

BUILDING SUSTAINABLE BUSINESS

MARKETING

STRATEGY & ORGANISATION

Rudy Moenaert & Henry Robben
with Peter Gouw

LANNOO
CAMPUS

MARKETING STRATEGY & ORGANISATION

Marketing Strategy & Organisation

*Building Sustainable
Business*

Rudy Moenaert

TIASNIMBAS BUSINESS SCHOOL

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GfK

Dedicated to:

Caroll and Caitlin – Let us enjoy the road ahead!

RM

Martijn, Loek, and Chiel – for the sheer joy of seeing you enjoy life to the full.

Claudia – you're in every breath I take.

HR

Andrea, Luisa and Elena – we found the path of delight together.

PG

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ENDORSEMENTS

‘Companies who have currently a successfully sustainable marketing strategy are by far in the minority. *Marketing Strategy & Organisation* supports you to find the best roadmap for your business to enable you to join this selective group of winners and will keep you fit when conditions change. This book will recharge your marketing battery.’

Prof. dr. Philip Kotler, S. C. Johnson & Son Distinguished Professor of International Marketing, Kellogg School of Management (USA)

‘At this moment in time you will find a navigator in almost every car. Every brand has its own specifications and in almost every type you can choose the fastest or the shortest route. Traffic jams, toll roads and ferries can be avoided as well but I never saw a navigator in which you can choose the best route... The same analogy is true for management books about developing a winning strategy for your business but after reading the latest book on business roadmapping by Rudy Moenaert, Henry Robben and Peter Gouw, things are rather simple: I found the best navigator!’

Stan Hendriks, Vice President & General Manager Retail and Direct to Consumer, The Walt Disney Company Benelux

‘The authors skillfully navigate the processes for building a sustainable business with rigorous concepts and vivid examples. Their roadmap recognizes the uncertainties to be contained and the implementation pitfalls that can disrupt the journey.’

Prof. dr. George Day, Geoffrey T. Boisi Professor of Marketing, the Wharton School of the University of Pennsylvania (USA)

‘The authors have successfully applied the central anthem of this highly enjoyable book – *Be better or be different!* – while writing it. *Marketing Strategy & Organisation* challenges conventional thinking, and writes a new script for the field of strategic marketing. The business roadmapping method provides a simple and powerful framework that enables strategists to organise for change.’

Rudi De Becker, CEO of Univeg (and former CEO of Hagemeyer)

‘*Marketing Strategy & Organisation* engages the attention of the reader immediately from the very first pages. The book is comprehensively science-based, but it is also densely packed with inspiring quotes, clarifying business examples, and intriguing metaphors. Most importantly, *Marketing Strategy & Organisation*

offers business executives, marketers and business students a sparkling overview of novel marketing insights and frameworks to invigorate a firm's market orientation.'

Prof. dr. Philippe Naert, Dean of Antwerp Management School (and former Dean of Insead and TiasNimbas Business School)

'*Marketing Strategy & Organisation* will inspire every marketer who wants to make fact-based decisions. The solutions offered by Moenaert, Robben and Gouw are the result of many years of academic research, continuously sharpened in practice. The business roadmapping method links state-of-the-art theory with the practice of real business. It provides insights on strategy analysis, strategy formulation and strategy implementation.'

Prof. Dr. Klaus L. Wübbenhorst, CEO of GfK (Germany)

'*Marketing Strategy & Organisation* is on the road of becoming a sustainable classic in the marketing literature. It gives the reader insight in the essential steps required to build solid business. It bursts with inspiring ideas, examples and recommendations. Entrepreneurs will find *Marketing Strategy & Organisation* to be highly readable, complete and actionable. Take your time to read it!'

Hans Hagedaars, Board Member at ING Retail

'*Marketing Strategy & Organisation* is a must-read for executives. This book is refreshing and innovative and at the same time very readable and enjoyable. The business roadmapping method introduces a clear and structured 'roadmap' for companies to define, maintain and further develop their competitive strengths. The book provides an excellent integration of practical, real-world insights with memorable concepts, embedded in academic research within the area of management & marketing. This book offers a blueprint for how companies can achieve growth in the 21st century.'

Prof. dr. Annouk Lievens, Professor of Marketing, University of Antwerp (Belgium)

'*"Complexity is easy, simplicity is difficult"*, the authors observe. Successful marketing in this day and age indeed desperately needs marketing thought leadership: powerful concepts that are easy to execute. *Marketing Strategy & Organisation* provides exactly that type of thought leadership. Business roadmapping is a highly appealing method to design scenarios that shape your business future.'

Prof. dr. Bert de Groot, Rector Magnificus and Dean, Nyenrode Business Universiteit (The Netherlands)

'Building a profitable and sustainable business in times of extreme techno-

logical and market turbulence requires a creative balance in delivering value for today's and tomorrow's customers. Yet, in most companies strategic market visioning, foresight and the attendant execution capabilities are rare. Professors Rudy Moenaert and Henry Robben present a new and thought-provoking thesis about how marketing can intersect with strategy and organisation behaviour to enhance growth and sustainability of your business. This is a new challenge, and marketing managers who ignore the key messages of this insightful book do so at their own competitive peril.'

Prof. dr. Kwaku Atuahene-Gima, Professor of Marketing & Innovation Management, China Europe International Business School (CEIBS), (China)

'*Marketing Strategy & Organisation* offers a compelling value proposition to the reader. It provides a new, action-oriented perspective on how companies can build sustainable business. The numerous examples, drawn from real business life, will inspire marketers and business executives. The writing is fast-paced, crystal-clear, and concise.'

Martin de Prycker, Managing Director InnoConsult and CEO of Caliopa (and former CEO of Barco)

'A practical, insightful approach that clearly crystallizes strategic imperatives while addressing the potential consequences of diversified approaches, customer and business value creation and building a sustainable competitive position. Refreshing in that it's thorough yet practical and concise.'

John G. Nackley, President and CEO, InterMetro Industries Corporation (USA)

CONTENTS

ABOUT THE AUTHORS	15
PREFACE BY ABBIE GRIFFIN	17
ACKNOWLEDGMENTS	19
 CHAPTER 1 : THE BUSINESS ROADMAPPING CYCLE	 23
THE MARKETING CONCEPT	25
MARKETING STRATEGY	26
THE CHALLENGE	26
STRUCTURE OF THE BOOK	28
 CHAPTER 2 : UNDERSTANDING THE BUSINESS	 33
DEFINING THE BUSINESS	35
CUSTOMER ANALYSIS	38
Way-to-Market Analysis	38
The Needs of the Customer	41
Customer Segmentation	43
Targeting: Where's the Money	48
CUSTOMER VALUE PROPOSITION	49
Definition	49
Winning in the Market	50
The CODA Framework	53
The Differentiation Arena	55
THE BUSINESS MODEL	56
Resource Configuration for Competitive Advantage	57
El Bulli's Business Model	58
Business Model: Implications	60
BUSINESS ROADMAPPING AUDIT: QUESTIONS FOR THE MARKETER	66
 CHAPTER 3 : UNDERSTANDING THE ENVIRONMENT	 69
THE BUSINESS ENVIRONMENT	71
Industry Analysis	72
STEP Analysis	76

A Word of Caution	78
PORTFOLIO ANALYSIS	80
The Simple Recipe of Portfolio Analysis	80
Refining the Recipe: MABA-Analysis	84
Diversification, Synergies and Performance	86
MARKET INTELLIGENCE	88
A Process Perspective	88
A Creative Mind is a Joy Forever	91
Fact-Based Marketing	93
BUSINESS ROADMAPPING AUDIT: QUESTIONS FOR THE MARKETER	97
 CHAPTER 4 : STRATEGIC AMBITION	 99
THE ROLE OF MARKETING IN THE CORPORATION	101
A Company's <i>Raison d'Être</i>	101
Stakeholders: Who Wants What?	102
The Role of Marketing	104
THE SUSTAINABILITY OF A COMPETITIVE ADVANTAGE	105
The Drivers of Business Unit Profitability	105
The Constituents of Sustainability	106
Constituent 1: Value@Customer	107
Constituent 2: Barrier@Competition	109
The Value Grid	114
Constituent 3: Value@Company	115
El Bulli revisited	118
Applying the Concepts	120
The Commodity Magnet	120
The Evanescence of Success	123
STRATEGIC AMBITION	124
The Vision of the Corporation	124
BHAG: a Modern-day Creed	127
Knowledge and Imagination	128
Boundaries to Ambition	130
When Ambition Ignores Ethics	130
LEADERSHIP	132
Managers versus Leaders	132
Human Resource Implications of Strategic Marketing	133
A Word of Caution	134
BUSINESS ROADMAPPING AUDIT: QUESTIONS FOR THE MARKETER	136

CHAPTER 5 : A CONCEPT OF THE FUTURE 137

PILLARS OF SUSTAINABLE BUSINESS	139
MARKET MAKING	142
The Search for Classics	142
On Optimism	144
Who Claims the Customer?	146
Software for the Mind	147
Positioning: The Rules of Engagement	148
The Pressure is On	151
MARKET HUNTING	153
Sales Strategy	153
Go-to-Market Strategy: Divide and Conquer	155
Online Channels: Check the Assumptions	159
MARKET FARMING	160
The Business Value of Customers	160
Moments of Truth	162
The Song Remains the Same	163
A Company Cannot <i>Not</i> Position	164
On Switching Costs	167
‘The Price is Right’	168
Business Streamlining	169
BUSINESS ROADMAPPING AUDIT: QUESTIONS FOR THE MARKETER	173

CHAPTER 6 : SHAPING THE FUTURE 175

IDEATION OF STRATEGIC OPTIONS	177
Trend-Spotting	179
Audit of Weakness	181
The Company’s Heritage	183
Value Innovation	185
Customer Process Mapping	187
Inspiring Examples	190
Exploiting the Value Net	191
A Creative Mind(set)	192
SELECTING STRATEGIC OPTIONS	194
A Marketing Plan Must Be Sold	194
Choose or Lose	194
Business Opportunity: Size the Prize	196

Competitiveness: Can We Win?	197
Feasibility: Can We Do It?	198
Leverage: What Are the Spill-overs?	200
Finding Balance	200
Consequences	203
BUSINESS ROADMAPPING AUDIT: QUESTIONS FOR THE MARKETER	206

CHAPTER 7 : COMMITMENT TO EXECUTION 207

RUNNING AND CHANGING THE COMPANY	209
The Rubber Must Hit the Road	209
Dual Marketing: Exploitation and Exploration	210
The Unproductive Rituals of a Rain-dance	213
Phasing Implementation	214
SEEING THE NEED	218
A Coalition for Change	218
Internal Marketing of the Vision	221
Sense of Urgency	222
Understanding the Barriers to the Next Steps	224
STARTING UP THE ORGANISATION	226
Project Roadmapping	226
Expanding the Coalition	230
Creating Momentum	231
SUSTAIN THE EFFORTS	232
Mobilise Commitment	232
People on the Train	233
Track and Celebrate Progress	235
BUSINESS ROADMAPPING AUDIT: QUESTIONS FOR THE MARKETER	237

CHAPTER 8 : RETURN ON BUSINESS 239

RETURN ON BUSINESS	241
A Fact-Based Perspective on 'Return on Marketing'	241
The Balanced Marketing Scorecard	243
Marketing Accountability	245
VALUE CAPTURE AND VALUE CREATION	247
Financial Return on Marketing	247
Customer Profitability	250

Shareholder Value	251
Customer Metrics	253
BUSINESS EXPLOITATION AND BUSINESS EXPLORATION	257
Running the Business	257
Changing the Business	261
SYNTHESIS	263
BUSINESS ROADMAPPING AUDIT: QUESTIONS FOR THE MARKETER	266
 ANNEX 1: COMPETING IN CHANGING MARKETS	 267
Exploratory Study	267
Conclusive Study	268
<i>The 2003 Survey</i>	268
<i>The 2007 - 2009 Surveys</i>	269
<i>Statistical Reflection</i>	269
ANNEX 2: BUSINESS MODEL ANALYSIS - A PRACTICAL PROCESS	273
INDEX	275
END NOTES	279

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Prof.dr. Henry Robben was born in Winnipeg, Canada, but was raised in the southern part of The Netherlands. He is a professor of marketing at Nyenrode Business Universiteit (Breukelen, The Netherlands). With great enthusiasm, he has pursued a distinguished career in teaching, research and consulting on strategic marketing, product development and marketing communications. He lives by the old adage that a wise man should turn his passion into his job and is thankful that he has never had to do an actual job! He advises companies and acts as a guest professor for executive and degree programmes all over the world. His work has appeared in such journals as *The Journal of Economic Behaviour and Organisation*, *The International Journal of Research in Marketing*, *The Journal of Product Innovation Management* and *The Journal of the Royal Statistical Society*. Living in The Netherlands, he discovered the good things in life somewhat later than his Belgian co-author. He is the proud father of three sons, nationally and internationally known as the ‘Three Musketeers’. He enjoys his life with Claudia Hartman, a marketing communications specialist and entrepreneur. His other passions are cycling, literature, travelling and ‘Oranje’ - the Dutch national soccer team. Website: www.henryrobben.com



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(Antwerp, Belgium) and as a lecturer at Nyenrode Business Universiteit (Breukelen, The Netherlands). Furthermore he advises companies in their process to become stronger through developing winning sustainable competitive advantages (www.vision2b.com). Peter Gouw is married to Andrea Distelhoff. They have two teenage daughters, Luisa and Elena, who are the source of his inspiration. Peter enjoys the gastronomic aspects of life and to work this off he plays golf, tennis and does scuba diving. Website: www.petergouw.com.

PREFACE BY ABBIE GRIFFIN

If you don't know where you are going.....Any road will take you there.

When I started my Ph.D. at MIT, my strategic ambition was that I wanted to finish the task in 4 years, and then become a tenured full professor with only having to move one time after my initial assistant professor placement. In other words, I knew where I wanted to go. All I had to do was do the work to get me there. It is amazing to me, however, when I talk with Ph.D. students or even with assistant professors early in their careers, how few of them have specifically and explicitly thought through the issue of where they want to be some number of years down the road (or even next year).

I believe this is also a major challenge that firms have, as well, and is why so many flounder around for decades with little or no real growth, or even worse, boom with initial success only to bust within the first few decades of life. Look at Lotus, which surged to success with 1-2-3, only to fail to follow up with another blockbuster product. I contend that they really didn't know what they wanted to be, other than a supplier of spreadsheet software. This question of *who I want to be* is a particularly important issue for firms in industries where technology is changing the game. As just one example, take Polaroid, which was forced into bankruptcy when they could not come up with a new strategic ambition to replace their position as the world's premier supplier of instant photographs based on silver halide chemistry.

In a sense, then, deciding what you want to be as a firm is the single most important decision that the firm makes, and then remakes, and remakes, and hopefully gets to remake again. Making that decision, based on an informed understanding of your firm's capabilities and the customers and environments around you, and then constructing and implementing the road to achieving that ambition is what this book is all about.

Starting from marketing and strategy theories, informed by practice, Rudy Moenaert, Henry Robben and Peter Gouw have written a book that provides a rigorously-derived method that managers in firms can apply to improve their future performance and educators can use as a teaching resource. Students (in universities, executive education programs, or as ever-learning practitioners in firms) of strategic marketing or at the confluence of marketing, strategy and organisation will find this book applicable. It is science-based, yet the frameworks are practical in the sense that the marketing practitioner can use the concepts and models presented. They are also robust, meaning that the models

can be applied across a variety of contexts (business to business, business to consumer, service industries versus manufactured goods, et cetera).

At Harvard, I learned about a lot of frameworks to help me understand the structure of various types of business problems. At MIT, I learned about a lot of analytical decision-making tools. But the most powerful educators are those who combine both frameworks for understanding issues and analytical tools designed to help make better decisions within various aspects of the framework. This combination is one of the real strengths of this book. It is more than just anecdotes of firms who have been successful. However, it is also more than just theory. It is a combination of frameworks and decision-making tools to help the firm create and achieve future competitive advantage.

As I read this book, I hear Rudy's energy and Henry's sense of humor coming through the pages, making it readable. The presentation of the research findings shows how Peter has helped the book remain grounded in empirical research, making it believable. And finally, the frameworks and analytical decision-making tools make the book useful. I hope you apply it to good end in your corporation.

ABBIE GRIFFIN

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p.s. I did achieve my vision of finishing my Ph.D. in four years, and becoming a tenured full professor having only had to move once. And my next strategic ambition is...

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Writing a book is much like undertaking an expedition. It is not something you do on your own. We count ourselves lucky that throughout the more than ten years of this research venture we have worked with a highly varied group of excellent academics and researchers. Without their animated discussions and the many studies which they undertook on our behalf, this book would never have been written.

In the academic community, we would first like to thank the researchers who helped us with the *Competing in Changing Markets* data collection: Peter Van Overstraeten (AB-InBev), Veroniek De Schamphelaere (Vlerick School of Management), Mieke van Oostende (McKinsey), Jos Opsteen (Friesland Foods), Eveline Roks (DSM), Ariane Sondak and Berny Custers. We gratefully acknowledge the tremendous support offered by GfK during the 2007 and 2009 surveys. Our special thanks go to Jan Havermans, Steven den Hartog, Chris Hope and Barbara Schouten and the many other GfK market research managers, who provided us with the data-based examples in this book. Finally, during the 2007 and 2009 studies, we were able to work with a number of other institutes and associations that helped us in collecting data. Our most grateful thanks go to the TiasNimbas Business School, NIMA and PIM.

‘Du choque des idées jaillit la lumière’. It is the clash of small ideas that often triggers the better idea. Within the academic community, this process is often stimulated by a good glass of Duvel (a phenomenal Belgian beer). With or without Duvel, we have enjoyed and benefited tremendously from the discussions with our esteemed colleagues: Filip Caeldries, Carla Koen, Theo Poiesz and Will Reijnders, Paul Verdin (TiasNimbas Business School), Annouk Lievens (University of Antwerp), Christophe van den Bulte (Wharton), Rens Cappon, Edward Groenland and Bo van der Rhee (Nyenrode Business Universiteit), Abbie Griffin (University of Utah), Wim Biemans (University of Groningen), Harry Commandeur (Erasmus University Rotterdam), Steven van Belleghem (InSites), Erik Jan Hultink and Jan Schoormans (Delft University of Technology), Michael Antioco (EM-Lyon), Bie De Graeve (Antwerp Management School) and Toni Sfirtsis (BMVS). We explicitly thank the former and current deans of the TiasNimbas Business School (Philippe Naert and Ramon O’Callaghan) and the former dean of Nyenrode Business Universiteit (Bert de Groot) for creating an environment which allows for science-based managerial research. Special thanks go to our esteemed mentors, William E. Souder and Paul Webley; they would have never written this book, but without them, this book could never have been written.

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Some of our business relationships are particularly special. We have worked with some of these people for the past ten years, during which time they acted as an inspirational sounding board, pointing us to interesting international business cases, questioning our logic and helping us to move forward. This is truly the *'business of fun'*. Our special thanks go to Francis Dejonghe (De Witte Lietaer), Alfons Dom (3M) and Christina Drannikow (El Beso) and Martin Lebon (LebonVin) for the many thought-provoking conversations. In the global village, some of the most intellectually stimulating discussions happen in cyberspace. Sometimes, we do not see our correspondents for years on end, but they are only an e-mail away: Jorge Jara (Select Sires Inc.), Michael McLinden (Mc|K Healthcare), Peter Bray (Trivantis Corporation), Kai Hibbeln (Green River Community College), Léon Ezcurra and William Dahmer. Some of our business colleagues at the business school have also been part of the *'business of fun'* network: Menno Jansen and Geert Desmet (TiasNimbas Business School), Heleen van Hall and Pipsa Ylänkö (Nyenrode Business Universiteit). A very special word of thanks goes to the other members of *Heren XVII*, i.e., Ad Honders, Arthur Wendel, Bibi Schmidt, Brigitte de Leeuw, Dave Pieplenbosch, François van Heurn, Kathelijne Geerts, Katherine Kucherenko, Kevin Martens, Marit Oosenbrug, Marty Groen in 't Woud, Michel van den Bosch, Nicole Oosterink, Pim van Geest, Reinoud Boersma and Ricky Valkier.

We would also like to thank the many, many students who had to work their way through our business roadmapping classes. We appreciated - and still appreciate - all your comments (honestly, we did and we do!) and you have made a world of difference in our teaching - thank you.

Lieven Sercu helped us with great professionalism when publishing the Dutch version of *Visionary Marketing*. Hilde Vanmechelen, Lisette Aerts and Peter Saerens have done a wonderful job for the English version. The Lannoo team are clearly old hands at the game!

To our families we would like to say: thank you all for your generous patience during our writing process. We have not been the best of partners and fathers at times, but that is all over now. Well, at least until a new book appears in our personal roadmaps... Inspired by the words of Bono (U2), during a truly amazing concert in the Amsterdam Arena, there is one final thing we would like to say to you and to all the wonderful people we have mentioned in this preface, as well as to all our clients, students and readers alike: *Thanks for giving us a great life.*

Hooglede, Belgium; Breukelen/Lunteren and Oosterhout, The Netherlands
RUDY MOENAERT • HENRY ROBBEN • PETER GOUW

CHAPTER 1

THE BUSINESS ROADMAPPING CYCLE

Simplicity is the ultimate sophistication.

LEONARDO DA VINCI¹

THE MARKETING CONCEPT

A computer company such as Apple dominates a huge segment in the music industry, with its cleverly designed iPod, iPhone and matching iTunes. At roughly the same time, a twenty-one-year-old Chinese company acquires the personal computer division of IBM (in 2005).² While Aldi and Lidl flourish, Carrefour has entered rough seas. Enron, WorldCom and Lehman Brothers have vanished. New companies are creating new markets and are challenging successful incumbents. TomTom is showing the road ahead to Michelin. New kid on the block Facebook confronts Google. The revolutionary approach of El Bulli, The Fat Duck and Noma is making inroads into the territory previously monopolised by Michelin's famous Red Guide.

*"The times, they are a-changin'."*³ In changing times, the marketing function contributes to the competitive survival of the company. There is nothing new about this observation. More than half a century ago Peter Drucker defined marketing as one of the central responsibilities of business policy.⁴

What is marketing?^{5,6} In this book, we employ a simple definition:

Marketing is building sustainable business.

