



Marketing in a Challenging Economy Report

(Frantz Group, December 2008)

EXECUTIVE SUMMARY

During November and December of 2008, Frantz Group conducted a market research project targeting senior marketing management in the information technology industry. We want to thank the 51 participants representing 44 technology companies for their frank and thoughtful responses. While there were many interesting findings, the following are key takeaways:

- What's been the impact of the challenging economy?
 - 57% are seeing flat or increases in demand for their products/services
 - 43% are seeing flat or increases in their marketing budget
 - It seems to be too early to assess the impact on sales cycle times. We do know the worst increase reported was only 25%.
- How is the change in demand showing up?
 - Decreases in demand are showing up mainly in direct mail and live events
 - Increases in demand are showing up mainly in web events and telemarketing
- One marketing tactic, **nurturing**, showed up as a solution to several marketing challenges. Here is the state of nurturing programs across the companies surveyed:
 - 39% have a nurturing program but it needs improvement
 - 18% don't have a nurturing program
 - Only 2% see no value in nurturing
 - 22% rely on sales to do their nurturing
- What's being done to address the change in demand?
 - Try new tactics – **nurturing**, multi-touch marketing campaigns, new content
 - Change messaging – focus on reducing costs, generating ROI
 - Better coverage – more campaigns, expand the reach of campaigns
 - High ROI marketing – target existing customers, measure campaign performance
 - Reduce costs – do more online, fewer live events, increase lead quality to avoid wasted sales activities
- What's being done to combat lengthening sales cycles?
 - Incentives (price cuts, bundling, financing) with time limits
 - **Nurturing** (more communication and interaction) to catch prospects at right time in buying cycle
 - New messaging that emphasizes the longer the prospect waits, the more it costs them
 - More focus – target existing customers, target most appropriate products
 - Many are not sure what to do or undecided as to whether any action is warranted yet
- Despite the challenging economy, there is no shortage of marketing opportunities:
 - Find new opportunities with current customers – maintenance, service, cross-sell
 - Align with the economy – messaging, product focus, tactics
 - Expand reach – new industries, new markets (international)
 - More customer and prospect interaction – **nurturing**, personalized communications
 - Do more online marketing – email, SEO/SEM, online ads, etc.

If you have any questions or comments, contact Ken Heun (kenh@thefrantzgroup.com or 262-204-6021).



PROJECT OVERVIEW & METHODOLOGY

This market research project had these specific objectives:

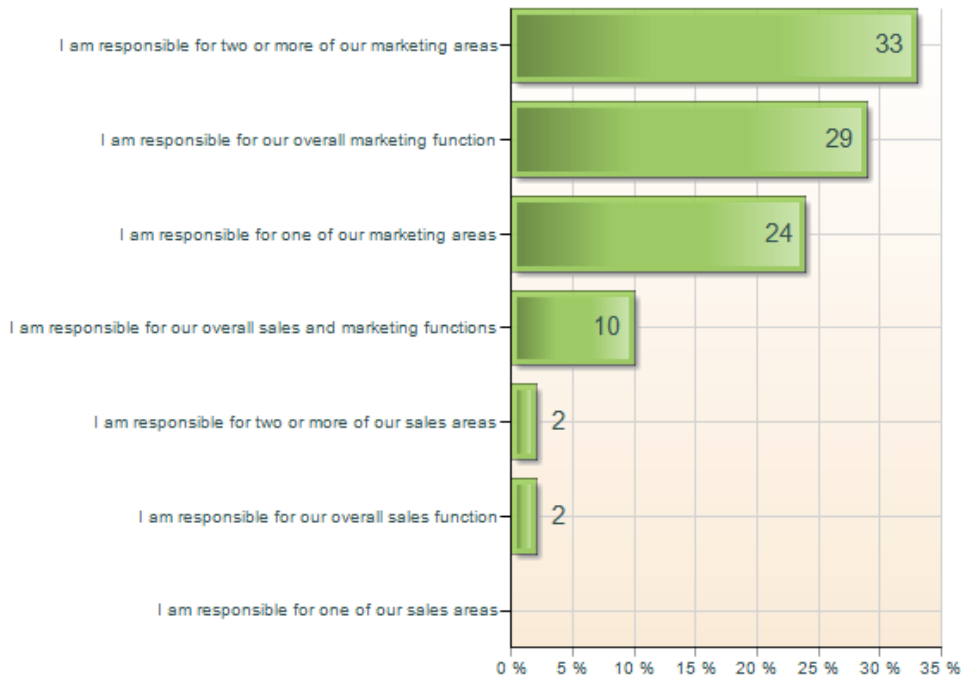
- To assess the impact of the economy on marketing departments at technology companies
- To gain insight into how marketing is working to overcome it

The research was conducted via an online survey that was divided into two parts. The first 3 questions are focused on collecting basic information so that we could qualify participants:

1. Contact Information
2. Select the statement which best describes your primary marketing or sales responsibility
3. What is your company's primary business

