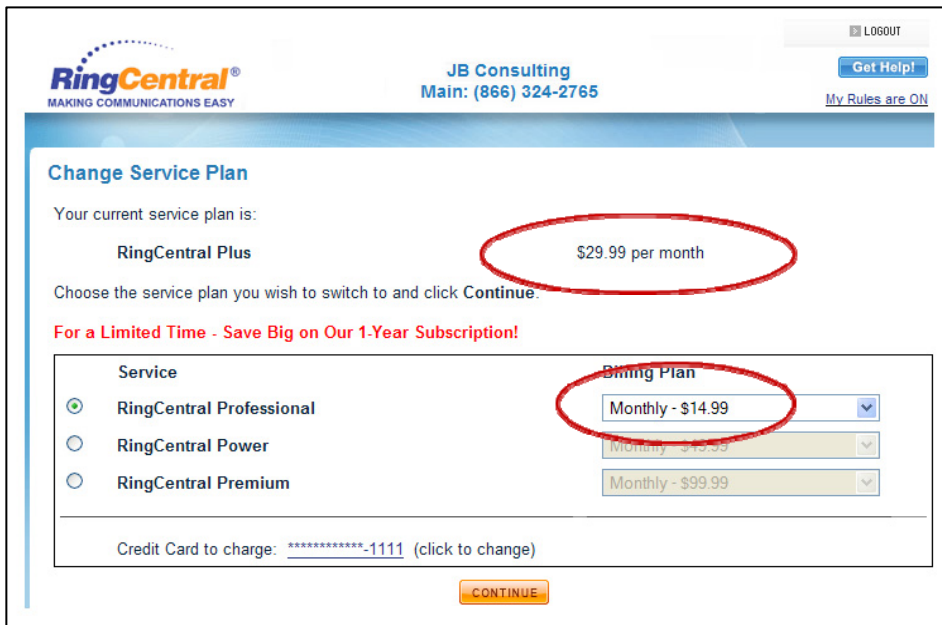
### IN THEIR OWN WORDS

"We use these times to re-evaluate and re-group our business when we might not otherwise... we get our systems in place so they are running smoothly for the good times."

– Steve Stein, Owner, Stein Service & Supply, 14 employees, Charlotte, NC

Source: Warrillow & Co., S/S 2008, n=2036, small business with less than 100 employees

To combat potential attrition and steal share from your competitors, enable current and potential small business customers to ramp up or down the components of their existing service without penalties for the change. Combine data from your in-house attrition models with usage statistics, and consider proactively targeting customers with clear product misalignments. While you may absorb small short-term decreases in revenue, you will create a proactive defense against competitors and position yourself as a partner, rather than a vendor, to your customers.



The screenshot shows the RingCentral self-service portal for user JB Consulting. The current service plan is RingCentral Plus at \$29.99 per month. The user is prompted to choose a new service plan from three options: RingCentral Professional (\$14.99), RingCentral Power (\$49.99), and RingCentral Premium (\$99.99). The RingCentral Professional option is selected. A credit card ending in 1111 is listed for charging. A 'CONTINUE' button is visible at the bottom.

Ring Central, a provider of outsourced telecommunications services, provides self-service tools that let business owners change service levels seamlessly and with no penalties. This builds strong goodwill, and sends the message that the vendor is committed to a long-term relationship with expected peaks and valleys.

