



Marketing Strategy Development

Desarrollo de una Estrategia de Mercadeo

Booz-Allen & Hamilton, Inc.

26 de marzo de 1998

**Recomendaciones
(No existe Resumen Ejecutivo)**

Final Report

Marketing Strategy Development



March 26, 1998

*This report is confidential and intended solely for the use
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BOOZ·ALLEN & HAMILTON INC.

VI. MARKETING PROGRAM RECOMMENDATIONS

THE MARKETING PROGRAM – WHILE ONLY HAVING A THREE YEAR HORIZON – MUST LAY THE FOUNDATION FOR FUTURE INITIATIVES

- Marketing is a continual process where messages and strategies are shaped and reshaped based upon the changing competitive environment of the product and the organization
- In this instance, the Canal is in transition from a U.S. government agency to a more market focused concern – this marketing program will serve as the bridge between the two paradigms
- While currently restricted from the classical marketing approach of customer segmentation and optimization by U.S. law, there is still much the Canal can do to prepare for the post-transition business model

THERE ARE FOUR NEAR-TERM IMPERATIVES TO DEVELOP AN EFFECTIVE MARKETING PROGRAM

- **Building Capabilities** focusing on:
 - Developing staff,
 - Establishing systematic processes,
 - Introducing tools, and
 - Establishing Canal-wide marketing support.

- **Assuring Transitional Stability** through a clear, consistent message

- **Implementing Targeted Marketing** by differentiating the Canal's customer base

- **Installing New Pricing Mechanisms** which focus on use of resources and risk

**THE CANAL'S NEW MARKET PARADIGM REQUIRES THE GROWTH OF NEW CAPABILITIES –
THE MARKETING GROUP IS NOW ORGANIZED TO SERVE THE CANAL'S NEW DIRECTION**

- The PCC's reorganization effort has yielded a Marketing and Planning division which is much better aligned to the Canal's goals going forward
- Within this group, keeping the lines of communication open between Business Development, Strategic Planning, and Marketing will be the key to extracting the most value
 - Marketing can feed Business Development ideas from talking to Canal customers
 - once these ideas take the shape of business plans, Marketing can help by going back to the customers and testing the assumptions/plans
 - Marketing can work hand in hand with Strategic Planning to provide critical industry trends, and develop and test ideas with the customer base
- Within Marketing, division of responsibilities will promote leaders in critical market segments – but cross fertilization is key to enhancing the knowledge of the entire group
 - Geographic specialization among in the Marketing Specialists (customer contact role) will aid in efficient travel and speed the learning process
 - The Economic Research and Forecasting staff should also have industry leaders but should work more closely with customer staff to integrate “real world” concerns to enhance their forecasting and competitive analysis

FILLING IN THE ORGANIZATION AND DEVELOPING IN-HOUSE MARKET EXPERTISE IS THE CRITICAL NEXT STEP

- The nature of the Canal's business does not require a large marketing staff, yet this does not diminish the importance of recruiting, training and developing talented marketing professionals
- Currently, 11 positions are open within the Corporate Planning and Marketing Group
 - Importantly, a permanent Director has yet to be selected
 - The Marketing Group has four vacancies, including two "team" leaders
- While not evidenced by the organization chart, there is a need to define and fill the roles of the Marketing Specialists
 - These staff should be the primary customer contacts
 - General skills/qualifications required include:
 - Analytical and technical skills
 - Industry expertise
 - Communications skills
 - Language ability (Spanish/English)
 - Career paths should exist for professionals to pursue long-term careers with the Canal or to move into marketing management
 - Current Marketing staff may be able to fill the roles but need training and – most importantly – significantly increased exposure to the customer base

**PORT AUTHORITIES – WHICH SERVE A SIMILAR CUSTOMER BASE – PROVIDE A USEFUL
BASE ORGANIZATIONAL MODEL FOR MARKETING WHICH CAN BE TAILORED TO THE
CANAL'S SPECIFIC NEEDS**