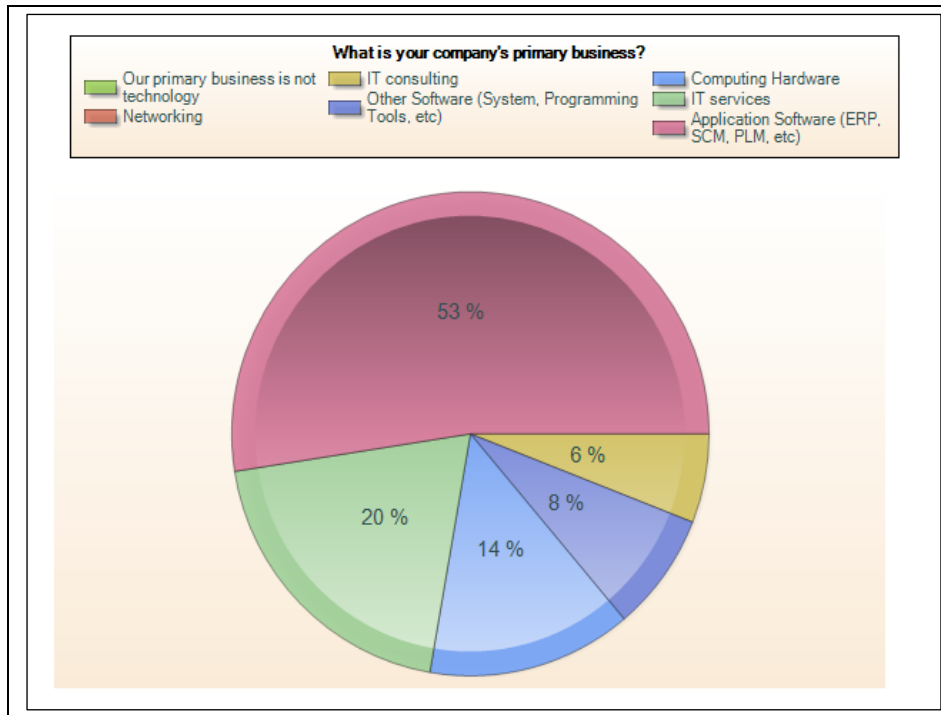
We targeted senior marketing and sales executives from technology companies. From the chart below, you can see that 39% of participants were responsible for their overall marketing function, with another 33% responsible for 2 or more areas. We wanted executives who had insight into the tradeoffs between the various marketing functions.

Select the statement which best describes your primary marketing or sales responsibility.





And we screened out all companies whose primary business was not technology. From the chart below you can see that application software companies and IT services companies made up nearly 75% of those participating.



The remaining 21 questions are summarized below:

4. What is your company's annual revenue?
5. How has the economic down turn affected demand for your products/services?
6. What would you estimate is the change in demand for your products/services?
7. Which lead sources show a change in demand that seems to be linked to the economy?
8. What are you doing/planning to do to address the change in demand?
9. What is the impact of the poor economy on your marketing spending?
10. When does the change in spending start?
11. How large is the change in marketing spending?
12. Have your marketing goals/numbers been adjusted to reflect the change in spending?
13. How has the poor economy impacted your sales cycle time?
14. What would you estimate is the change in your sales cycle relative to your normal time?
15. If your sales cycle is getting longer, what are you doing/planning to do to shorten it?
16. What is your opinion about the current economic down turn? (check all that apply)
17. What marketing opportunities do you see now for your company?
18. What changes are you making or planning to make regarding your marketing mix?
19. Do you expect to reduce your permanent marketing headcount?
20. Do the poor economy, and its associated risk, make outsourcing more attractive to you?
21. In which areas might you outsource or increase outsourcing? (Check all that apply.)



22. A referral program includes all the actions a company takes to encourage its customers, partners and competitors to generate business opportunities for it - check all that apply.
23. By lead nurturing, we mean all the actions a company takes to gradually move unqualified leads through the marketing pipeline and into the sales pipeline. Regarding lead nurturing (check all that apply)
24. Any final thoughts regarding marketing in a down cycle? (new priorities, new tactics, etc)

The information was collected beginning November 10, 2008 with the last accepted response dated December 5, 2008. The primary marketing tactic was email. We sent out a total of 3481 emails net of bounces, to prospects as well as customers. We did it in three batches, removing responders and opt-outs from each successive email. *And just prior to the second email, we sent out a voice broadcast to introduce and alert prospects to the coming email.*

For the prospects portion of the campaign, which amounted to 82% of the total, we saw an open rate of nearly 16% which is better than average. The click through rate, also as a percent of net emails, was a solid 2.9%. The rates were higher for customers as you would expect.

Here are the pertinent statistics regarding participation:

- 117 visits
- 66 responses
- 11 partially completed surveys
- 4 responses were screened out
- 51 qualified surveys
- 44 different companies

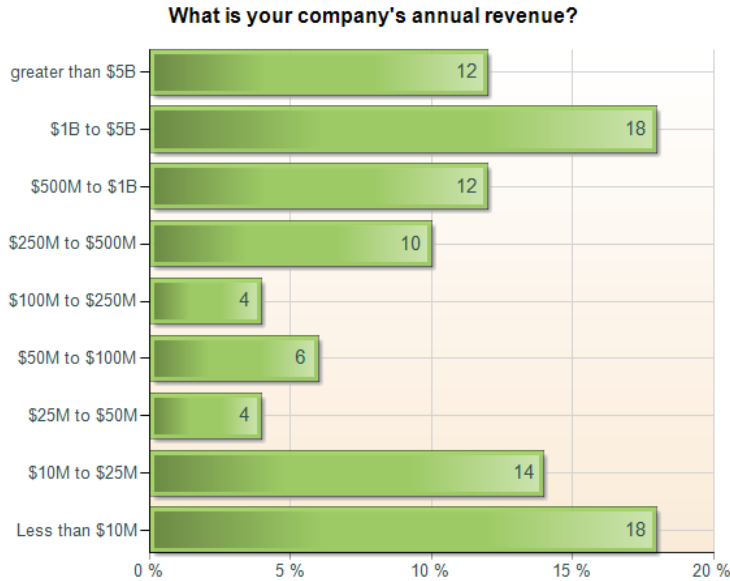
Participants were offered two incentives – a copy of the final report and a gift box of award winning Wisconsin cheese and sausage.



