Marketing Strategy & Organisation

Building Sustainable Business

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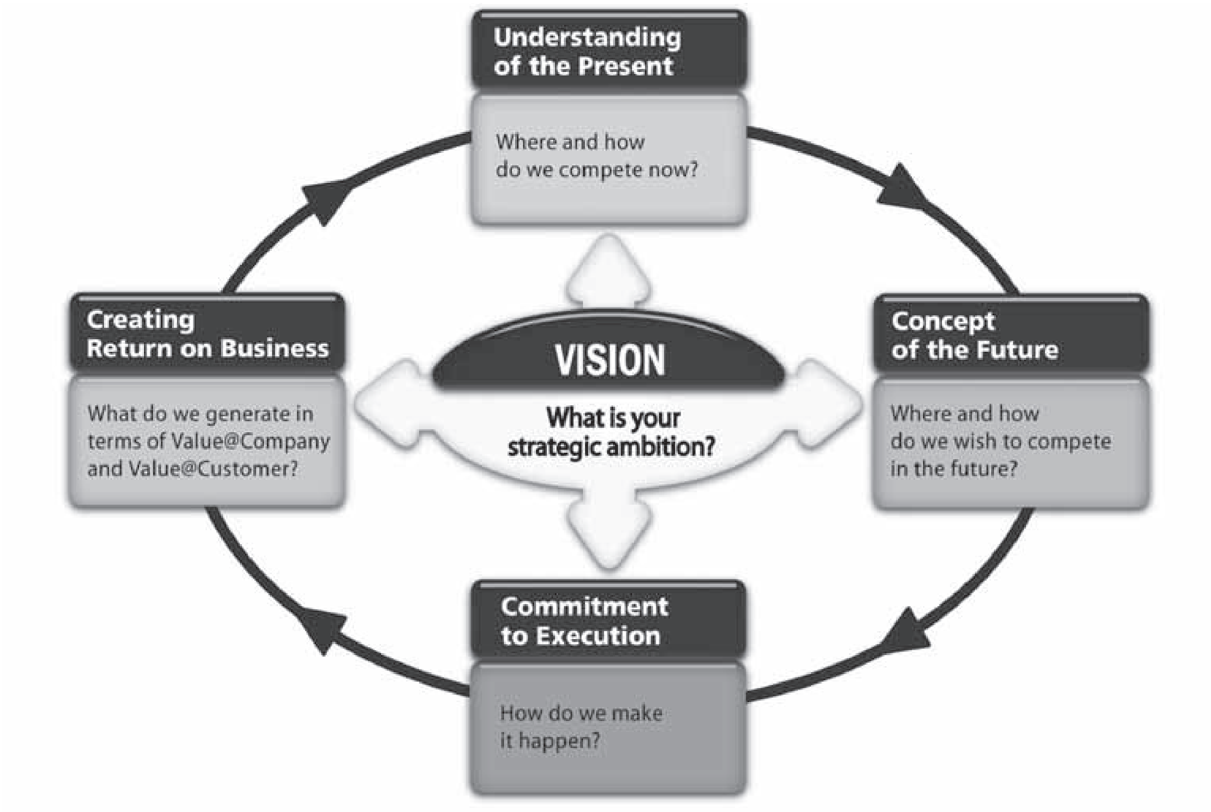
CHAPTER 2

UNDERSTANDING THE BUSINESS

You don't win silver.
You lose gold.
Nike[1]



DEFINING THE BUSINESS

To assess where and how companies compete in the present day, the marketer must analyse the internal and external environments of the company. The most important of these analyses revolve around the customer; the customer value proposition; the business model; and the industry and macro environments in which the company competes.

Following Abell (1980), we agree that defining the business is the true starting point of strategic market planning.[2] In Abell's perspective, a business is defined in terms of three different dimensions: the customer groups a business unit serves; the functions its offering fulfills for these customer groups; and the technologies that are deployed to realise these functions. Abell argues:

"In reality, the product should be considered simply as a physical manifestation of the application of a particular technology to the satisfaction of a particular function of a particular customer group. The choice is one of technologies, functions and customers to serve, not of products to offer. The product is the result of such choices, not an independent decision that results in such choices." (p. 170)

The Abell-framework can be restated in three straightforward questions:[3] who does the company target; what does the company offer; and how does the company accomplish this? These questions, in turn, translate easily into contemporary marketing vocabulary (Figure 2.1):

- *Who*: which customer segments does the company currently target? What different customer groups does the company distinguish?
- *What*: what customer value proposition does the company currently offer? What are the benefits that a customer segment obtains by using the company's offering?
- *How*: what is the resource configuration that endorses the customer value proposition? What competences and assets does the company need to create and deliver this customer value proposition?

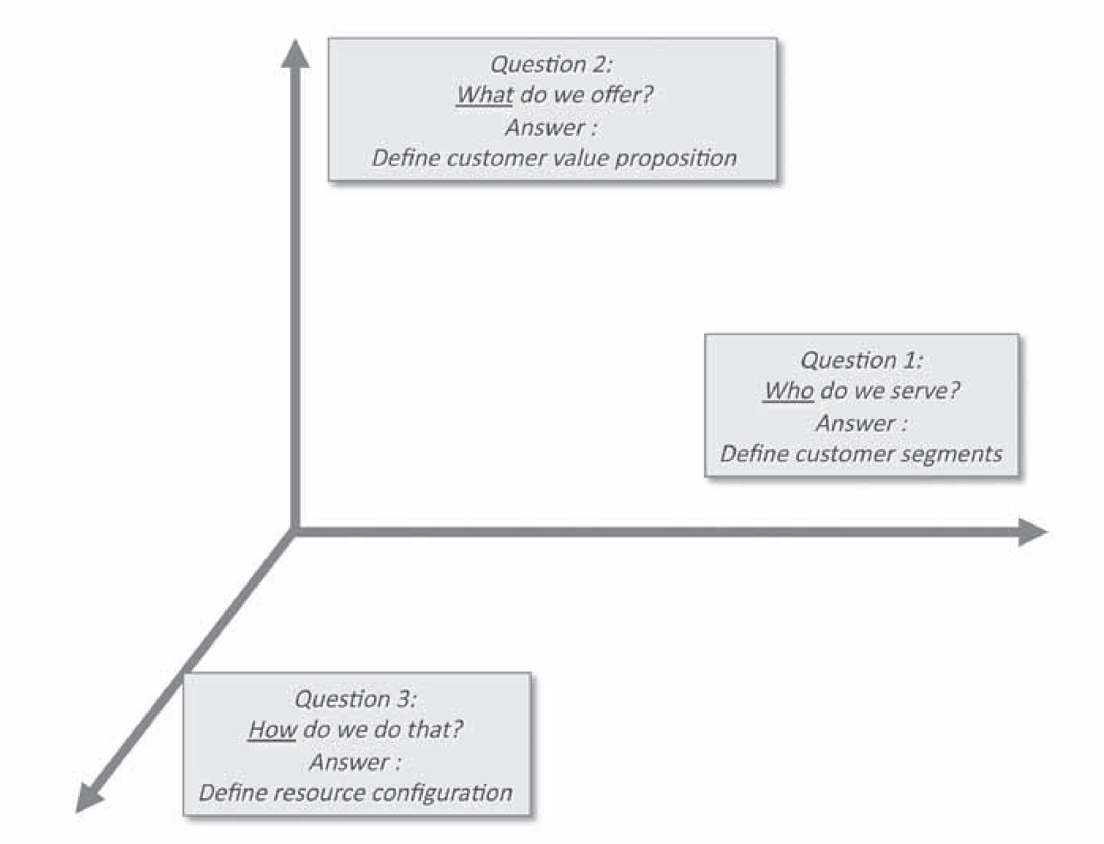


Figure 2.1 · Defining the business

These three dimensions enable marketers to define a business comprehensively and to make positioning decisions. The choices that a company makes with regard to these three dimensions is called *strategic positioning*.[4] An industry may therefore be conveniently defined as a group of companies producing offerings that are close substitutes for each other.[5] However, a close substitute in the eye of the customer is not necessarily a close substitute in the eye of the supplier. "Rolls-Royce does not compete with other cars. Its main competitors are luxury products like yachts, houses, art collections and expensive jewellery," stated marketing director Keith Sanders. There is a saying that if it walks like a duck and talks like a duck, then it must be a duck! But this is not necessarily true.

We must be very careful in the use of generic terms, such as *the* media industry or *the* mobile phone industry. As Figure 2.2 shows, the media industry is multifaceted, and evolves rapidly. In a little over ten years, the share of music has shrunk considerably, while the media share-of-wallet of entertainment software has risen tremendously. Books have maintained their place.

Important changes are also happening in *the* mobile phone industry. Cell phones will increasingly be used as electronic wallets. The industry is defined through the interactions of its participants. Drew Sievers, the CEO of a company making mobile payment software, recently commented: "It all comes down to who gets paid and who makes money. You have banks competing with carriers competing with Apple and Google, and it's pretty much a goat rodeo until someone sorts it out." But which actors will lead this market? The answer is

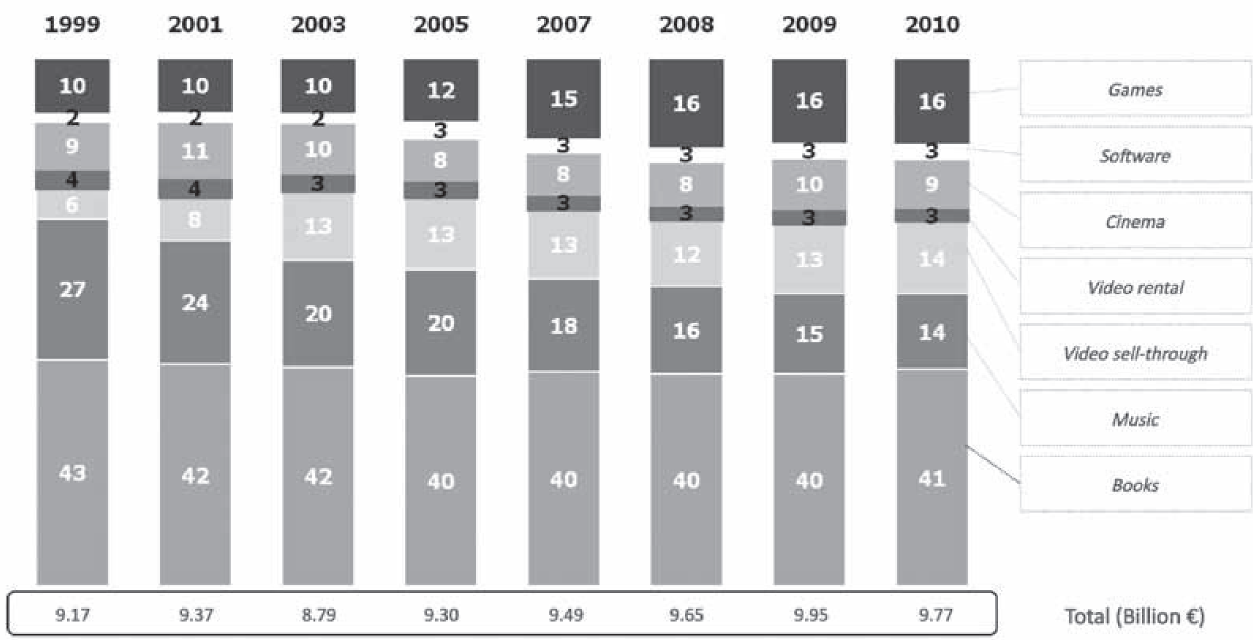


Figure 2.2 · Media Spending in the German Market (Source of Data: GfK)

in the making. "I think watching the industry evolve will determine where we need to go," states a Wells Fargo product manager – quite correctly.[6]

The unit of analysis in this book is the individual *strategic business unit*. This concept of a Strategic Business Unit (SBU) is not unequivocal. Ideally, an SBU has its own objectives and competes in a specific segment with other companies for the production and selling of specific offerings.[7] However, 'SBU' is a *concept*, not an *operational guideline*. It leaves many different degrees of strategic and organisational freedom for corporate managers. Some corporations prefer to organise business units on the basis of discrete product-market combinations, while other will opt for an organisational structure that involves multiple discrete product-market combinations.

