

The European trade fair industry is undergoing a period of turbulent change. Even though most exhibition companies have weathered 2001 relatively well - in Germany, Europe's largest exhibition market, for example, sold square meters increased by 1.5 percent - great challenges lie ahead.

Challenges for the Trade Fair Industry

Globalization's dramatic changes in information technology and transport have affected the exhibition industry like no other services industry. The main reason is obvious. In the exhibition business, the customer - be it exhibitor or visitor - is at the same time buyer of the product "trade fair" and part of the product itself. Therefore the customer is an integral part of the value chain, influences it and derives added value from it.

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This unique characteristic is known to many managers in the exhibition industry. Yet only few think through its implications. The most crucial one is that, in the trade fair industry, the loss of an individual customer is significantly more risky than for companies engaging in other services industries. Let's take an example: a company has 100 customers, five of which decide to switch to another supplier. In most industries, such multiple customer dissatisfaction may cause concern, but won't necessarily affect the purchasing decisions of the remaining 95 customers. But for exhibition companies, things are different. If five important exhibitors defect from a trade fair, the other exhibitors' and visitors' perceived value of that trade fair will sink dramatically. Since customers are part of the value chain, the risk attached to each customer's attendance decision is multiplied.

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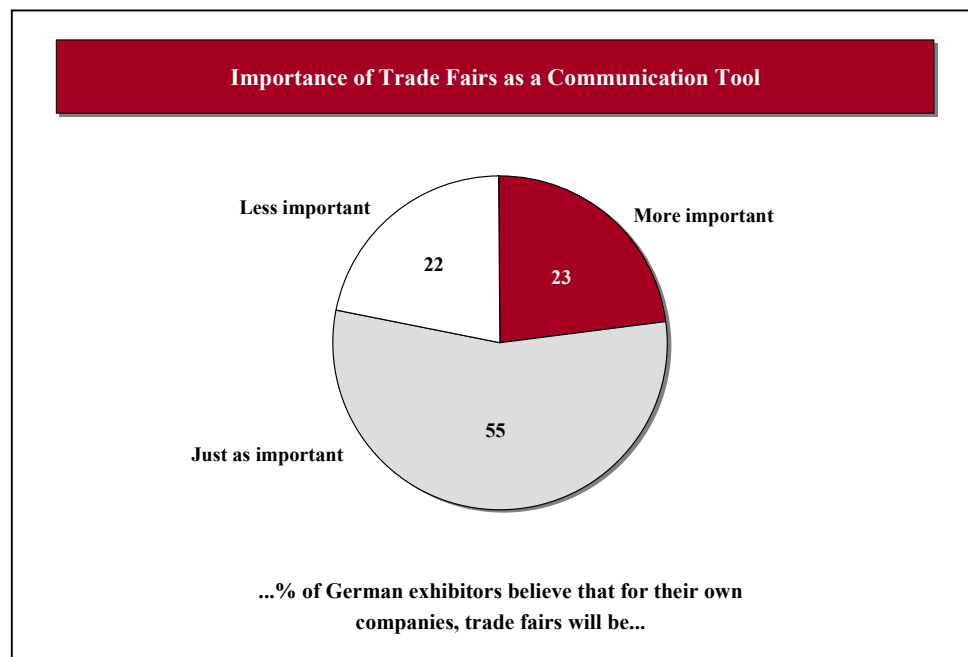
Global Challenges for Products, Marketing and Organization

Globalization increases the underlying economic risk for exhibition companies, because it significantly raises the probability of customer defection. We know from many industries that better access to information and lower transportation costs lower customer loyalty. In the trade fair industry things are no different. This has consequences on three levels – product strategy, marketing strategy and organizational structures.

(1) Product Strategy

Today, exhibitors and visitors have access to an information pool unthinkable merely 10 years ago. This has implications for the value of trade fairs' core product - being a market place for innovation and customer contacts. Exhibitors are just as unsure about the consequences of this new information landscape as exhibition companies: according to a study by Germany's AUMA, Europe's largest trade industry association, 23% of exhibitors think that trade fairs will play a more important role in B2B commerce, 55% think its role will stay the same, and 22% believe that, in the future, the importance of trade fairs for B2B commerce will decline.