SUMMARY OF SURVEY QUESTIONS

Question 4: What is your company's approximate annual revenue?

From the chart below, you can see that participants were pretty evenly split across three segments – large enterprise (\$1B and up), mid-market (\$50M to \$1B) and small business (less than \$50M).

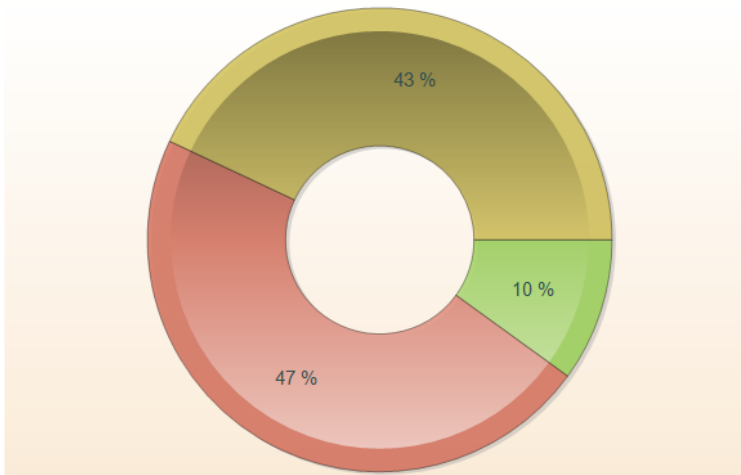


Question 5: How has the economic down turn affected demand for your products/services?

57% are seeing flat or increasing demand for their products.

How has the economic down turn affected demand for your products/services?

- Increase in demand for our products/services
- No impact measured as yet
- Decrease in demand for our products/services



Question 6: What would you estimate is the change in demand for your products/services?

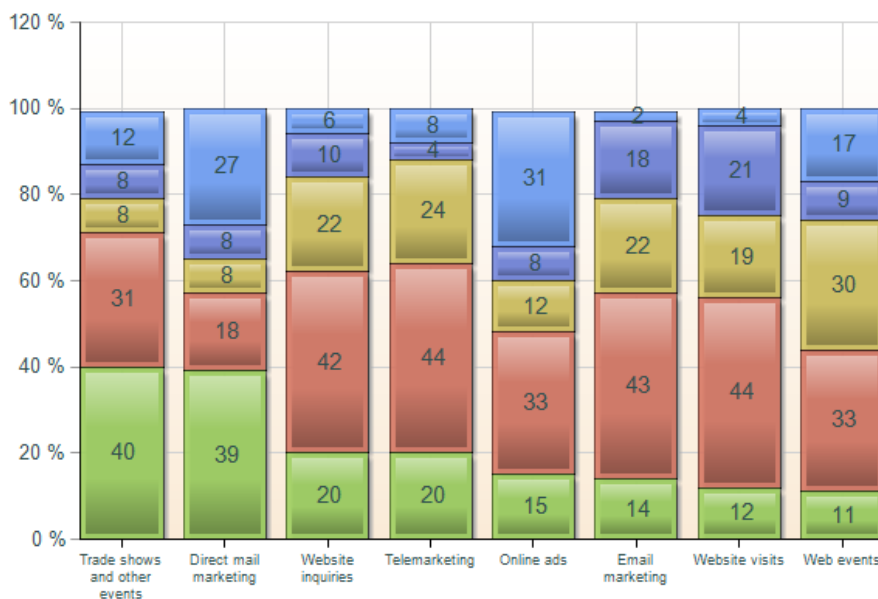
From the table below, you can see that most of the change in demand is in 5% to 10%.

| | |
|------------------------|-----|
| No change in demand | 38% |
| Down about 5% | 14% |
| Down about 10% | 16% |
| Down about 15% | 6% |
| Down about 20% | 2% |
| Down about 25% | 4% |
| Down about 50% or more | 2% |
| Up about 5% | 10% |
| Up about 10% | 8% |
| Up about 15% | 0% |
| Up about 20% or more | 0% |

Question 7: Which lead sources show a change in demand that seems to be linked to the economy?

The tactics showing the biggest increase in demand are web events and telemarketing. The tactics showing the biggest reduction in demand are direct mail and events.

Which of the following lead sources are showing a change in demand that seems to be linked to the poor economy?





Question 8: What are you doing/planning to do to address the change in demand?

There are many ideas suggested in the tables below. There are some clear themes:

- Reduce costs – do more online, fewer live events, increase lead quality to avoid wasted sales activities
- Try new tactics – nurturing, multi-touch marketing campaigns, new content
- Change messaging – focus on reducing costs, generating ROI
- Better coverage – more campaigns, expand the reach of campaigns
- High ROI marketing – target existing customers, measure campaign performance