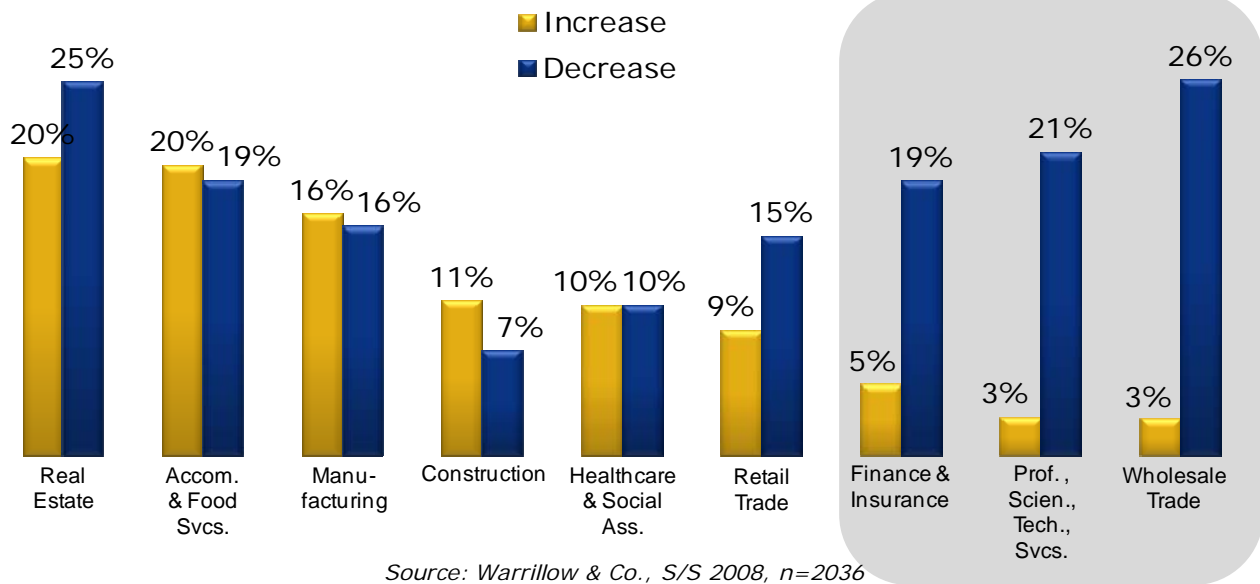
- Recently logged highest single day of new account activations



**RECOMMENDATION #7: SHIFT TO A LA CARTE AND EXTENDED LIFE POSITIONING**

The majority of small business segments intend to decrease major capital expenditures when the threat of economic decline looms. On average, small businesses with plans for declining capital expenditure outnumber those with increased spending intentions by nearly two to one. At an industry level, we see a more stark separation, with financial, insurance, professional service, and wholesale-related small businesses showing significant skews toward decreased capital investments.

**Projected Expenditure on Capital Investments**



Address this changing behavior by shifting your advertising product mix toward lower-cost components as well as highlight service packages or add-ons than can extend the life of costly systems or equipment. These secondary items generally carry a higher margin, and the increased sales rate and profit will offset short term inventory cost of larger products. Focus in on regularly scheduled maintenance calls and warranty expirations as key triggers for your sales staff or direct marketing engine.



# Maximizing Customer Touch points in a Downturn Economy

Customer service is a key satisfaction driver after the sale for small business owners. While a downturn economy does not change this fact, it does heighten the importance of a subset of small business owner needs and creates new opportunities for marketers to drive loyalty and advocacy. Business owners need for control is hyperactive in worsening economic conditions. They tend to pull operations in house and take on a much strong role in monitoring and decision making throughout their business. This transition of the owner back into the day-to-day operations of their company creates both a heightened need for self service solutions and an opportunity for your customer service organization to solve broader problems that just the issue at hand for the business owner.

| Small Business Owner   | Response: Need for Control   |
|--|--|
| <b>Phil Tapia, Owner, The Squad, 6 employees, Seattle, WA</b>    | <ul style="list-style-type: none"> <li>▪ <i>"I stopped using automated payroll services and automated bill pay systems. I need to roll up my sleeves and do everything manually so I can have more control over the cash flow in &amp; out. I typically will exercise small lines of credit or personal loans to the company to keep things operational - while pushing clients to pay their bills is not too far behind. I tighten everything down basically."</i></li> </ul> |
| <b>Jeff Kroft, Owner, Woolen Wear, 12 employees, Chicago, IL</b> | <ul style="list-style-type: none"> <li>▪ <i>"We bring more of our operations 'in-house'"</i></li> </ul>  |