Let us explain the three essential components:

- *Business*: the objective of marketing is to realise organisational goals, through the exchange of 'offerings' (goods and services) with customers;
- *Sustainable*: to ensure the survival of the company as a going-concern, value must be created for the company as well as for the customer;
- *Building*: the performance of a company is the result of the integrated efforts of the whole organisation.

It therefore follows that marketing cannot be reduced to the work of a single department. Everybody is in marketing: the logistics operatives, the IT-staff, the employees on the work floor – everybody.

MARKETING STRATEGY

Strategy has always been framed by three key questions: (1) where are we now; (2) where do we want to be; and (3) how do we get there? This is straightforward common sense: the future of the company must be outlined on the basis of a rational and creative synthesis of an external and internal analysis. Within this process, strategic marketing involves the allocation of marketing resources for the creation of a competitive advantage.⁷ Unfortunately, in much marketing literature the distinction between the concepts of marketing and strategic marketing is quite shallow.⁸ While the scientific discourse on strategic marketing uses a confusing vocabulary,⁹ two factors are in our opinion quintessential in any definition of strategic marketing:

- Some decisions are more strategic than others. Strategic decisions are important, commit significant resources and are not easily reversible;¹⁰
- Strategy does not only relate to the future; it is also important to maintain competitiveness today.¹¹

We have therefore defined strategic marketing as follows:¹²

Strategic marketing relates to the planning and the implementation of marketing activities in order to optimise the company's current and future competitiveness.

This definition conceals a very important agenda! Solid empirical research supports the feelings of many managers and marketers: the influence of marketing at executive level is on the wane.¹³ This is very strange, since the marketing capabilities of a firm contribute significantly to its performance.¹⁴ At the same time, a great divide exists between the needs of marketing executives and the research agenda of the scientific marketing community.¹⁵ There is a need for a *science-based, practical and robust* textbook. To provide such a textbook was our agenda.

THE CHALLENGE

This book is the result of more than ten years of endeavour. The two main authors (Rudy Moenaert & Henry Robben) started their research in the 1990s. At that time, we were both teaching marketing and innovation management at the Delft University of Technology, where much of our research involved the management and marketing of innovation. At much the same time, the emer-

gence of the resource-based view as a new paradigm in business strategy caused great turmoil in the strategic management literature. The resource-based view holds that competitive advantage follows from the deployment of company-specific resources in selected target markets. Some of the classic articles made specific reference to fields that were already well-known to innovation scholars. For instance, Prahalad and Hamel defined core competences as “the collective learning in the organisation, especially the know-how to coordinate diverse production skills and integrate multiple streams of technologies.”¹⁶

In 1999, we decided to write our inaugural address for the Nyenrode Business Universiteit on the subject of *Visionary Marketing*. Academic tradition usually demands that most inaugural addresses are single-person, theoretical essays. However, we decided that we cannot teach innovation without practicing it. Our inaugural address was therefore a joint undertaking and it was empirically driven. We launched a comprehensive research agenda and conducted an empirical study on the subject. This research study, ‘*Competing in Changing Markets*’ was carried out in 1999, 2003, 2007 and 2009. Annex 1 summarises the method and results. In 2007, Peter Gouw, from the international marketing research organisation GfK, joined our research team.

Following the initial study in 1999, further theoretical analysis (e.g., on business modelling) and empirical research (e.g., the assessment of strategic market options) resulted in a marketing book on *Visionary Marketing*. This book was written in Dutch and targeted the marketer or manager who wanted to acquire valuable hands-on insights into the subject.¹⁷ While the book was science-based, it nevertheless included many examples from the consultancy and teaching experiences of the authors.

In 2007, we decided to develop an English textbook that would appeal to both the marketing practitioner *and* the marketing student. The objectives of this new version were audacious:

- Firstly, the theory had to be *science-based*. Strategic marketing occurs at the intersection of marketing, strategy and organisation. Consequently, the sciences of marketing, strategy and organisational behaviour had to be integrated.
- Secondly, the frameworks had to be practical. *Practical* means that the marketing practitioner can use the constituent concepts and models that are developed.
- Thirdly, the frameworks also had to be *robust*, meaning that the models can be applied across a variety of contexts (business to business, business to consumer, service industries versus manufactured goods, etcetera).

In order to accomplish this, we adopted an empirical approach towards the ‘*Competing in Changing Markets*’ survey and field-tested the many models of this book in the classroom and in consultancy assignments. Above all, we want to bridge the great divide between research and teaching. There is a clear need for a book that explores the science-based fundamentals of strategic marketing:

“[B]usiness schools largely fail in providing rigorous, evidence-based teaching. Instead, the separation between research and teaching causes their courses to rely largely on dangerously simplified generalizations at a time when corporate pitfalls – that recently laid our economies low – epitomize a need for more sound management in favour of popular fads.”¹⁸

At the same time, a pragmatic approach is taken; in this sense, for us there is no difference between research and practice. At a time when even Harvard is reconfiguring its curriculum to foster a hands-on approach,¹⁹ we believe ‘*Marketing Strategy & Organisation*’ must enable marketers, managers and business students to analyse markets and develop and implement strategies.

STRUCTURE OF THE BOOK

To create an effective marketing strategy, it is essential to ask and answer the right questions. We see a marketing strategy as the sum of the answers to these questions. Each chapter investigates the key questions that companies need to answer. To get answers to an individual company’s questions, each chapter also provides marketing models and instruments. In our view, the strategic marketing process involves five constituent phases. This process we refer to as *business roadmapping*. Figure 1.1 represents this process visually.

Imagine that you are an athlete, competing in the decathlon. Your next discipline is the long jump. This means that you have to approach the board, take off, soar through the air and then land. Does it matter where you take off? Of course it does! If you take off from the wrong position, your jump may be invalid, short or even dangerous. You need to understand your present position, in order to use your speed, technique and strength to create an excellent performance.²⁰ The same observation applies to the creation of effective marketing strategies. Without understanding your point of departure (Point A, usually ‘the present’), it is unlikely that your organisation will end up in the place you want it – or need it – to be (Point B, usually ‘the future’). Often, the point of departure is not well understood. Vineet Nayar, the CEO of HCL Technologies, reflected upon this issue as follows:

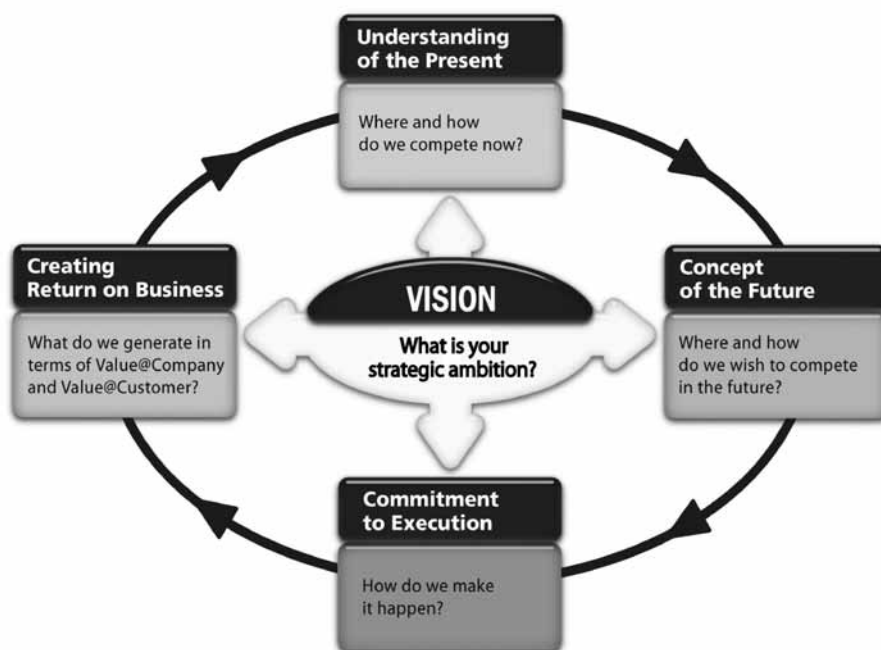


Figure 1.1 • The Business Roadmapping Cycle

*"I looked around at other companies for a model of how we might change. The majority of them were quite clear about their point B. It was articulated in their statements of vision, mission, and goals. But, to my amazement, I realized that most of them had not defined their point A with equal clarity. (...) In most cases, the only definition of point A was in financial statements and other such basic data that gave only a rather limited and absolute view of the situation."*²¹

Hence, the first phase of the business roadmapping cycle involves acquiring an understanding of the current situation. In Chapter 2, we provide a framework to show how a business can be defined. We introduce and describe two key focal concepts: the customer value proposition and the business model. Chapter 3 assesses the external environment of the company. We then formulate reflections on portfolio analysis and market intelligence.

Once you have acquired a thorough understanding of the point of departure, it is time to ask the perennial question: *What do you really want?* Some marketers think that if they ponder over the data long enough, their marketing objective will magically become apparent. True, when Aladdin rubbed the oil lamp, a genie did appear. But that was in a fairy tale. In real life, marketers must *impose*

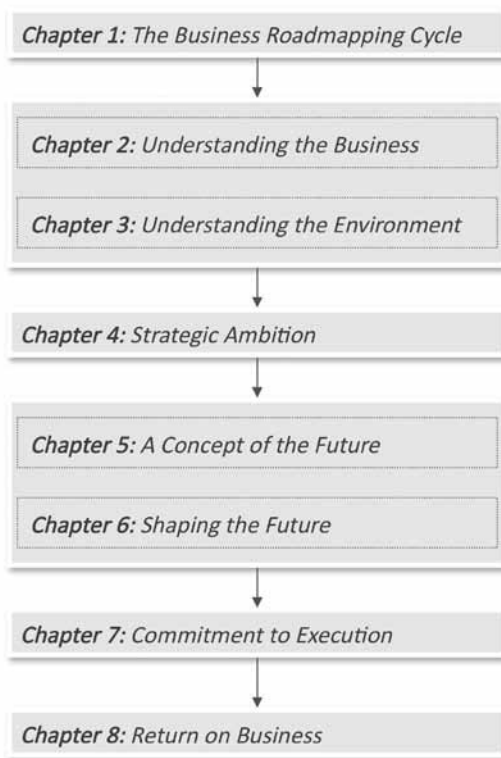


Figure 1.2 • Chapter Flowchart

a strategic ambition on a company. In this sense, strategic ambition assumes a central role in the business roadmapping cycle. What does a marketing executive truly wish to accomplish? We start Chapter 4 with a review of the concept of sustainability. The sustainability of the current competitive advantage of the company is used as a stepping-stone to reflect on company stakeholder interests, strategic ambition and marketing leadership.

Once they understand the present situation thoroughly and have formulated their strategic ambition, companies must next define strategic marketing projects and draw up a concept for the future. Unfortunately, many competitors will be trying to achieve a similar objective at the same time. If marketers want to escape the ‘bloody red ocean,’²² they must fuse a fact-based approach to marketing with the generation of creative ideas (the El Bulli example in Chapter 2 is an excellent illustration of how such fusion works!). In Chapter 5, we define the three dimensions necessary for business growth,²³ i.e., market making (creat-

ing new customer value propositions), market hunting (acquiring new customers) and market farming (improving share-of-customer or efficiency). Chapter 6 shows how marketers can generate strategic market options and provides a framework to assess these options.

Many strategic marketing textbooks treat the challenge of strategy implementation in a step-motherly fashion. This is such a shame. You cannot design a marketing plan in splendid isolation: a marketing plan without a human resource dimension is doomed to fail. As it is, many marketing plans *do* fail. We therefore provide in Chapter 7 an integrated approach – the ‘*See-Start-Sustain*’ framework – to help marketers accomplish true marketing implementation. Project roadmapping is a simple tool that helps marketers to turn ideas into action.

Marketers must always keep their eyes fixed on the final goal. Companies are not just run for fun – the aim is to make a sustainable profit. In Chapter 8, we translate the concept of the ‘balanced scorecard’ to the domain of marketing. This allows the transformation of the balanced scorecard into a balanced *marketing* scorecard. In this respect, it is important to remember a number of key points: financial results relate to the value created for the company; customer response is a consequence of the value provided to the customer; the internal business process involves the exploitation of the current business model; and learning and growth require the exploration of new business models. The concluding synthesis in the final chapter shows that building a sustainable business implies that companies must create both value for the customer and value for the company, as well as balancing business exploitation (‘running the business’) with business exploration (‘changing the business’). Figure 1.2 shows the flowchart we have described above graphically.

The cover photo graphically conveys the roadmapping principle.²⁴ If you want to envisage a bright future, creativity and insight will be needed – because no one ever knows exactly what is around the corner. In order to reach the horizon, skill and commitment are essential.

We hope that you will enjoy the road ahead.

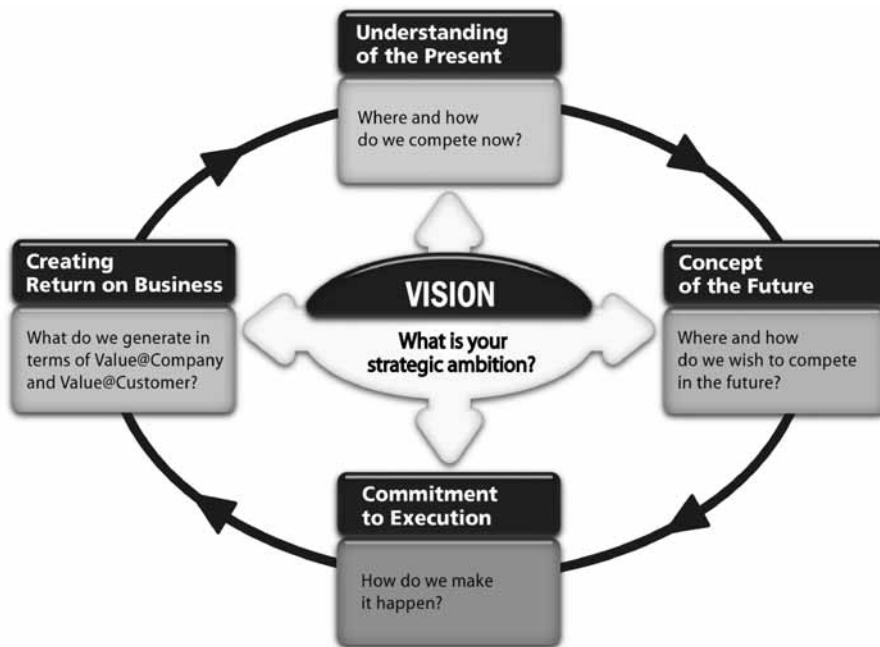
CHAPTER 2

UNDERSTANDING THE BUSINESS

You don't win silver.

You lose gold.

NIKE¹



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?

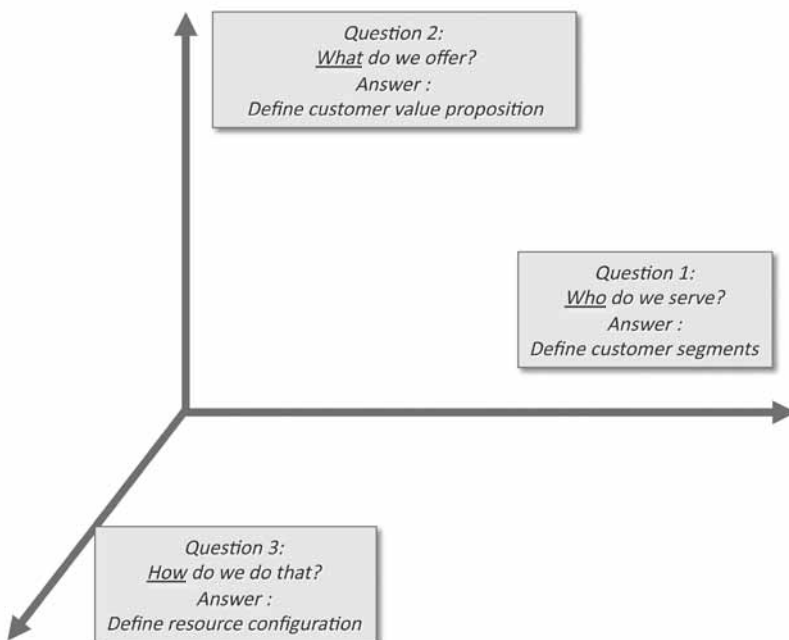


Figure 2.1 • Defining the business

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

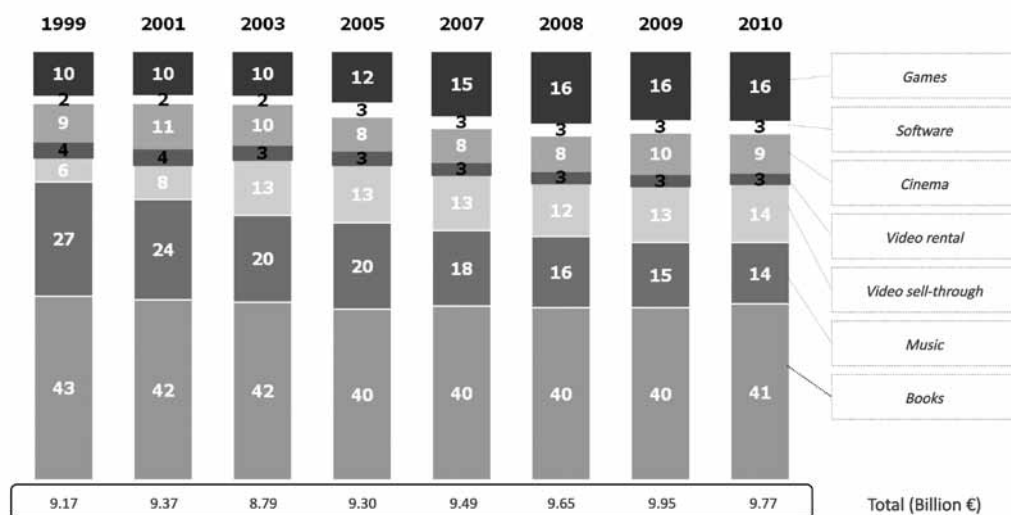


Figure 2.2 · Media Spending in the German Market (Source of Data: cfx)

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 deceptively 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.

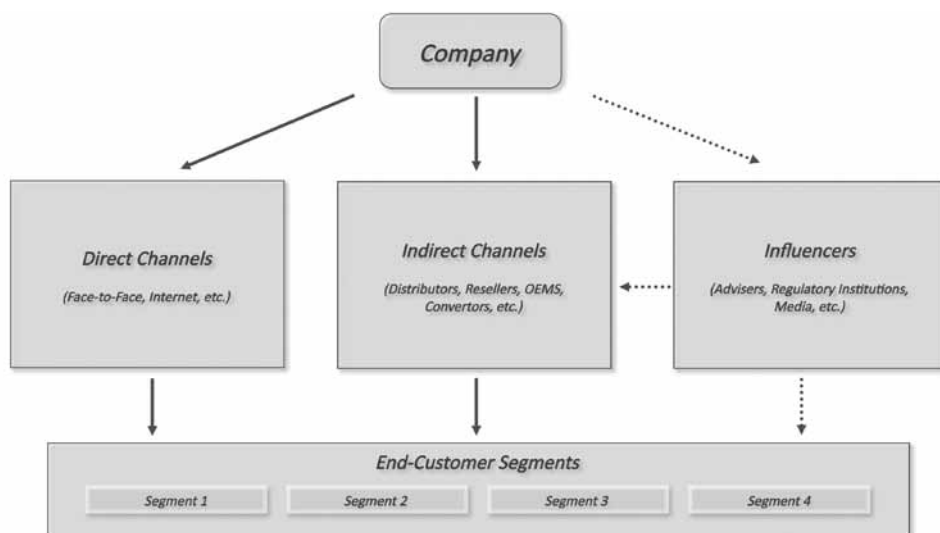


Figure 2.3 • Way-to-Market Architecture

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.

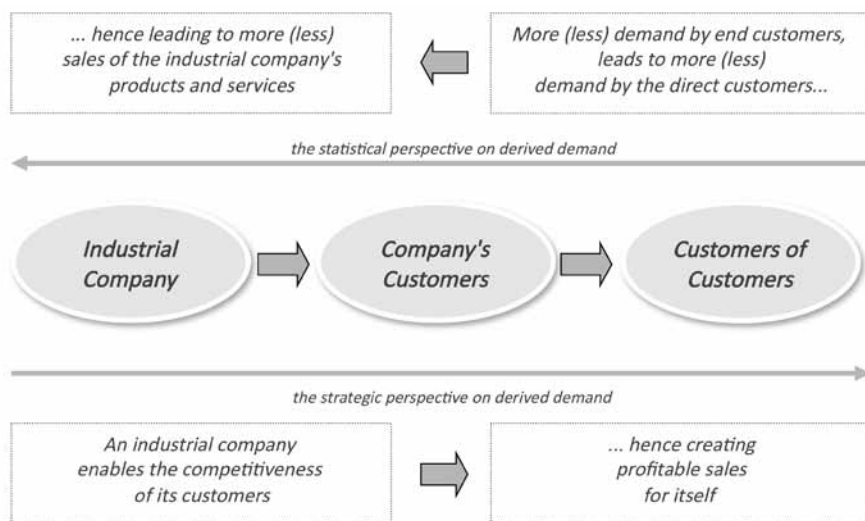


Figure 2.5 · Perspectives on Derived Demand in Business Markets

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-

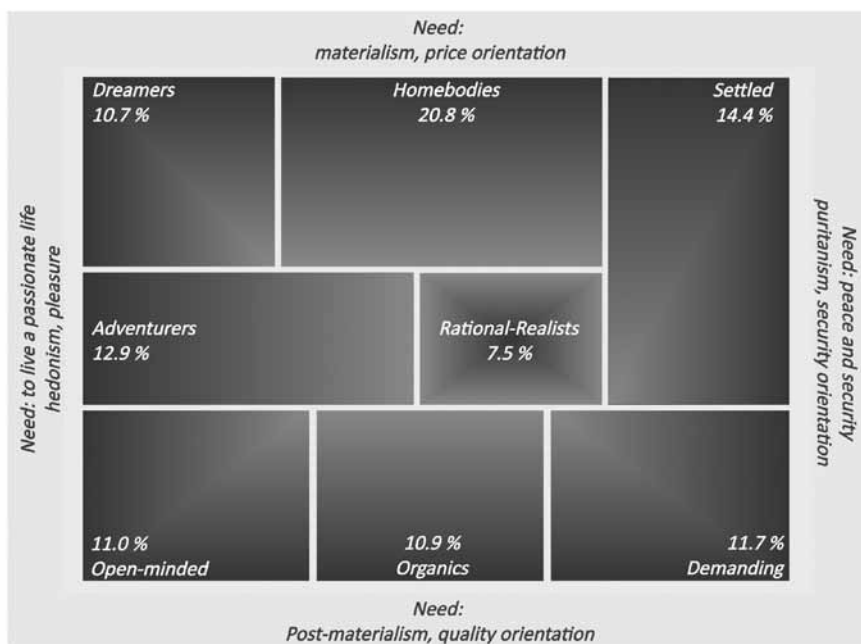


Figure 2.6 · Lifestyle Segmentation

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 consumers²⁶ 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.