| From participants seeing an INCREASE in demand |
|---|
| Added 2 sales people, additional trade show activity, increased pr activity, increased data base marketing activity. |
| Expanding geographic reach, improving follow up and lead nurturing, expanding product and service offerings. |
| Working with the Frantz Group. |
| Being creative in how/where I spend. |
| Welcome it |
| Just now putting together plans for 2nd half of the year, which may include more telemarketing for contact build/contact verification, and event recruitment. |
| We inspire a shared vision with all of our employees first and foremost. From a true business perspective, we have listened to our clients. We specialize in the fusion of business and technology. Our team is trained to look at the entire business, and design technology solutions specifically suited to that business's needs. We accelerate business productivity and enhance client satisfaction through a dedicated focus on our clients and through our customized technology solutions such as consulting and management services, project management, manufacturer-certified training, carrier services, telephony, equipment procurement and local and wide area network implementation. Our multimedia division offers innovative and interactive multimedia designs to enhance solution functionality and visibility. Our affiliations allow us to service companies locally and internationally. |
| Cut ad spending, invest in updated marketing lists. Cut some big industry '09 trade shows in favor of smaller, regionally-focused events with business partners. Possibly add another marketing specialist to execute more cold calls to go with our increased email marketing. |
| Actually looking at multiple touch campaigns involving email, tele, mail and events |

| From participants seeing NO CHANGE in demand |
|---|
| Tweaking our messaging to address current concerns more directly. |
| Be more disciplined in our approach |
| Developing nurturing campaigns |
| Shift to more online tools |
| Alter messaging based on current economic conditions; alter product pricing and packaging potentially for the short-term; offer product with immediate impact |
| Increase our marketing campaigns as we enter into 2009. |
| Streamline and be more efficient with our marketing activities. |



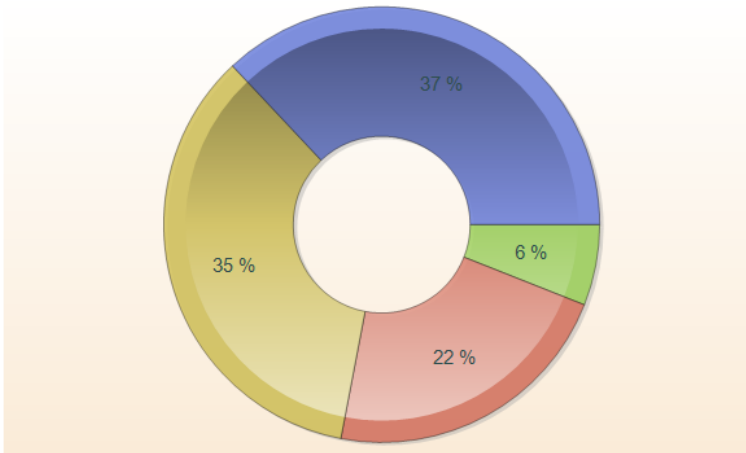
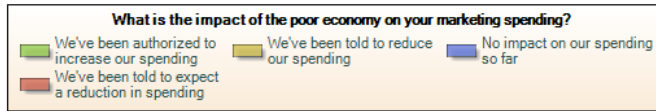
| From participants seeing NO CHANGE in demand |
|---|
| We're focusing on messaging that shows the potential for cost reduction for our customers |
| Change offers to focus more on value from what the customer already has with additional training, add on products and services through creating a dialogue via email/telemarketing. |
| Direct Mail campaigns are being evaluated |
| More online initiatives, more direct marketing initiatives, less space advertising in trades. |
| More active outreach, tightly targeted calls, website redesign, whitepapers |
| Changing content of emails and events to help companies figure out how to manage their business during tight economic times. |

| From participants seeing a DECREASE in demand |
|---|
| Decreasing the number of trade shows we participate in. Making sure that any leads/prospects are well qualified before engaging SMEs or making face-to-face visits |
| More strategic and targeted tactics. customer marketing |
| Innovate and do more with less. Focus on current customers yet continue prospecting marketing efforts via Web 1.0 and continue to try web 2.0 methods. Better utilize KPI's/KPM's and further define NOC's with intense sourcing research. Continue to utilize our Corporate WebEx Tools/Subscription. Quantify sales resources in general. |
| Increasing telemarketing and better email lead nurturing |
| We have reduced headcount by 5% and reduced marketing program budgets by 5% |
| Currently riding it out and researching additional lead generation opportunities |
| More interactive web content |
| Researching new tactics and increasing efforts to create integrated campaigns |
| Re-evaluate marketing strategy by looking at trends in individual industries. Creating a much more targeted message to potential business clients. |
| We have launched a new sales discovery process - for one example. We are focusing on web advertising for cost and effectiveness. |
| More PR, advertising |
| We are doing more virtual events and telemarketing vs. physical events. |
| Reaching out to more prospects |
| Reviewing reach/frequency to determine a short term marketing effectiveness plan |
| Becoming more surgical in the targeting of opportunities |
| Re-ordering the marketing mix |
| More targeted campaigns with nurture activities |
| Development of more online content; online feeds from tradeshow to non-attendees; less print advertising, more online due to budget constraints |
| Focus on a "back to basics" approach. More budget for simple, measurable, cost-effective programs such as SEO, online ads. Less focus on telemarketing, events. |



Question 9: What is the impact of the poor economy on your marketing spending?

43% are holding steady or seeing an increase in their marketing spending. 57% said they have seen a reduction or have been told to expect a reduction. This is better than we expected.



Question 10: When does the change in spending start?

Of those planning a change in spending, 60% are already in place with nearly all of the remaining expected to be in place in January.

| | |
|-------------------|-----|
| Already in place | 62% |
| December 2008 | 6% |
| January 2009 | 29% |
| Post January 2009 | 3% |



Question 11: How large is the change in marketing spending?

Those seeing no change, an increase or a 5% or less decrease make up the majority, totaling 58%.

| | |
|----------------------------|-----|
| No change | 37% |
| Reduction of about 5% | 15% |
| Reduction of about 10% | 24% |
| Reduction of about 20% | 8% |
| Reduction of more than 20% | 10% |
| Increase of about 5% | 0% |
| Increase of about 10% | 4% |
| Increase of about 20% | 2% |
| Increase of more than 20% | 0% |

Question 12: Have your marketing goals/numbers been adjusted to reflect the change in spending?