CUSTOMER ANALYSIS

Way-to-Market Analysis

The first question marketers need to tackle is deceivingly simple: who is our customer? But if the question is simple, the answer can sometimes be surprisingly tricky. Does a company like Henkel manufacture for the end customer, in this case the consumer, or for their direct customer, such as Albert Heijn and Carrefour? The same question is valid for an industrial company like 3M. Who is their customer? Is it the end-user, who needs industrial maintenance products? Or is it the industrial wholesaler, who does not actively specify the goods but acts as a logistical go-between and pays the bills? Even Schiphol Airport is keen to reach the end-user.[8] Their real customers may be the airlines, but the architecture of Schiphol clearly shows that they strive to be more than a simple go-between for the happily-spending passenger. And if the end-user refuses to shop around, airlines have no reason to let their planes touch down at all. A company must be 'in the same place' as its customers. This 'presence' does not necessarily need be physical presence. It is no coincidence that companies like Nokia and Vodafone are hiring marketing power away from Coca-Cola, a brand that is really close to the customer.[9]

For these reasons, every marketer must acquire a solid understanding of the *'way-to-market architecture'* of their company (Figure 2.3). Such an analysis will show how the company gets its goods and services to the end-user, as well as highlighting the go-betweens and their relationships. Some go-betweens may not pay bills but can still have great influence on the buying process. For instance, architects and designers have a major say in turnkey construction projects. Other companies may have multiple, interdependent customers.

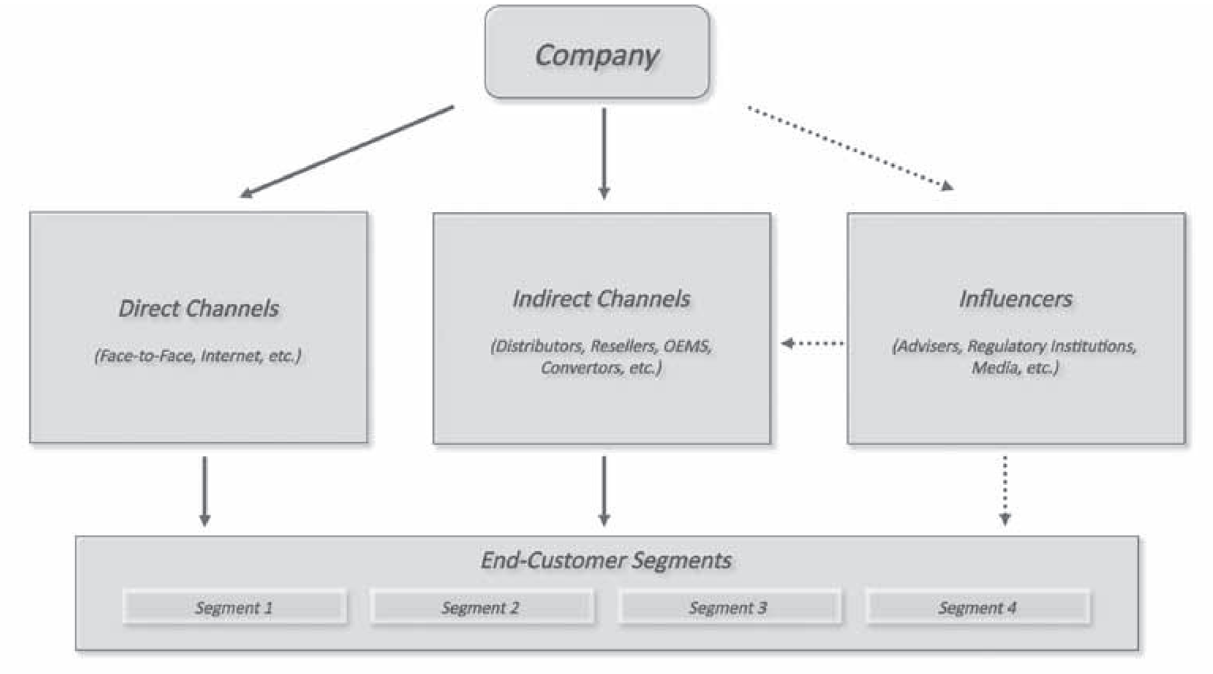


Figure 2.3 · Way-to-Market Architecture

Most newspapers, for example, generate revenues through subscriptions and advertisements. The smaller the readership (client base) of a newspaper, the lower the advertising rates it will be able to command.

A critical question is therefore: *who is the focal customer on which the company should concentrate?* Three questions are important for establishing precisely who are the true customers for a company's offering. These questions are: who makes the choices; who pays; and who consumes? The first question is without doubt the most important one: who is the person taking the purchasing decision – or, more typically for B2B settings, which persons form the decision making unit (DMU)? The term 'consumer behaviour' is – from a strategic marketing perspective – quite misleading. Marketers ought to be interested first and foremost in the identity of the customer, not the consumer.

In many industries, the position of the intermediate re-seller or manufacturer has strengthened during recent years. In some ways, relying solely on the re-seller may be tantamount to trusting the company's soul to the devil. On the other hand, we must also warn against one of the more popular phrases in many companies: *'Always try to reach the end customer.'* The concept of disintermediation has set many marketers daydreaming. "Let's eliminate the go-between and regain ownership of the customer!" In essence, this is the question underlying many a go-to-market strategy.[10] However, a manufacturer may be able to eliminate the go-betweens, but he cannot eliminate the tasks they fulfil. Managing a mishmash of products and services that often have little in common – euphemistically known as an 'assortment' – is not an easy task. And what about the creation of a seductive environment that entices the customer to buy? It is difficult, if not impossible, to disintermediate *Selfridges* from its target customers. Selfridges offers more than a simple store; it is an experience in its own right! Push and pull do not exclude each other – they are really two sides of the same coin.

What about *two-sided* or *multi-sided markets*?[11] For instance, who is the real customer in the Apple iPhone arena? Is it the iPhone junky who craves for the newest version; is it an app developer, such as Rovio Mobile, that adopts the technological platform and develops the wildly successful *Angry Birds* game; is it the record company Interscope, selling Lady Gaga's *Born this way*; or is it Logitech, producing its iPhone speakers? To begin with, we need to realise that many of these parties are network partners rather than customers. However, while Apple offers an interesting *network* value proposition to these parties, even the casual observer of this industry will acknowledge that Apple firmly occupies the driver's seat. This is the result of *network effects*. The parties are mutually dependent: without a large customer base, suppliers will not develop products and services for the Apple iPhone; without peripheral products and services, the iPhone becomes a lot less appealing to customers. While Nokia may hold a greater unit market share in the mobile phone business, the iPhone network definitely appeals more strongly to the app developing community than Nokia.[12] Clearly, the Apple corporation has located itself at the hub of a network for which it provides a productive platform to the key economic agents in that network. In other words, Apple holds the *keystone advantage*, producing "benefits for the ecosystem and its members."[13]

While Apple offers a highly visible example, the idea that a company in an industry can offer a connecting platform and create positive feedback between its economic agents is not limited to the information and technology sector. As mentioned before, newspaper publishers serve both readers and advertisers. Recruitment agencies serve job seekers and employers. Even a hospital and its medical specialists may be viewed as a platform that connects patients, pharmaceutical companies, health insurance organisations and policy makers. Often, the platform company subsidises one side (we can use Google freely and free of charge to find an insurance company) and captures the profit with the other side (the insurance companies attract more paying customers).[14] In each of these instances, the answer to the question 'who is the customer?' depends very much on the perspective adopted by the company and on the task at hand. While Figure 2.3 looks deceptively simple, the professional reality has shown us over and over again that the development of a solid, logical, yet simple and powerful way-to-market architecture is easier said than done. In contrast, the development of a complex, poorly structured way-to-market architecture is child's play. But it will render the strategic process inefficient before it has ever left the ground.

A final reflection. The question of the customer's 'real' identity does not restrict itself to the meso-level of an industry. It also applies to the micro-level. While some offerings are bought at an individual level (a book; a taxi ride), the choice of other offerings will occur in a group setting. Such group decision-making can be highly informal, such as when a family decides how to spend a Saturday evening. Alternatively, it may be highly formal, as exemplified by corporate capital investment decisions. The people making up decision-making units can have a single role or multiple ones: initiator, influencer, gatekeeper, decider, buyer, user etcetera. Each separate entity may require the supplier companies to customise their selling process to influence them to best effect.

The Needs of the Customer

A market definition does not reflect the product that a company sells, but the need which they fulfil. Charles Revlon, founder of the Revlon cosmetics company, once remarked that "in the factory we make cosmetics, but in the store we sell hope." An enlightened manufacturer of drills commented in the previous century that they were not in the market of "quarter inch drills, but quarter inch holes." Casual observation suggests that the market for quarter-inch holes does not exist. But which markets do genuinely exist? In this instance, a market that calls for a convenient and foolproof way to put a picture of your loved ones on the wall. We must learn, however difficult it may seem, to define markets in terms of '*the job to be done*' rather than *'the product to be sold.'*[15] More than half a century ago, Ted Levitt formulated the classic marketing myopia theorem. It is still highly relevant, even today:

"In short, if management lets itself drift, it invariably drifts in the direction of thinking of itself as producing goods and services, not customer satisfaction. (...) The historic fate of one growth industry after another has been its suicidal product provincialism."[16]

In essence, goods and services are unimportant to the customer. *Marketers must recognise that the important thing is what their goods and services do for their customers.* The group marketing director of Manchester United once illustrated this central marketing principle:

"We're in the sports business, clearly, but we're in the entertainment business as well. What I talk about is being in the 'escapology business'. Billionaires to dustbin men can come here to engage with Manchester United and escape from whatever it is they do day-to-day."[17]

In essence, goods and services transform an undesirable situation into a desirable situation. We eat pizza to eliminate the undesired feeling of hunger, transforming it into the desired feeling of having eaten well. The process does not always have to be this functional – there are other kinds of needs as well. Customer needs typically come in three varieties: functional, experiential and symbolic (see Figure 2.4).[18] Customers with a functional need will buy a car that caters to the most basic need of transportation: getting from A to B. In this case, a Dacia Logan or the Tata Nano would happily fit the bill. However, in view of the dismal sales figures of the Nano, perhaps it must also try to address needs other than purely functional ones![19] Symbolic needs involve the desire to look 'successful' (an Audi A5 cabrio may do the job for some) or to be environmentally friendly (perhaps a Toyota Prius – most buyers of a Toyota Prius in the USA indicated that owning a Prius 'makes a statement about me').[20] Experiential needs relate to the desire to feel the power of a V12-powered Ferrari 599 GTB Fiorano or to be submerged in the luxury of a custom-built Rolls-Royce Phantom.