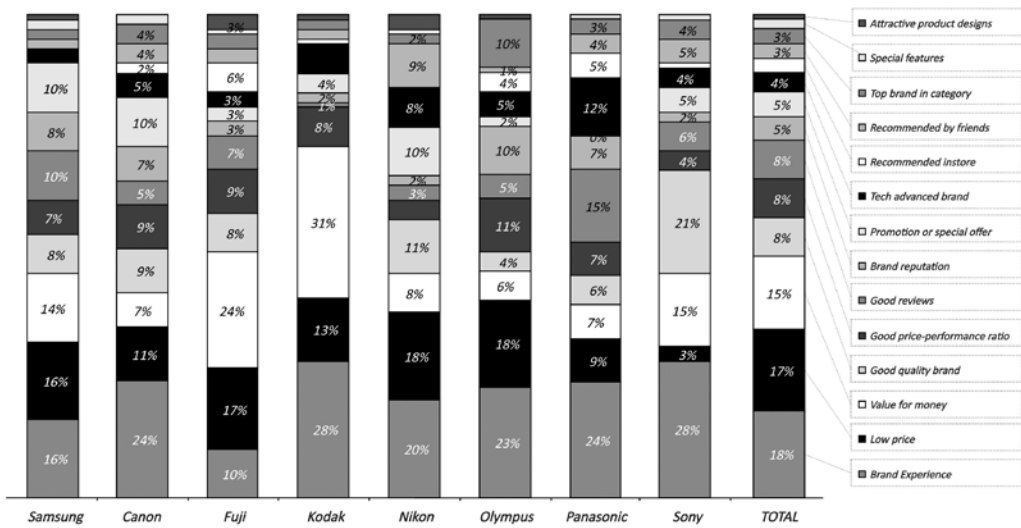


Figure 2.7 • Most Important Reasons for Brand Choice: Digital Compact Camera's

(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:

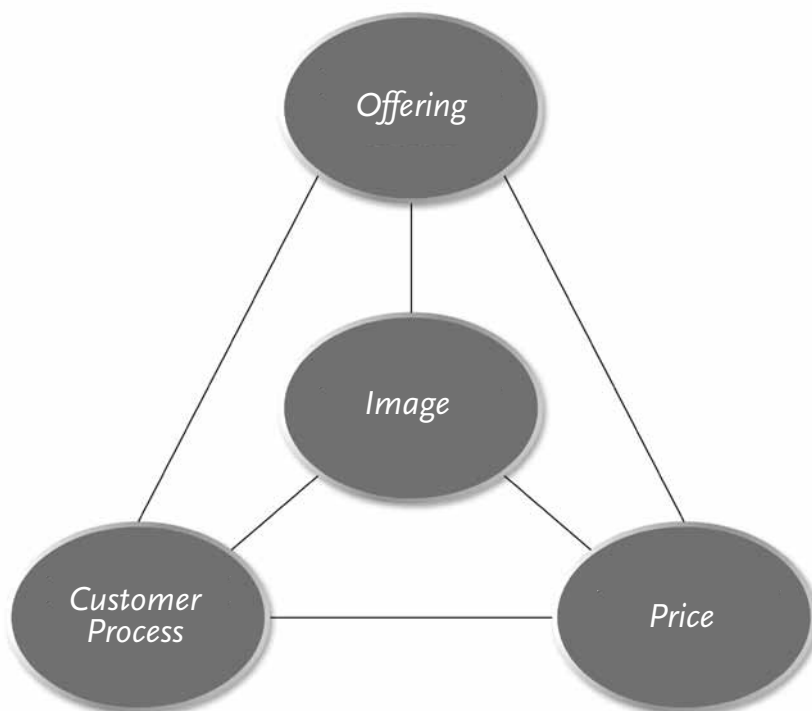
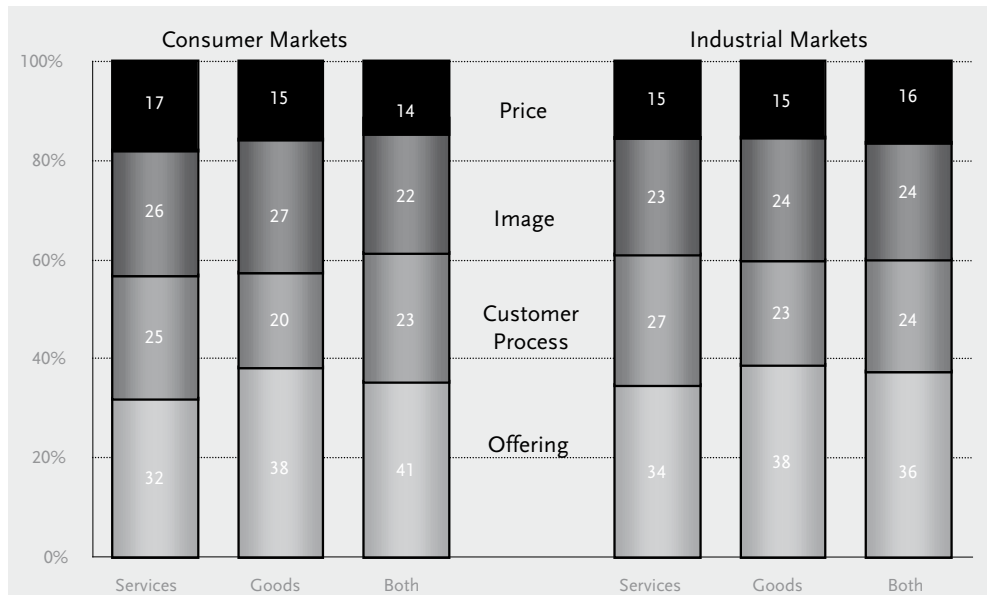


Figure 2.8 • CODA: Customer's Outlook on Differentiating Advantages

- 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 Customer 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 Kinopolis movie theatre opened in Brussels, a chair cost only €1,750, half the industry average. At the same time, Kinopolis 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-

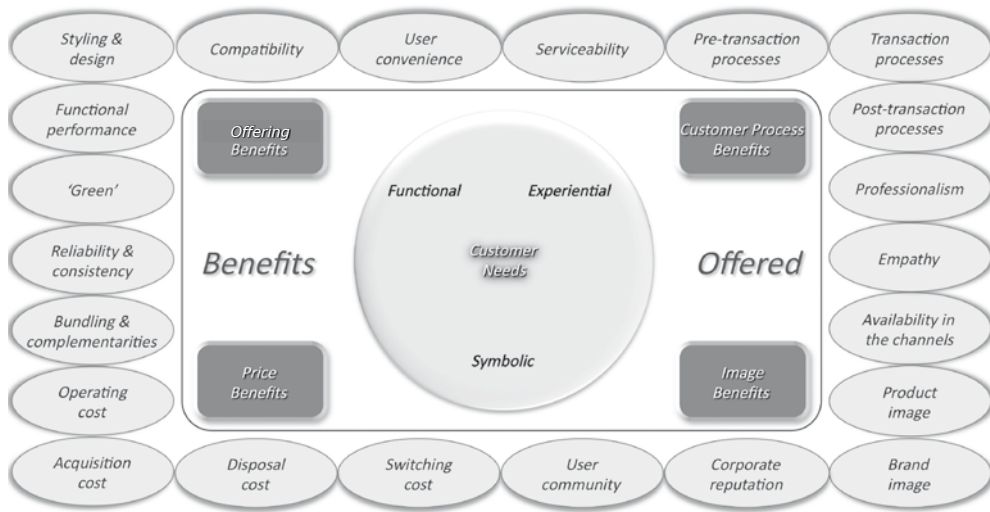


Figure 2.9 • The Differentiation Arena

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 unparalleled dining experience and (4) providing a genuine journey to its customers. How does El Bulli provide and

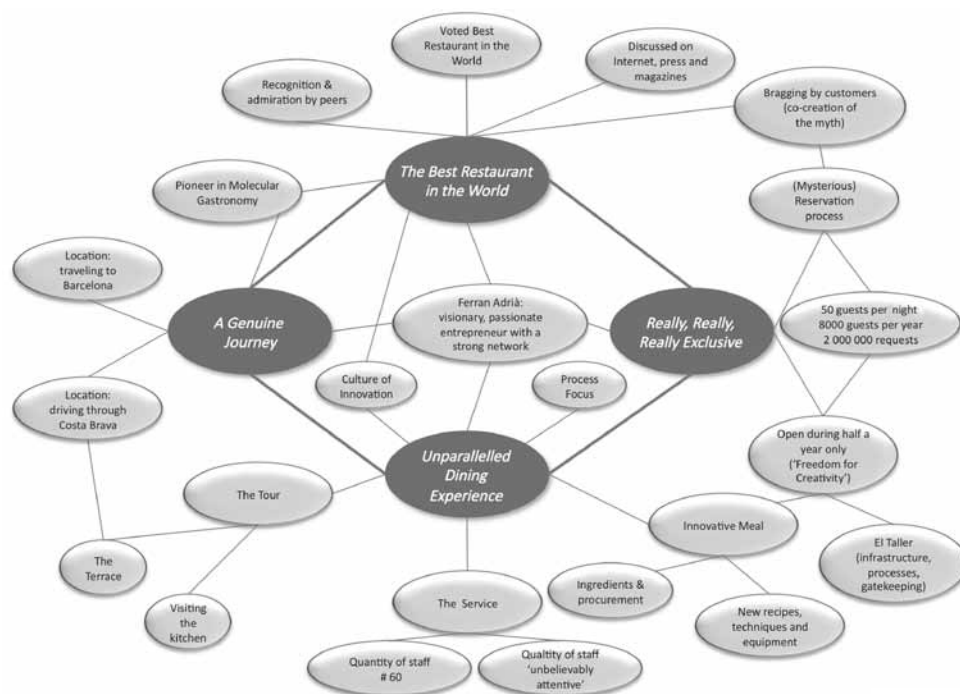


Figure 2.10 · Business Model of the El Bulli restaurant (Spain)

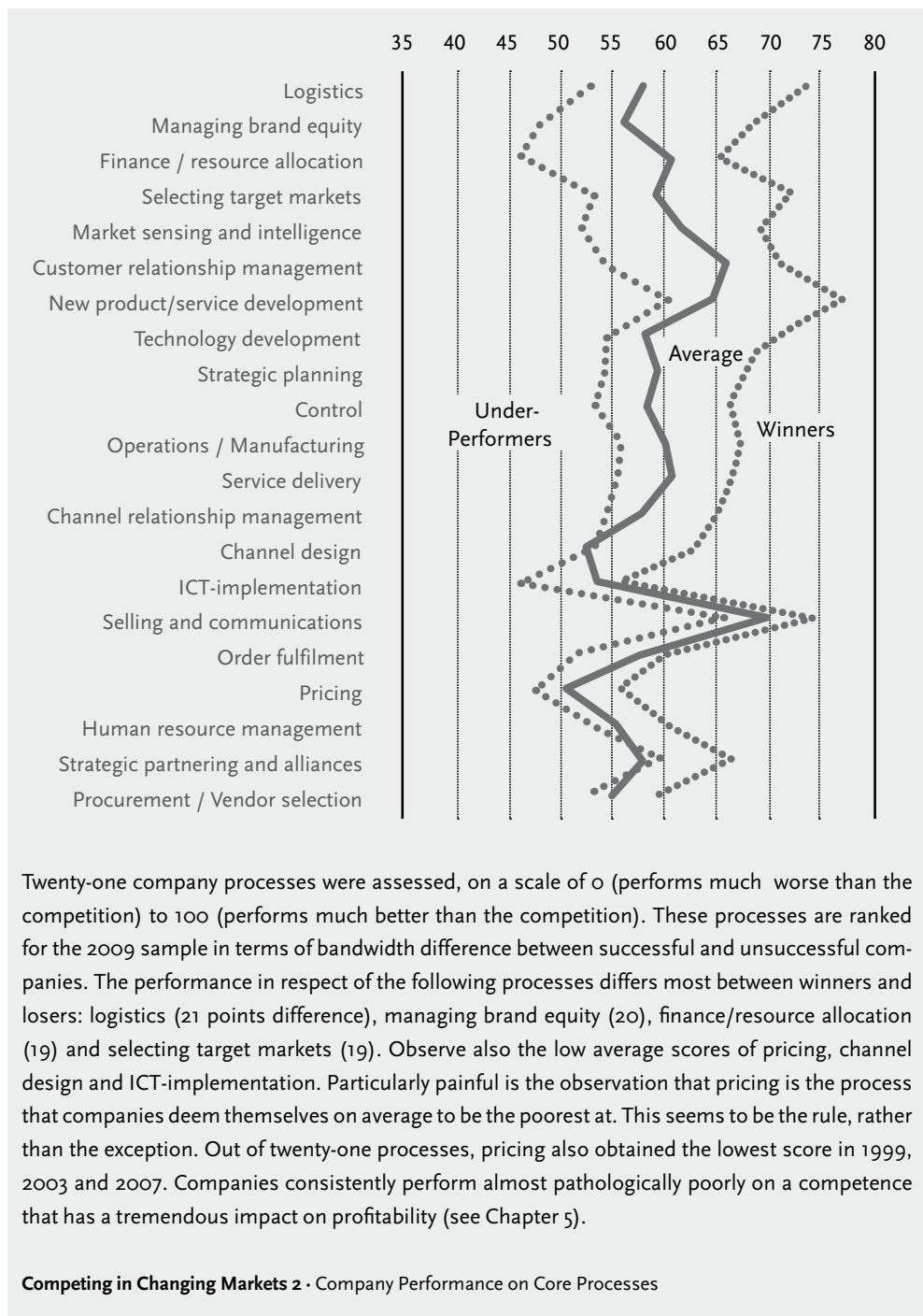
maintain these competitive advantages? We will not go into all the details, but we will simply outline several key assets and competences.

- 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-



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 Wiersema⁶⁹ 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?*

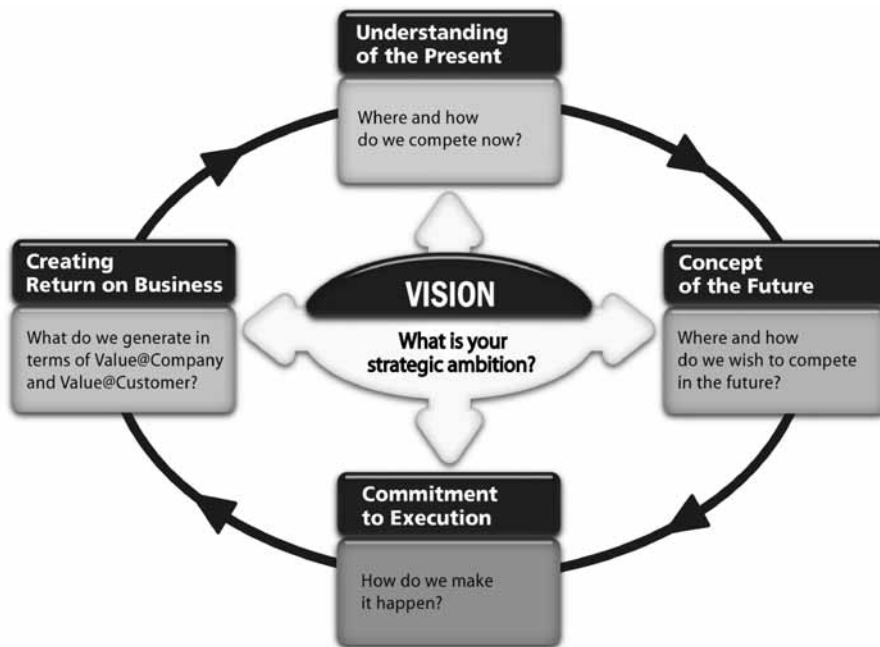
HOW: THE BUSINESS MODEL

- *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?*

CHAPTER 3

UNDERSTANDING THE ENVIRONMENT

*Champions take chances
and pressure is a privilege.*
BILLIE JEAN KING¹



THE BUSINESS ENVIRONMENT

A company may be viewed as an open system.² It flourishes or dies because of its match with a specific environment. Most marketing textbooks rightly devote up-front, substantive attention to the changing environment. A twenty-year-old winning strategy may now be antiquated and sterile. For instance, one of the key assets of banks in the 1960s and 1970s was a tight network of branches. Nowadays, with the advent of ATMs and Internet banking, a dense branch network has become a liability instead of an asset.

A distinction can be made between the company's direct action environment and its indirect action environment. The direct action environment relates to the environment that directly influences the company. The indirect action envi-

ronment is concerned with the macro context; while it may not influence a company's processes and performance directly, it may affect it indirectly.³ In the practice of strategic marketing, the direct action environment is analysed using an industry analysis, while the indirect action environment is analysed using a STEP analysis.⁴ These two levels of analysis are schematically synthesised in Figure 3.1.

INDUSTRY ANALYSIS

The 'Five Forces' analysis proposed by Michael Porter has become the standard method for industry analysis. Admittedly, this framework is well embedded in the industrial economics literature and is a masterpiece of accessible synthesis.⁵ According to Porter, five forces determine profitability in an industry:

- The intensity of competition within the industry;
- The threat of new entrants to the industry;
- The threat of substitutes;
- The bargaining power of suppliers; and
- The bargaining power of customers;

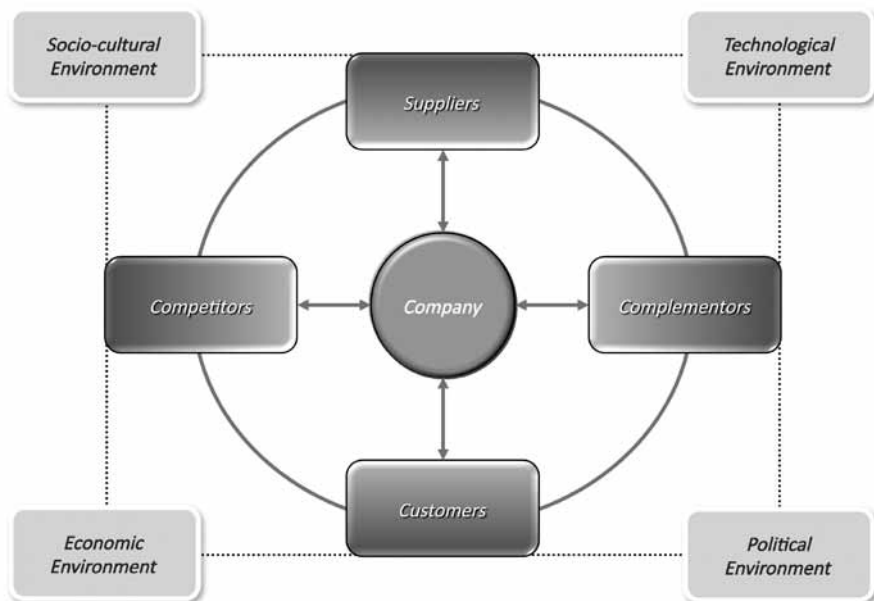


Figure 3.1 • Constituents of the Direct and Indirect Action Environment

Some industries are conducive to above average returns.⁶ A profitable industry is one where the intensity of competition, the threat of new entrants and the threat of substitute products are low, while the suppliers and customers have a limited bargaining power. While the fortunes of pharmaceutical companies seem to be changing,⁷ they are still likely to enjoy a higher level of profitability than textile producers. For example, buyer power in the pharmaceutical markets is lower (although governments and insurance companies do combine efforts to reduce prices). Similarly, strong patents restrict competition and reduce the threat of new entrants. The development of substitute products is a time-consuming process, involving huge capital expenditure. Moreover, the threat posed by suppliers is moderate to low, since most chemical companies provide commodity products.⁸ Compare this situation with the textile industry. Internal rivalry within the industry is intense. In addition, new competitors enter the arena each day: look how China has become a powerful force in this industry. Finally, international retailers have developed international sourcing capabilities, leading to a continuous squeeze on suppliers.

Having said all this – and following the tenets of the resource-based view – positioning in an attractive industry is not by itself a sufficient condition for success. Strictly speaking, it may not even be a necessary condition! Nucor, operating in the cut-throat steel industry, has realised an impressive level of performance during previous decades: it posted a loss only *once* during the last 40 years (2009).⁹ While some steel companies enjoyed a temporary success because of high demand from the Chinese market, Nucor was consistently successful across economic highs and lows. In summary: it is not only important *where* a company competes, but also *how* a company competes.¹⁰ At a more fundamental level, a company may benefit from trying to proactively create its own environment.

There is also another qualifier to the five forces framework. It assumes that the essence of winning is to be found in competition. Consequently, there is a danger that if a marketing manager mechanistically works his way through the five forces framework, he will interpret the model too one-sidedly: “We will grow stronger if the other companies in the market grow weaker.” However, success can also be achieved through collaboration, even with competitors. Such collaboration must, of course, remain within the law. For instance, the European commission launched an investigation into collusive behaviour and price-fixing by ebook publishers.¹¹ Another recent example involved the heavy fines imposed on Procter & Gamble and Unilever for setting up a washing powder price-fixing cartel.

Companies can benefit from co-operation, or, as it is now sometimes called, ‘co-opetition.’¹² In a co-opetition model, a company uses ‘complementors’ to

allow customers to enjoy its offering to best advantage. Intel (microprocessors) and Microsoft (software) are obvious complementors. Complementor relationships can also be organised among direct competitors. This was the case, for example, when Ask Jeeves signed a contract with competitor Google to partner up on advertising business. The CEO of Ask Jeeves, Berkowitz, commented on the deal as follows:

*"I had a face-to-face meeting with Eric [Schmidt, the CEO of Google at the time] and he said how much he wanted this business and how our business base was different from theirs. In a fast-growing market, he said, it was better to work together to expand the market than to kill competitors and shrink the market. The idea is you can compete and cooperate at the same time."*¹³

Berkowitz was not naive. Ask Jeeves could afford to negotiate the contract with Google, since it had acquired its own search technology (through the acquisition of Teoma). This made them independent. Even so, Google clearly believes in competition: they later unveiled an alliance with eBay.¹⁴ We will return to the issue of complementors when discussing ideation techniques (Chapter 6).