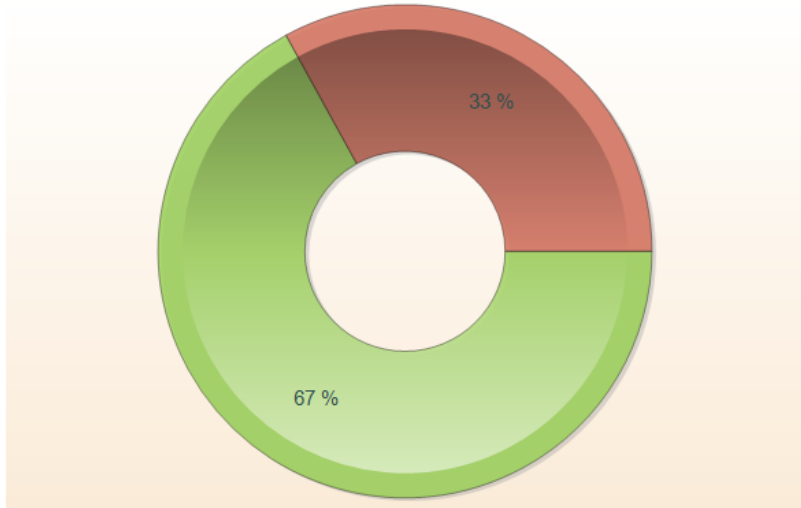
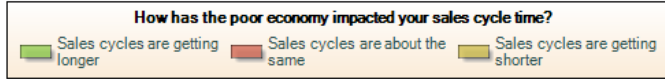
Of those with a change in marketing spending, 64% said that their goals had not been adjusted to reflect the change in spending. We asked them to elaborate as needed.

| |
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| Yes--we expect less inbound leads because of reduced spending. However, our sales targets remain unchanged. |
| Do more with less. Roles and Responsibilities are changing while staff reduction has occurred. Be more innovative with web technologies and resources. |
| We have been asked to eliminate our marketing campaign activities until after the holidays. |
| If we add resources to the marketing dept. expectations for new demand generation likewise increase by the same approx. 20%. |
| Marketing budget has decrease but the expectation is still to produce the same number of leads. |
| Not yet, but they will be for the second half of year starting in December. |
| Marketing is a cost-center--any budget cut goes to the bottom line--sales still needs to hit their numbers regardless |
| Do more with less. |
| Everything is still in the planning stage. No change until then |



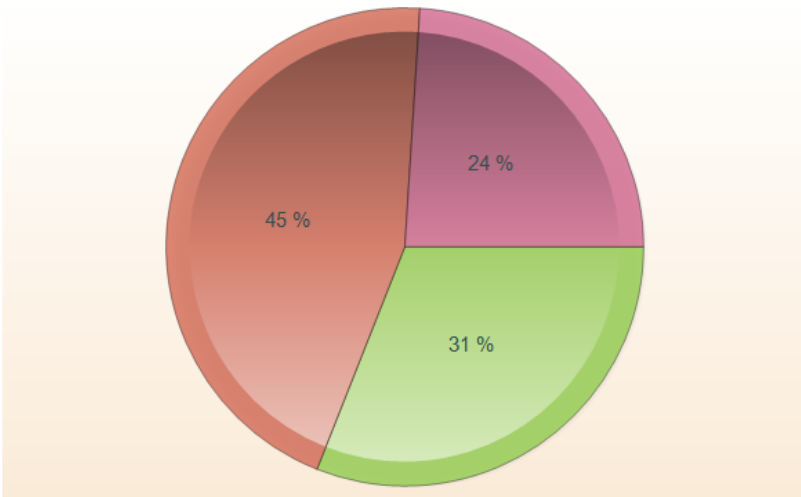
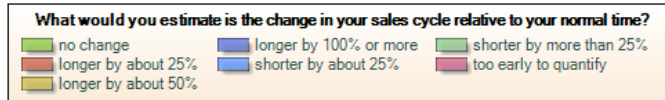
Question 13: How has the poor economy impacted your sales cycle time?

Two thirds say their sales cycles have increased.



Question 14: What would you estimate is the change in your sales cycle relative to your normal time?

The only sales cycle time change reported was an increase by about 25%, and only 45% of the respondents reported this increase. This response conflicts with the response from question 13. We can't explain this discrepancy with certainty, but speculate it is a result of being too early to accurately assess the impact on sales cycle times.





Question 15: If your sales cycle is getting longer, what are you doing/planning to do to shorten it?

From the table below, you can see a range of actions to convince prospects to act:

- Incentives (price cuts, bundling, financing) with time limits.
- Nurturing (more communication and interaction) to catch prospects at right time in buying cycle
- New messaging that emphasizes the longer the prospect waits, the more it costs them.
- More focus – target existing customers, target most appropriate products
- Many are not sure what to do or undecided as to whether any action is warranted yet.