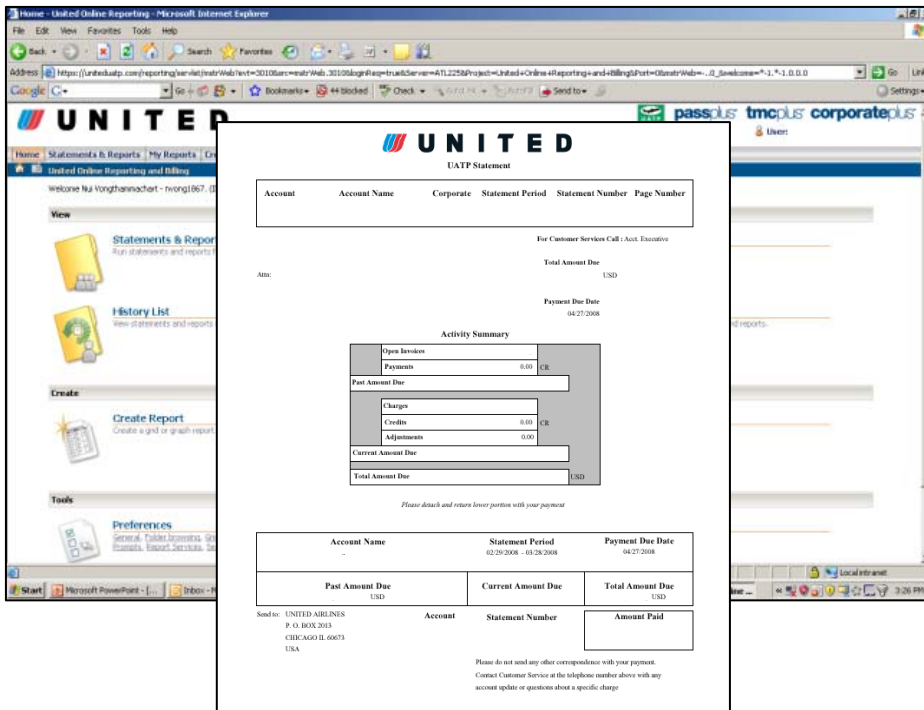
## RECOMMENDATION #8: BOOST SELF-SERVICE CAPABILITIES TO HELP SMALL BUSINESSES IMPROVE CONTROL

As an enterprise marketer, the more you can position your product or service as a means to exercise control, the more likely small business owners will be adopt it during an economic downturn. Self-service capabilities tap into business owners' need to make unmediated decisions that are immediate and that lead to short-term positive benefits. Business owners don't want to spend time navigating IVR systems, or initiating customer support requests.

United Airlines recognized that small business owners want control in any economy, but saw demand increase for their PassPlus program during recent months. The product features an extensive range of self-service tools that help small businesses better plan their spending on

corporate travel and keeps them proactively informed of exceeded thresholds and potential cost overruns.