Figure 3.1 graphically integrates the direct and indirect action environments

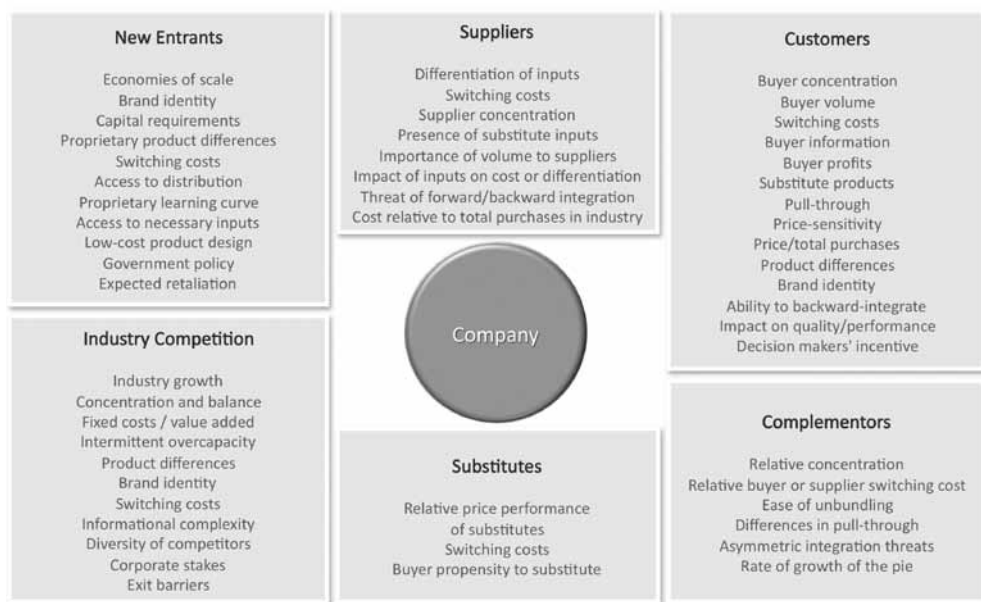


Figure 3.2 · Determinants of Industry Competitiveness

(Source: Porter M.E., *Competitive Advantage*; Ghemawat P., *Strategy and the Business Landscape*)

of a company. Following the principles of the discussion above, the competitor dimension encompasses competition from industry incumbents, new entrants and substitute products. As far as the customer dimension is concerned, it is wise not to limit the analysis to the end customer, but to expand it to cover intermediaries (e.g., distribution channels and influencers), where appropriate. Figure 3.2 gives a more detailed list of criteria to consider when assessing the attractiveness of an industry.¹⁵

The analysis of industry incumbents may be further refined using strategic individual competitor analysis and strategic group analysis. The section on ‘Marketing Intelligence’ later in this chapter describes tools for individual competitor analysis. The objective of competitor analysis is to anticipate competitive moves and devise an appropriate defensive or offensive response.¹⁶ The maxim postulated by Louis Pasteur appropriately applies to the objective of competitor analysis: “Chance favours the prepared mind.” Unfortunately, the brand name ‘Others’ that appears on so many competitor listings is simply a label managers award to parties they fail to identify or understand.

It can also be beneficial to conduct a strategic group analysis. A strategic group is a cluster of companies that follow similar strategies and have similar characteristics and resources.¹⁷ Metaphorically speaking, one may define a stra-

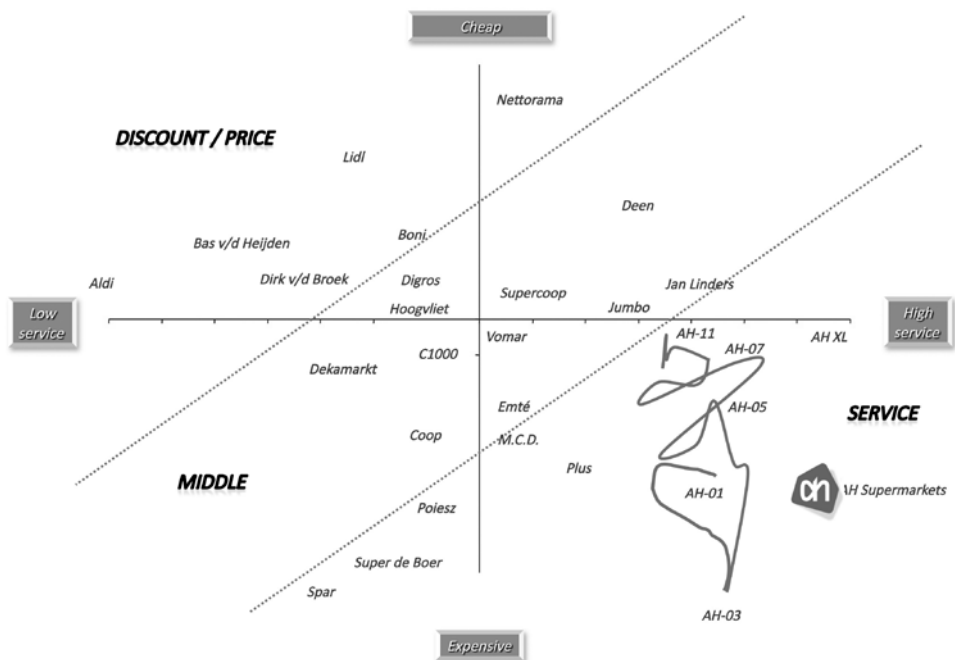


Figure 3.3 • Clustering Retailers in The Netherlands (Source of Data: cfx)

tegic group analysis as a segmentation of the supply side. The criteria used to define strategic groups may relate to channel strategy, technological leadership, cost position, geographical scope, vertical integration, pricing policy, etcetera. Mobility barriers act as isolating mechanisms between strategic groups; i.e., as barriers that prevent members of one strategic group from crossing to another. The hypothesis that within-group profitability variation is less than between-group variation has not yet, however, been conclusively supported.¹⁸

Notwithstanding these caveats, strategic group analysis remains a useful tool for industry description. A visual representation on a two-dimensional chart, along two carefully selected dimensions, often provides an intriguing synthesis. Figure 3.3 summarises the market strategies of Dutch retailers along two key dimensions, namely, the customer perception of price levels and the service offered. In this analysis, a distinction was made between three strategic groups: Discount/Price, Middle and Service. It is clear that the 'Middle' cluster contains players who position themselves quite differently on the market from their immediate competitors. Upon deeper analysis, this cluster may be further subdivided. The analysis also shows the difficulty faced by industry incumbents who wish to reposition, underscoring the validity of the mobility barrier concept. For instance, Albert Heijn, a leading retailer on the Dutch market, opened a much publicised price war in 2003, but such tactics only result very slowly in a true shift of customer perceptions. The presence of mobility barriers initially makes business possible, but it makes diversification into other types of business difficult – if not impossible!

STEP ANALYSIS

The indirect action environment can be divided into the socio-cultural environment, the technological environment, the economic environment and the political environment. Hence, the acronym STEP. An exhaustive inventory of STEP-elements is not feasible here. However, some recent examples may illustrate the changing nature of the macro-environment:

- Technological advances have changed the use of phones. Smartphones are nowadays used for social networking, shopping, watching television and paying parking fees. One may even wonder why we still call these wonderful devices 'phones.' Indeed, since 2009 voice data makes up less than half the volume of all smartphone data transfer. Is our society changing or is it simply that contemporary handset designs are less cheek-friendly?¹⁹
- The heavy earthquake that hit the Japanese East Coast in early 2011 rippled

into the supply chain of companies all over the globe. Timothy Carroll, the global operations VP at IBM, expresses the opinion of many: “In the past, when you had a disruption, the response was regional. Now, it’s globalized.”²⁰

- The poster child of the new economy, Google, came under public pressure when rumours spread that it had complied with Chinese censorship regulations in order to enter the Chinese market. Its search engine blocked search subjects such as ‘Tibet’ and ‘democracy.’ “We had a choice to enter the country and follow the law. Or we had a choice not to enter the country,” CEO Schmidt said.²¹
- Who could have imagined, 15 years ago, when plugging a 1.44 megabyte floppy disk in the computer, that today’s USB-stick would contain eight gigabytes (more than 5,000 times the capacity of those old floppies)? Technology does not simply limit itself to faster, better, cheaper. It is also in the business of radical substitution. The new generation of game consoles does not only compete for the attention of gamers; it competes for the attention of the whole family. “It’s about owning the set-top box that may ultimately connect the living room to the Internet,” says Warren Jenson, chief financial officer of Electronic Arts, a leading games developer.²²
- Within the socio-cultural domain, companies are also facing new realities. The aging of the population provides major opportunities, but many companies have not grasped them. A recent study shows that many senior citizens are appalled by the advertisements that target their age group. “There’s a perception among advertisers that if you’re over 50, your biggest concern is incontinence – and that’s not true!” observes Mike Irwin, the president of Focalyst (a joint venture between the advertising agency WPP and the American Association of Retired People).²³ The ‘extended’ family also provides additional business opportunities. “Pets are considered as a member of the family,” says Jeffrey Ansell, the former president of the Procter & Gamble pet food division.²⁴

The above examples should not lead us to exaggerate the current situation or to become doom-mongers. Society has always been turbulent. For instance, on the basis of a Compustat database analysis, with an average of 5,700 business unit observations for each year of the twenty-year study period (1978–1997), McNamara, Vaaler and Devers conclude that:

“The relative importance of hypercompetitive assumptions about markets, business strategy and performance in the late 1990s appears to be much the same as it was in the late 1970s and early 1980s.”²⁵

In the ABC-communities of the business world (Academics, Business Managers, Consultants), it has become fashionable to define one's own age as turbulent. Strategy guru Henry Mintzberg scoffs at this:

*"It is simply that we glorify ourselves by describing our age as turbulent. We live 'where it's at', as the saying goes, or at least we like to think we do (because that makes us feel important). One is reminded here of those people who, in categorizing periods of history, always reserve one for their own time (say, the total quality management movement of the 1990s alongside the eras of the dinosaurs and the Ming dynasty). In other words, what we really face are not turbulent times but over-inflated egos."*²⁶

Nevertheless, the environment does challenge (and will continue to challenge) business organisation – and it requires an appropriate response. In particular, the question of how to respond to international and technological change has been incorporated into the research agenda of many strategy scholars.²⁷ A model that deals with the challenge of innovation in an international context has been provided by the research of Bartlett and Ghoshal.²⁸ International organisations, the researchers argue, face three main challenges: market responsiveness, organisational efficiency and the transfer of knowledge. In *multinational* structures, the subsidiaries possess a strategic freedom to pursue their own interests. Market responsiveness is maximised but corporate resource efficiency is often minimised as a result. At the other end of the scale, in *global* structures strategies are defined at corporate headquarters, where the local subsidiaries are considered to be pipelines for strategy execution. While this structure maximises efficiency, it often results in poor market responsiveness. An *international* structure (a 'coordinated federation') or a *transnational solution* (in which the network of subsidiaries is viewed as a network of competences) attempts to tackle the three objectives simultaneously. These latter structures aim for optimisation rather than maximisation, i.e., they seek to achieve responsiveness, efficiency and learning concurrently.

A WORD OF CAUTION

The industry and STEP analyses help marketers to chart the waters. However, they do not solve any problem or threats that may be encountered along the way, which means that companies will still have to live with uncertainty. In this respect, scenario management is one possible avenue to pursue. Rather than capitalising on a single idea arising from a brainstorming session, a company investigates several points of view simultaneously. Scenario management assumes that a company's organisation is a complex, varied and dynamic sys-

tem. The idea is to look for potentially successful options from which to develop and implement visionary strategies.²⁹ Even then, certain events defy our ability to predict them.³⁰ We must simply accept that we live in uncertain environments.³¹

Unfortunately, a common pitfall in many industry and STEP analyses is that managers only create lists with bullet-points, rather than aiming for fact-based analyses. These facts stem from the analyses described above and form the starting point for more detailed analyses and, finally, organisational decision making.

Marketing needs to be accountable, if marketing is to play a key role in building sustainable business. Imagine that a company's financial department would deliver a P&L statement without numbers, but simply with the following text: "Costs have been high, but revenues a bit higher. This means that at the end of the year, we will have produced a significant profit." Would a CEO be happy to accept this?³² Marketers have a responsibility to use metrics wherever possible. Verbosity does not put numbers on a segment. Effective marketing requires facts and fact-based reasoning. In this respect, we follow our own '4F' adage: "facts first, feelings follow."³³

Whatever the nature of the industry scenarios you construct, no marketer must ever ignore the assumptions on which these scenarios are based. It is dangerous to view one's own insights as uncontested dogmas, without explicitly stating and questioning the assumptions underlying these insights. The recent recession provides a strong reminder of this basic truth. The deep recession that engulfed the world left the economic experts flabbergasted. Nobel prize winner Paul Krugman castigated his fellow-economists for having failed to appreciate the true state of the economy in the new millenium:

*"As I see it, the economics profession went astray because economists, as a group, mistook beauty, clad in impressive-looking mathematics, for truth. (...) Economics, as a field, got in trouble because economists were seduced by the vision of a perfect, frictionless market system. If the profession is to redeem itself, it will have to reconcile itself to a less alluring vision — that of a market economy that has many virtues but that is also shot through with flaws and frictions. (...) When it comes to the all-too-human problem of recessions and depressions, economists need to abandon the neat but wrong solution of assuming that everyone is rational and markets work perfectly. The vision that emerges as the profession rethinks its foundations may not be all that clear; it certainly won't be neat; but we can hope that it will have the virtue of being at least partly right."*³⁴

PORTFOLIO ANALYSIS

To add further nuance in answering the question of where a company should properly be competing, a portfolio analysis can be helpful in giving insights into a company's market presence and performance. Portfolio analysis is a useful technique to describe the basket of product lines, market segments or customer groups to which a company or corporation relates. Such an analysis helps a company in making decisions about objectives, strategy and resource allocation for each business unit.³⁵ Portfolio analysis is without doubt a very worthwhile tool, but it entails high risks for its users if its shortcomings are not considered.

THE SIMPLE RECIPE OF PORTFOLIO ANALYSIS

There is a large variety of portfolio models that can be used to describe the condition of an organisation's business units or their position in the market.³⁶ The basic recipes of most portfolio analyses are, however, very similar. The business units, lines-of-business, product market combinations or brands are positioned in a two-dimensional field. One dimension represents market attractiveness, while the other represents competitive strength in the given market. To illustrate this, we can consider the most widely used model for portfolio analysis,

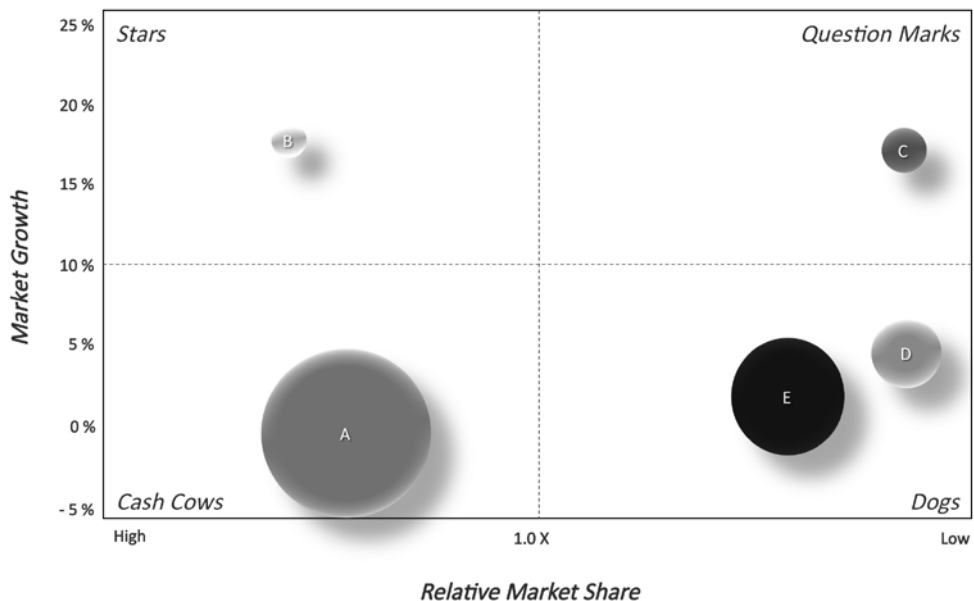


Figure 3.4 • Example of a BCG Portfolio Analysis

the so-called BCG matrix (Boston Consulting Group). Figure 3.4 depicts the BCG portfolio of products for a software company. In the BCG methodology, the vertical axis represents market growth. It is a straightforward measure of market attractiveness. The horizontal axis represents the relative market share; i.e., a company's market share in the given market, divided by the market share of its largest competitor in the same market. In other words, it is a measure of competitive strength. The cut-off point between 'low' and 'high' on the relative market share dimension is most frequently set at 1. The cut-off point on the market growth dimension is set more arbitrarily. It will depend heavily on the nature of the markets in which the company competes. In this case, it is set at 10% of annual growth.

The product circle sizes show product sales volume. To help the mental digestion process, most portfolio frameworks employ some simple rules to help the marketers in their decision-making. For instance, the BCG doctrine postulates:

- a higher relative market share corresponds to lower costs and therefore a higher cash inflow;
- a higher market growth corresponds to higher needs for capital investments and correspondingly higher levels of cash outflow.

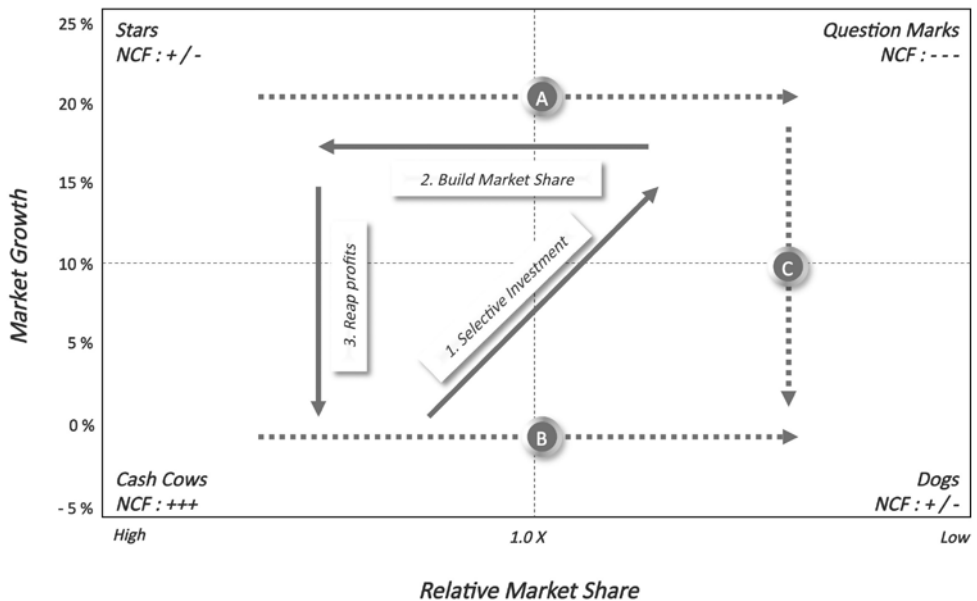


Figure 3.5 · Success Sequence (1, 2, 3) and Disaster Scenarios (A, B, C) in BCG Space (NCF = Net Cash Flow)

Using binary scales (low-high), this results in four quadrants, aptly labelled so that the very name already conveys the central idea. For instance, BCG guru Henderson has stated in no uncertain terms that ‘dogs’ are “essentially worthless, except in liquidation.”³⁷ In plain language: dogs must be shot. For ‘question marks,’ the decision guideline may be summarised as follows: the company can invest to improve its market share or it can divest, but it must not maintain the status quo. The status quo for ‘question marks,’ generating as a general rule substantive negative net cash flows, implies that the company will continue to lose money. The monies for investment are primarily provided by the cash surplus which is generated through a company’s ‘cash cows.’ The markets for these latter products (or business units or brands) have typically reached a plateau, lowering the need for additional capital investments (with the exception of process investments aimed at greater operational excellence). The positive cash flows are used to subsidise the growth ambitions of selected ‘question marks.’ Finally, ‘star products’ will generate large positive cash inflows, given their market dominance. However, in view of the volatility of market growth, which may occur quite turbulently, ‘star products’ will require substantial investments to maintain a healthy working capital and match commercial and operational resources to the capacities required by the market. As the market matures, ‘star products’ become the ‘cash cows’ of the future. Figure 3.5 summarises this logic. Disaster scenarios can also be discerned.³⁸ Scenario C occurs frequently as markets mature, while scenarios A and B are especially painful, since the company loses a commanding market share. Under these scenarios, the company will not be able to reap the full potential of the profits from its investments, hence limiting further future investments.

The portfolio method is easy – and easy to apply. It allows the marketer to make an analysis of the company’s product portfolio (or brands or business units), possibly supplemented with an historical analysis. Using the BCG approach, such an *historical analysis* can also be conducted for a company’s competition in a single market: who wins, who loses and why? It is not only possible to chart the product lines in the portfolio, but it also enables the marketer to highlight changes in segments and strategic customers. However, as is the case with many ‘management-by-squares’ toolkits, this doctrine is not without its shortcomings:

- The market definition is critical, but often idiosyncratic. For instance, a total solution provider in industrial services may find it hard to define the market unambiguously and subsequently estimates his market shares incorrectly. Even when market definitions can be made accurately, different perspectives will lead to vastly different outcomes. Does one define the market share of

Volvo on a global scale, on a regional scale or on a national scale? Does one calculate Volvo market shares within the total car industry or within the luxury segment?