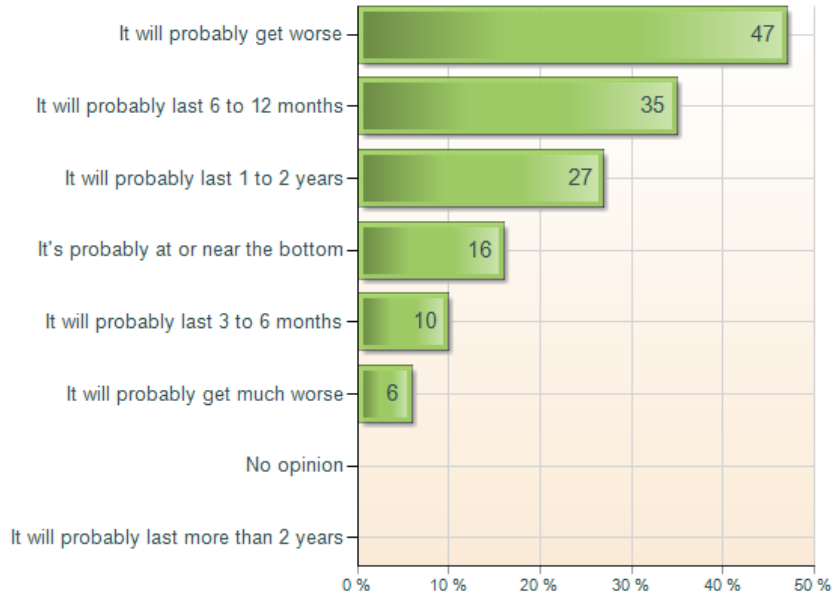
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| Offer more incentives to close within a specified time period. |
| Really nothing, more focused on increasing number of prospects in the cycle to maintain sales |
| Develop nurturing campaigns |
| Year end incentives to move leads through the pipeline--special pricing and services offers. |
| undetermined |
| not clear |
| offer products that have immediate impact; alter product packaging and pricing |
| We see a longer sales cycle specifically because we are looking to get involved earlier in the process, so a longer cycle in and of itself is not a bad thing. We expect things to lengthen as we engage earlier in the process. |
| We have created a dedicated Inside Sales team to support the outside team. This will most certainly help shorten the sales cycle for many reasons. But most important is the element of constant communication with our clients and prospects. The ISR is always available whereas an Outside Rep has less availability due to travel and meetings. Which is great, we want them out selling. |
| Financing/Leasing with 0% or defer payment to next year options. Vendors we sell for are also offering large promotions. |
| More communication |
| Sales cycles with retailers always seem to be long. |
| Changing the message and strategy |
| We shifted focus to products with somewhat lower cost, shorter cycles and high ROI |
| We don't offer price cuts, may bundle some smaller system features in to remain competitive. In general this just puts greater pressure on marketing to keep our company in front of active sales cycles frequently and with a variety of high-impact material. |
| increase flexibility in contracting with customers; redirect our sales force higher in the decision chain at our customers |
| Focus on value messaging-for a quick return on investment, immediate value to the business. |
| not yet decided |
| Focusing on shorter sales cycle products |
| Too early to know how to react best. The market right now is "frozen", in many areas, because of uncertainty. I'm not sure that there is an immediate answer. |
| Not been determined |
| unknown |
| Lead incubation programs. |
| Tighter target marketing. Website redesign |
| working to increase revenue stream with existing customers |



Question 16: What is your opinion about the current economic down turn? (Check all that apply)

Regarding the current economic down turn, most believe the worst is yet to come and most believe the duration is 12 months or less.

What is your opinion about the current economic down turn? (check all that apply)



Question 17: What marketing opportunities do you see now for your company?

Despite the challenging economy, there is no shortage of marketing opportunities. Here are some themes:

- Find new opportunities with current customers – maintenance, service, cross-sell
- Align with the economy – messaging, product focus, tactics
- Expand reach – new industries, new markets (international)
- More customer and prospect interaction – nurturing, personalized communications
- Do more online marketing – email, SEO/SEM, online ads, etc.

| |
|---|
| Email |
| We offer a more complete suite than our competitors, so a 'one-stop shop' approach to marketing should appeal to those looking to streamline. |
| More consultative selling and ROI analysis. |
| To focus more on maintenance and services than projects and products. |
| Participate in more virtual events instead of trade shows and conferences. |
| SEO, pay-per-click ads, more online advertising, more partner co-marketing |
| Retailers are looking at operational efficiencies and keeping each customer they have. We have solutions to address both. We also offer services so that as retailers are expected to do more with less of an IT staff, we can augment. |
| Providing better solution value |
| Increase in demand for SaaS over License sales |