Figure 2.4 · Perspectives on Customer Needs in Consumer Markets

In defining needs within the framework of industrial markets, the concept of *derived demand* occupies a central position (see Figure 2.5). Many industrial marketers view derived demand from a statistical perspective. The demand for an industrial company's products follows from the demand for the products of their customers. Steel manufacturers benefit tremendously when the car market is booming. However, one may also view derived demand from a proactive perspective. The *raison d'être* of industrial suppliers is to enhance, through their products and services, the competitiveness of their customers. Automotive suppliers, including steel companies, must help their customers — the automotive manufacturers and brand names — to compete in the end-user market. Similarly, a consultancy company is not in the market of consultancy: it is in the market of providing effectiveness and efficiency. In other words, the company must help its client organisations become more competitive in their markets.

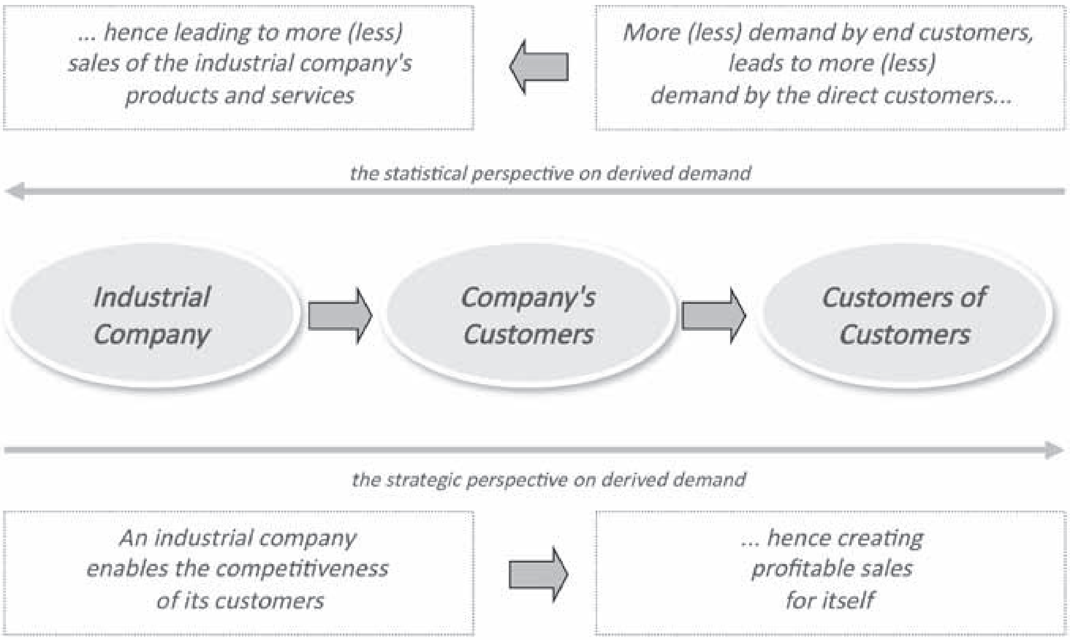


Figure 2.5 · Perspectives on Derived Demand in Business Markets

Customer Segmentation

A segment consists of a group of individuals (in consumer marketing) or organisations (in business-to-business marketing) that share one or more characteristics, making them have similar needs.[21] The important implication is that segmentation is much more than merely a numerical exercise: different segments simply require the allocation of different types and amounts of resources to address the segments' needs appropriately. This process of 'segmenting the market' is called (not surprisingly) segmentation. While segmentation is a cornerstone of proficient strategic marketing, our experience and the experience of many colleagues in marketing academia and consultancy show that poor segmentation is most likely the number one flaw in marketing plans. Many companies do not segment their markets, they *classify* customers based on easily observable characteristics such as the size of the company. The descriptors small, midsize and large customers do not refer to segments: they refer to a classification, the meaning of which very often remains unclear.

What distinguishes segmentation from mere classification is the all-important word *need*. The segmentation process starts by first considering customer needs. Once the market has been divided into segments, we can label each segment using profiling variables. These variables ideally refer to the needs identified and the most important characteristics of the members of the seg-

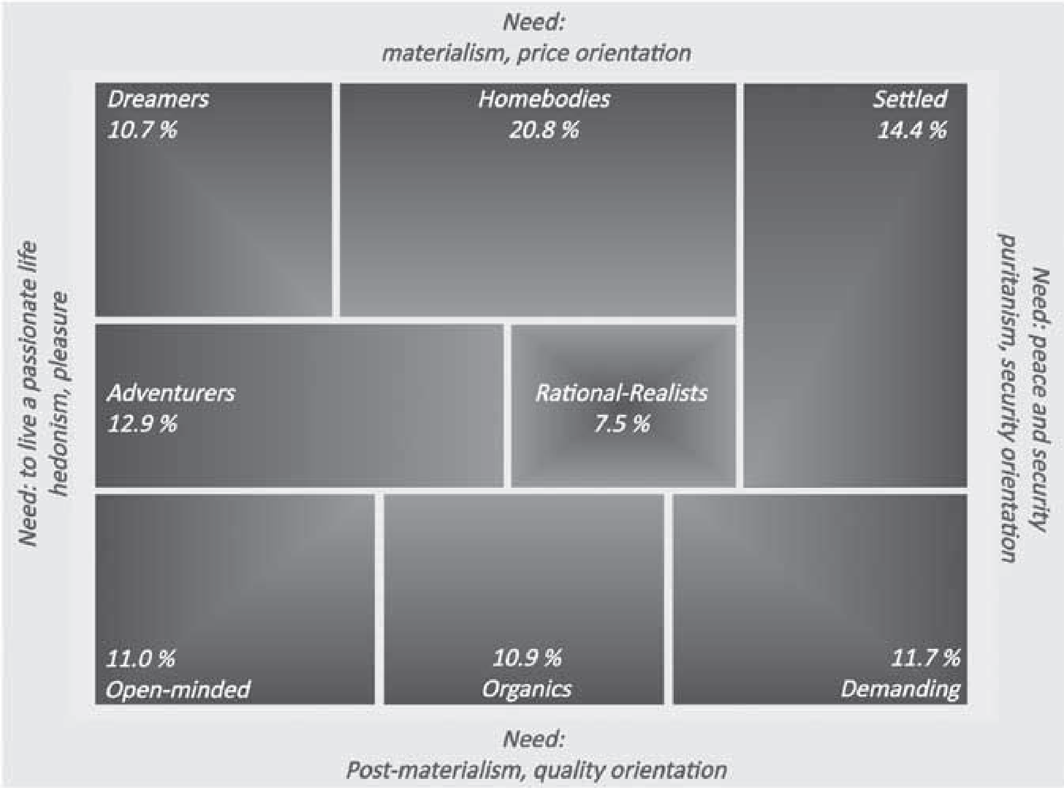


Figure 2.6 · Lifestyle Segmentation

ment. In consumer markets, profiling variables may be geographic (region, size of city, climate), behavioural (frequency of use, loyalty, readiness to buy), psychographic (lifestyle, personality, values) and demographic (age, gender, education).[22] The segment names should be useful in identifying and communicating with the segment's members. For instance, once fashionable labels were 'double income, no kids' (DINKS) and 'young urban professionals' (YUPS). Other segmentation schemes are more esoteric, such as the 'metrosexual' man. This is a man who has a strong interest in fashion and looks, often living in an urban environment. Special products are created to entice that segment, such as a 'magalog' (a combination of a magazine and a catalogue). The buzz of the marketing community now centers on *Generation Y*. This generation favours brands that are reliable, genuine and honest, and exhibit a style of their own. [23] While some companies target these *Echo Boomers,* other companies refocus on the original *Baby Boomers* (people born between 1946 – 1964). For instance, the film industry wants to lure this generation to the movie theaters again.[24]

An example of a comprehensive lifestyle segmentation with adequate segment labelling is given in Figure 2.6. The GfK Roper Consumer Styles were developed on the basis of a research study that was conducted in more than 30 countries, involving 1,000 to 1,500 interviews per country. This resulted in a comprehensive and versatile consumer segmentation. For each segment, in-depth profiles were constructed. For example, it was found that 'open-minded people' represent 11% of the market, are often trend-setters and are more prone to engage in conspicuous consumption that is oriented towards leisure and innovations. These in-depth profiles enable marketers to design brand positioning strategies and optimise the marketing communications mix.

In industrial markets, segmentation often follows a two-step process.[25] Firstly, a process of macro-segmentation leads to the identification of large segments, based on demographic and industrial criteria. Thereafter, further micro-segmentation can be carried out, based on the characteristics of the decision-making units of the customers. In this regard, there are many different ways to describe a DMU — for example, they may differ in terms of customer competencies, types of application used, loyalty to the supplier etcetera.

With so many options to split up the market, what are the characteristics of good segmentation criteria? Firstly, good segmentation criteria effectively cluster the target market in a broad yet comprehensive set of separate customer groups. Ideally, this will result in *substantial* segments. One contract research company segmented its market on the basis of the ten lines-of-business and the eight industries in which it operated. While this is mathematically logical (an attitude to be expected from a contract research company), it is (of course) sheer marketing nonsense. The expected average segment size will be 1.25% of total sales, but in reality most segments will simply be empty. Such segmentation produces confusion, not clarity. Organisations develop different value propositions and assign different resources to these target groups: too many target groups will result in economically unrealistic market snippets.