- Most large U.S. ports divide their marketing staff by commodity and region
 - Commodity divisions facilitate a better understanding of products – in the post-transition environment the Canal will be in a position to offer different products to different commodities
 - Regional divisions enable more cost efficient customer visits
 - Some Ports also divide their staff functionally (e.g., pricing, market research, sales, etc.) – it is doubtful that this type of split could enable the Canal the rapid learning curve it requires
- Many large U.S. ports maintain significant Sales representation in foreign countries – the canal's need to develop customer and industry knowledge in-house makes that model inappropriate in the near-term
- Marketing spending varies significantly among large U.S. ports – While this is partially attributable to differing market positions, it is largely a reflection of different philosophies illustrated by the spending difference between two nearly identically situated ports, Long Beach and Los Angeles

DIVIDING MARKETING RESPONSIBILITIES ON A GEOGRAPHY/COMMODITY MATRIX BASIS IN THE NEAR-TERM WILL SIMULTANEOUSLY YIELD THE CANAL DEVELOPED EXPERTISE AND STAFF INTERCHANGEABILITY

- In the matrix scenario, each Marketing Specialist would develop expertise in a particular geography and commodity ...
 - Geographic specialization will afford cost-effective customer visits while allowing all Marketing Specialists to have face-to-face contact with customers
 - Commodity specialization will develop the in-depth knowledge that will be necessary as potential price and service options are developed post-transition
- ... while gaining exposure to the range of Canal customers
 - Knowledge of multiple customer segments allows the Canal to fully and effectively utilize the available staff
 - Coverage during vacations and business travel
 - Special projects requiring additional effort
 - Additionally, this exposure mitigates the knowledge drain that typically accompanies staff terminations
- This methodology could also be applied in the Economic Research group

THE CANAL'S MARKETING GROUP MUST BE PREPARED TO EXECUTE KEY TASKS ...

Key Marketing Tasks

General Area	Key Tasks
Strategic Marketing Direction	<ul style="list-style-type: none"> • Develop a coherent understanding and vision of the Canal's competitors and the external market factors the Canal faces now and in the future • Provide a forum to coordinate Canal-wide opportunities and resolve conflicts
Market and Competitor Research	<ul style="list-style-type: none"> • Research current and emerging customer needs/problems • Identify and assess the impact of critical trends – environmental, competitive, infrastructure • Translate knowledge/research into strategic insights • Build knowledge of costs, prices, and sensitivities for future pricing actions • Perform research on customer needs/problems • Collect data on critical trends affecting the business • Maintain library of marketing information and research
Market Segmentation	<ul style="list-style-type: none"> • Segment based on fundamental customer needs • Characterize segment buying behavior, size, profitability, etc.
Market Message/Communications/Image	<ul style="list-style-type: none"> • Establish and coordinate of Canal image • Generate messages to support market strategy
Market Performance Monitoring	<ul style="list-style-type: none"> • Monitor ongoing performance against goals (if and when differentiated targets are set) • Identify reasons for performance shortfalls and develop strategic options to address them
Market Research and Analysis	<ul style="list-style-type: none"> • Perform research on customer needs/problems • Collect data on critical trends affecting the business • Maintain library of marketing information and research
Product Development	<ul style="list-style-type: none"> • Identify and develop new service offerings
Sales Program Management	<ul style="list-style-type: none"> • Develop general and segment-specific sales training • Consolidate customer feedback
Sales/Customer Interaction	<ul style="list-style-type: none"> • Develop descriptive customer databases of users, decision makers, etc. • Visit with selected customers • Prepare and distribute Canal publications • Respond to customer inquiries • Pro-actively address customer concerns • Institute Customer Advisory Board

... WHICH CAN BE CODIFIED INTO FORMAL PROCESSES TO ENSURE THAT JOB RESPONSIBILITIES ARE UNDERSTOOD AND COMPLETED – AS WELL AS TO ENABLE MORE EFFECTIVE CROSS-TRAINING