- There can only be one market leader (unless there are equal leaders), which leaves the quadrants on the right hand side of the market share scale densely populated. Whatever definition you use for a high growth market, there will inevitably be many ‘dogs.’ Entire industries, essential for the functioning of an economy, may be classified as low growth industries. Should marketers ruthlessly abolish all these ‘dogs’? We hardly think so. Consider the ironic comment Seeger makes in his analysis of a retail division that was classified as a ‘dog’:

“Divesting this retail division would be analogous to a fire engine company disposing of its Dalmation hound. The dog does not contribute much to the direct function of putting out fires. But it looks good in photographs, it makes life more pleasant for the firefighters during their boring waits for alarms – and it keeps other dogs from pissing on the equipment.”³⁹

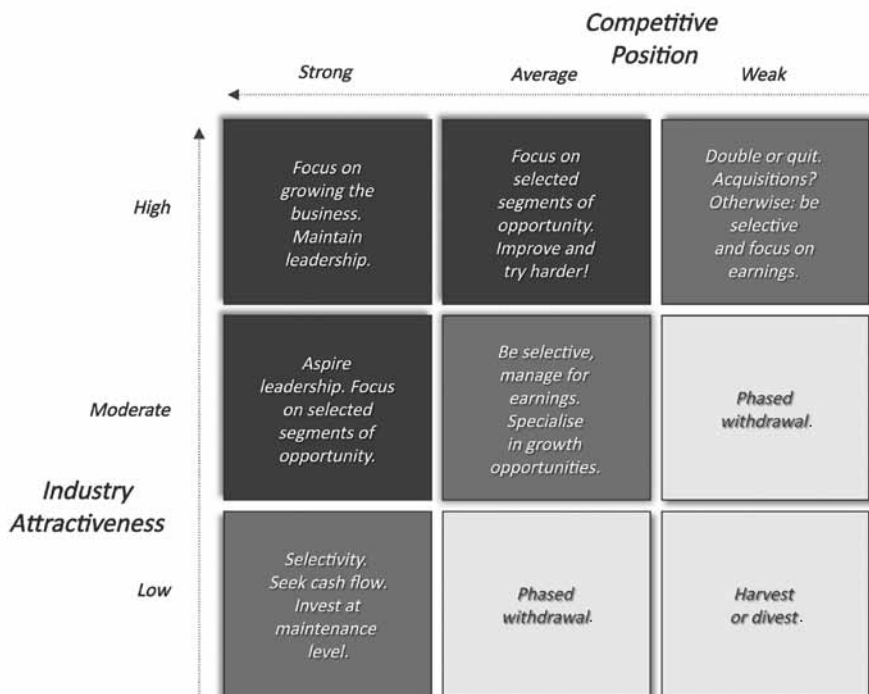


Figure 3.6 • MABA-Framework and Guidelines

<u>Market Attractiveness</u> • <i>Size (total, key segments)</i> • <i>Growth (total, segments)</i> • <i>Levels of customer satisfaction</i> • <i>Seasonality</i> • <i>Sensitivity to economic trends</i> • <i>Bargaining power of customers</i> • <i>Bargaining power of suppliers</i> • <i>Competition (type, concentration, etc.)</i> • <i>Entry barriers</i> • <i>Exit barriers</i> • <i>Price levels</i> • <i>Contribution margins</i> • <i>Profitability</i> • <i>Technology (complexity, accessibility, patents)</i> • <i>Government regulations ...</i>	<u>Competitive Position</u> • <i>Market share</i> • <i>Share-of-customer</i> • <i>Share per segment</i> • <i>Customer loyalty</i> • <i>Margins</i> • <i>Distribution</i> • <i>Technological competences</i> • <i>Patents</i> • <i>Marketing</i> • <i>Flexibility</i> • <i>Organization</i> • <i>Image</i> • <i>Learning curve or scale economies</i> • <i>Location</i> • <i>Assortment ...</i>
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Table 3.1 • Examples of Criteria for a MABA-analysis

- The above remark raises another issue. From a corporate perspective, resource exchanges between sbus, brands or product lines may involve more than financial resources. For instance, in difficult markets – such as high-tech markets – one of the scarcest resources may be managerial or technological talent. In mature markets, managers with exceptional talent in operations and logistics may be the key to profitability.
- Finally, the underlying drivers are not consistently robust across industries (e.g., the positive relationship between market share and profitability). An analysis of the PIMS-database⁴⁰ showed that only 74% of the ‘cash cows’ generated positive net cash flows, while 72% of ‘stars’, 59% of ‘dogs’ and 54% of ‘question marks’ also produced a positive net cash flow.⁴¹ The labels must not delude the professional marketer: a significant number of ‘cash cows’ are not genuine cash generators, while more than half of the ‘question marks’ produce a positive net cash flow.

REFINING THE RECIPE: MABA-ANALYSIS

Refinements portrayed as a remedy to the shortcomings to the BCG recipe have flourished. Examples include the GE/McKinsey portfolio matrix,⁴² the Shell directional policy matrix⁴³ and the Arthur D. Little life cycle portfolio matrix.⁴⁴ In particular, the GE/McKinsey portfolio matrix and the Shell directional policy matrix are often used and they are commonly referred to as MABA-analyses (Market Attractiveness / Business Advantage) (see Figure 3.6).⁴⁵ Such MABA-analysis enables its users to select a multitude of industry specific indicators (see Table 3.1) and to assign weights to these indicators, so that each business can be assessed on the basis of the selected indicators.

In theory, this offers a much more fine-grained approach than the two dimensions of the BCG approach. In practice, however, halo-effects often show up in the subjective assessments across multiple criteria. The use of more criteria does not necessarily lead to better discrimination. In addition, the subjective evaluations often cause a mild tunnel vision in marketing teams. No single business is either very bad or very good. Figure 3.7 provides a nice example.⁴⁶ Although the assessment of the two business units of an internationally-operating engineering company involved ten indicators for each dimension, the final result meanders within a very small bandwidth on the centre of the scale. Such a narrow bandwidth increases the risk of error in the strategic decision-making process. The market can punish a well-meant, mild evaluation very harshly. To avoid this problem, we advise the incorporation of effect variables into the analysis, such as market share or profits. Including such effect variables acts as an acid test. If there is no relationship between, for example, the estimated competitive position and realised results, something is likely to be fundamentally wrong in the assessment. In addition, commercial and financial results are needed to justify future investments and maintain competitive power.



Figure 3.7 · MABA-Analysis of Two SBUs of an Engineering Company

DIVERSIFICATION, SYNERGIES AND PERFORMANCE

The right balance in the portfolio's composition is crucial to a company's future. But even the most successful organisations are not universally successful. John Chambers, the CEO of Cisco, was once heard to quip at a customer conference: "If we don't stretch ourselves, we'll get boxed in." Lately, he seems to have become more cautious about entering new markets. Does this indicate a permanent diversification slowdown or is it simply a timely reconsideration of the group's investment programme?⁴⁷

Many managers have – and rightly so – taken Tom Peters and Robert Waterman's words to heart: "Virtually every academic study has concluded that unchanneled diversification is a losing proposition."⁴⁸ We simply *have* to look at brand consistency. Look at what the iPod, iPhone and iPad have done for Apple. They not only put Apple on the map of legally downloadable music and other applications, but also stimulated demand for Apple's computers.

Synergy has become the buzz word. It is also the newest mirage of many strategic reflections. When Dutch Hoogovens and British Steel merged, one marketing manager wondered scornfully whether the new company's name – Corus – stood for *Corrosion and Rust*. Are the present results an effect of synergy – the *Restoring Success* programme – or simply a bonus of increasing prices and Chinese demand? Insiders tell us over and over again that the cultures of the two companies are quite different and that the true synergies between Dutch Hoogovens and British Steel are still to be discovered. Perhaps their new owner, Tata Steel, has the answers.

Growth through acquisitions is a popular way to expand. Unfortunately, many an acquisition story reads like bombastic *business fiction*, decorated with nonsensical megalomania. "WorldCom wasn't operated at all; it was just on autopilot, using bubble gum and Band-Aids as solutions to its problems. Bernie was endearing, but he didn't even have a working knowledge of the business." This was one analyst's scathing conclusion about WorldCom and its CEO, Bernard Ebbers.⁴⁹ True, WorldCom never integrated its acquisitions effectively – but it is open to question whether this could ever have been possible. The bankruptcy was the radical symptom of many organisational inefficiencies. Perhaps Bernie now has time on his hands to ponder on these matters?

Even if management wholeheartedly tries to integrate different companies, the cultures – the inescapable software of the mind – may still be difficult to reconcile. When it became public that the LVMH empire intended to add the Hermès jewel to its crown, the reply by Patrick Thomas (CEO, Hermès) spoke volumes:

“There is a part of our world that is playing on abundance, on glitz and glamour. And there is another part that is concentrated on refinement, and basically making beautiful objects. We don’t want to be a part of this financial world which is ruining companies and dealing with people like they are goods or raw materials. It’s not a financial fight, because we would lose that. It’s a cultural fight.”⁵⁰

Size does matter. But so does composition, i.e., balance, relatedness and competitiveness.⁵¹ Which do you choose: an organisation with €20 million of revenue in a single segment (with a market share of 60%) or an organisation with €20 million of revenue in five segments (with market shares ranging from 3 to 15%)? It is difficult to debate colours and tastes, but we prefer hyper-monopolies to hyper-competition. Bob Young, the co-founder of Red Hat (Linux), summarised it powerfully: “Every business person wakes up in the morning and asks: ‘How can I become a monopolist?’” Focus is needed.

Volkswagen’s basic brands portfolio (Audi, Seat, Skoda, vw) looks quite diverse, but it is still balanced. Then they added the Phaeton. Jens Neuman, director of strategy, sounded certain of his case. “We want to keep hold of customers who start off with Golfs.”⁵² But if a customer rises to the top of the heap, will he or she continue to drive a Volkswagen? Some companies succeed in defining the ultimate niche market: a market without customers! Phaeton was a wonderful car, but, unfortunately, it had the vw emblem on it. vw is a great brand, but not for the upper class of society. Was vw in this case perhaps intended to mean Virtually Wandering? The vw brand is now going back to its roots of lower-priced cars.⁵³

The hunting grounds of successful and seemingly diversified companies are quite comparable in terms of competences and critical success factors required.⁵⁴ “My biggest fault is that I can’t say no,” says Sir Richard Branson.⁵⁵ Most probably, Sir Richard is the exception confirming the rule. Even his empire is not wholly successful.

Focus is the magic word, after all. Lose dead weight, create working space – and unleash the company! The right focus can tremendously broaden the business’s outlook.⁵⁶ Companies such as Gillette and Coca-Cola have succeeded in expanding their strong home base. In Belgium, Studio 100 has built its business through targeted acquisitions that focus on entertainment for the youngest in the family. Their brands have become household names in the Benelux and more recently in Germany (Samson & Gert; K3; Kabouter Plop; Plopsaland).

Marketers often shrink the industry analysis to a quick score on three dimensions to determine a market’s attractiveness: market size, market growth, and market competition. The dotcom bubble at the turn of the century (is a second one perhaps on the way?) painfully illustrated that managers are often in an

optimistic, expectant mood. They anticipate lucrative market growth and size, readily assuming that they are the only ones to discover the gap in the market. In times of market hype, marketing managers, market researchers, strategic planners and advisors treat market evaluation in precisely the same way a tabloid journalist looks for 'evidence' to support his story. It is an old tale: selective perception, inconsistent processing, shallow analyses and poor communication. We all remember the frantic business rhythm that characterised the *fin du siècle*. It seemed that the stock exchange would keep on rising indefinitely. Dotcom had become everybody's hunting ground. In the meantime, reality has destroyed the new-economy reflections and its associated business capital. At the end of 2003, AOL Time Warner decided to drop the 'AOL' from the company's new name. The group's chief executive, Dick Parsons, commented: "Our new name better reflects the portfolio of our valuable businesses."⁵⁷ In 2009, AOL and Time Warner inevitably split – AOL once again became an internet company. BMO Capital Markets analyst Jeffrey Logsdon labelled the deal of the century as "a nine-year marathon through the mud..."

MARKET INTELLIGENCE

If one thing is clear at the end of this first step in the business roadmapping cycle, it is that market intelligence is crucial. We define market intelligence as a systematic process for the collection and analysis of data and for the creation, dissemination and use of marketing information, with the aim of realising company goals.⁵⁸ In today's markets, solid market intelligence has simply become a ticket to ride.⁵⁹ For many companies, this poses a serious problem. In many small and medium-sized businesses – and also in many industrial companies – market intelligence is viewed as an unaffordable pastime. The focus is on 'getting the job done'. The marketing processes in such organisations have been narrowed down to selling, leaving few or no resources available for market analysis. The implication is unfortunate: decisions on (for example) go-to-market strategies are made in the absence of relevant information (many companies do not even have the foggiest notion about the sales figures between the indirect channels and end customers).

A PROCESS PERSPECTIVE

On a business card, the description '*Market Research Manager*' may seem impressive. But marketing intelligence is a process rather than a job description:

- Kjeld Kirk Kristiansen, Lego's main shareholder, finally confessed after some dramatic business results: "We have not been good at reading the market; we have not been good at understanding what's actually going on. We have not been good at forecasting."⁶⁰ Kids grow older younger,⁶¹ and Lego lacked the ability to create an effective response. Instead, Lego was hyperactively swayed by the childish issues of the day and lost track of the Lego brand.
- If Coca-Cola, during the market research and product tests which preceded the launch of *New Coke*, had fully realised that they were not only planning to change a 99-year-old taste, but also a full-blown piece of American heritage, an enormous disaster could have been avoided. This historic fiasco illustrates that customers feel entitled to solid expectations vis-à-vis their suppliers. One lady exclaimed in despair: "You have taken away my childhood."⁶²

A company needs a professional approach to its knowledge requirements. We are not pleading for the analysis of data ad infinitum. Instead, we strongly advocate that market intelligence should be viewed as a permanent and proactive investment, aimed at problem solving. This should be rooted in a methodologically sound and professional approach and based on a costs-benefits analy-

'We listen very carefully to the 'voice of the customer' during the marketing strategy development process in our company'

10% D	20% N	46% A	22% SA
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'We listen very carefully to the 'voice of the supplier' during the marketing strategy development process in our company'

6% SD	30% D	37% N	22% A	5% SA
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The companies in the 'Competing in Changing Markets' survey (2009) clearly listen to the voice of the customer (two thirds agree or strongly agree). However, the picture looks dimmer from the vantage point of the supplier: only 27% agrees or strongly agrees that the voice of the supplier is heard during the marketing strategy development process. Is this indicative that opportunities are being missed?

(SD=Strongly Disagree – D=Disagree – N=Neutral – A=Agree – SA=Strongly Agree)

sis. A company must only invest in such matters when the expected benefits are larger than the expected costs. The objective of marketing intelligence is to arrive at an *acceptable level of uncertainty*. Risk is always around; but instead of embracing or avoiding risk, we need to assess and manage it. A lack of information creates uncertainty. However, the gathering of information per se is insufficient. Marketers must be able to work with this information. It does not make sense to collect information without using it. Unfortunately, many market research studies share a particular characteristic: more often than not, they have no effect on the organisation. Companies collect data to produce a report, only for the report to collect dust on a shelf! “Be real, confront the brutal facts and act upon them,” said former Philips CEO Gerard Kleisterlee.⁶³

Information on your customers and non-customers is essential for the correct guidance of your market strategy. But optimising the demand side requires more than a simple knowledge of the primary demand. Marketing intelligence is a process that needs to consider many other domains. In this vein you will need, for example, an interest in what the competition has to offer, as well as trends and changes in suppliers, distribution – and the government! Having access to up-to-date insights into future government initiatives and possible loopholes in environmental laws may save you some unnecessary updating and expensive re-engineering in the development of a new product platform. “Only the paranoid survive,” Intel’s Andy Grove once declared. Our experience shows that many so-called learning organisations attribute Forrest Gump’s IQ (75) to their competitors on the industrial chessboard. This is a naive outlook on competition! In addition, such a misplaced feeling of superiority can be very dangerous. The real world is very different: it consists of an industrial chessboard on which your company must be able to tackle ten equal opponents simultaneously. As a result – and notwithstanding their own knowledge and experience – they are often unable to avoid the checkmate.

One way of winning this simultaneous game – and such an active chessboard is called *war gaming* – is to put oneself in your opponent’s shoes. For example, a successful food manufacturer applies *shadow marketing*. This means that every executive in the company ‘owns’ one competitor and is responsible for collecting all possible information about that single competitor (Nestlé, Unilever, etcetera). Shadow marketing prevents the collection of information from being regarded as everybody’s responsibility but nobody’s duty. Every few months, all executives engage in role play: the executive who ‘owns’ Nestlé, with all the knowledge at his or her disposal, analyses what would be their next move, if he or she were truly in Nestlé’s shoes.

Marketing intelligence also requires that information can flow efficiently

through the company. To put it differently, good internal information is also vital. Market information is not only the responsibility of the marketing function. Manufacturing personnel can learn much from visiting other factories or customers. Salespersons have excellent access to what happens in the stores, but they must be willing to observe and keep systematic records.

Companies not only underestimate the intellectual power of their competitors, but also overestimate their own intellectual abilities. For instance, many organisations have local subsidiaries, offices or branches. When launching a new product, it is wise to build on the existing knowledge in other parts of the company. In this respect, each local unit potentially represents a market antenna. This sounds attractive, but is difficult to achieve in practice. When your organisation consists of five branches, there are ten lines of communication between the various units.⁶⁴ If you have ten units, there are 45 lines of communication. And the number explodes to 190 if you have 20 branches!

If the marketing department does not formalise the distribution of information, then Roosenbloom and Wolek's forty year-old observation still holds. In their seminal study on communication in R&D departments – which are traditionally intensive communication environments – they concluded that 'information looking for the right person' was almost as common as 'a person looking for the right information.'⁶⁵ Many companies regard themselves as an intelligent network of competences, whereas they are more likely to be a conglomerate of independently operating units, often with conflicting interests. Does this mean that there is 'apartheid' in marketing country? It seems too painful an observation to draw, but complacent organisations with inadequate market knowledge frequently lack the self-reflective ability to acknowledge their own anachronisms.

A CREATIVE MIND IS A JOY FOREVER

During World War II, the *continuous* gathering of intelligence by the 10,000 people working at Bletchley Park, the British decryption centre in Buckinghamshire, gave the Allies a strong competitive advantage over their German rivals. Bletchley Park was nothing less than a formidable 'army of unarmed intellectuals.'⁶⁶

The most important textbooks on market research still emphasize ad hoc market research in a simple manner. There is nothing wrong with a thorough ad hoc market research study. But the time has long since past that a company obtained important information through market research studies alone. Sensible companies use a portfolio of methods to get the feel of the market on a continuous basis. The manager of a start-up data analytics company expresses it as follows:

“This is back to basics. What we are seeing is that businesses have driven out costs, they’ve got the scale in their operations, but they’ve forgotten who their customer is. What we do is allow businesses to reconnect with their customers, to become the corner store on a large scale.”⁶⁷

If we accept that management is indeed ‘systematised common sense,’ then we must also be willing to accept that marketing intelligence embraces more than the comfortable concept of ad hoc market research and reporting. The French company ZenithOptimedia helps its media customers to deal with the changing landscape. “You need a much more dynamic research structure to reflect rapidly changing media consumption patterns, particularly among upscale and younger audiences,” says its director, Steve King.⁶⁸ The way in which you phrase a question determines the answer you will get. Good questions result in good answers. A worn-out question will not yield a meaningful response.⁶⁹ For instance, in competitive intelligence there are numerous sources of highly useful information (see Table 3.2).⁷⁰ You may think that not of all these examples are ethical. Well, it was not *us* who thought them up – and they do *happen* in practice.

<i>Annual reports and publications with regard to company</i>
<i>Trade associations and publications</i>
<i>Patents</i>
<i>Public statements by senior management</i>
<i>Resource allocation</i>
<i>Ads, e.g. concerning personnel</i>
<i>Interviews of recruits</i>
<i>Listening at conferences</i>
<i>Phoney job interviews</i>
<i>Ghost shopping</i>
<i>Lost/acquired customer analysis</i>
<i>Recruitment of employees of competing firms</i>
<i>Data collection by students and consultants</i>
<i>Hiring of consultants of competitors</i>
<i>Talking with important customers and suppliers</i>
<i>Ask own loyal customers to invite tenders</i>
<i>Company’s own sales force</i>
<i>Competitors’ moves in other/neighbouring countries</i>
<i>Co-development with potential customers of competitor</i>
<i>Determine labour costs through labour contracts</i>
<i>The Internet</i>
<i>Aerial photographs</i>
<i>Company tours</i>
<i>Traffic control</i>
<i>Reverse engineering</i>
<i>Analysis of garbage</i>

Table 3.2 • Snooping the Competition

- Daikin, an air-conditioning manufacturer, offered its installers the opportunity to dispose of all their packaging materials for free at the next delivery. The installers much appreciated this offer, since it enabled them to comply with environmental regulations, whilst at the same time avoiding costs. However, Daikin meticulously examined the collected garbage and made detailed customer analyses. At a yearly cost of €50,000 the company gained insight into the buying behaviour and portfolio of all its customers.
- When a fire broke out aboard a Maersk container ship in Odense, the local Danish emergency authorities were puzzled by the amount of traffic to their website. Internet traffic overwhelmed the website to such an extent that it crashed. The reason? Competitors all hoped to find an answer to a well-guarded secret: how many containers does a Maersk vessel hold?⁷¹
- An R&D manager at DSM (a chemicals company) refused to allow his co-workers to ask questions at technology conferences because he felt that by the very nature of their questions they would reveal their frame of reference. The questions being asked by the competition were noted, since they revealed much about their agenda.

FACT-BASED MARKETING

A marketing plan can only be as good as the information it is based on.⁷² Fortunately, fact-based marketing is on the increase. For instance, we witnessed the rise of CRM (Customer Relationship Management) and other sophisticated tools to investigate the competition and the customer database.⁷³ However, fact-based marketing requires more than simply having an IT-platform in place. More than half the CRM-projects appear not to have been the commercial *deus ex machina* that managers expected them to be.⁷⁴ Similarly, many attempts to build a CIS intranet (Competitive Intelligence System) quickly evolve into an unsystematically maintained and irrelevant collection of clippings. Poor integration of files, processes and personnel seems to be the most important cause for this failure. Market intelligence is the result of a process that involves the whole organisation. We whole-heartedly believe that technologies such as CRM and CIS can significantly add to the enhancement of such knowledge bases. Even so, companies often embrace a new technology without proper alignment with their core processes.⁷⁵ They tend to view marketing – like R&D – as an ivory tower, ‘living apart together’ with the rest of the organisation. Or to paraphrase a well-known axiom: the customers of a company do not care how much the company knows, until they experience how much the company cares.