A study of wine consumers[26] revealed six segments: the enthusiasts (12% of consumers; 25% of wine purchases), the image seekers (20%; 24%), the savvy shoppers (15%; 15%), the traditionalists (16%; 15%), the satisfied sippers (14%; 8%) and the overwhelmed (23%; 13%). "There is no such thing as a typical wine consumer," observes José Fernandez, the CEO of Constellation Brands, the company that commissioned the study. He is right. For instance, to the satisfied sippers, wine is a low involvement beverage. They usually grab the same, inexpensive bottle in the same supermarket. These satisfied sippers contrast sharply with the savvy shoppers, who simply enjoy the exploration of a newly discovered wine shop. For a wine company, it is practically impossible to develop a vinification and distribution strategy that pleases all customers. Nevertheless, there are firms that do reach out to a very broad spectrum of wine consumers. For instance, Penfolds (Australia) offers inexpensive, decent wines for as little as €10, as well as the Australian nec plus ultra *Penfolds Grange* that costs several hundreds of Euros.

Secondly, good segmentation criteria allow marketers to define *measurable* segments. If you cannot measure a segment, you are simply daydreaming — which for most companies is an unprofitable activity. The following statement — or variations thereon — reflects marketing myopia at its best (or worst): “This is a small but fast growing segment, which the competition has not yet discovered.” Apart from assuming that your competitors have indeed not yet discovered that segment, we need to be specific about what exactly we mean by the terms ‘small’ and ‘fast growing.’ Size and growth rate *do* matter. Although many companies might want to target ‘undisciplined, extravagant spenders,’ they will find no database containing the relevant contact information for such people.

Thirdly, the segments must be *differentiable*, meaning that different segments will react differently to different elements in a company’s marketing strategy. This implies that segments are internally homogeneous (i.e., members of a segment should be highly similar in terms of the benefits they are seeking) and externally heterogeneous (i.e., the needs per segment should be different; otherwise there would be no requirement for different segments). In other words, market segmentation is a strategic process and not merely a numerical exercise, consisting of a number of colourful pie diagrams. If you treat them all the same, distinguishing between large (A-customers), midsize (B-customers) and small customers (C-customers) is of no use. A good segmentation is therefore one which enables the company to differentiate the customer value proposition for each segment.

For example, the ski resort of Deer Valley in Utah allows skiers to enjoy the fresh powder during the first hour of the day in solo fashion for a price premium of $1,000.[27] However, ski resort administrators also know that not all skiers are die-hards. The ski resort of Les Houches (near Chamonix, France) offers a *Grasse Matinée* skiing ticket, starting at 11 o’clock in the morning and lasting the rest of the day. This allows many people to enjoy a good night’s sleep after a long evening dinner, without the frenzy of having to be on the slopes by nine o’clock! Segmenting a market without any strategic translation is nothing less (and certainly nothing more) than calculus. Admittedly, such a translation — accompanied by a nice presentation and Tina Turner’s *Simply the Best* — may be quite attractive. But as soon as our amazement has died away, it is back to the real world and to the harsh reality that too many organisations treat their customers in terms of ’one size fits all.’

Fourthly, the segments must be *actionable*, meaning that it must be possible for the company to formulate an appropriate marketing strategy for each segment. ‘Actionability’ forces the marketing staff to construct a pragmatic segmentation. It is vitally important that the segmentation can be explained in easy-to-understand language. If the sales representatives do not understand the terminology and the implications inherent in the different segments, then the segmentation process is both inadequate and incomplete. In segmentation, the label attached to each segment is of crucial importance. The brewer AB-InBev employs a very pragmatic and very effective segmentation for its Jupiler brand: it simply targets the male part of the population. Its slogan? "*Men know why!*" In a similar vein, Jupiler is also a major sponsor of soccer in the Benelux — a typically male pastime. This simple but effective segmentation contrasts strongly with the more esoteric variations often found in the fast-moving consumer goods industries. A regional manager of an European bank once sarcastically sighed: "In practice, we do not experience too much hindrance from the segmentation criteria that are used in our bank."

Fifthly, marketers must challenge themselves and try to *think differently*. For instance, most industrial companies informally use one of the following segmentation criteria to segment their client base: the size of the customer (sales volume), the sector in which the customer operates or the location of the customer. Thinking differently from the competition and defining new perspectives allows smart marketers to open up new opportunities. For example, an industrial service provider decided to switch from a segmentation based on customer size to one based on the attitude of its customers towards outsourcing. Upon closer analysis, seventy percent of its client base was interested in full outsourcing of maintenance, while only thirty percent clung to a strict buying mentality. The new approach enabled this service company to get deeper into the value chain of its customers, creating customer lock-in and generating higher profitability. The second type of customer typically assessed services on a cost-price basis. In terms of actionability, it also forced the company to drastically review its regional offices and its personnel. Twelve of the fourteen regional sales managers had historically acquired an approach more attuned to the buying mentality, thereby creating an organisation ill-equipped to make best use of market opportunities.

Segments *change* over time. The rock band Genesis confronted heavy criticism when they changed their musical style in the 1980s — fans and critics wanted 'their' Genesis back. Phil Collins, the band's then lead singer, riposted: "Do you read the same books you did 25 years ago? Do you still wear the same clothes? People change — and so do we." In similar fashion, Samsung evolved from an ugly duckling into a beautiful swan, using the strategy that had made Sony and Toyota such a success some decades earlier. Finding themselves unable to win against the low-cost based competition, they resorted to a different strategy. Through a continuous improvement in the quality of their products, Samsung was able to charge higher prices. This strategy allowed them to yet further improve the quality, which paved the way for access to more demanding and affluent segments. Such trends are not necessarily always 'upward.' Tabloid newspapers, addressing a polarised view of society, are generally in strong demand. While we may not admire the content of *The Sun* or *The Daily Mirror*, we are forced to admit the success of their street-wise marketing.

Targeting: Where's the Money?

Spreading a company's limited resources too thinly is seldom a precursor for market success. A decision must be taken to select particular segments to focus on, a process called targeting.

In itself, a market is never attractive. It is only attractive when a company can develop a competitive advantage in its chosen market (see below). In addition, the chosen segment must be compatible with the organisation's long-term financial and non-financial objectives. Naturally, senior management prefers to allocate resources to those market segments that provide the best return. That is why the attractiveness of the market is usually assessed in the following terms: *assuming the company can develop a competitive offering,* what are the most attractive segments?

Three criteria are relevant to this decision. The size of the segment is obviously an important consideration. A segment must be worth the effort you put into it. "If you are ill, you'd better hope it's a popular disease," said Dr. Paul Janssen, founder of Janssen Pharmaceutica. The development costs associated with new drugs are so high that a small market niche is not profitable.[28] The second consideration relates to the growth rate of the segment. The higher the rate of growth, the more attractive the segment is *ceteris paribus*. Finally, the structural attractiveness of the market segment will be important for your segment choice. Chapter 3 addresses this aspect. Even then, disappointments may await the enthusiastic marketer. While *Avatar* left the moviegoer baffled in his seat, Samsung faces a disappointing 3-D TV launch. 'Samsung was hoping to drive a bigger market,' says its vice president for home entertainment.[29]

CUSTOMER VALUE PROPOSITION

Definition

Having chosen the market segments in which to operate, a company's next task will be to differentiate its offering from the offering of the competition. Companies may choose to follow one of the following four scope strategies:[30]

- *Non-segmentation strategy*: in this strategy, the company defines a single customer value proposition, which is marketed to all the selected target segments;
- *Segmentation strategy*: having identified the target segments, the company devises a different customer value proposition for each of the selected target segments;
- *Niche strategy*: the company identifies one segment and develops a customer value proposition for that segment;
- *Customisation strategy*: the offering is adapted for each and every customer, either via pure customisation or standardised customisation.

Whatever strategy of scope you choose, it is time, in the kind words of Jack Trout — to 'differentiate or die.'[31] The *customer value proposition* lies at the heart of the customer's decision-making processes. It reconciles two distinct points of view, i.e., the view of the customer and that of the company. When customers discover that they have a need, they search the commercial market to see what is on offer.[32] Which company can cater to their needs and provide the benefits they want from using a product or service? We define a *competitive advantage* as a strength possessed by an organisation that influences the decision-making process of the customer in favour of that organisation. A *customer value proposition* is a symbiotic bundle of one or more competitive advantages.[33]

Customer value has been at the centre of much research.[34] To date, however, the concept of 'value' has not yet been unequivocally defined.[35] From a marketing perspective, a competitive advantage must be defined from the vantage point of the customer.[36] Having said that, we agree that value must not only be created for the customer, but also for the company. In this respect, the strategy literature has often defined competitive advantage as the ability to achieve above-average profits. In other words, the strategy school typically associates competitive advantage with value creation for the company. In our view, the ability to create (and sustain) profits on the basis of a customer-defined competitive advantage is a criterion of sustainability (see Chapter 4). However, if the customer fails to choose a company's offering in the first place, there is simply no possibility to create a profit. Consequently, competitive advantage starts with the customer and it must be therefore defined accordingly.[37]

Winning in the Market

Exceeding customer expectations is a central theme in current marketing theory and practice. How can we make customers happy? Tom Peters refers to this as "the pursuit of wow."[38] The average European museum is now discovering what the Smithsonian in Washington has known for a long time. Museum visitors can hardly be viewed as haphazard passers-by, when they have paid many euros to wander around sparsely lit rooms, having first searched for a parking space for the better part of an hour. Even state-owned media companies such as the BBC, ARD or France 2 have found out that it is better to treat viewers as customers.

Having a competitive advantage is essential for winning in the business world. Companies that lack a competitive advantage will always lose out in the market. *"If you don't have a competitive advantage, don't compete,"* is a quote by Jack Welch, former CEO of General Electric, which neatly summarises this point of view. The strategy literature and the popular press offer myriad examples of organisations and brands that hold a strong competitive advantage in the market. General Electric, Microsoft, Facebook, Nike, Nucor, Diesel, Southwest Airlines, Wal-Mart, Sony, Apple, FC Barcelona, Coca Cola, BMW, to name just a few companies with clear-cut and compelling competitive advantages.

First, however, we would like to spend some time looking at the concept of *critical success factors* (CSF). By definition, critical success factors are variables that management can influence and that determine the competitive position of the company in the industry. We distinguish two types of CSFs:

- A first type of CSFs relates to the necessary requirements for an organisation to compete in a certain market. Such CSFs are known as *'tickets to ride,'* since they are the qualifiers to enter a market. They can be viewed as the equivalent of an Olympic minimum: they allow you to participate in the race.
- A second type of CSFs enables the company to clearly distinguish itself from its rivals. These CSFs are *'tickets to heaven,'* since they give the company an edge over the competition. These are the resonating CSFs.[39] They can be viewed as the equivalent of a gold medal in the Olympic context.

Bill Cosby once remarked, "I don't know the key to success, but the key to failure is trying to please everybody." In order to be successful, marketers must make choices. During a business roadmapping session with a Dutch industrial research company, the following eleven CSFs were listed by an outside consultant:

- Image
- Reliability
- Thinking with the customer
- Relationship
- Knowledge
- Price
- Quality
- Flexibility
- Speed
- Innovativeness
- Resources.