Activity Descriptions for Key Tasks

Task	Goals	Others Involved	Description of Activity	Frequency
Target New Customers	Bring new customers to Canal	Operations, Administrator's Office	Daily reading of periodicals, talk to existing customers, ports, others to identify existing or emerging transport chains which might consider using the Canal; entering up these prospects into a database; and following up with visits to determine primary transport concerns and build relationships to affect routing decisions	Daily
Price & Cost Research	Develop a base of knowledge to be latter used if Canal moves toward price differentiation	Economic Research	Work in concert with economists to model price and service characteristics of market; bring "real world" concerns of carriers/ shippers to the effort	Annual by commodity type - as needed for target accounts
Complaint/ Inquiry Handling	Ensure Canal customer's have a voice in the operation	Administrator's Office, Operations	Log complaints/inquires based upon topics/type of operators to determine any emerging trends or sensitivities; place customer letters in central customer file; Route concern to appropriate department for action; follow up to ensure action taken; prepare response; address serious issues in face to face meetings	Regularly, As required
Industry Surveys	Develop base knowledge of firms and services in the many cargo markets the Canal serves - Can be basis for later data sales	Economic Research	Read periodicals, turn macro and micro knowledge of shipping industry into cargo sector briefs which can be used by senior staff to understand key markets	Bi-annual for each major sector
Promotional Material Development	Communicate clear, consistent themes and a professional image to customers and public	Public Affairs, Administrator's Office	Work with Public Affairs to write, edit and produce relevant marketing and promotional materials	Annual

ACCURATE AND TIMELY MARKET INFORMATION IS ANOTHER CRITICAL COMPONENT OF THE CAPABILITIES DEVELOPMENT – THE CONSIDERABLE INDUSTRY DATA TO WHICH THE CANAL HAS ACCESS SHOULD BE FULLY UTILIZED

- The Ship Data Bank poses an opportunity for the Canal to better understand its markets – the current data structure and collection methodology prevent the full use of this asset
 - Erroneous data
 - Insufficient data
 - Inconsistent collection of data
- Representatives from all users of the Ship Data Bank should be involved in discussions to restructure the system to accurately collect all necessary data
 - Charterer (if applicable)
 - Shippers of large lots (e.g., bulks)
 - Correct commodity
- Data gatherers must be properly trained in the end-use and importance of the data collected and quality checks should be incorporated into the process

MANAGEMENT OF CUSTOMER RELATIONSHIPS CAN BE MADE MORE EFFICIENT AND DIRECTED WITH THE USE OF OTHER MARKETING TOOLS

- Customer files, if used pro-actively, can afford better understanding of the customer base
 - Call reports
 - Annual reports and customer publications
 - News articles
 - Correspondence
- An accurate, current, and complete customer contact list is essential to effective outgoing communication
- Sales force automation tools can assist in customer visit scheduling and follow-up

CANAL-WIDE SUPPORT IS NECESSARY TO SUCCESSFULLY IMPLEMENT THE MARKETING PLAN – MARKETING ACTIVITIES ARE NOT CONFINED TO THE MARKETING DEPARTMENT

- The Canal creates an impression at many levels which can shape the perceptions of decision makers – from interaction with agents and ship captains to home office staff
- Clear, consistent themes are needed for all Canal employees to present when dealing with customers – this should be an early goal of the Marketing Steering Committee and is especially important as it relates to post-transition stability
- Implementation of the Customer Advisory Board will incorporate customer feedback into multiple Canal functions

PUBLIC RELATIONS IS ANOTHER KEY AREA FOR NECESSARY COOPERATION WITH MARKETING

COORDINATION BETWEEN MARKETING AND PUBLIC RELATIONS IS PARTICULARLY IMPORTANT FOR DEVELOPING AND PROJECTING AN IMAGE OF STABILITY THROUGH THE TRANSITION

- The roles and responsibilities of Public Relations are intertwined with Marketing – operational silos must be eliminated to ensure the best overall advantage for the Canal
- The transition – as well as the current El Niño crisis – demands a well coordinated information campaign to customers and the general public alike
- The key is a uniform approach, where the media strategy reinforces and enhances marketing efforts
 - Articles about the Canal
 - Interviews given by Canal staff

ADDITIONALLY, THE MARKETING DEPARTMENT HAS SYNERGIES WITH OTHER DEPARTMENTS THAT CAN BE EXPLOITED TO REALIZE THE GREATEST BENEFITS

