

Customer Loyalty in the Oilfield: Price Premiums and Brand Management



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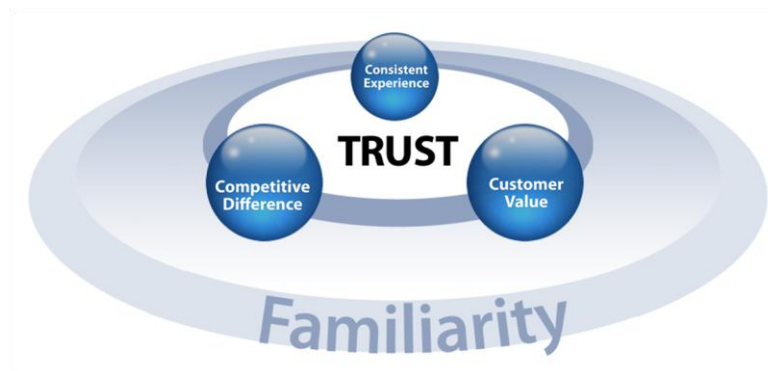
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Overview

With drilling activity at all-time peaks and service companies strained to capacity, the prescribed response is to raise prices to maximize revenue. But not every oilfield product and service company has the same opportunity to increase prices without losing business. Our Gulf Research studies, conducted over the course of the past several years, have shown that the ability to command higher prices relates to customers' trust in the organization.

The trust decision makers place in an oilfield brand can be measured. This is commonly referred to as brand equity measurement. At Gelb, we measure brand equity using multiple determinants including familiarity, customer value, consistent experience, and competitive difference.



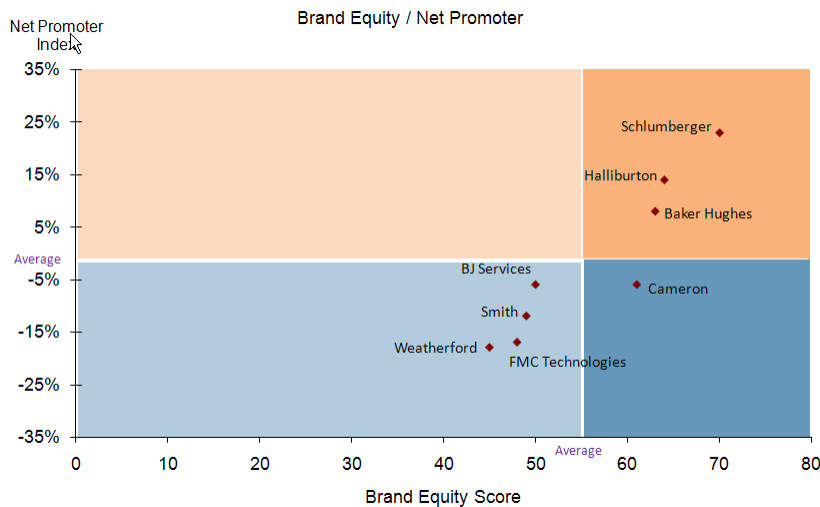
Our model defines familiarity as the awareness and experience targeted buyers have with your brand. Competitive difference is the reputational factors that form a set of brand associations. And consistent experience is the key driver of overall satisfaction.

Of particular interest in this paper is our ability to demonstrate the relationship between customer trust and price premium. To do so, we measure customer trust as likelihood to recommend and categorize price premium as customer value in our model. Customer value can be further explained as the set of expected benefits from the organization, measured individually, with a final outcome of willingness to pay a price premium. The resulting statistic from these measures represents the relationship between brand equity and the ability to charge a premium (or, alternatively, the capacity to offer a discount) compared to average market prices.

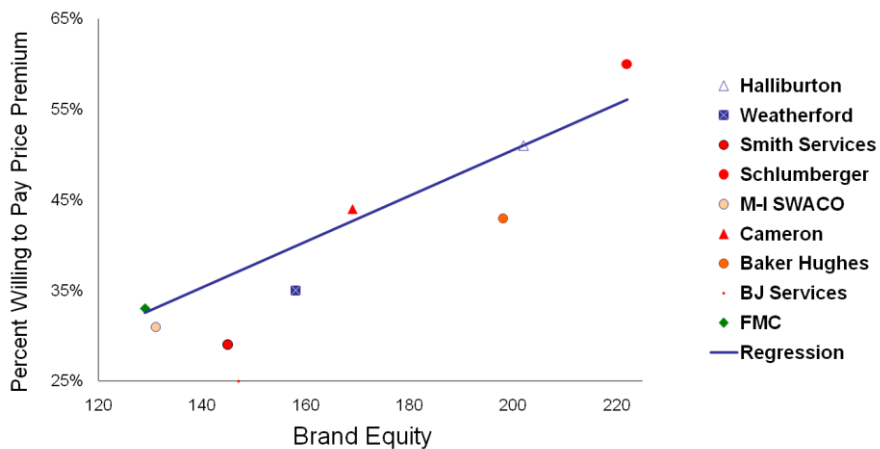
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Relationship between Brand Management and Profit