The consultant went on to state that the company needed to excel at all these CSFs. One of the participants did not agree. He argued that while these factors were evidently of importance, it would be impossible to excel at each and every one of them. The participant was right, of course. The situation can be compared with that of a successful decathlon athlete. Athletes like Jurgen Hingsen, Daley Thompson or (more recently) Roman Sebrle (the first person ever to gain more than 9000 points) did not outperform the competition by excelling at all ten disciplines. The physiology needed to win at discus throwing differs from the physiology needed to win the 100 meters sprint.

A company must not seek to excel at every CSF. Trying to excel at multiple CSFs is not only impossible, but is also competitively *dysfunctional*. It will force the company to spread resources thinly, resulting in a mediocre performance on the CSFs across the board, allowing competitors to outshine the company in specific domains. When a company performs averagely overall, its market share will be less than average. During a study of critical success factors in the UK market, it was noted that a particular chemicals company performed reasonably well. Unfortunately, its market share was a lacklustre 2.5%, and this in a market containing just six competitors in total. “Everything counts in large amounts,” Depeche Mode sang a long time ago — lyrics that place this example in its proper perspective: choose or lose! In the digital camera market, a customer who buys Canon is triggered by different needs than a customer who buys Fuji or Nikon (see Figure 2.7). While the low price of a brand has become the second most important reason to buy, Sony clearly pursues a different strategy by focusing on brand experience and product quality.

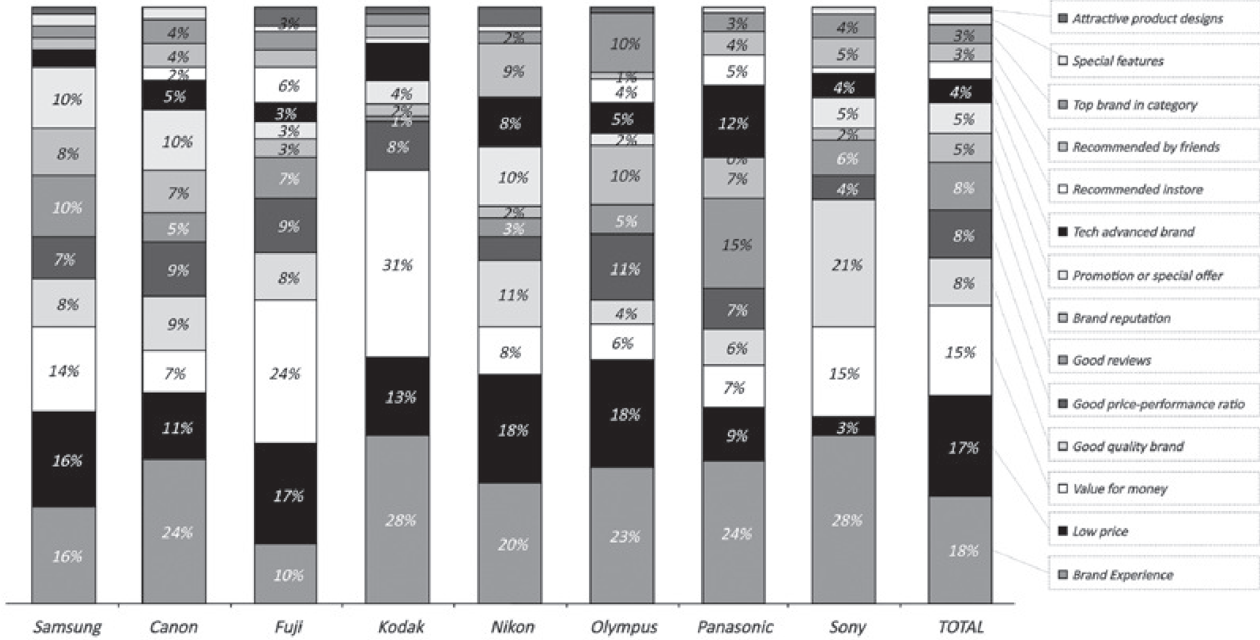


Figure 2.7 · Most Important Reasons for Brand Choice: Digital Compact Camera's)
(Source of data: GfK NOP UK; December 2010 – % refers to proportion of buyers mentioning brand purchase reason)

How many competitive advantages does a company need? This is a difficult question to answer. If we follow Aaker's research,[40] successful companies possess on average four to five competitive advantages. This makes sense. If a company cannot convince its customers with its five most important arguments, it is doubtful if they will ever convince the customer at all! Crawford and Mathews state in their book *The Myth of Excellence* that successful companies deliberately choose to dominate in a single CSF, in order to differentiate themselves from the competition, but also have an average market performance in three other CSFs.[41]

Companies that choose to focus on a selected number of customer benefits have just two options. Either the company must try to be *better* or the company must try to be *different*. A combination of both is also possible, of course. In its purest form, a company can eclipse the competition by excelling at the rules of the game ('be better') or by changing the rules of the game ('be different').[42] Quality and prestige are well-known critical success factors in the watch industry. However, Rolex has raised standards to such a height that other mass manufacturers find it nearly impossible to compete on these aspects. Similarly, the 1001 horsepower of the Bugatti Veyron is not the consequence of an engineering blooper, but rather a deliberate statement of company intent: in the race for more horsepower, the Bugatti Veyron will continue to outshine all other high-powered sports cars. Alternatively, some companies prefer to change the market rules, as CNN has done with 24/7 news broadcasting, as El Bulli has done in the restaurant business, and as Nokia has done through focusing on the design of its mobile phones. The Nokia example painfully shows how other competitors (HTC, Samsung) and new entrants (Apple) will copy the new rules set by the innovator and improve them. A value proposition that is different today, is merely better tomorrow and a qualifier the day after tomorrow.

The CODA Framework

Based on the empirical and theoretical insights available in the strategic marketing literature, as well as on our own research and experience with many companies across various industries, we suggest a taxonomy involving four types of competitive advantage. This model has been labelled CODA, an acronym for *Customer's Outlook on Differentiating Advantages* (Figure 2.7). The use of the term CODA also has a metaphorical meaning — it is the final chord in a company's strategic marketing process. The CODA-taxonomy contains four types of competitive advantage:

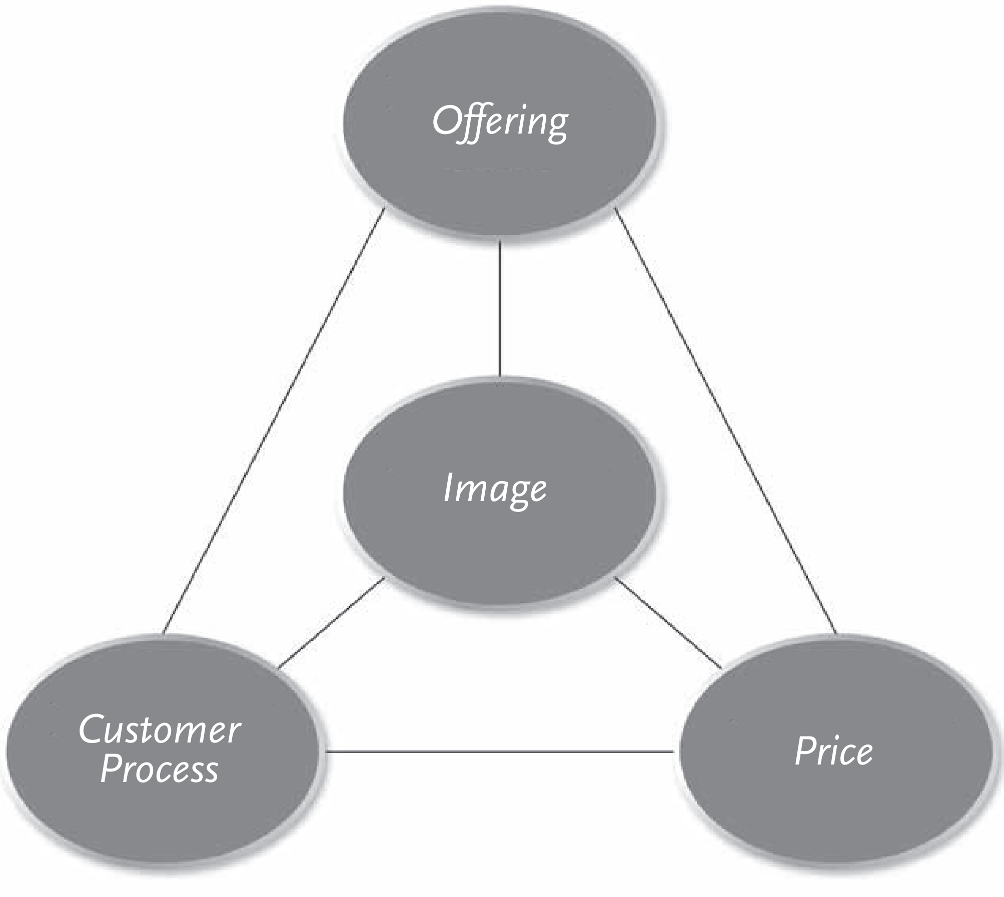
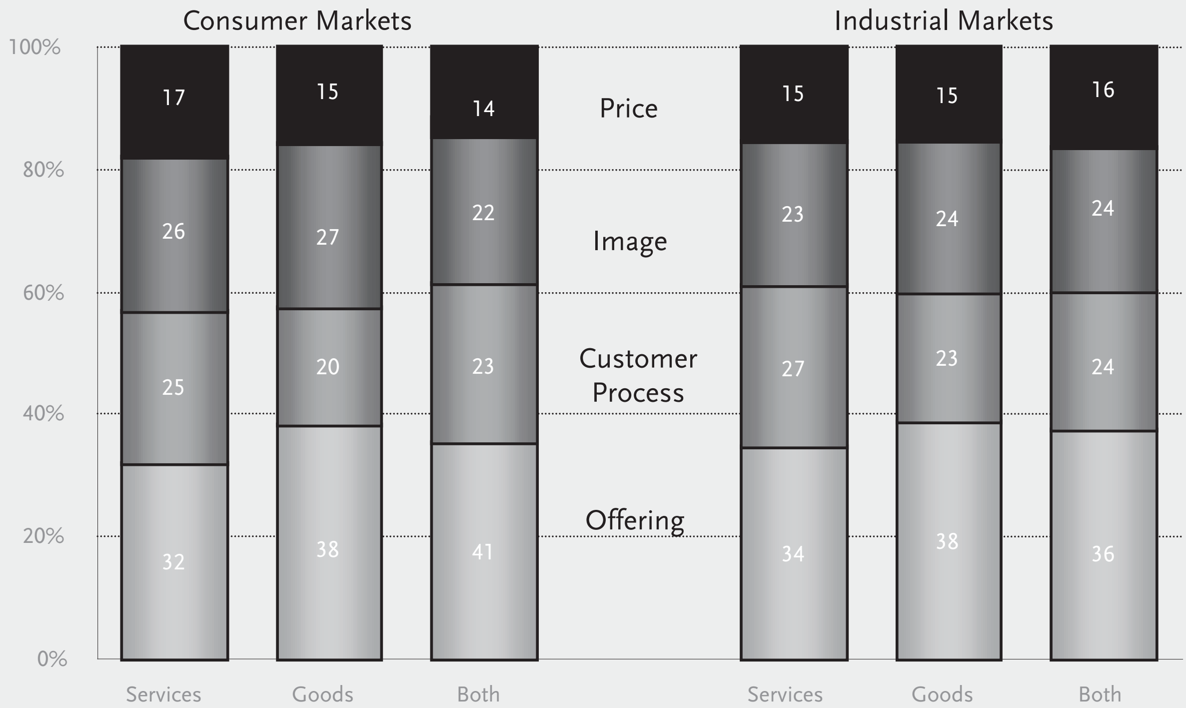