Moreover, fact-based marketing does not imply that the company only collects hard data from a representative sample. But let us first turn to this issue

of hard data: what does a market researcher mean when he coins the term 'hard' data? What does a seven on a ten-point customer satisfaction scale really indicate? Do not be misled: many so-called hard data are nothing more than a systematised synthesis of subjective feelings. Do such averages really help in building successful marketing strategies? If a hunter fires a shot one metre in front of a duck and another one metre behind the duck, why does the bird keep on flying? On average, it should be dead by now. But ducks, like customers, do not care about averages.⁷⁶

Soft information can sometimes be surprisingly hard. Direct contact with the customers can alter the commercial mindset. Stefan Persson, the former president and main shareholder of Hennis & Maurtiz, liked to explore his own stores himself. "It is there where it all happens. That's the place, the show – that's the theatre."⁷⁷ Mystery shopping can sometimes help to solve commercial mysteries. Kodak employed anthropologists and social scientists to learn more about the role of the digital camera in a customer's life. The researchers also observed how potential clients made decisions when buying a camera. This resulted in the *EasyShare* brand concept.⁷⁸

In action-oriented market research, the concept of a representative sample is often misunderstood and vastly overrated. In focus-group tests of *South Park*, women rated it only at 1.5 on a 10-point rating scale. However, it scored magnificently among the true target group, i.e., adolescent boys. The right interpretation of 'representativeness' relates to the target segment, not to the population at large. A representative sample may even prove to be dysfunctional for the quality of marketing decisions. Sometimes a particular sub-segment of the target population is specifically targeted in order to advance marketing thinking.

The lead customer method offers a particularly good approach to translate market information into action for new product decisions.⁷⁹ Lead customers are those prospects or customers who are 'state-of-the-art' in their thinking. They are unlike the average customer, experiencing needs and epitomising trends well ahead of the rest of the market. They also share a second characteristic: they expect substantive benefits to follow from the purchase of an innovative solution. Such demanding customers furnish marketers with great insights. It was already happening more than a century ago in the Wild West. Originally established as a hardware store in Ogden (Utah), the Browning brothers sold many different things: fishing rods, bicycles, sowing machines and, of course, firearms and ammunition. The brothers focused increasingly on firearm repair and production, because they knew what their customers wanted. As a result, the Winchester Company of New Haven was soon buying Browning designs and patents.

In the recent past – say, more than 10 years ago – one had to meet face-to-

face with lead customers in order to understand their motivations, needs and insights. Nowadays, browsing blogs and conversations on social media platforms enable sharp-minded marketers to outsmart the competition. If customers are willing to post their brand comments on a virtual billboard, it implies they care. Often, these customers have become more enduringly connected to these brands than the brand manager who is currently managing them!

Networked companies have a greater likelihood of finding good ideas.⁸⁰ ‘Open Innovation,’ the business perspective popularised by Henry Chesbrough, underscores this assertion (also see Chapter 6: ‘Exploiting the Value-Net’).⁸¹ In our view, some of the best market information is typically to be obtained where the customer action is to be found. This does not imply that a marketer *must* follow the customer. ‘Market-oriented’ does not mean that the customer is in the driver’s seat at all times.⁸² “If I had asked people what they wanted, they would have said faster horses,” claimed Henry Ford. However, the path of most resistance often leads to the right information: that is why you should use demanding customers and lead users. Demanding customers allow you to build an information advantage in markets that attract many guests to an attractive table. However, marketers must act promptly and proactively. If you decide on a Saturday afternoon that you want to book a table at a three-star restaurant (such as The Fat Duck in the UK) for the same evening, you will be able to look at the menu, but all the tables will have been booked months in advance! James Brian Quinn captures the essence of the networked organisation eloquently:

“The self-sufficient enterprise is becoming anachronistic. Each organisation is part of a matrix of merging and evolving ideas and opportunities. To realize its own potential, a company must engage external knowledge centers through well-developed alliances. Leading companies focus less on positioning and more on patterns of people and institutions they work with – or against.”⁸³

The Dutch energy company Essent, a subsidiary of RWE, aims to be the undisputed market leader in The Netherlands. To enable the organisation to live up to this challenging ambition, Essent launched a fact-based marketing project, which forms part of a company-wide Change Leadership Programme. Dorkas Koenen, Essent’s Chief Marketing Officer, offers a splendid definition of the purpose of fact-based marketing: “To transform marketing so that it continuously (re)uses the available customer, market and performance facts and knowledge, in order to make educated decisions regarding which resources are to be allocated, so as to gain a sustainable competitive advantage for Essent.” Fact-based marketing is not seen as a goal in itself, but as a tool to *change the mindset not only of the marketers, but of the entire Essent organisation*. All the marketers at

Essent are engaged personally to participate in this transformation. They serve and act as ambassadors! Coen van Delft, Manager of Commercial Excellence at Essent, reflects: "Fact-based marketing is about better understanding and better decisions. But it starts with people."

BUSINESS ROADMAPPING AUDIT:

QUESTIONS FOR THE MARKETER

THE BUSINESS ENVIRONMENT

- *How profitable is our industry? How does this relate to the level of competition in the industry, the power of suppliers and customers, and the threat of new entrants and substitute offerings? Who are potential complementors? Can we win through co-operation?*
- *What can we learn from our competitors? What are the relevant criteria to cluster the competitors in strategic groups?*
- *What are the important social, technological, economic and political trends that will influence our industry in the years to come?*
- *How effective is the marketing radar screen in relation to our environment? Is it feeling-based, fact-based, knowledge-based? Is marketing accountable within our company?*
- *How are the selected units (e.g., brands, product/market combinations, lines-of-business) positioned on the market attractiveness – business advantage grid? Is our portfolio balanced? Is it focused? What does an historical portfolio analysis teach us about the reasons for success and failure in our markets? Who wins, who loses and what are the reasons?*

MARKET INTELLIGENCE

- *How capable is the company of executing a business roadmapping plan in a fast and efficient manner, using fact-based marketing? Are hard and soft information intelligently integrated?*
- *How systematic is the process of data collection and analysis? How proficient is the creation, dissemination and use of marketing knowledge in our company? Is the whole company involved with market intelligence?*
- *How creative is our company in designing alternative sources for collecting market intelligence? Are shadow marketing and other intelligence methods activated to monitor constantly the competition? Do we use demanding customers and lead users as a source of information?*

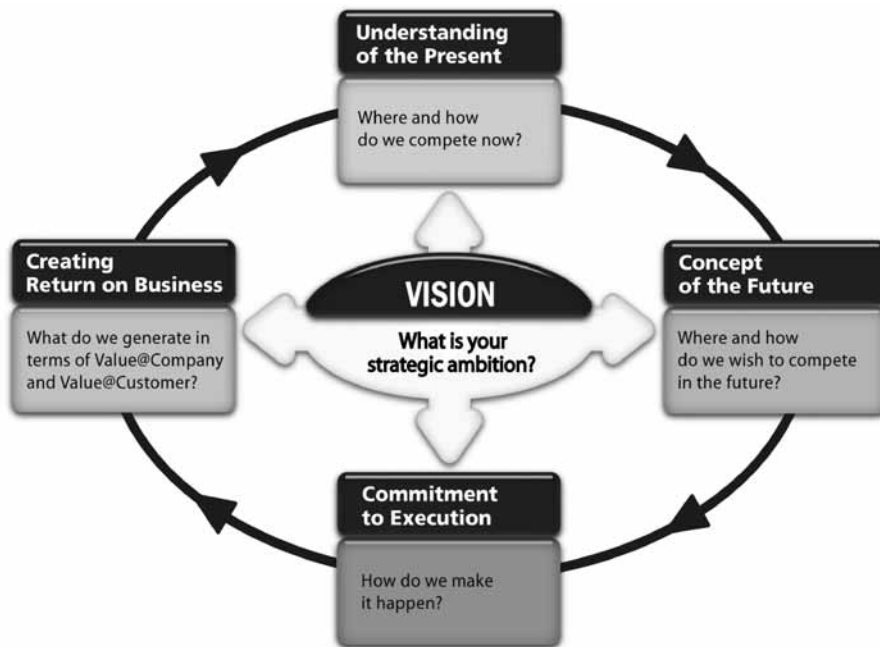
CHAPTER 4

STRATEGIC AMBITION

We do not want to be the greatest.

We want to be the best.

BONO (U2)¹



THE ROLE OF MARKETING IN THE CORPORATION

A COMPANY'S RAISON D'ÊTRE

In the 1980s, it became fashionable to formulate a corporate mission statement. Annual reports were considered incomplete without such a statement. Do not get us wrong: a company's mission *is* important: it represents the *raison d'être* of the company. It states the objectives of the company in relation to its stakeholders.

In spite of its omnipresence, empirical support for the contribution of mission statements to business performance is shallow, to say the least.² The empirical data suggest a weak correlation between the propagation of a mission statement and a company's economic results. From a pathological perspec-

tive, a number of explanations exist to explain this phenomenon. Many mission statements are generic and overly ambitious. They sometimes even deny the true mission of the firm. A megalomaniac mission, in which the boundary between mission and vision becomes wafer-thin, is often little more than a misguided attempt to try and be the best for everybody. The abstract nature of such mission statements (e.g., 'beyond excellence worldwide') undercuts market credibility and spawns cynicism with the internal workforce. We simply distrust mission statements that go 'we want to be the number 1 in this industry' or 'we want to have a strong presence in that segment.' Often, such mission statements simply indicate an inability to choose.

Moreover, senior management all too often fails to communicate the mission statement convincingly to the employees.³ A single insert in an annual report does not provide the persuasive foundation that is necessary to ensure the much needed alignment of the workforce. Senior executives must not forget that important messages must be communicated consistently and relentlessly, if the target population is to empathise fully. In view of the often preposterous and generic nature of some mission statements, perhaps sometimes stakeholders ought to be grateful that top management has coupled its grandiose ambition with a deficient and ineffective internal communication. In other words, who is fooling who?

STAKEHOLDERS: WHO WANTS WHAT?

While we explicitly adopt the marketer's perspective in addressing the issue of strategic ambition, we must not forget that there are multiple stakeholders in an organisation. A stakeholder is any party that takes an interest in a company's activities or is influenced by the company's activities.⁴ Some stakeholders are internal (managers, employees, shareholders), while others are external (customers, suppliers, government, labour unions, financial institutions, competitors, media, special-interest groups).⁵ The influence of a stakeholder depends on the power of that stakeholder in its relationship with other stakeholders and the legitimacy and urgency of its claims.⁶

The diversity of stakeholder interests in a company's vision is nicely illustrated by the ambition of the chemical company BASF. Four primary stakeholders are represented in its compellingly simple ambition, i.e., shareholders, customers, employees/managers and society at large. Their mission statement, formulated as 'BASF 2015,' states:

"Our goal is to remain the world's leading chemical company. With our renewed strategy BASF 2015, we will achieve this goal by successfully combining new and proven ideas. We are aligning our activities with four strategic guidelines:

- *We earn a premium on our cost of capital*
- *We help our customers to be even more successful*
- *We form the best team in industry*
- *We ensure sustainable development."*

In interacting with a company, each stakeholder tries to realise their self-interest to the maximum extent possible. Expanding Chester Barnard's classical analysis,⁷ much of the variation in stakeholder activities vis-à-vis the corporation may be explained by means of the ratio of contributions made (*'gives'*) and inducements received (*'gets'*) by a stakeholder. In building sustainable business, it is the task of marketing to design, balance, monitor and control the gives and the gets of each stakeholder.

Owners of profit-making organisations are mainly interested in the financial surplus value of their shares. In not-for-profit organisations, however, non-financial objectives will figure prominently among the goals. In such organisations, ownership is difficult to determine and objectives are difficult, if not impossible, to translate into financial targets. For example, while Greenpeace's goal defies traditional business economics – "to change attitudes and behaviour, to protect and conserve the environment and to promote peace"⁸ – it nonetheless uses clever marketing to achieve this goal.

The demand for better corporate governance must be primarily viewed from the perspective of ownership interests. Executive management is accountable to its shareholders. It is the task of shareholders to obtain a firmer grip on this accountability. In big organisations, often characterised by a fragmented ownership structure and a multitude of minority owners with scattered and diverse interests, the board of directors all too often holds *de facto* absolute power. In the past, they could comfortably ignore many of the other stakeholders' interests – and get away with it. A number of high-profile scandals at the beginning of the new millenium (Enron, WorldCom, Tyco), prompted regulators to develop clear guidelines and laws on corporate governance, such as the 2002 Sarbanes-Oxley Act in the us. The principles of proficient corporate governance are now also starting to enter firms that are not quoted on the stock exchange. Even small, family-owned businesses see value in improved corporate governance. Their boards, which until quite recently were a meeting of insiders, have become more diverse. Outsiders with professional insights are no longer barred.

Employees are another important stakeholder. Employees will balance their gives and gets over the course of their career with a company. For one type of employee this may mean performing what he regards as a pleasant job, whereas another type may be more concerned about good career prospects and ample opportunities for promotion – which may lead to even more pleasant jobs in other companies. For some, job security will be the highest priority on their lad-

der of self-interest. Others favour a job with a steady rhythm of daily changes. Employees' self-interest will evolve over time. Young graduates are present in large numbers in the volatile worlds of the Internet and advertising. Later in their careers they may seek a more stable job in a less dynamic environment.

Customers are yet another major stakeholder. In the recently ended war between Blu-Ray and HD DVD, the question of customer interest has been a central one. Communication technologies enable customers to air their concerns on a global scale. Angry consumers of government services in Tunisia and Egypt used Facebook to voice their demands in 2011. It must be hard to swallow for dictators, but they *do* have customers who do not like them – at all! When such dictators relinquish marketing, they are nowadays on the way to relinquishing power.

THE ROLE OF MARKETING

The role of marketing in the corporation cannot be viewed in isolation from the company's overall goal. This is well reflected in the 2004 definition of 'marketing', issued by the American Marketing Association:

"Marketing is an organisational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders."

It is difficult to serve multiple interests. Anglo-Saxon countries have adopted *shareholder capitalism*, whereas countries in Europe and Asia favour *stakeholder capitalism*.⁹ The corporate extravaganza that ignited the 2008 economic crisis has shaken the legitimacy of the capitalist model. Michael Porter and Mark Kramer recommend a change of perspective, and argue that we should embrace *shared value* rather than shareholder value.¹⁰ While each stakeholder tries to maximise their own interests, the basic premise in our perspective is simple: *the ultimate goal of a commercial organisation is the sustained optimisation of economic profit*.¹¹ This does not imply that other stakeholders' interests may conveniently be ignored. It simply assumes that in the absence of long-term profitability the interests of other important stakeholders (management, employees, customers, suppliers) cannot be accomplished simultaneously:

*"Many critics of value management forget who shareholders are. Often they are demonised as a small group of wealthy, self-serving individuals, set apart from ordinary people. (...) One in three households owns shares indirectly through pension funds and other institutional sav-ings. These institutions own 50 per cent of all shares in the USA and 80 per cent in the UK and Japan. Almost everyone now is affected by the market value of shares."*¹²

In our view, marketing is the art of building sustainable business. The sustainability of a customer value proposition is reflected in the ability of a company to sustain above-average profitability levels in comparison with competitors in the same industry. Profit is, of course, necessary – making a profit is not an option, it is a duty. Profit rewards shareholders, enables investments in strategic projects, and provides a financial buffer in economic downturns.¹³ Most importantly, it brings fun to the organisation. Just watch the faces of employees entering or leaving a money losing organisation! Toyota wanted to be the biggest car manufacturer in the world. It succeeded, but the fun has partly gone. Heavy losses and cars ‘on the loose’ have spoiled the party. Companies may be big, but they must be strong! In the next section, we will examine the constituent elements of sustainability.

THE SUSTAINABILITY OF A COMPETITIVE ADVANTAGE

THE DRIVERS OF BUSINESS UNIT PROFITABILITY

The assumptions usually made in the early days of strategic thinking were straightforward and reminiscent of classical micro-economic theory. Industry incumbents have access to equivalent resources (‘factor markets’), creating resource homogeneity on the supply side. With regard to resource heterogeneity, transferability of resources was assumed, severely constraining the window of advantage. In summary, company performance was mainly propelled by the nature of the industry and by contextual effects (e.g., a crisis). Early research confirmed this perspective. In a much cited study, Schmalensee (1985) found industry effects to explain 19.6% of a company’s performance, with company-specific effects responsible for a mere 0.6%, leaving 80.4% unaccounted for.¹⁴

However, Richard Rumelt (1991) later refined the sample, extended the time frame and calibrated the measures. His conclusions are in sharp contrast to Schmalensee’s. According to Rumelt, business unit effects explained 46% of the variation in business unit profitability, with industry effects and industry-year effects accounting for 8% each and corporate effects for just 1% (leaving 37% residual error). In an even more intriguing study, Hawawini and his colleagues (2003) found that industry effects are more important for the average company. Exceptional performers, i.e., the dominant value creators (leaders) and exceptional destroyers (losers) are more likely to be influenced by company-specific effects than industry effects. The authors make a sobering observation:

“To the vast majority of other firms, i.e., for firms that are neither industry leaders nor losers, the industry effect turns out to be more important for performance than firm-specific factors.”

Performance in the average company is less a matter of insight and more a matter of context. Very successful companies earn success by themselves, very unsuccessful companies are responsible for their own failure but the great majority of companies do not have control over such matters in their own hands.

THE CONSTITUENTS OF SUSTAINABILITY

Early 2005, Procter & Gamble acquired Gillette, while SBC Communications swallowed its original parent organisation AT&T. The difference in take-over value was startling: P&G paid \$57 billion, SBC \$16 billion. Alexander Graham Bell's heritage, a 130 year-old all-American icon, changed hands for 28% of the value of a manufacturer of skin and oral care equipment and home appliances (Oral-B, Braun, Duracell, etcetera). Unlike Gillette, AT&T had not succeeded in adapting well to changing markets: AT&T's revenues had fallen for the previous 20 consecutive quarters. Its lower value was the punishment for the meritocracy of mediocrity.

Chapters 2 and 3 of this book explored the internal and external environments of the company. The concept of competitive advantage assumes a central position in that analysis. The above example shows that the *sustainability* of a competitive advantage is a necessary condition for maintaining the company as a going concern. The strategy literature has devoted considerable attention to the concept of sustainability and its drivers. Synthesis is not easy, in part because authors and researchers alike excel at explaining equivalent ideas with different frames of reference (e.g., ‘capabilities’ versus ‘competences’). It led one researcher to exclaim in frustration: “If strategy research is to become more scientific then language games must stop.”¹⁵

We define a sustainable competitive advantage *as one that creates economic value for the company in an enduring way*. Employing the resource-based view of the firm, we synthesise the literature¹⁶ on the antecedents of sustainable competitive advantage into three categories: (1) the degree to which value is created for the customer; (2) the degree to which the competition is unable to create an equally attractive offer; and (3) the degree to which the company is able to generate an economic rent on the activities it deploys (Figure 4.1). Let us examine this figure in detail, by discussing its constituents.

CONSTITUENT 1: VALUE@CUSTOMER

The existence of a durable demand constitutes the first condition for sustainability. From a marketing perspective, a demand exists whenever a customer is willing and able to pay a price for an offering. Your business will not generate a single eurocent if there is no demand for your offering or if your offering is freely available. As the traditional saying goes: ‘we all need air and air is free’ – for now. Similarly, many information services can be consulted free of charge on the Internet. This explains why many publishers now consider advertisers as their true, billable customers, with the audience as non-paying consumers of media content. Of course, a great deal of demand has been obliterated through the use of illegal constructions. Many movie and music consumers are not customers: they illegally download offerings that by all legal standards should carry a price tag. Suppliers experiment with new and radically different business models in order to cope with this threat. But it is also a matter of perspective. Apple viewed this threat as an opportunity and launched the Apple iPod and the iTunes Store. Radiohead went a step further by launching its *In*

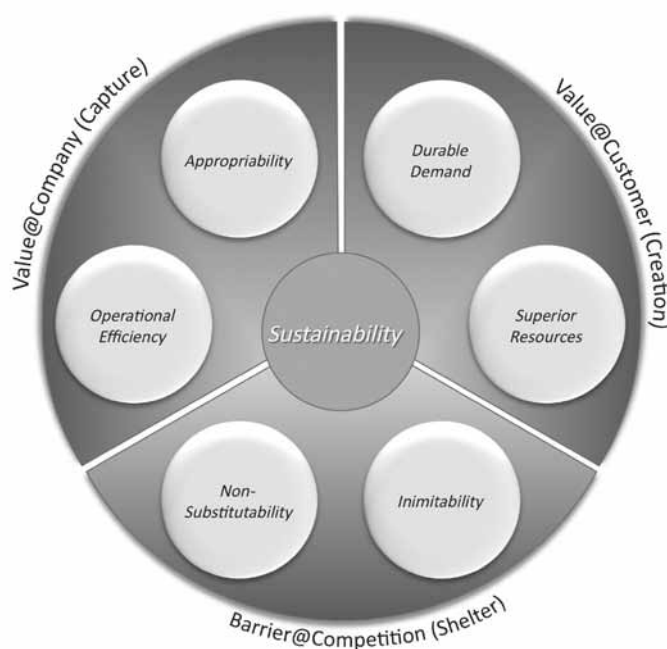


Figure 4.1 · Constituents of Sustainability

Rainbows album online, while letting the downloaders decide on the price they were willing to pay.¹⁷

An attractive, valuable market sustains itself over a longer period. Some types of demand will even go on for centuries, but in the end all demand is transitory. In 2006, the world's oldest corporation Kongo Gumi, a Japanese builder of temples, stopped its operations. Established in 578, a key reason for its undoing were the social changes that resulted in declining contributions to temples.¹⁸ The point is that a company does not want to target a transitory demand. Many markets have their own version of Los del Rio's *Macarena*: a one-hit wonder that generated a temporary edge in the market place, but did not result in a sustainable competitive advantage. Be careful though! One must not define the durability of market demand at the level of the individual product item. For instance, while the explicit form of the individual items designed and produced by Dolce & Gabbana change seasonally, the appeal of its line-of-business is quite stable.