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In other words: the exhibition industry is at a crossroads. In recent years, new media have gained additional importance. Overall, we expect that in the future customers will regard trade fairs as merely one medium among many in the B2B area. When this happens, however, customers' interest in being part of the value chain diminishes. The implications are well-known.

(2) Marketing Strategy

Global markets make exhibitors and visitors picky. Just as anybody with Internet access can directly compare prices and offerings from Poland to Patagonia, exhibitors and visitors are able to choose from an ever increasing number of exhibitions. We currently observe the emergence of two new trends: on the one hand, present and potential new customers define their target groups much more narrowly than in the past. Increasingly, exhibitors focus on maximizing the number of relevant contacts and promising business opportunities as well as the amount of substantial information gathered. Hence exhibitors find smaller, more narrowly focused, exhibitions to be more worthwhile attending than larger ones.

On the other hand, exhibitors increasingly focus on specific geographic markets. The premise is that, for a visitor, the journey from Asia to Europe is much longer than the exhibitor's journey from Europe to Asia. Today, for many exhibitors, proximity to the customer base therefore means attending fairs in far-flung markets rather than waiting for the visitors to stream to Europe. Many well-established European trade fairs will feel the consequences in the near future. Companies like Reed Exhibition or the British ITE Group will benefit. Since they don't own any exhibition real estate, they don't need to take hall capacity utilization into consideration. Increasing the number of small, thematically focused and geographically distributed trade fairs is their key to success.

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(3) Organizational Structure

Changes in product and marketing strategies always have direct implications for organizational structures. New organizations need to account for two key challenges at the same time. On the one hand, they need to stop the declining value-perception that many exhibitors and visitors attach to the trade industry. Only this will curb the central risk, exhibitors' decision to leave the value chain. New organizational structures must aim to retain and increase added value for existing and potential future customers. On the other hand, organizational structures need to adapt to the demands of more thematically focused and geographically dispersed trade fairs - worldwide. European trade fairs are looking at a whole range of models. Success varies.

Solutions

Any effective solution will acknowledge the implications of globalization for the exhibition industry's value chain, and then draw the corresponding conclusions. The main problem: for each exhibition organizer and each portfolio of exhibitions the answer may be different.

Answers to future **product strategies** need to begin with the following question: how do we obtain the highest return on our invested capital? In this context, capital doesn't merely mean book equity, but includes the totality of all assets - material and immaterial - from industry know-how to brand value.

Reed has given clear answers to these questions. Integrating trade periodicals and fairs under one roof creates synergy effects that may lift sales for both product categories and thus maximize returns. Exhibition companies need to ponder their next moves. Do they want to focus exclusively on running trade fairs or instead become an integrated provider of information services? Given their knowledge of their