Figure 2.8 · CODA: Customer's Outlook on Differentiating Advantages

- The offering refers to the functional core benefits that the product or service offers to the customers. *What do you offer?*
- Customer processes are the interactions between the organisation and its customers. Through these interactions, the organisation identifies, builds and maintains relationships, as well as delivering its offering. *How and where do you offer it?*
- Price is the sum of the financial and non-financial costs a customer incurs when buying, using or possessing a service or product. *What are the costs to the customer?*
- The image component refers to the awareness, the beliefs, the ideas or the impressions that the customer holds about an organisation and its offering. *What do you represent?*



The companies in the 'Competing in Changing Markets' survey were asked to allocate 10 points to the four dimensions of the CODA-model, so that the distribution reflected the relative contribution to the company's customer value proposition. The results from 2009 in this figure are very comparable with the results from 1999, 2003 and 2007. The dominant mode of differentiation relates to product/service-differentiation.

Competing in Changing Markets 1 · The Constituents of the Costumer Value Proposition

You may be wondering what has happened to the 'traditional' 'differentiation versus low cost' framework.[43] The Porter framework is unquestionably among the most substantial and influential studies on the meaning of competitive advantage. However, there are strong reasons why we reject this approach:

- Companies are able to pursue more complex strategies, requiring a diversity of competences.[44] For instance, when the Kinepolis movie theatre opened in Brussels, a chair cost only €1,750, half the industry average. At the same time, Kinepolis offered truly excellent sound and projection quality, as well as seating comfort.[45]
- As marketers, we must adopt a customer perspective in conceptualising competitive differentiation. The harsh reality is simple: a customer is not interested in cost, but in price.[46]

THE DIFFERENTIATION ARENA

Time for synthesis! We have distinguished three basic customer needs: functional, experiential and symbolic. On the supply side, a company creates benefits for its customer by differentiating its offering in terms of product benefits, customer process benefits, price benefits and image benefits. The set of a company's competitive advantages in a given customer segment is the customer value proposition.

For instance, McDonald's differentiates itself in the fast-food market through its consistency worldwide. Where food is concerned, customers expect reliable quality (product benefits addressing functional needs). At the same time, McDonald's accomplishes what no other fast-food restaurant is able to accomplish: wherever you enter a McDonald's restaurant, the service and the lay-out carry the same indelible McDonald's hallmark (customer processes addressing experiential needs). Families can enjoy the many opportunities for the children to entertain themselves in the playing area (customer processes addressing experiential needs). Moreover, McDonald's, in its role as a fast-food pioneer, has been able to create for itself an image as *the* family fast-food restaurant (image benefit addressing experiential needs).

At a more detailed level, the opportunities for differentiation are endless. In Figure 2.9 we have synthesised the major contemporary opportunities for competitive differentiation. Within a particular industry, companies (and even brands or product-lines within a company) will use widely varying differentiation strategies. While Toyota emphasises the reliability of much of its range (yet recently incurred significant problems in that respect), the hybrid Toyota Prius positions itself very strongly in the environmental segment. BMW prefers to dif-

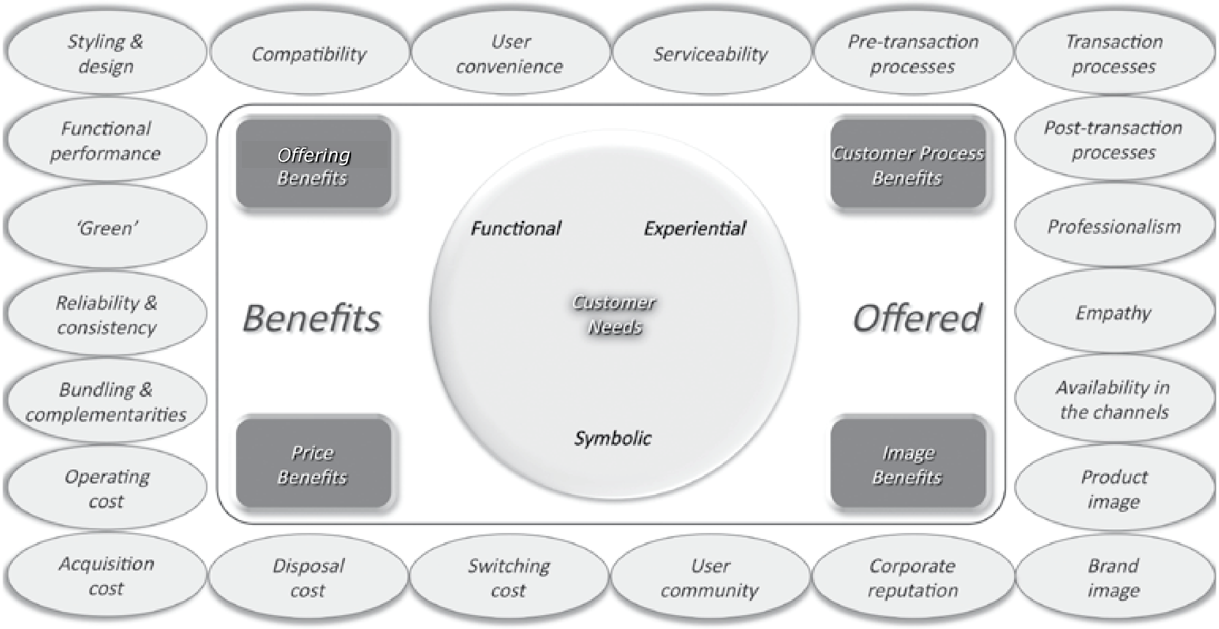


Figure 2.9 · The Differentiation Arena

ferentiate on the pleasure of driving, while Ferrari wants to lead in design. The Dacia Logan, with its sales price of less than €10,000, is a true price fighter. Even so, it is challenged by a variety of low-priced cars, including the Indian Tata Nano.

Consulting companies such as McKinsey and Bain pride themselves on staff know-how and professionalism when interacting with clients. Mobile operators such as Vodafone try to create a user community. Even Harley Davidson emphasizes the user community approach, by means of its H.O.G. activities (Harley Owners Group). Lipitor, the best-selling cholesterol-lowering drug, excels at functional performance. Providers of ERP-systems all claim to offer superior performance, but every user knows that the very high switching costs are part of the strategy of Oracle and SAP. The wonderful design of the Apple iPad undoubtedly contributed to its global success, yet we must not ignore the harsh reality of the switching costs confronting users who have adopted the iPad player and the iPad applications.

THE BUSINESS MODEL

Having addressed two of the three major questions (who do we serve and what do we offer?), we now turn to the question of how a company can best create the customer value proposition for its chosen markets. The theories of the resource-based view and the business model concept will both be central elements in this discussion.[47]

Resource Configuration for Competitive Advantage

In 2001, Michael Porter — a popular and highly productive scholar in the school of strategy — lashed out vehemently against the sloppy use of the business model concept in an award-winning article in the prestigious *Harvard Business Review*:

"The definition of a business model is murky at best. Most often, it seems to refer to a loose conception of how a company does business and generates revenue."[48]

As a consultant observed, there is nothing wrong with the concept itself — the fault lies with its (mis)use:

"Today, 'business model' and 'strategy' are among the most sloppily used terms in business; they are often stretched to mean everything–and end up meaning nothing. (...) Definition brings clarity. And when it comes to concepts that are so fundamental to performance, no organisation can afford fuzzy thinking."[49]

It is strange that it should be Michael Porter who criticises the business model concept, since his own concept of *'activity systems'* is remarkably close to the generally understood meaning of *'business model.'* Let us explain.

The resource-based view gained widespread acceptance in the managerial world with the writings of Hamel and Prahalad.[50] The core tenet of the resource-based view postulates that a competitive advantage does not arise from having a position in an attractive market, but rather from an effective use of resources in the chosen target market.[51] This resource-based view required an operational translation before it could be used in day-to-day strategy analyses. As a result, acquiring an insight into a company's value creation processes subsequently became one of the dominant themes in contemporary business research.[52] However, the quest for a generic value chain framework, describing the value creation and delivery processes of a company has not been terribly successful — and that's putting it mildly! The robustness of a generic value chain applied across whole industries has remained limited. This is perfectly logical: it is precisely the creation of *unique* customer value that thwarts the definition of a *generic* framework.

While the framework itself may not be generic, the *methodology* can be. Michael Porter deserves credit for providing a long-awaited analysis tool when he proposed the concept of *activity systems*.[53] This method:

- allows for a systematic, rational and thorough analysis of value creation;
- can be adapted for analysing all types of organisations;
- is visually attractive, thereby making communication easier; and
- is easy to understand and to implement.

While Porter uses the term *activity system*, we will continue to employ the term *business model*, although both concepts may be used interchangeably.[54] We define a business model as *the configuration of resources that enables a company to create and deliver the customer value proposition for a market segment*. A business model shows how the interplay of a company's assets and competences lead to a company's customer value proposition. The basic assumption underlying the concept is that companies with a clear strategic position can identify a number of higher-order strategic themes, i.e., the factors at which the company wishes to excel by executing clusters of tightly linked activities. *These higher-order strategic themes are the competitive advantages of the customer value proposition.*

The resources that *enable* a customer value proposition can be classified along multiple dimensions. Some analysts will make a distinction between tangible resources (e.g., human resources, patents, infrastructure, financial means) and intangible resources (e.g., know-how, experience, culture, capabilities, processes). Intangible resources must certainly not be ignored. They are often key to the performance of the business model.[55] An interesting example of an intangible resource relates to the history and the local environment of one of the world's most famous companies. Ikea has an almost natural talent for designing enjoyable furniture. The long winters, explains Ikea's head of design Lars Engman, force Swedes to stay indoors for seven to eight months a year. Ikea has therefore been historically and climatically conditioned to excel at the design and production of cosy yet functional furniture.[56]

Other researchers make a distinction between assets and processes.[57] Following the IT-induced re-engineering hype of the late 1980s and early 1990s, business processes were examined in great detail. Processes may be defined as "a collection of activities which takes one or more kinds of input and creates an output that is of value to the customer."[58] The distinctive feature of processes relates specifically to the value added which such activities create for the customer.[59]

El Bulli's Business Model

Figure 2.10 shows the business model of El Bulli. For the purposes of this book, we have deliberately chosen a case study that is readily available,[60] so that readers can check it with their own analyses. Annex 2 reviews a practical method to analyse and graph a company's business model.