A second condition relates to the distinctiveness of the company's offer. "For the firm, resources and products are two sides of the same coin," is the famous opening sentence of the classic article by Birger Wernerfelt.¹⁹ Translated into contemporary business modelling terminology, this means that resource configuration and customer value proposition are two sides of the same coin. For a competitive advantage to be sustainable, it must therefore be enabled by a superior resource configuration. A superior business model may not only result from unique assets, but also from a superior architecture. "Success follows from doing common things uncommonly well." (Rockefeller) In summary: the business model enables the company to be attractively better or to be attractively different in the eyes of its customers.

Drinkable tap water is widely and almost freely available in Western Europe. Many Europeans nevertheless prefer to buy branded offerings. While some health and emotional claims border on the verge of the ridiculous, the business model of companies such as Vittel and Evian convinces millions of Europeans to buy a highly priced bottle of branded water instead of consuming the cheap and easily available tapped alternative. Apparently, these companies offer distinctive value to the customer. Milk provides a glaring contrast: it does not flow from a tap, is more expensive to produce and is cheaper in your local supermarket.

A superior resource configuration sets a company apart and creates scarcity on the supply side. But is the business model, integrating core processes and assets, truly superior to the business model of competing firms? All too often, companies conveniently assume that their business model is superior, habitually overestimating the strength of their assets and competences.²⁰ It is easy to claim that a company possesses superior skills, employs an elite workforce or holds a unique brand position in the market place. However, if this coin-

cides with a barely distinctive market offering and a dwindling market share, the analysis clearly contains flaws. The acid test for the superiority of the business model rests with the customers' choice, not with management's beliefs. If the customers in a market segment consistently prefer the competition's value proposition, it signals that the business model of the company is inferior.

CONSTITUENT 2: BARRIER@COMPETITION

For a competitive advantage to be sustainable, it must be difficult for competitors to offer an equivalent or superior customer value proposition to the same market segment. Competitors may accomplish this by replicating and improving a company's business model (imitation) or by providing the same customer value proposition using a different business model (substitution).

The concept of imitation is a much discussed one in the strategy literature. The bottom-line is simple: competitors try to replicate the recipes²¹ of a successful business model. The resulting question is simple as well: what are the elements that can provide a company with protection from imitation? While the creativity of competitive copy-cats defies the formulation of an exhaustive set of barriers-to-imitation criteria, the following limited taxonomy encapsulates many of the current insights.

Limited transferability. The transfer of resources provides competitors with a straightforward approach to imitation: the competitor obtains assets or competences by simply buying them. A study of NFL teams (American Football) shows that managerial ability makes a positive difference.²² Interestingly, another longitudinal NFL research study, this time focusing on the San Francisco 49ers – whose *West Coast Offense* won multiple Super Bowl victories – corroborates what management intuition has told us all along: while the routines of successful companies are robust to the loss of key employees, such losses do erode the competitive advantage.²³ However, the *ex ante* transferability of targeted resources may be contractually limited. In addition, the *ex post* transferability may be limited as well, because of resource embeddedness. The high effectiveness of specific resources (e.g., a top sales team) may be strongly influenced by the context in which it operates. For many key assets and competences, there is no such thing as a simple plug-and-play recipe. Christian Moueix, who runs (amongst other vineyards) the legendary Château Pétrus, admits that it took him many years to fathom the Californian terroir of the Dominus winery he acquired.²⁴

In cases of severely limited transferability, competitors must build or develop the resources themselves. Isolating mechanisms²⁵ can make it difficult for rivals to replicate the resources they need. A first factor – and the most obvious one – concerns the *uniqueness* of a resource. A unique resource, or exclusive

access to it, may pose formidable challenges for rival companies. The Grand Canyon Skywalk cannot be imitated: it is simply one-of-a-kind. The Lipitor patent secured Pfizer yearly sales of more than \$10 billion until 2010.²⁶

A second factor that may hinder replication relates to the *interconnectedness of the resource base*. The complexity and the complementarity of the constituent enablers of a successful business model may preclude a simple quick fix imitation. For instance, the discovery of oil reserves does not mean that a company is capable of turning this into a smoothly operating oil business.

“The longer and more complex the string of business processes, the harder it is to transform them into a capability – but the greater the value of that capability once built, because competitors have more difficulty imitating it.”²⁷

Efficiencies of scale and scope provide a third isolating mechanism. For instance, the sheer buying volume of companies such as Wal-Mart gives them a phenomenal competitive edge when negotiating prices with their suppliers.²⁸ With the advent of information technology, as well as the development of new standards and knowledge routines, efficiencies of size have resulted in ‘winner-takes-all’ markets. In such industries, economies of scope reveal their power to the fullest possible extent: Microsoft obliterated the viability of multiple stand-alone applications such as WordPerfect by bundling multiple applications in its Office package. Google is demonstrating how an immensely popular search engine may be used as a bridgehead to successfully venture into related domains. Efficiencies of scale and scope are powerful deterrents towards the competition. Newcomers find it hard to compete with a highly efficient organisation that is willing to retaliate against competitive moves by lowering prices. This is exactly what GE is after when its CEO, Jeffrey Immelt, refers to *big moat business*: “They’re tough to get in. But over a 10 or 20-year time period, the businesses that are hard to do had the best returns. So the arithmetic works over time.”²⁹

A fourth isolating mechanism concerns the company’s *history*. Harley Davidson’s century-old reputation in the motorcycle world cannot simply be overtaken in a short space of time. First of all, there is the phenomenon of time compression diseconomies: a competitor will incur substantive additional costs if it wants to acquire a similar market reputation in an accelerated way. Secondly, path dependency makes it possible for Harley Davidson to execute strategies that are currently beyond reach of the competition, simply because Harley Davidson enjoys resource advantages accumulated in the course of its historical business trajectory.³⁰

A final impediment to replication is the *causal ambiguity* of some business models. The competition sometimes finds it hard to understand precisely the

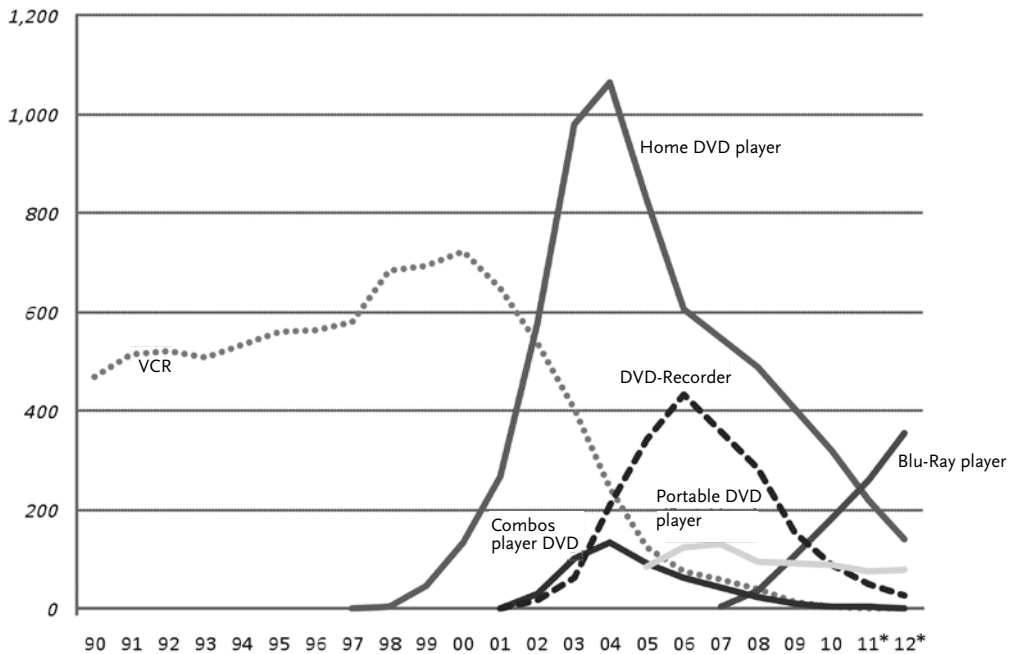


Figure 4.2 · Product Life-Cycle of vcr and DVD
 (Source of data: GfK; # in thousands of units sold in the Dutch market, * is forecast)

‘ins’ and ‘outs’ of a superior business model. Why did Lance Armstrong’s team win the *Tour de France* seven years in a row? Was it the exceptional talent of Lance Armstrong, the professional structure of the team, the single-minded focus on the Tour, the superior medical coaching or the alleged use of doping? Competitors cannot successfully copy what they do not understand. An important driver, of course, relates to the tacitness of many organisational routines, i.e., the difficulty of codifying the knowledge which pertains to those processes.³¹ Many of the above mentioned factors increase tacitness and consequently heighten the causal ambiguity of a business model (e.g., complexity, history).

Substitutability is the second road to a valid competitive response. The most visible form of substitution concerns direct technological substitution. For instance, the media recording industry (Figure 4.2) and the media display industry (Figure 4.3) have recently witnessed the radical substitution of core technologies. The vcr has been replaced by the dvd format, which is now being substituted by the Blu-Ray disc. In the market of media display technologies, crt technology has been rendered obsolete by flatscreen technology.

Major innovations hold the power to fundamentally alter an existing industry structure. Ten years ago, it was hardly imaginable that Minolta would no longer compete in the consumer camera business. Today, it is a fact. The digital plat-

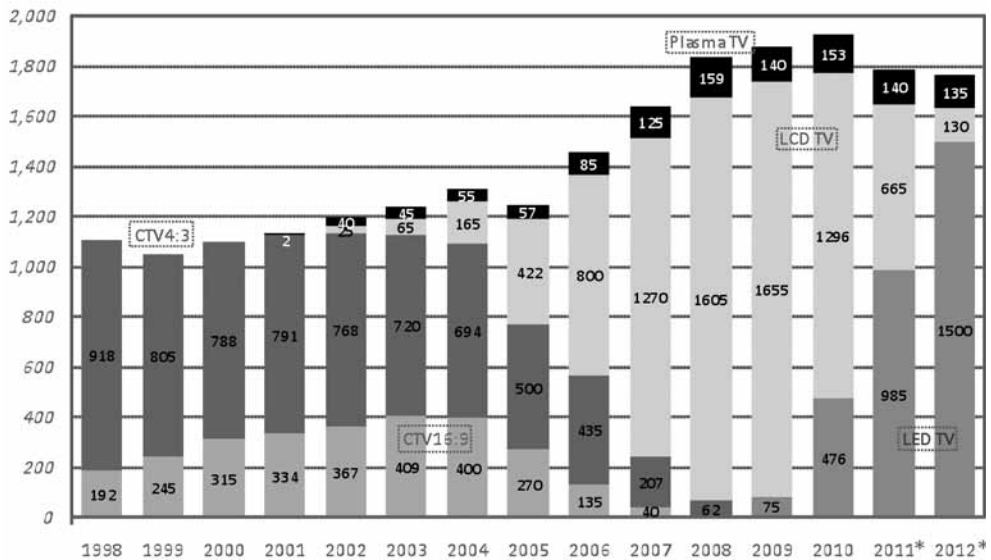


Figure 4.3 · Market Evolution of tv formats

(Source of data: GfK; # in thousands of units sold in The Netherlands' market, * is forecast)

form has completely overtaken the analogue platform. This platform allowed outsiders such as Sony and Nokia to enter the camera industry. High-end players, such as Nikon, Hasselblad and Leica, had no choice but to embrace the new technology.

Bearing in mind Levitt's classic essay on marketing myopia (see Chapter 2),³² marketers must take care not to define the market on the basis of competences and technologies, but rather on the basis of the true underlying needs:

"[...] the real lesson of the marketing concept is that successful firms are able to recognize the fundamental and enduring nature of the customer needs they are attempting to satisfy. As numerous case studies point out, it is the technology of want satisfaction that is transitory." (emphasis in original)³³

The First Direct Bank (UK) aptly demonstrates that rule breaking is not limited to breakthrough technological innovations. Substitution may also occur because companies recombine existing competencies in a novel way. The First Direct Bank succeeded in developing a very close relationship with its clients. The bank simply chose a different road to achieve superior customer intimacy. They achieved this without direct, face-to-face contact between the bank's representatives and the customers. A superior configuration of human assets and information technology enabled First Direct to pioneer a rule-breaking busi-

ness model that substituted the traditional ‘bricks-and-mortar’ approach for ‘rich-in-money, poor-in-time’ customers. According to their commercial director Peter Simpson, “Our competitors found it hard to understand, for some time, that a face-to-face relationship isn’t necessarily as strong as one over the phone, especially if the person on the telephone interface has got vastly superior knowledge.” Thus:

“Firms compete not on the basis of similar resources, but on the basis of whether their resources can be employed to meet similar customer needs.”³⁴

One factor requiring attention with regard to competitive response concerns regulation. Government may regulate the isolating mechanisms in important ways. Firstly, it may provide shelter for industry incumbents, especially in the case of powerful, international competition. Faced with fighting low-cost competitors from abroad, companies may seek government protection. In spite of all its good intentions, such government intervention rarely serves the domestic industry well.³⁵ It fosters inefficiencies that contaminate the culture and the value chain of related suppliers, customers and other partners in the industrial cluster. It makes the industry dependent on political coalitions. It entices retaliation by foreign governments. Most importantly, it provides an open invitation to the competition to sharpen the knife even more. For example, the American automotive industry sought state protection from Japanese competition. As a result, the Japanese competitors resorted to direct investments in the us. Nowadays Toyota blends in fully with the American landscape. It offers direct jobs to 28,783 people in the us and generates indirect employment for a further 163,880 (dealers and suppliers).³⁶ Moreover, they have also started to manufacture more expensive cars. “By putting it [the restructuring] off, we may have amplified the consequences,” admitted the director of the Centre for Automotive Research.³⁷

Secondly, we must remember that government and institutional regulations are not always intended to limit competition; much of the legislation actually aims to foster competition. For instance, on 17 September 2007, the European Union Court of Justice upheld the European Commission’s anti-trust ruling against Microsoft and confirmed the €497 million fine. Similarly, many regulatory efforts aim to raise the consciousness of the public and industry in environmental matters. As a result, clean energy is gradually substituting fossil fuels and nuclear energy.

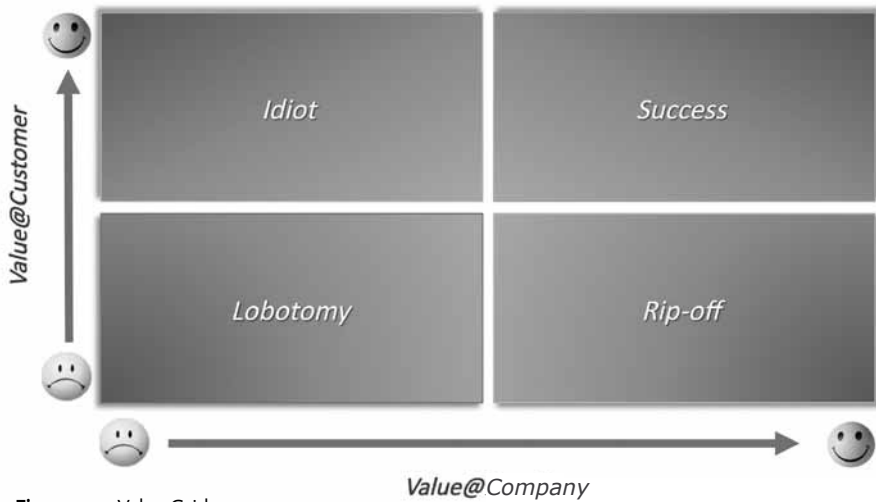


Figure 4.4 • Value Grid

THE VALUE GRID

The marketing function not only has a duty to provide value to the customer, but must also create value for the supplier. In order to keep the economic fly-wheel of a business model turning, company owners must be rewarded for their investments and further investments must be made in order to remain competitive. It was, for example, the long period of low profitability that made the *Wall Street Journal* so vulnerable to acquisition.³⁸

In the *Value Grid* (Figure 4.4), we summarize the market reality along two binary scales: value@customer (i.e., creation of customer value) and value@company (i.e., capture of economic return). The value grid succinctly sketches the important business challenge of simultaneously creating customer value and capturing economic value.³⁹

Let us assume that for a given offering a supplier and a customer do business with each other. The top right-hand quadrant conveys the ideal situation. Value is provided to the customer and value is provided to the supplier. The profit thus created enables the company to pay dividends to its shareholders and to continue making investments. In so doing, current and future customers can rest assured of a sustained offering. The bottom right-hand quadrant is unsustainable in the long run. While the company creates profit, the customer value is inadequate. This short-term rip-off undermines the long term viability of the company.

The top left-hand quadrant is the one that many marketers and sales persons find themselves in: the company succeeds in designing and delivering great customer value, but without obtaining a profit. According to Peter Drucker, the

problem for many organisations is not ‘to do things right’ (efficiency), but to ‘find the right things to do’ (effectiveness) – although this by no means implies that efficiency is not required! While the label ‘idiot’ may sound harsh, it does reflect the true state of affairs in this quadrant. If the organisation continues to operate in such a way, its company life will turn into an economic hell. While the customer is delighted, the company is burning cash and in the process creating negative working capital. Suppliers must increasingly wait for their payments, loans cannot be paid back and shareholders are upset with the economic losses. A temporary palliative shelter may be provided by capital investments or legal protection from creditors, but a true turnaround is needed to survive.

We have labelled the bottom left-hand quadrant the ‘lobotomy’ quadrant. Does this also sound harsh? Perhaps it does, but one has to question in the strongest terms a situation where suppliers and customers continue to do business with each other, when no value is provided on either side of the transaction. Even so, such business does happen – more often than you think! In a free market setting, companies in this quadrant are likely to be buried very quickly. However, the concept of a ‘free market’ is sometimes an elusive one: the rules may be bent by national or local governments, with temporary regulations aimed at protecting national and local companies.

CONSTITUENT 3: VALUE@COMPANY

Building sustainable business requires the creation of value for the customer and the ability to capture profits for the supplier. A marketer can only be regarded as a true professional if he or she is skillful at putting both these tasks into practice simultaneously. Cash will be available, in so far as the organisation is capable of capturing part of the economic value created by its activities. How large that part will be depends on two factors: operational efficiency and appropriability.

Operational efficiency, i.e., doing things right, is defined as minimising resource input for a given output. Four major drivers of operational efficiency may be identified (Figure 4.5).⁴⁰ Companies can proactively pursue economies of scale and experience. The experience curve doctrine states that individual and organisational dexterity improves as a company produces more of the same goods or services. This causes the unit cost of ‘value added’ to decrease with a fixed percentage each time the cumulative output doubles (typically between 15 and 30%). Economies of scale, on the contrary, are not a consequence of an accumulated learning over time, but of the size of the output volume at a given moment in time. Economies of scale exist when unit output costs decrease as total output volume increases. Such scale effects are not limited to manufactur-

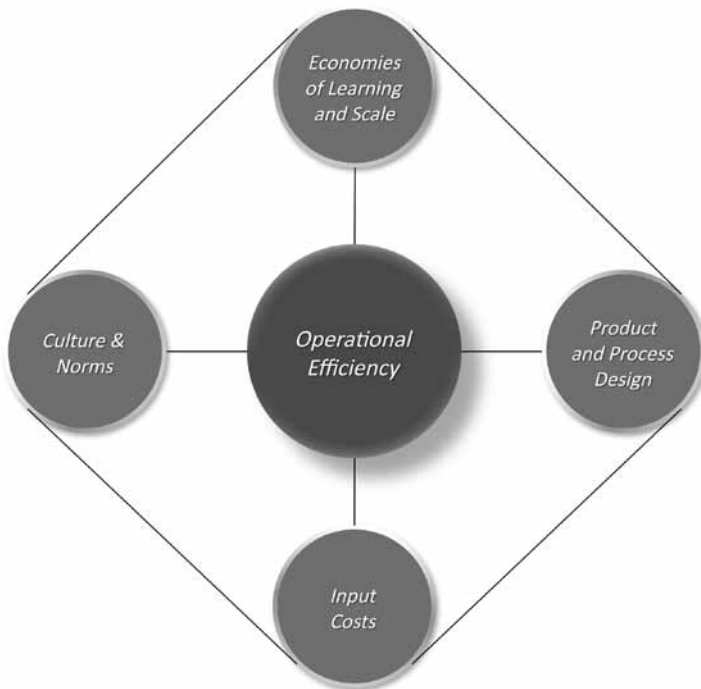


Figure 4.5 • Drivers of Operational Efficiency

ing inputs, but may be extended to all sources of resource input. For instance, Hewlett-Packard (business-to-business) and Sony (business-to-consumer) outspend the competition in terms of advertising. However, they are able to allocate these advertising costs over greater output volumes and a greater customer base. This can only be achieved if the company maintains its edge in the market place. Furthermore, a rigorous pursuit of scale economies is advisable when a dominant design has emerged in the market place.⁴¹ On the down side, this will severely limit the strategic flexibility of the company.

Optimisation of product design and process streamlining may also minimise operating costs. Business process re-engineering⁴² and smart product design enable companies to reap efficiency benefits. These efficiencies may be complemented by a lowering of input costs. While maintaining a relationship approach in the procurement division, large organisations ruthlessly exploit their bargaining power at the price negotiating table. Some companies also outsource much of their production to countries such as China and India, in order to lower production costs. Having said this, as a consequence of rising salary costs in low cost countries, some manufacturing jobs are now moving back to

the West again.⁴³ It should be noted, however, that companies do not only relocate to so-called low cost countries for reasons of efficiency. Effectiveness may also be part of the equation. For instance, the Indian Institute of Management (Ahmedabad) has made an impressive upward surge in the international business school rankings. Its website boasts that it is “rated as the toughest MBA programme in the world to get admission” and it selects less than 0.1% of the candidates. The mantra among applicants says it all: “If we don’t make it into Ahmedabad, we’ll go to Harvard.” Do not be fooled: low cost countries can also offer great quality.

A final source of efficiency can be labelled as organisational culture. In the eyes of some employees, achieving the lowest cost curve is not a particularly attractive way to spend a working day. As a result, they create organisational slack,⁴⁴ i.e., they seek to maintain sub-optimal output levels. Such behaviour creates individual degrees of freedom and comfort, but moves the cost curve upwards. Changing such X-inefficiency⁴⁵ is difficult, as it is often deeply embedded in the values and the norms of the organisation.