- Understanding both regular shipping patterns and short-term fluctuations enables the Canal to more efficiently allocate its capacity on an operating basis
 - Planning outages
 - Optimizing daily mix of vessels for transit
- Operations has the most frequent contact with customers – this should be exploited to gather and disseminate information
 - Marketing should receive regular feedback from Operations on service performance and specific incidents in order to proactively address customer concerns
 - Customer contact lists should be shared between Marketing and Operations
 - Marketing messages can be incorporated into Operations announcements – similarly, Operations staff could be included on selected Sales calls
- The market knowledge and insight developed within the marketing department can be an asset to Canal capital planning efforts

THE CANAL'S CUSTOMER CONCENTRATION FOLLOWS A CLASSIC PATTERN WITH THE TOP 10 PERCENT OF CUSTOMERS DELIVERING NEARLY 60 PERCENT OF THE REVENUE – SUGGESTING THAT A VOLUME SEGMENTED APPROACH TO CUSTOMER INTERACTION IS APPROPRIATE

Customer Volume Segmentation ⁽¹⁾

Customer Segment	Number of Customers	Percent of Revenue	Segment Profile	Communication Approach
"A" Top 10% of Customers	146	58%	28% Dry Bulk 23% Full Container 18% Tanker 11% Vehicle	Regular Visits, Newsletters
"B" Middle 40% of Customers	582	35%	49% Dry Bulk 16% Tanker	Select Visits, Newsletters
"C" Bottom 50% of Customers	727	7%	46% Dry Bulk 13% General Cargo 12% Tanker 12% Other ⁽²⁾ 11% Reefer	Media Outlets

notes: (1) Listing of Customer Segmentation is provided in Appendix C

(2) Other excludes Full Container, Dry Bulk, Tanker, Vehicle, General Cargo, Reefer, and Passenger

A TARGETED CUSTOMER CONTACT APPROACH UTILIZING APPROPRIATE INTERACTION METHODS WILL AFFORD THE CANAL EFFICIENT AND EFFECTIVE COMMUNICATION WITH ITS DIVERSE CUSTOMER BASE

Customer Interaction Methods			
	Customer Visits	Newsletters	Media Outlets
Goal	<p>Establish relationships and communication channels with strategic Canal customers; Gain feedback on service performance, customer concerns, industry issues, future plans, etc.</p>	<p>Communicate Canal issues to key users; Promote Canal image</p>	<p>Communicate major Canal issues to broad community; Promote Canal image</p>
Process Elements	<p>Planning</p> <ul style="list-style-type: none"> - Select customers to visit based on geography, last visit, current issues <p>Preparation</p> <ul style="list-style-type: none"> - Feedback from Operations, rest of Marketing - File research - Briefing book <p>Follow-up</p> <ul style="list-style-type: none"> - Thank you letters - Research and resolution of Canal issues and questions brought forward by customers <p>Dissemination</p> <ul style="list-style-type: none"> - Preparation of Call Reports - Distribution of key findings to Administrator, Operations, Economic Research, other Marketing staff, etc. 	<p>Contact List</p> <ul style="list-style-type: none"> - Maintain and update Schedule - Regular issues - Special editions <p>Article Development</p> <ul style="list-style-type: none"> - Information customers should learn directly from the Canal - New Canal service initiatives - Profiles of Canal staff - Canal Performance - Customer Concerns - Surveys 	<p>Coordination with Public Affairs</p> <ul style="list-style-type: none"> - Current issues impacting customers - New market initiatives

THE IMPORTANCE OF FACE-TO-FACE SALES AS AN EFFECTIVE MARKETING TOOL IS DEMONSTRATED BY A RECENT SURVEY OF U.S. PORT AUTHORITIES – WHOSE TARGET CUSTOMER BASE IS SIMILAR TO THE CANAL'S

**Perceived Effectiveness of Promotional Techniques
Among Selected U.S. Port Authorities
(1 = very ineffective, 5 = very effective)**

Port	Print Advertising	Face-to-Face Sales	Direct Mailing
A	3	5	4
B	2	5	1
C	3	5	1
D	1	5	3
E	2	5	3
Average	2.2	5	2.4

source: Booz-Allen survey of U.S. port authorities (1998)