While El Bulli is no longer Number 1 in the *Restaurant Magazine Top 50* – the top spot is now taken by Noma in Copenhagen – it is very likely still the most admired restaurant in the world. You will have guessed by now that the authors enjoy good food and nice wine. Since we strongly adhere to empirical verification, we have visited 'Oud Sluis' (The Netherlands, 3 Michelin stars, No. 17 on the Top 50 in 2011), 'De Librije' (The Netherlands, 3 Michelin stars, No. 46 on the Top 50 in 2011) and 'Hof van Cleve' (Belgium, 3 Michelin stars, No. 15 on the Top 50 in 2011), and many other exquisite restaurants. However, also to us, the El Bulli brand remains iconic. This restaurant reminds us of the statement made by one of the managers of the legendary Grateful Dead rock band: *"They're not the best at what they do; they're the only ones that do what they do."*[61] The same applies to El Bulli. Even more so now that Ferran Adrià has decided to discontinue the El Bulli operations, and start a 'creativity center.'[62]

The customer value proposition of the El Bulli restaurant consists of four competitive advantages: (1) it is considered the best restaurant in the world, (2) it is truly exclusive, (3) offering an unparallelled dining experience and (4) providing a genuine journey to its customers. How does El Bulli provide and

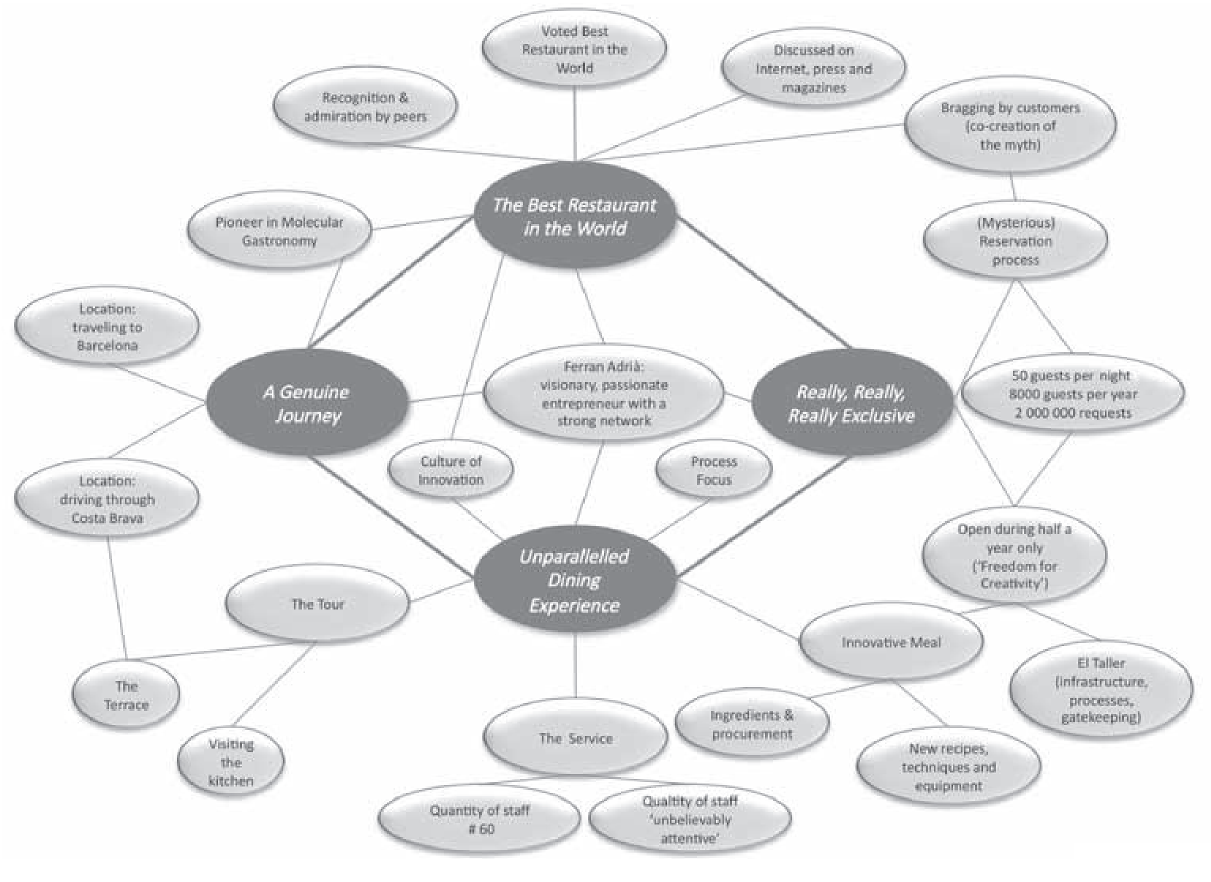


Figure 2.10 · Business Model of the El Bulli restaurant (Spain)

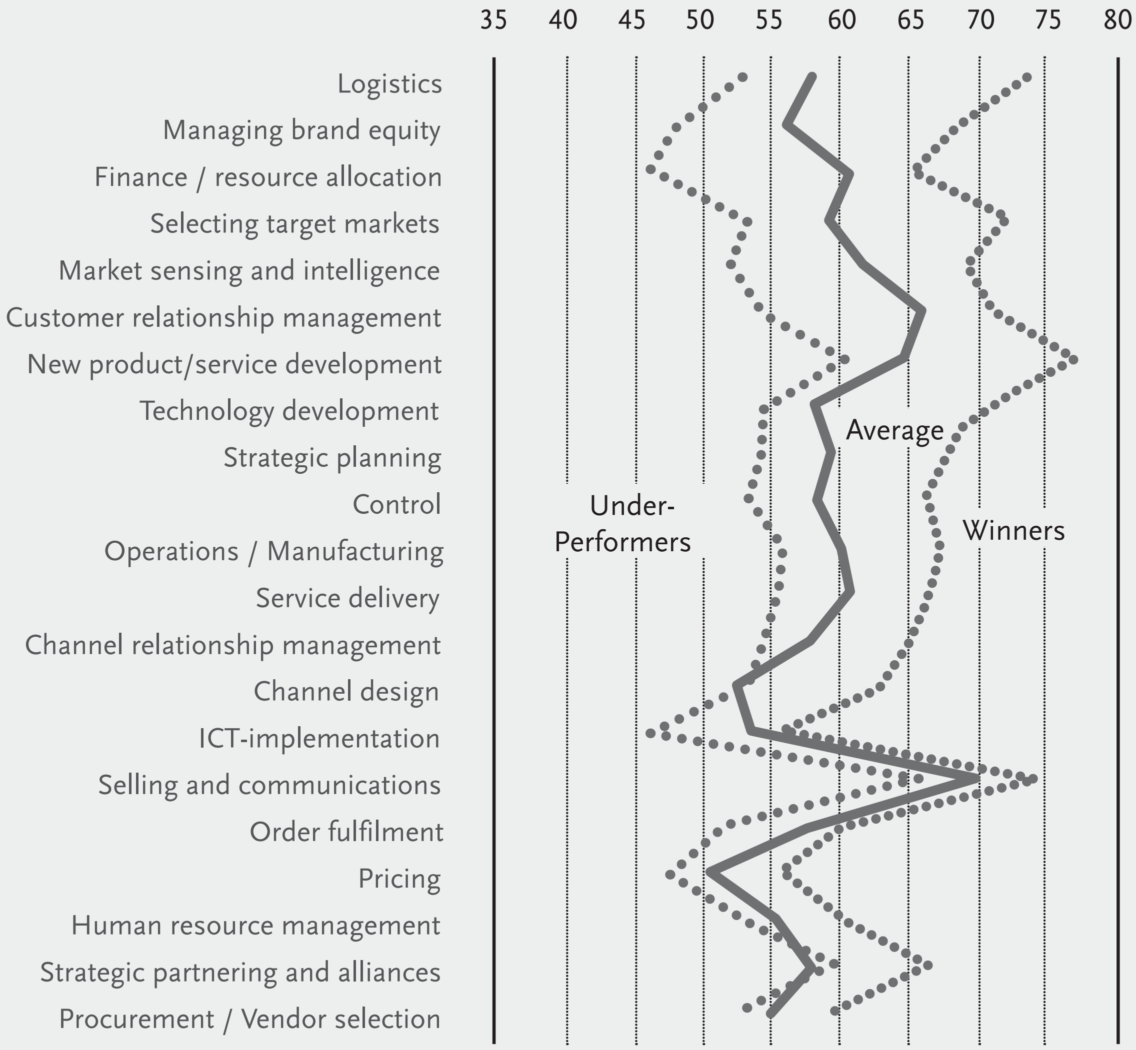
maintain these competitive advantages? We will not go into all the details, but we will simply outline several key assets and competences.

- First and foremost, the central resource in the business model is Ferran Adrià himself. He is inextricably linked to El Bulli. It is his vision, passion and personal network that have shaped El Bulli. His motto: 'To create is not to copy.'
- It has won the award of the World's Best Restaurant a record five times, and is considered the pioneer of the molecular cooking wave. While many of us may want to enjoy El Bulli's culinary craftsmanship, only a lucky few will be able to realise this dream. First, there are between 1 and 2 million requests per year for a total capacity of 8,000 seats. Second, the restaurant is closed during six months each year, further limiting the likelihood of an approved reservation.
- One could of course argue to open the restaurant eleven months a year, as most other restaurants do. While this would almost double the seating capacity, it would also erode the restaurant's capacity for innovation. El Bulli provides a magnificent example of true R&D management. It invests the resources necessary to vigorously pursue continuous renewal: six months for research, experimentation and gatekeeping. El Taller ('the workshop') is an important asset in this innovation process.
- The food is one of a kind. The World's Best Restaurant website summarises it as follows: *"Ferran Adrià continues to tear up the fine dining rule book, presenting customers with food that often defies description, and maybe even defies the laws of physics too."*[63] The service matches the food: 60 staff members for 50 guests. The menu offers 1.616 wines. The beverages are served in 55 styles of glassware.
- Visitors have the opportunity to visit the kitchen. This is only one part of the journey. The journey to Cala Montjoi outside Rosas, along the Spanish Costa Brava, is a nothing less than an exploration.