In our Gulf Research oilfield brand equity studies, we have consistently found that brands with the highest brand equity scores, calculated according to our proprietary brand trust model, are highly correlated with customer loyalty. In this example, the Net Promoter Score is the result of subtracting those who will recommend you to others from those who chose not to (detractors). This chart highlights a positive relationship between customer trust and brand equity scores. Those organizations with the highest brand equity scores also have the largest numbers of customer advocates.



But just how does customer loyalty translate into price premiums? As highlighted by the chart below, the price premium measure is indicative of the resultant brand equity score. The implication is that the perceived benefits provided by the brand are most important to customer loyalty, or, in our brand equity model, Trust.



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I	Familiarity Index*	Price Premium Index	Reputation	Satisfaction	Brand Equity Score**
Company A	100	47	84	78	70
Company B	100	42	77	74	64
Company C	98	39	78	75	63
Company D	91	43	82	76	61
Company E	89	35	61	72	50
Company F	89	21	69	76	49
Company G	83	28	75	72	48
Company H	94	22	59	63	45

The implication for oilfield marketers is clear – communicating your ability to perform on key benefits dimensions not only affects brand equity, but, more importantly, your ability to command price premiums. Furthermore, our research indicates that oilfield service companies must have a knowledgeable sales force, the willingness to listen to customers, offer cutting-edge solutions to technical challenges, and expertise in a broad range of technical areas to strengthen brand equity.

But this is not a prescription for all oilfield product and service companies to offer the exact same benefits. In fact, an effective brand will occupy a unique space in customers’ minds. Instead, your value proposition must be consistent with market perceptions of the brand. As illustrated below, there are few companies who can claim to offer benefits in technical expertise, delivering cutting edge technologies, and offering premium products and services.

	Company A	Company B	Company C	Company D	Company E	Company F	Company G	Company H
Knowledgeable sales force	79	71	61	66	64	74	67	65
Willingness to listen to customers	70	61	64	65	78	74	62	59
Delivers cutting edge technology	82	68	62	67	61	66	60	67
Offers premium products and services	85	72	76	78	79	77	66	75
Expertise in a broad range of technical areas	84	74	72	64	74	69	63	60
Good value for the money	58	63	63	61	65	56	58	57

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Taking Action

Armed with the insights for your specific brand, you can better organize your brand strategy to improve customer loyalty. As shown in the table below, brand research measures translate into strategic guidance from market segmentation to brand promise development.

Brand Equity Element	Familiarity	Customer Value	Competitive Difference	Consistent Experience	Trust
Description	The level of awareness and knowledge the target has about the brand	How options are evaluated and decisions are made	How brands are distinguished	How well the brand delivers its promise	Strength of the relationship with the brand
Research Metrics	Experience with the brand	Tendency to pay price premium or discount	Reputation	Satisfaction	Likelihood to recommend the brand
Strategic Outputs	Market Segmentation	The perceived costs and benefits of the brand relationship	The distinctive place you occupy in consumers' minds	The ways in which brand touchpoints deliver the promise	The essence of the brand that drives confidence in it
Brand Guidance	High priority segments	Value proposition	Positioning statement	Service standards	Brand promise

Pricing is a function of the value you create. The value proposition framework:

To [target audience], company ABC is the [category] that provides [key benefit] at a [price position].

A value proposition example:

Company ABC provides operating companies with the ability to solve any technical challenge, offered at a premium price.

Therefore, in constructing your value proposition, keep the following in mind:

What are the key benefits your brand provides?

What is the single most important of these?

To acquire share, does the market expect you to be discounted, par, or premium?

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Conclusion

Trusted brands in the oilfield can charge premium prices for their products and services. Equally important, customer loyalty has a high relationship to the strength or equity in a brand. To build the brand from a customer value perspective, it is crucial to highlight key benefits and position the price accordingly.

About Gelb

Gelb Consulting Group, Inc. is a strategic marketing firm that merges analysis, strategy and technology to help clients build and sustain revenue growth.

Gelb is here to help you understand the complexities of your market to develop and implement the right strategies. We use advanced research techniques to understand your market, strategic decision frameworks to determine the best deployment of your resources, and technology to monitor your successes.

For over 40 years, we have worked with marketing leaders on:

- Strategic Marketing
- Brand Building
- Customer Experience Management
- Go to Market
- Product Innovation
- Trademark/Trade Dress Protection