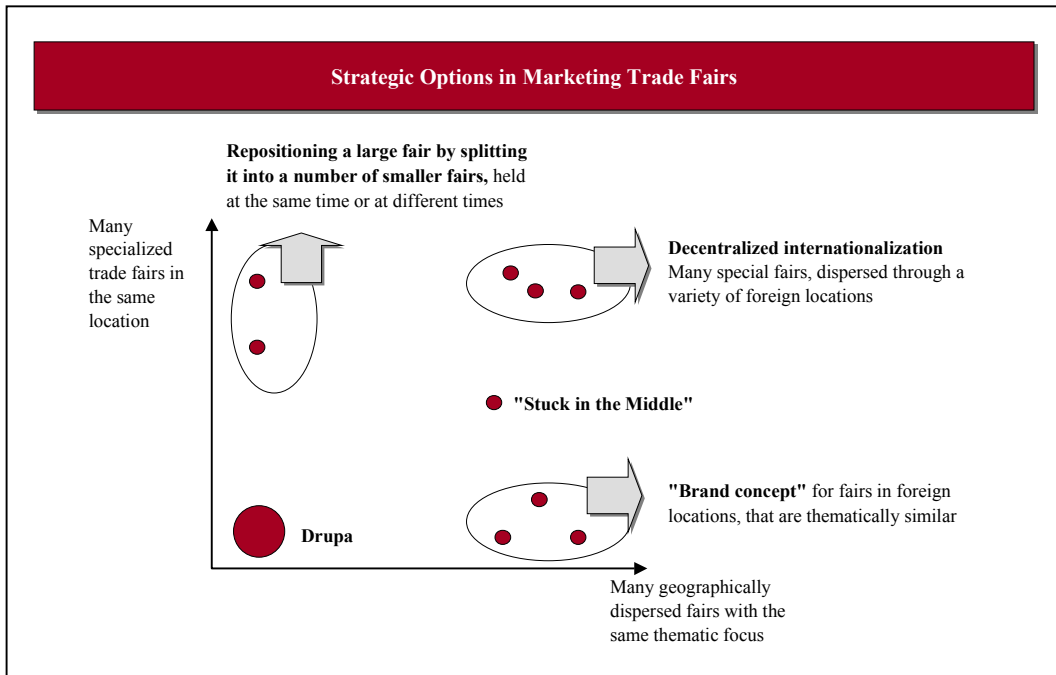
customers' markets, why not also enter other, parallel information channels. Services such as expo.24-7.com provide a glimpse of the type of virtual information marketplaces that may be the wave of the future.

Many industry leaders have been thinking about such new business models. The CEO of MesseKöln, the Cologne Trade Fair, Jochen Witt, believes that integrated communication platforms are indeed the future of the trade fair industry. In the medium-term the pursuit of such a strategy may even make exhibition companies highly attractive IPO candidates.

For those exhibition companies that also own their own convention facilities, a second question looms ahead. Should they split the real estate and the trade fair business, possibly with a view to spinning off the trade fair unit? In Austria, the City of Vienna chose to sell Reed the trade fair business and keep the real estate. Expocenters in Poland shows that focusing on the real estate part may be a good business for current communal owners. Started by Roger Shashoua, founder of the ITE Group, Expocenters builds modern exhibition areas. Long-term rental contracts lock in trade fair companies and keep exhibition centers booked. This could be a model for many municipal owners. It would allow exhibition companies to focus on their core competence, organizing industry-specific communication platforms.

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When it comes to **marketing strategies**, the crucial question is: how do we create added value for our customers? Any sensible answer will rely on detailed knowledge of exhibitors and visitors. There are, for example, industries in which exhibitors show a disproportionately rising demand for focused, small trade fairs. In other industries, however, winning exhibitors may require to "export" a trade fair's thematic concept to the different geographic markets in which current exhibitors are interested. The core issue: even within the same exhibition company answers can vary by target industry.



Global brand strategies make sense, for example, when exhibitors want to attend similar trade fairs around the world. Yet when exhibition companies use a brand-concept, even though the fairs in question only partially focus on the original core brand, such brand strategies become dangerous. Choosing the right strategy and communicating to customers the content of the resulting products are great challenges.

The real problems in implementing any strategy lie in internal organization.

The real problems in implementing any strategy, lie, however, in internal **organization**. Depending on the target market and the appropriate product and marketing strategies, a variety of different organizational structures may be applicable. For many exhibition companies, internationalization has led to a growing number of subsidiary operations and joint venture partners. This further complicates finding solutions to organizational problems.

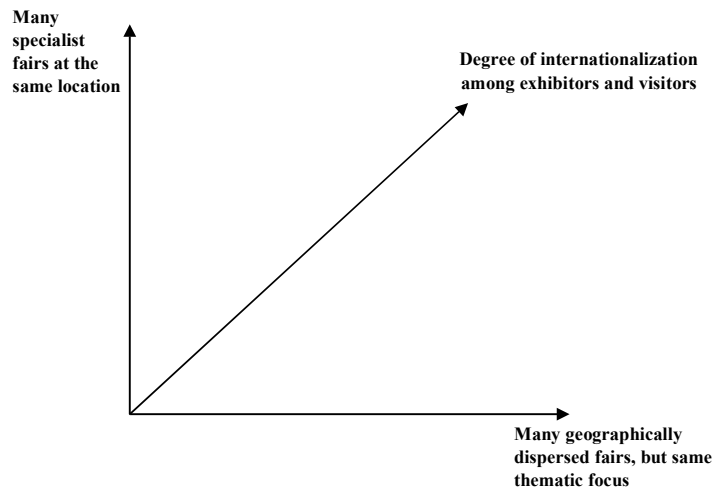
In many cases, top management needs to deal with a whole range of organizational questions at the same time. First, top management needs to choose the