Business Model: Implications

You will find the various implications of the business model approach throughout this book. In Chapter 4, for instance, the business model serves as a central concept in the sustainability analysis. Nevertheless, it is useful to pause here momentarily and indicate 10 major implications of the business model perspective. Once the business model is drawn, you may indeed want to keep the following reflections in mind:

(1) It is clear that a business model can only be developed once clarity exists on the way-to-market architecture and the identity of the focal customer in this architecture. For more than a decade now, we have coached manag-



Twenty-one company processes were assessed, on a scale of 0 (performs much worse than the competition) to 100 (performs much better than the competition). These processes are ranked for the 2009 sample in terms of bandwidth difference between successful and unsuccessful companies. The performance in respect of the following processes differs most between winners and losers: logistics (21 points difference), managing brand equity (20), finance/resource allocation (19) and selecting target markets (19). Observe also the low average scores of pricing, channel design and ICT-implementation. Particularly painful is the observation that pricing is the process that companies deem themselves on average to be the poorest at. This seems to be the rule, rather than the exception. Out of twenty-one processes, pricing also obtained the lowest score in 1999, 2003 and 2007. Companies consistently perform almost pathologically poorly on a competence that has a tremendous impact on profitability (see Chapter 5).

Competing in Changing Markets 2 · Company Performance on Core Processes ers and students in business model analysis. It is striking how they often fail to include *customer acquisition processes* in their business model analyses. It is important not to limit the business model analysis to the existing customers, but to extend it to the acquisition of new customers as well. If not, you run the risk of building a customer satisfaction model rather than a representation of the true business model of the firm. In case the business models are really different for new customers and existing customers – as is often the case in industries characterized by high churn rates such as mobile operators – why not develop two business models? A business model analysis is a tool, not an end in itself.

(2) The resource-based view offers a very insightful and valid perspective on the nature and the origins of a firm's customer value proposition. Adopting this perspective effectively illustrates the principle that a company must *earn its competitive advantages*. The assets and processes are enablers of the customer value proposition. "Strategic positioning means performing different activities from rivals or performing similar activities in different ways."[64] Wherever competition exists, success follows from 'being different' or 'being better.' Also in sports. Says sports commentator David Pleat about Real Madrid's manager José Mourinho, following his nine year streak of being unbeaten at home: "Mourinho is very thorough in his preparation and in his methods. He arranges the coaching sessions and doesn't leave it to others. It's obvious that his players have great faith in him."[65] Mourinho acquired his nick-name 'The Special One' the only way possible: by smart and hard work.

(3) Thus, a company's competitive advantages must never be taken for granted. *Managing resources* is an art form in its own right. Andrew Herbert, manager of Microsoft's laboratory in Cambridge, puts it as follows: "I see myself as a ringmaster. I have a collection of great performers and my job is to make sure that they are able to put on the best show they possibly can."[66] Filip Caeldries, a colleague at TiasNimbas Business School, formulates this as the 'N * X * 220-problem.' Assume that you have 430 employees, who all make 25 operational decisions a day, for each of the 220 working days in a year. This means that there are 2,365,000 opportunities for humans to introduce unreliability into your business strategy. And just a single error can create tremendous damage – as Enron illustrated all too painfully. On the opposite side of the spectrum, the operations of Southwest Airlines are embedded in a strong, productive culture. "We are so consistent, it's boring," says one of Southwest's senior managers. 'Boring' in the case of Southwest refers to an admirable consistency in its many operating processes. The COO of Southwest Airlines, Van de Ven, acknowledges this: "Our

culture is our biggest competitive strength."[67] In business model terminology, the Southwest Airlines culture is a formidable enabler of the Southwest Airlines customer value proposition. The culture and the history of Southwest Airlines are sticky assets: they are difficult to change, but extremely valuable to the company.

(4) In many of the discussions on business modelling, the term 'business model' is implicitly reserved for successful organisations. This is scientifically foolish and practically short-sighted. *Every organisation has a business model*, also the less successful ones. Even companies that surrender to bankruptcy or behave unethically have a business model! Lehman Brothers' business model simply proved to be unsustainable. As we shall see in Chapter 4, the sustainability of a business model refers to the economic criteria that assess the strength of the business model in terms of (a) the value it provides to the customer, (b) the shelter it offers vis-à-vis the competition and (c) the economic value it creates for the company.

(5) The customer value proposition essentially constitutes the company's primary licence to operate. However, definitely check the business model for *embedded, secondary value propositions* as well! Indeed, a company most likely acts as a valuable partner to other parties in the industry's ecosystem. For instance, the focal customers of temporary staffing companies such as Manpower and Randstad are the companies that buy their HR services. However, one of the key enablers in the business model of any successful company in the temp industry centres on its ability to attract competent flex workers. This ability, while defined as an enabler or resource in the business model, may also be viewed as a secondary (or: embedded) value proposition. In a similar vein, contracts with established firms lend strong credibility to the operations of many high-tech start-up companies. The established companies do not team up with these small players for reasons of charity. No, they do so because they see value in working together with promising ventures. Again, this resource may be viewed as a secondary value proposition. Thus, a business model gives a value perspective on the partners in the ecosystem.[68] The degree to which a company successfully realises the secondary value propositions determines in a major way the company's licence to operate.

(6) Also from a *corporate standpoint*, interesting issues emerge from a business model analysis. First, how well does the business model of a division or a subsidiary align with the corporate strategy? For instance, the strategic taxonomy proposed by Treacy and Wiersema[69] is popular among industrial firms (product leadership; operational excellence; customer intimacy). Many companies declaring to pursue a strategy in which operational excellence

ranks prominently, fail to truly claim it in their business model. Second, the business model analysis may also be used to evaluate the operational fit of mergers and acquisitions. For instance, upon the announcement of the $1.4 billion acquisition of AirTran by Southwest Airlines, Southwest's employees uttered concerns that this might tarnish their strong culture. Third, analysing the business model of multiple divisions or subsidiaries of the same corporation enables management to determine the true core competences. Core competences are those processes that offer the company's customers a unique added value, are difficult to imitate or substitute by the company's competitors and have the ability to create customer value in different markets.[70]

(7) *Strategic change* implies a change of the business model. The strongest change, i.e., changing the rules of the game, is a reconfiguration of the dominant business model in an industry (e.g., the music industry making the transition towards the online era). However, changing a business model is only easy on paper! Mobility barriers, i.e., the barriers that a company encounters in moving towards another market positioning (see Chapter 3), are determined by the competences and the market claims embedded in the current business model. Otherwise stated: a business model makes business possible, and other business impossible. Moreover, running and changing the business must be pursued in parallel![71] Unfortunately, in our work with many organisations during the past decade, we have rarely seen the competence to change the business being a solid building block of the existing business model. Many business models score poorly on ambidexterity.

(8) For *marketers*, it is a real eye-opener to observe that much of the customer value proposition results from assets and processes that are outside the scope of the marketing budget. Similarly, co-workers from other functional disciplines (human resources, logistics, R&D, production, finance etcetera) can learn more about their own contribution to the competitiveness of their company from the company's business model. This is also one of the reasons why participants in business modelling sessions often enjoy taking part: it is a voyage of discovery through the organisation of which they are a part. In other words, while the customer value proposition is a central concept in marketing, it is the organisation as a whole that contributes towards its creation. In this respect, marketers must ask themselves some key questions. How much of the company's value creation processes is really a result of marketing planning and budgeting? How well are the company's 'crown jewels,' i.e., its competitive advantages, being nurtured? How adequately is business performance being monitored through market research (for the

customer value proposition) and the balanced scorecard (for the business processes)? Forget these matters at your own peril!

(9) Simply relying on financial statements and reports is insufficient to understand the current business comprehensively.[72] Analysing the business model helps you to describe the starting situation in great detail. However, *do not pimp the business model!* Depict the situation 'as is.' For a business model analysis to truly communicate the core processes of the company, the strategy team must approach its task realistically and rationally. No organisation ever benefited from wishful thinking and mumbo-jumbo. "The biggest mistake managers make in evaluating their resources is not valuing them relative to their competition."[73] Too optimistic a view on the strength of your business model will be punished by the market. CEO Stephen Elop (Nokia) blames the lack of accountability for the problems Nokia currently encounters.[74]

(10) We have deliberately focused on the 'tickets to heaven,' i.e., the true competitive advantages. This does not mean that qualifiers can be safely ignored. It is always possible to expand the business model analysis to include critical 'tickets to ride,' as well as the enabling assets and processes. The message is simple. *Business modelling is a versatile tool:* it is powerful, analytical, visual and creativity enhancing. Use it as such. However, one must avoid shallow analyses by making sure that the result is a business model that can be communicated and acted upon. Avoid 'container' concepts (e.g., 'good personnel', 'strong image' et cetera) and try to be as specific as possible when labelling enablers and competitive advantages. Ask yourself: "If I were to include an enabler or a competitive advantage in a balanced score card, would there be a way of measuring it?" If the answer is 'no', then you have probably been too vague when drawing up the labels. Some business modelling *cookbooks* provide the marketer with a naive canvas to generate the business model. While such canvas is definitely good as a first step – and may be used in the first phase of a business modelling brainstorm (Annex 2) – it must never be viewed as the final step. Paraphrasing research methodologist Jane Loevinger, we might say that such business model canvasses contribute no more to business understanding than 'rules for boiling an egg contribute to the science of chemistry.'[75] Shallowness in thinking redefines *strategic analysis* as a 24 carat oxymoron. *Market leadership requires thought leadership.*

BUSINESS ROADMAPPING AUDIT

QUESTIONS FOR THE MARKETER

DEFINING THE BUSINESS: STRATEGIC POSITIONING

- *Who are our customer groups?*
- *What are the benefits of our company's offerings?*
- *How do we accomplish our value proposition for the customer?*

WHO: UNDERSTANDING THE MARKET

- *Who are our true customers? Who decides? Who pays? Who consumes?*
- *What are the true, core needs of our customers? What does our offering accomplish for our customer: does it address functional, experiential or symbolic needs?*
- *How manifest are the needs of our customers? Are there important latent needs?*
- *What are the segmentation criteria? How well do we define the 'hunting grounds': do we have a tight and accurate segmentation, which results in measurable, differentiated customer groups, which allows competitive actions? How creative is this segmentation?*
- *What segments are we focussing on: what are the size, growth rate and competitiveness of each of the segments?*

WHAT: CUSTOMER VALUE PROPOSITION

- *What are the qualifying critical success factors in our market ('tickets to ride')?*
- *What are the winning critical success factors in our market ('tickets to heaven')?*
- *What are our company's competitive advantages? What are we truly better at, what are we truly different at? Do these competitive advantages complement each other and generate a strong value proposition?*
- *Is our customer value proposition based on product or service benefits (what we offer), customer process benefits (how and where we offer it), pricing benefits (cost to the customer) or image benefits (what does our offer stand for), or any combination thereof?*

HOW: THE BUSINESS MODEL

- *How do we create value for the customer: how does the interplay of the company's assets and competences enable the deliverance of the customer value proposition? What are the core processes, competences and assets of our company? Are secondary value propositions embedded in our business model?*
- *To what extent are the company's value creation processes included in the marketing planning and the budgeting process? How well is the company's customer value proposition nurtured?*
- *How adequately is the business performance monitored, through market research and the balanced scorecard?*