WHILE THE CANAL DOES NOT INTEND TO ALTER ITS BASIC PRICE STRATEGY OVER THE NEXT FEW YEARS, RISK AND RESOURCE-BASED PRICING CAN BE EMPLOYED TO BEGIN SEGMENTATION AND ASSURE THAT EACH TRANSIT COVERS ITS COST

- With the introduction of the reservation system several years ago, the Canal established the practice of differentiated pricing
- This could be expanded to include Risk/Resource based pricing surcharges which lay the foundation for full scale differentiated pricing based upon service offering and commodities should the Canal choose to move in that direction in the future
 - Transits that pose additional hazard to Canal infrastructure should compensate for the chance of damage
 - Hazardous shipments
 - Improperly maintained vessels
 - Ships that are more expensive to transit due to required special handling should pay more than a standard transit
 - Panamax vessels
 - Nuclear submarines
- This concept was recently employed with the introduction of a minimum toll aimed at pleasure craft

ONCE THESE NEAR TERM GOALS ARE ACCOMPLISHED, THE CANAL HAS THE OPTION TO EMPLOY MORE SOPHISTICATED TECHNIQUES TO OPTIMIZE ITS CUSTOMER BASE AND REVENUE FLOW

- Differentiated cargo pricing/yield management
 - Because the vessels transiting the Panama Canal vary in cargo value and time sensitivity, commodity pricing may provide additional revenue for the Canal – especially if offered in conjunction with premium service
 - Preliminary analysis on this type of pricing system in Booz-Allen's Panama Canal Growth Strategy Report (June 1996) indicated the potential for over \$125 million in additional tolls
- Super-premium bookings
 - Tighter operational windows with guaranteed service in exchange for higher tolls may be attractive to the most time-sensitive vessel operators
 - Interest in this service was confirmed in our customer interviews
- Volume pricing/service discounts
 - Discounts for exceptional volumes or long term agreements are a common means of securing a customer base
 - Here again, interviews confirmed an interest in this type of system

THE COMPETITIVE ANALYSIS SUGGESTS THE CANAL HAS LIMITED OPPORTUNITY IN THE PRICE DRIVEN BULK SECTOR BUT MUCH GREATER POTENTIAL IN SERVICE DRIVEN MARKETS

- Price is a marketing tool typically used to create market growth. Given the Canal's capacity situation, however, lowering price – which would increase bulk movements – would not be advisable at this time
- Additional Container and Vehicle business could be attracted with new “premium” products which guarantee passage within a specified window
- The Canal is positioned to attract more Cruise business – if it desires to do so
 - Cruise lines may be interested in other products such as excursions off the vessel both within and beyond the Canal
 - While Panama has not historically been a tourist attraction, neighboring countries, most notably Costa Rica, have been extremely successful
 - Initial efforts have been successful with one cruise line for an “in-Canal” excursion
 - Marketing efforts could be further extended to travel agents and cruise passengers in order to promote Canal cruises and develop Panama tourism

TARGETING MARKETS NOW WILL BE IMPORTANT WITH CANAL CAPACITY SET TO INCREASE BY 20 PERCENT IN 2003

IF AND WHEN THE CANAL DECIDES TO DIFFERENTIATE ITS CUSTOMER BASE AND CUSTOMIZE ITS PRICE/SERVICE OPTIONS, IT SHOULD FOCUS ON PROVIDING RELIABLE, QUICK TRANSIT TO TIME AND SCHEDULE SENSITIVE CARRIERS WHILE REMAINING THE LOW COST OPTION FOR CORE BULK SHIPMENTS

- The Canal should offer an array of premium based products to its “service driven” customer base including container and vehicle carriers, cruise and reefer vessels
 - Increased reservation options
 - Narrower guaranteed transit windows
 - Ability to buy back into the queue is slot is missed
 - Preferences during lane outages or other long delay periods

- For these services, the Canal should charge premium prices based upon rigorous and continually updated sensitivity analysis of what the market will bear

- Bulk markets will remain the core of Canal transits and consequently must be priced competitively to prevent alternate routing or sourcing
 - Long term or volume agreement to secure business base
 - Base service levels to compensate for lower prices