organizational model that will maximize operational efficiency. This is sometimes difficult. Imagine, for example, a global exhibition portfolio that is based on (1) thematically identical trade fairs in (2) different regions and where, across all trade fairs, (3) the degree of internationalization (measured as a percentage of foreign exhibitors) is very high. In such a situation, a sales organization which relies on industry teams that work on a global scale is most efficient. Yet merely a very small change in the client structure can mean that such an organizational model is no longer the optimal solution. If, for example, the degree of internationalization of each trade fair in the exhibition portfolio is significantly lower, it is advantageous to devolve sales activities to local subsidiaries. Exhibition companies should, however, continue coordinating sales centrally, for example with a sales data bank. Such central coordination allows cross-selling which, in the long run, raises the participation of international exhibitors and visitors and thus increases trade fairs' attractiveness.

Second, in some cases top management needs to choose among a number of different organizational models within the same company. This is, for example, necessary when different target industries demand different fair services, and, in consequence, an exhibition company needs to incorporate distinct organizational structures to serve its clients most effectively. Applying, for example, two organizational models - one built on customer segments and one centered around geographic areas - within the same company may create significant frictions. The only way to avoid these is through careful analysis of possible problems of the new structure and clear provisions for mitigating these.

Third, top management needs to overcome organizations' intrinsic resistance to change. We often find that, even though a new organizational structure has been implemented, the *informal* division of labor stays the same. To avoid this, top management needs help in communicating the new organizational structure to its employees.

The Three Dimensions of Organizational Models in the Trade Fair Industry



Conclusion

Trade fairs need to recognize which implications globalization may have for their value chains. Trade fairs' underlying economic risk will certainly increase, yet at the same time opportunities may tremendously grow. On the one hand, private competitors like Reed are redefining the product "trade fair" as part of an integrated communication platform. On the other hand, in many industries exhibitors' and visitors' demands are changing. Here we see two major trends. First, demand for more narrowly defined exhibition events at one preferred site increases. Second, there is also a growing demand among exhibitors who want to be able to attend thematically comparable trade fairs - possibly as part of a branding strategy - around the world. These changes create great challenges for designing and implementing an optimal organization. As services providers, trade fairs primarily rely on the competence and customer orientation of their employees. It is vital that organizational units are structured in a way that puts employees' intellectual assets to the most efficient usage, even in times of industry turbulence. In practice, different organizational models may be combined to create an optimal solution.

Summary

European trade fair and exhibition companies need to realize which consequences globalization has for their value chains. These are four main points:

1. In many industries, globalization has lowered customer loyalty. For trade fairs this means a clear rise in the underlying economic risk, since the customer is a central part of an exhibition company's value chain.
2. Exhibition companies need to find new ways to sell their central competence – supplying an industry-specific information marketplace. The integration of print - and online-media offers enormous opportunities which are far from exploited.
3. Marketing strategies need to adapt to exhibitors' and visitors' changing demand patterns. We observe the emergence of two trends. (1) Demand for thematically focused exhibitions at the same site increases. (2) At the same time demand for visiting and exhibiting at thematically similar events – possibly as part of a global brand-concept – grows. Depending on the exhibitor industry, different variations of these trends exist.
4. Exhibition companies' organizational structures must be adapted to the demands of product and marketing strategies. As services companies trade fairs primarily depend on the competence and customer orientation of their employees. Therefore it is all the more important for exhibition companies to structure their organizations with the aim of maximizing employee effectiveness. Different organizational models may be used in order to achieve an optimal solution.

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