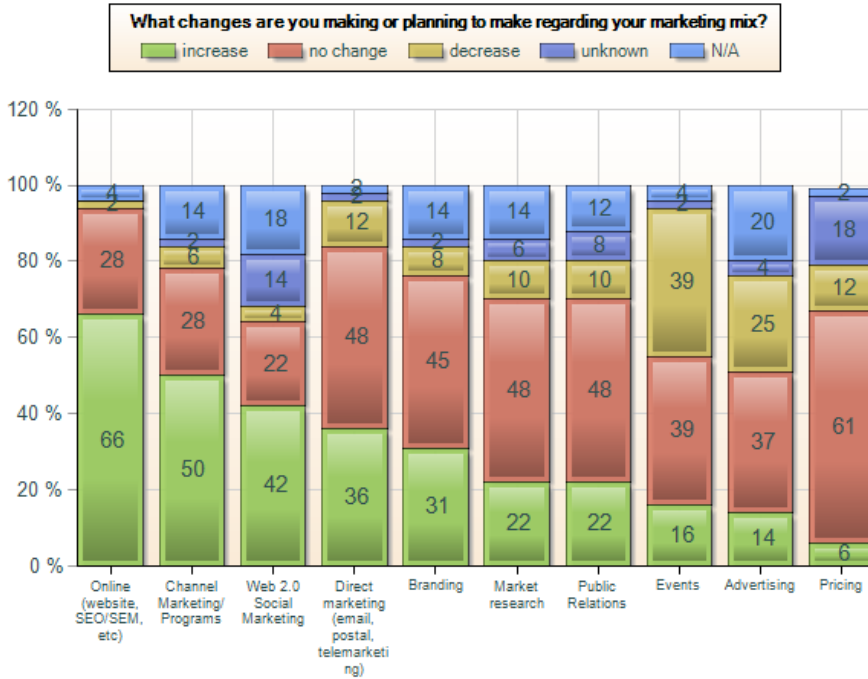


| |
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| Opportunity to do more online |
| Primary opportunity is around maintenance retention, and customer cross-sell. |
| We need to change our marketing messaging based on the current economy and focus on activities that have immediate impact |
| 1. Expand lead nurturing; 2. Develop SEO/SEM program; 3. Develop additional content; 4. More aggressively pursue partner supported programs. |
| We see great opportunity for our company: Social Media, Video for the Web, Viral Video and Blogging will be a top priority for us in the coming months. More client face to face interaction from all levels of our company is another great opportunity, not just the Sales Rep but our leaders as well. We are in our 4th year of our Client Advisory Board which will continue to be instrumental in helping us understand our clients' needs and has also helped us create several of our service offerings. |
| We sell technology to help clients develop new markets and or increase market share, and increase profitability. We need to find the ideal clients that believe NOW is the time to invest. It is a Buyer's market, isn't it? We just need to be their priority via ROI. |
| A move to stronger, more targeted and personalized electronic communication - more education and training for our customers |
| We are going to continue to leverage our existing relationships and focus on increasing our marketing activities around products suited to this economy. |
| Increase awareness |
| We shifted focus to products with somewhat lower cost, shorter cycles and high ROI |
| Strong businesses can thrive in a down economy. Now is the time to acquire new clients. |
| The industries that seem to be failing need to address their technological issues that could be related to some down turn. We for that companies will want to make sure their technology is efficient and cost effective. We are also going into industries that we feel have been untapped. |
| We are expanding into new markets to create a wider net for opportunities. Luckily a major new business segment is already growing on its own for us and we're targeting international accounts too. |
| Move to more online initiatives. |
| Marketing of services such as engineering outsourcing and automation which can help our customers reduce cost now and receive additional benefits later. |
| More metrics driven case studies-focus on success in peer groups, more reference selling activities. |
| For companies that are forward thinking, now would be the time for them to implement a new ERP package because they could put all their best people on it since their business may slow down. |
| Perhaps outsource lead generation on pay per lead model |
| We will continue to keep our new business engine running but will divert some additional focus to the customer base. We have been focused on specific target markets and will increase that focus. |
| Same but reduced |
| Smart marketing. |
| More qualified lead generation...getting to the people who are looking for our EMR solutions |
| Provide tools and information to help companies survive and thrive in an economic downturn |
| More online programs, social networking programs, ads and programs we do run will probably stand out more as others lighten up programs. |
| Everyone needs to be more efficient. Our software helps with that need. |
| Electronic marketing |
| We're at an advantage as we can help companies manage performance management during tough economic times. |
| Introduction of new products and incentives to stimulate delayed purchases. |
| More online programs; increase focus on channel |
| Maintenance, renewals, cross sell up sell in current install base |



Question 18: What changes are you making or planning to make regarding your marketing mix?

From the chart below, we can see that the top areas for increased emphasis are online and channel programs. The areas that will suffer as a result are events and advertising.



Question 19: Do you expect to reduce your permanent marketing headcount?

Only 15% expect to reduce their permanent marketing headcount. We asked them to elaborate:

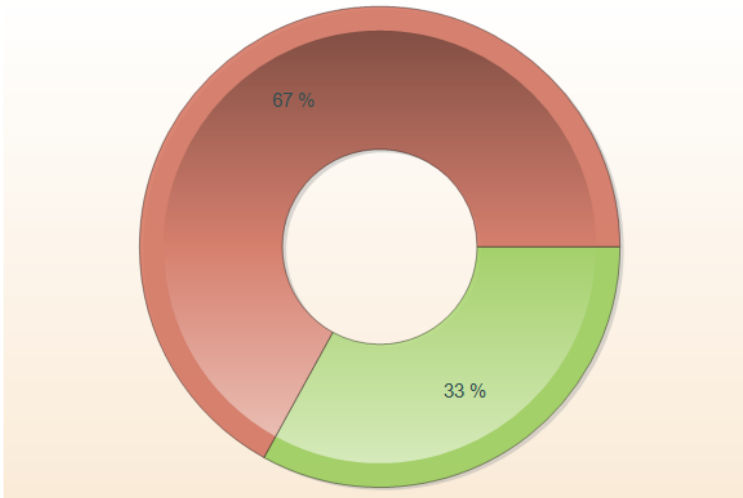
| |
|--|
| 2 people |
| unsure |
| Already did in Oct. 25% in CSSR's and Marketing personnel. |
| Possible increase. |
| This week. |
| 10% |
| probably by 15% early in 2009 |
| Immediate - 5% |
| Don't know |
| not sure |
| Unclear at this point |



Question 20: Does the poor economy and its associated risk make outsourcing more attractive to you?

Most do not see outsourcing as more attractive in a challenging economy. We put this question on the survey because in phone conversations, we'd heard from several executives that outsourcing was becoming more attractive due to the flexibility it provides for managing costs and risk.