- Minimum \$25K investment qualifies small businesses for discounts



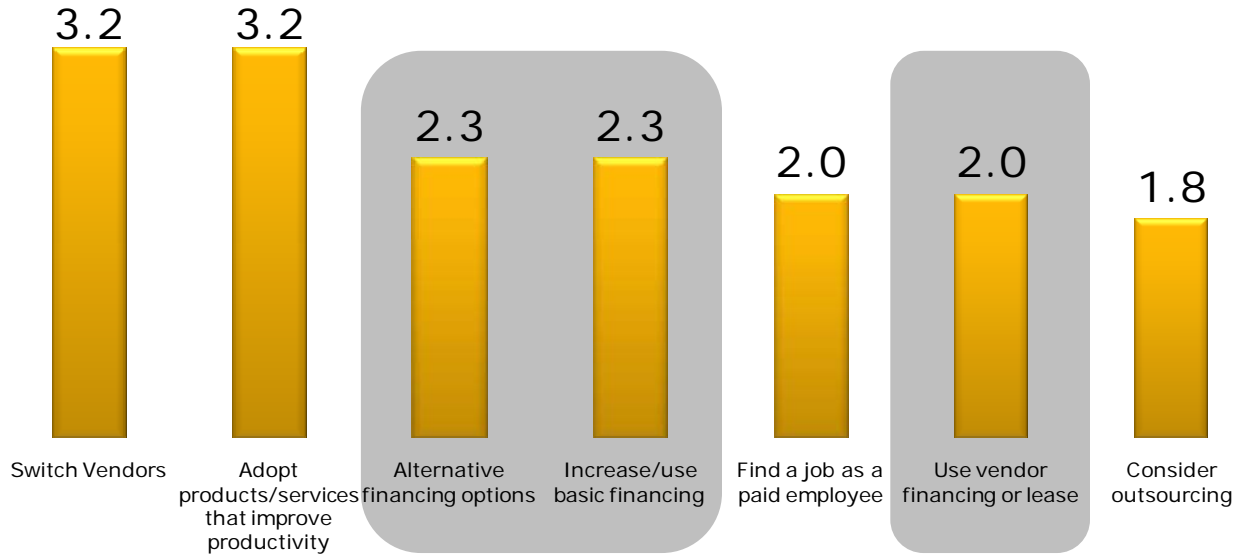
- Robust self-service reporting tools, including spending threshold limits – small businesses can't spend more than what's in their account
- Self-service model helps small businesses avoid using third party travel management services
- Program re-launched in 2007 – 50% increase in PassPlus sales

## RECOMMENDATION #9: HELP SMALL BUSINESSES OPTIMIZE CASH FLOW

Small business owners' need for control is also expressed in their attitude toward cash flow management. While alternative financing options might seem like a way to better control costs and amortize expenses over a longer period of time, for business owners it represents a potential loss of control. Instead, these business owners like to ensure positive cash balances and closely scrutinize their payables and receivables. Many adopt more stringent payment policies, eliminating "Net 30 Days" payment policies in favor of "Due Upon Receipt". In some cases, services are only rendered with payment received in advance. While this doesn't necessarily build strong customer goodwill, the need for self-preservation invariably wins out as business owners make short-term changes to improve cash flow.



*"Thinking of a period of economic downturn (such as recession), on a scale from 1 to 5, where 1 means "do not at all agree" and 5 means "agree completely", to what degree do you agree with the following statements?"*



Source: Warrillow & Co., S/S 2008, n=2036, small business with less than 100 employees

As small businesses seek to tighten cash flow controls, your enterprise can choose to be part of the problem or part of the solution. While small business owners can be reluctant to accept advice, an awareness of their day-to-day cash management issues helps your front-line representatives better understand their pressures and goals. Consider training your sales and front-line service employees on the subject of cash flow management – this will enable them to have informed conversations with their small business targets, and better match service offerings with small business objectives.



FedEx offers a cash flow training program for its account executives, enabling them to understand critical small business operational issues and recommend strategies for dealing with cash flow management.



## Conclusion

Though the jury may still be out on the severity and duration of the current economic downturn, it's vital for enterprise companies to understand small business perceptions about potential impacts, and how their attitudes and behaviors are changing. By tailoring programs, product offerings, service levels and customer management strategies to unique small business needs, enterprise marketers have a strong opportunity to build new credibility and long-term loyalty with business owners.

Enterprises are experimenting with economy-themed campaigns, and enhancing their standard range of products and services to appeal to the challenges small business owners face in troubled times. Warrillow has identified several cases where enterprises have benefited from a "win-win" scenario. Doing the right thing by small business owners – understanding their needs and responding to them with timely, relevant offers – can only have a positive outcome under any economic circumstances.

In a downturn, the stakes – and the rewards – are elevated. Be responsive and agile when implementing economy-led tactics and you'll capitalize on a strong opportunity to redefine your approach to small business customer acquisition and retention.