Does the poor economy and its associated risk make outsourcing more attractive to you?
Yes No



Question 21: In which areas might you outsource or increase outsourcing? (Check all that apply.)

The table below shows that telemarketing is the clear top choice, followed by creative work. Nurturing has gained in prominence and we believe that's due to the increased buzz around marketing automation solutions as well as a realization that in a challenging economy, you have to continue to give prospects reasons to do business with you.

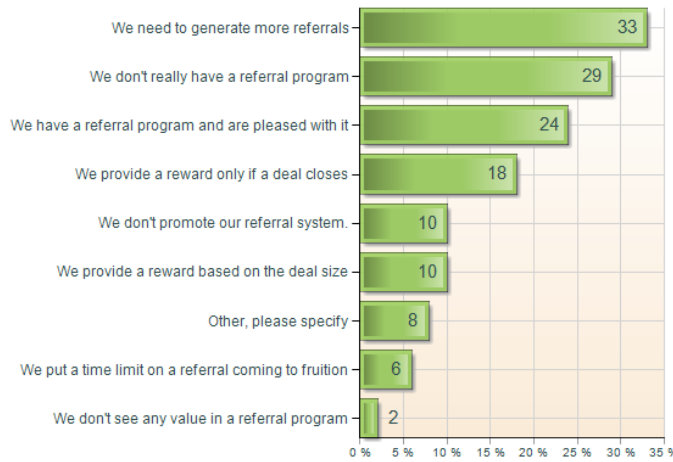
| | |
|-------------------------|-----|
| Telemarketing programs | 64% |
| Creative work | 36% |
| Market research | 27% |
| Nurturing programs | 27% |
| Email programs | 25% |
| Direct mail programs | 20% |
| Marketing database work | 20% |
| Account profiling | 20% |
| Inbound qualification | 18% |
| Surveys | 18% |
| Channel related work | 16% |
| Events | 11% |



Question 22: A referral program includes all the actions a company takes to encourage its customers, partners and competitors to generate business opportunities for it - check all that apply.

We expected virtually everyone to check the "We need to generate more referrals" choice because referrals close more quickly and at a higher rate. Our experience is that referrals have a close rate about 3x that of other leads and they close about 33% faster.

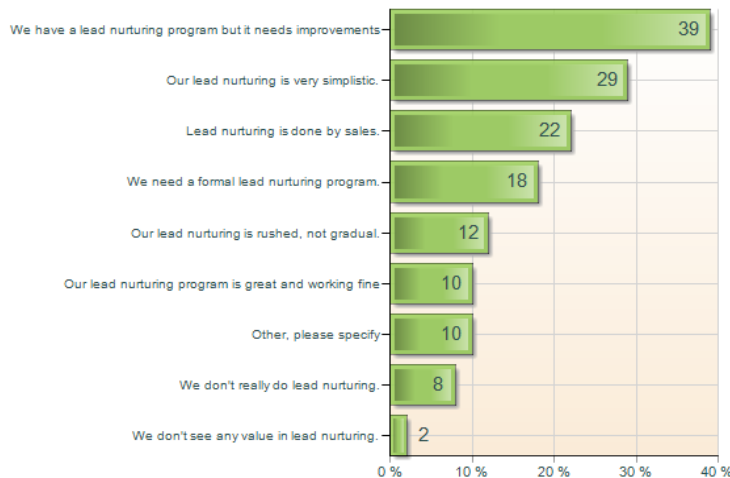
A referral program includes all the actions a company takes to encourage its customers, partners and even competitors to generate business opportunities for it. (Please check all that apply)



Question 23: By lead nurturing, we mean all the actions a company takes to gradually move unqualified leads through the marketing pipeline and into the sales pipeline.

The chart below shows that 39% need improvements to their existing nurturing program. Another 18% do not have a formal nurturing program. Only 2% see no value in nurturing. Lastly, 22% rely on sales to do nurturing which is typically not a good fit because of the focus on closing that permeates sales.

By lead nurturing, we mean all the actions a company takes to gradually move unqualified leads through the marketing pipeline and into the sales pipeline. Regarding lead nurturing (Please check all that apply)





Question 24: Any final thoughts regarding marketing in a down cycle? (New priorities, new tactics, ...)

Here are the write in comments. We've highlighted a few that caught our eye.

| |
|---|
| Nurturing has become more of a focus. |
| We're continuing with an aggressive program to identify customers, develop thought leadership through additional content (web, white papers, speaking), and generate demand. |
| It's a numbers game. Unless the client is actually going out of business, it is a matter of ROI and executive support. |
| Now is the time to increase your brand awareness so that when the economy turns around that you have customer mind share. |
| Be proactive |
| Same old business rule applies ... work smarter, not harder |
| I agree with the premise of your email promo for this survey - Knee-jerk marketing cuts will put you behind the competition. Adopt a more flexible plan & budget to react faster to changes in the market, vs. commit to larger structured approach. Focus on lead generation vs. branding, collateral development, etc. |
| We feel we have the right company strategy and should remained focus on our current objectives to prepare for better times. |
| Have to produce more with less |
| Being able to bring very well qualified leads to sales is crucial--but everyone I've dealt with can bring the same 'info'--decision maker, funding, contacts, need, etc.--but they all ultimately end up as --"not a good lead" according to sales.... |
| With the down cycle, many persons are pushing the email/telephone campaigns. As the recipient of some of the "incoming", I am becoming more "tone deaf". I also am doing more on-line searches and verifications myself. This may be an example of what our potential clients are doing also. Future marketing will be targeted "persona" driven, with persona-driven whitepapers to pass on. |