Even highly efficient companies sometimes do not succeed in capturing sufficient economic value. In addition to operational efficiency, *appropriability* is also needed. Appropriability addresses the issue of which party should acquire the economic rent of an activity. As such, it essentially refers to the pricing model of a company, and the degrees of freedom that the company enjoys in deciding upon its pricing policy. It is not necessarily the case that the business owners will always appropriate these rents. To see why this is so, we must view a company as a network of complementary resources designed to deliver a customer value proposition. While complementors may have similar interests in creating the pie, they have opposite interests in sharing the pie.⁴⁶

Some of these complementors are located outside the company. Suppliers, commercial partners or distributors may create a hold-up situation and successfully appropriate for themselves a significant portion of the economic value created.⁴⁷ Some of these external parties may hold the keystone of the customer value proposition. Without the contribution of these keystone partners, the attractiveness of the customer value proposition declines.⁴⁸ For instance, some business partners may offer critical components that are protected by patents or perhaps they orchestrate the input of a network of partners. Complementors of this kind are in a good position to appropriate much of the economic value created.

Value appropriation may also occur on the demand side. When confronted with the demand for private label products, suppliers are also confronted with the harsh reality of value appropriation by their retail customers. The networked business society pushes the question of ‘who owns the (end) customer’ towards

the top of the management agenda. Does a customer decide to buy Coca-Cola, and then go to a supermarket? Or does that customer decide to go to Tesco, and then buy soft drinks?

Co-operation is often heralded as a manifesto for business success.⁴⁹ However, it is important to remember that every party in a business alliance pursues its own objectives. Geoffrey Moore addresses this issue brutally, when he advises firms operating in niche markets to design partners 'in,' acquire market leadership – and then subsequently design partners 'out,' by commoditising the offering.⁵⁰

Value appropriation by company owners may also be hindered by resources from within the company. Employees who contribute disproportionately to the value delivery process – i.e., have a competitive advantage in the internal market for talent – may capture a disproportionate part of the economic value created.⁵¹ In a service-driven economy, individual talent makes a big difference in service encounters. Personnel who outshine their colleagues during moments of truth possess strong bargaining power when discussing their remuneration. A successful account manager creates business opportunities for the company, but poses an appropriation risk for the company owners. Appropriability explains the astronomic salary earned by David Beckham at the Los Angeles Galaxy⁵² and again begs the question: who owns the (end) customer: the company or the employee?

EL BULLI REVISITED

Is the business model of the El Bulli restaurant (see Chapter 2) sustainable? The restaurant certainly addresses a durable demand. While the wave of molecular gastronomy seems to have reached its peak, the market for delicious food and sublime experiences has been around for ages. In addition, the restaurant offers a superior resource configuration to address this demand – as we have discussed extensively in Chapter 2.

The imitability of the El Bulli business model is very low. Of course, the recipes can be copied (they are published!), and the Costa Brava is not the only exotic location on the planet. Nevertheless, there are three elements which make imitation impossible. Firstly, the history will be difficult to replicate. Just consider the number of times El Bulli has won the 'Best Restaurant in the World' award! Secondly, the central resource in the business model is Ferran Adrià himself. He is inextricably linked to El Bulli. Intriguingly, this creates vulnerability as well. What happens to El Bulli if something happens to Ferran Adrià or if he decides to stop – as he has recently decided to do? Thirdly, the culture of El Bulli is such that it cannot be imitated, neither in its nature, nor in its output.

If you try to copy what El Bulli does, you will always be lagging behind. This is reminiscent of an observation made by Jim Collins:

“I agree with many Edison observers that his greatest invention was the modern research-and-development laboratory – a social innovation. What was Henry Ford’s greatest invention? Not the Model T, but the first successful large-scale application of a new method of management to the automobile industry – the assembly line. What was Walt Disney’s greatest creation? Not Disneyland or Mickey Mouse, but the Disney creative department that to this day continues to generate ingenious ways to make people happy.”⁵³

Can El Bulli be substituted? In its very essence, probably not. In a broader sense, however, substitutes are available. The Danish Noma restaurant has shown that other contenders may end up as top choice in the best restaurant guides on numerous occasions. Of course, El Bulli also competes in the experience business. But in this business as well, substitutes are available (e.g., cruises).

Yet while the experience is unsurpassed, the cost is not prohibitive. El Bulli maximises customer value at the expense of company value: 60 staff members, a kitchen area (350 square meters) that is larger than the dining and terrace space combined (330 square meters), and a mindboggling wine list (as stated before, the 1,616 different wines and 55 different styles of glassware are a class apart). Efficiency in itself is not the biggest issue, as long as the price matches the value being offered. This combination of scale, allocation and complexity carries a hefty price tag. However, El Bulli underperforms on appropriability. At €230, the offering is definitely underpriced. Observes Ferran Adrià: “It should be €600.” In other words, customers get more than they give, El Bulli gives more than it gets.

In short, the business model of the El Bulli restaurant is not theoretically sustainable: in the Value Grid, it is located in the ‘Idiot’ quadrant. In the words of Ferran Adrià: “El Bulli itself cannot be a business.” However, two important reflections need to be made. Firstly, the business model is unsustainable as a matter of deliberate choice, and not of imposed necessity! It is the passionate desire of Ferran Adrià and his key members of staff to deliver exquisite food and an unforgettable experience without charging for it accordingly. Secondly, the business model is sustainable from a corporate or holding perspective. The El Bulli restaurant has created positive reputational spillovers in terms of books, publishing, hotels, fast food and consulting. For this reason, the El Bulli restaurant might be seen as the proverbial ‘island of loss in an ocean of profits.’ The other businesses are based on the reputation that the restaurant has created, and in turn subsidise the restaurant financially.

APPLYING THE CONCEPTS

It is tempting to apply these concepts by means of what might be described as ‘formal vivisection.’ The basic recipe is crystal-clear: the various components of the business model must be tested against the criteria outlined above. However, management in general and strategic marketing in particular have never been exact sciences. Following a critical, intriguing review of studies that identify recipes for success, Rosenzweig concludes:

“Anyone who claims to have found laws of business physics either understands little about business, or little about physics, or both. Searching for the secrets of success reveals little about the world of business but speaks volumes about the searchers – their aspirations and their desire for certainty.” (emphasis in original)⁵⁴

How was it possible that GM lost its global market leadership position to Toyota in the first quarter of 2007?⁵⁵ In the years to come, many analyses will be conducted and many hypotheses proposed. While the analysis of the sustainability and the erosion of competitive advantage seem disarmingly easy in hindsight, it never is in foresight. The value of the framework we have defined is to provide marketers with a *conceptual* framework rather than an *instrumental* toolbox. The central question raised by this analysis remains a provocative one: to what extent can a company compete successfully without changing its business model?

THE COMMODITY MAGNET

The concept of the *commodity magnet*⁵⁶ neatly synthesises the manner in which industry dynamics can create customer value and destroy company value (Figure 4.6).

The key dimensions in this model are *price* (i.e., relative to reference offerings in the market) and *cost-to-serve* (i.e., the total cost to serve customers). When a company successfully innovates and markets a new offering, it starts in the top right-hand quadrant. Through its differentiation from reference products in the market, the company can command a higher price. Since the company is still at the start of the experience curve, it constantly encounters unknown unknowns (‘unkunks’). Consequently, the cost-to-serve will be high.

In many respects, the pioneering company sits in the driver’s seat. A good way to enjoy pioneering advantages is to introduce the successful innovation to more customers (1). Since the company enjoys a virtual monopoly for its innovation, it can reap the profits from a monopolistic price-setting strategy, while concurrently enjoying lower costs through a streamlining of its value creation

Superior Resources: 'Our product line is the result of distinctive competences that enable us to outperform competing firms'

14% D	31% N	46% A	8% SA
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Durable Demand: 'Our skills and know-how will offer us a competitive advantage for at least another five years'

4% SD	24% D	33% N	34% A	5% SA
----------	----------	----------	----------	----------

Inimitability: 'Our competitive advantage is based on assets and processes that are extremely difficult to imitate by rival firms'

4% SD	31% D	34% N	25% A	5% SA
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Non-substitutability: 'At present, there are no substitute products or resources that pose a serious threat for our product line strategy'

11% SD	44% D	23% N	18% A	4% SA
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Operational Efficiency: 'Comparing ourselves with the industry average for this product line, our cost efficiency is (far worse - worse - equal - better - a lot better)'

23% Worse	30% Equal	33% Better	12% Far better
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Appropriability: 'Our competitive advantage is based on resources that are strongly linked to the company'

7% D	19% N	61% A	12% SA
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The 2009 survey suggests companies enjoy a sustainable competitive advantage from the value creation and value capture perspective. However, a closer analysis suggests serious threats from imitability and substitutability. Competitive advantage is – by definition – always in relation to the competition!

(SD=Strongly Disagree – D=Disagree – N=Neutral – A=Agree – SA=Strongly Agree)

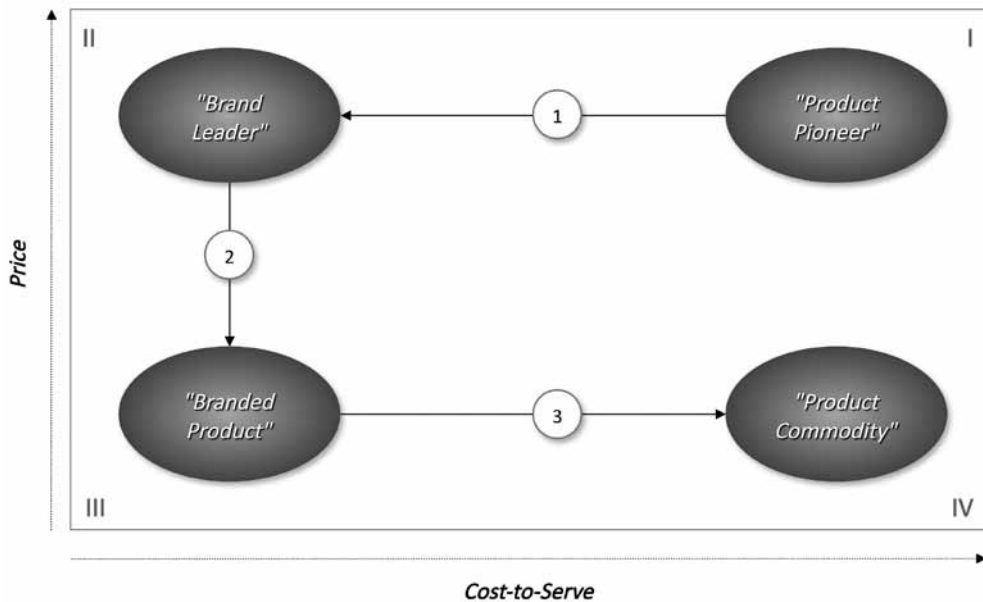


Figure 4.6 • The Commodity Magnet
(adapted from: Rangan & Bowman; Moenaert & Robben)

processes. However, profitable pockets in the market always attract competition. These competitors will attempt to copy the business recipe, thereby introducing equivalent products or services to the market. In these circumstances, the competition now occupies the driver's seat, creating choice for the customer and forcing prices downward (2). When industry participants stop innovating and when customers become more knowledgeable about the product, the customers will stop comparing and start demanding. They now firmly occupy the driver's seat, and will consequently degrade competition in the industry to a glorified rat race (3). This is a nightmarish development. In an attempt to maintain market share or share-of-customer, suppliers will augment their product and service commodities with unbillable extras. This increases the cost-to-serve and lowers profitability to critical levels.

Depending on the industry, the ins and outs of this process will differ. In high-tech electronics, for example, the cycle can be as short as half a year; in industrial engineering a similar cycle can take a decade to complete. But the trend is 'inevitable in all product markets.'⁵⁷ If competition has its way, new offerings start as innovations (quadrant I), become brand leaders (quadrant II), transform into product brands (quadrant III), before finally ending up as commodities (quadrant IV).

There are recipes that can work to a company's advantage in dealing with

the dynamics of the commodity magnet. Companies can react proactively by investing in strategic innovation (i.e., securing future offerings in quadrant 1 through business exploration) and incremental innovations (i.e., leveraging the commercial breakthroughs by fully exploiting their potential with other customers). The transition towards quadrant 3 can be delayed by creating switching costs and brand building, i.e., customer intimacy strategies. This latter strategy works very well in consumer markets, since a strong brand image creates strong psychological switching costs. However, if a company is moving towards quadrant 3, process efficiencies become all-important in the competitive game. A company can only sustain profitably in this quadrant through the ceaseless pursuit of operational excellence. The company may also want to maintain or establish a strong brand name and switching costs. Such actions can help to postpone the transition that companies must seek to avoid at all costs, i.e., the transition towards the commodity quadrant. Quadrant 4 is not a pleasant habitat. It is a rat race, in which sales and profits hardly ever correlate. Actress Lily Tomlin's poignantly observes: "The trouble with the rat race is that even if you win, you're still a rat." True, a company may escape the commodity quadrant by providing billable services (i.e., differentiated services for which a customer is willing to pay) or by narrowing its business to specific markets. But reality remains grim and there is no avoiding a rigorous turnaround. This may require deep pockets to finance the intended changes, but such capital is unlikely to be internally available in the case of a single-business company.

THE EVANESCENCE OF SUCCESS

Success never comes easy. Sustaining success is even harder to accomplish. One of the best analyses on the subject has been provided by Pankaj Ghemawat.⁵⁸ He used a simple method to investigate how the performance of winners and losers evolves over time. Using the PIMS database,⁵⁹ he identified 692 business units for which data were available over a ten-year timespan (1971–1980). Applying the split sample approach to the 1971 data, he created a sample of successful and unsuccessful business units, with an average ROI of 39% and 3% respectively. The 346 successful business units most probably did something consistently well to produce such a high return. Some will have exceeded the 39% average by a wide margin. Similarly, the sample of losers almost certainly performed very poorly on core processes, in order to generate such a low ROI. In fact, many of these business units must have had an ROI that coloured dark red. Given the size of the sample⁶⁰ and the stark contrast in performance, we might expect the 36% margin difference to persist over time. But this was not the case. Three years later, the difference between the two samples had shrunk to about

one third and in 1980 to about one tenth. The initial winners looked convincingly less glorious in 1980 (ROI = 21.5%), whereas the losers were clearly a lot more successful (ROI = 18.0%).

What we often witness in the world of sport is also what we witness in the arena of business competition. Whatever happened to Manchester United (soccer), the New Zealand All Blacks (rugby), the San Francisco 49ers (American football) or the Chicago Bulls (basketball)? Similarly, whatever happened to GM (cars), Wang (word processing), DEC (mini-computers), PanAm (airline) and Lego (toys)? Success does not (necessarily) breed success. The marketing literature frequently boasts about the market share persistence of top brands, but ignores equally important issues, such as changes in brand ownership and the profitability of the brand. Such an eclectic view disregards the efforts which companies must make in order to stay ahead of the competition. Even strong brands require constant investment to safeguard their mental monopoly. "If I'm free, it's because I'm always running," said Jimi Hendrix. This was also very true for the Beatles in the Roaring Sixties when they competed with the Monkees. This is equally true today for Mercedes in the global millenium, when they compete with Audi.

In the age of hyper-competition, it became fashionable to criticise the relevance of sustainability. Admittedly, it is a very naive marketer who considers a superior business model for a durable demand as an economic *perpetuum mobile*. Customers do change – and successful companies must cope with such change. Even organisations with huge market power, such as Microsoft, must invest vigorously to maintain their competitive edge (MS-DOS; Windows 3.1; Windows 95; Windows 98; Windows 2000; Windows XP; Vista; Windows 7). Competitive advantages are rarely everlasting.

STRATEGIC AMBITION

THE VISION OF THE CORPORATION

The content of a competitive strategy for the future is not a dispassionate solution to a technocratic riddle. Strategic solutions will not emerge spontaneously from an analysis of the external and internal environments of the company. Nevertheless, it surprises us over and over again that the question "*what do you want?*" receives so little attention in the strategic marketing literature. This is very strange since a successful marketing plan brings benefits of all kinds to the enlightened marketer who proposes the plan. An unsuccessful marketing plan, on the other hand, may force the marketer to reconsider the options or even

reorient his or her career in a different context. In summary: *for the marketer, a marketing plan implies a career plan*. Therefore, “what do you want?” deserves more attention than the platonic treatises in contemporary strategy textbooks currently suggest.

What do marketing executives want their company to be? Reviewing the literature on strategic management, this issue seemed to be better integrated into the mindset of the pioneer researchers than in the thinking of contemporary analysts. For example, Kenneth Andrews explicitly argued that strategy formulation involved four sub-activities:⁶¹

- Assessment of external opportunities and threats (what might the company do?);
- Evaluation of a company’s internal strengths and weaknesses in terms of its material, technical, financial and managerial resources (what can the company do?);
- The values, aspirations and ideals of senior management (what does the company want to do?);
- What are the company’s responsibilities towards society (what should the company do?).

According to Stephen Covey, one of the essential habits of effective people is their clarity with regard to the end goal.⁶² ‘*Begin with the end in mind*’ is his lucid summary:

“ ‘*Begin with the end in mind*’ is based on the principle that all things are created twice. There’s a mental or first creation, and a physical or second creation of things. (...) The extent to which you begin with the end in mind often determines whether or not you are able to create a successful enterprise.” (emphasis in original)

Covey offers practical advice by asking practical questions. For example: what would you want your friends and family to say about you at your funeral? It sounds morbid, but it addresses a compelling question. A similar question could be addressed to a marketer (see Figure 4.7). In business roadmapping sessions, we find the following exercise - ‘*Back from the Future*’ – a very useful one. If a newspaper were to publish a favourable article about your company in three years’ time, what newspaper would you want it to be published in? Assume that you are the journalist – keeping distance enables better focus. You look back in admiration at this splendid organisation. What is the headline of your article? Write down the key characteristics of the industry’s evolution in the years that have passed. What important corporate choices has the company made during

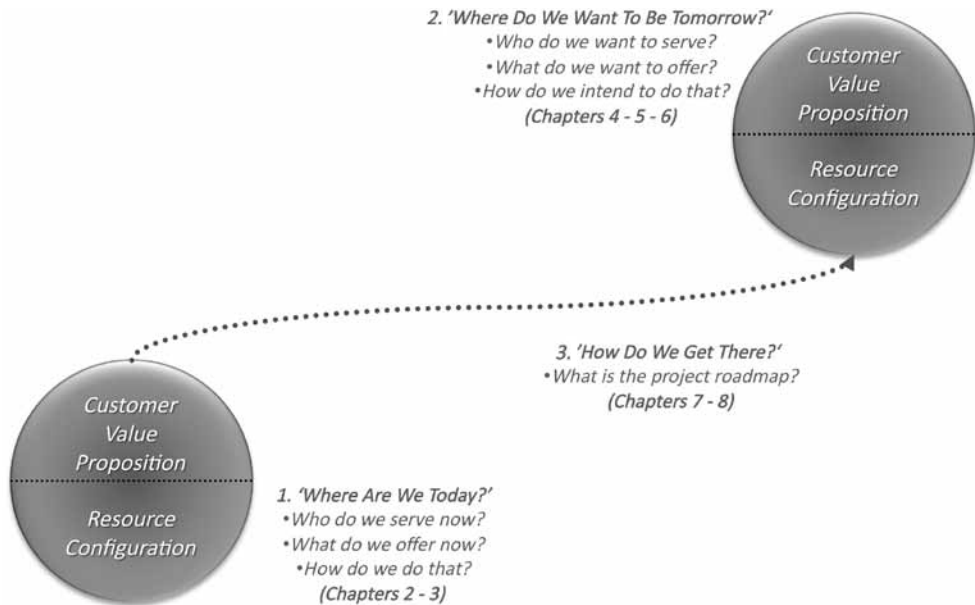


Figure 4.7 • The Business Roadmap

the last three years? What is the customer value proposition, and what are some of the major changes in the core business processes and competences within the organisation? What does the article say about the company's performance? What would have happened if the organisation had not made these choices?

We use the 'Back from the Future' workshop as a standard procedure in business roadmapping sessions. Over and over again, the outcomes corroborate what we have seen in other companies: employees want to be proud of their firm. In the field of strategic marketing, 'pride' simply means that employees experience the feeling of having made a difference!

Bill Gates, founder of (and now happily retired from) Microsoft, stated that "learning is mostly about creating a context for motivation. Technology plays a role, but it is not a panacea."⁶³ The way in which technology has shaped our business and learning environments has never been clearer than with the advent of the Internet. Doing business and teaching have assumed many different forms, opening up opportunities for many companies and individuals. But no matter how sophisticated the latest version of the operating system on your computer might be, there comes a time when customer needs move beyond the capability of technology to provide it. It is at these times that a company needs the ambition and the vision to transcend current customer thinking. It certainly needs vision to say the following about your own operating system

which has just entered the market: “[In a few years’ time,] we’ll tell you how Vista just wasn’t good enough, and we’ll know why, too. We need to wait and hear what consumers have to tell us. We don’t know that. Otherwise, of course, we would have done it this time.”⁶⁴ The desire to transcend current thinking is at the core of the work of two other visionary industry changers. James Cameron, the director of *Titanic* and *Avatar*, offers his radical opinion about what really constitutes true vision: “If you set your goals ridiculously high and it’s a failure, you will fail above everyone else’s success.” Larry Page, the founder and CEO of Google, holds a similar view: “I think it is often easier to make progress on mega-ambitious dreams. I know that sounds completely nuts. But, since no one else is crazy enough to do it, you have little competition.”⁶⁵

We may admire the courage of James Cameron and Larry Page. However, such thinking must never cross over into groundless megalomania. This will hurt the marketer and it will hurt other stakeholders. Fortunately, the BHAG-concept in the next section helps marketers to develop an intelligent marketing vision.

BHAG: A MODERN-DAY CREED

In this book, we adopt the perspective that the central unit of analysis should involve the executive in marketing management. What course does the marketing captain want the ship to follow? At what speed? Strategic ambition (or vision) is “a coherent and powerful statement of what the business can and should be (ten) years hence.”⁶⁶

Often a marketing plan will focus too much on financial aspects, leaving the future business model as an empty black box. However, it is not that by crunching the numbers into a P&L statement that the desired results will be achieved. Whatever the proficiency of the spreadsheet aerobics conducted by the marketing department, the numbers will frequently turn out to be wrong. General Gray of the US Marine Corps expresses it very succinctly:

*“[T]he further ahead we consider, the less precision we should attempt to impose. Looking ahead thus becomes less a matter of influence and more a matter of interest.”*⁶⁷

The turbo-powered article ‘*Strategic intent*’ by Hamel and Prahalad became an immediate blockbuster and its accompanying concept of a *sense of urgency* was soon a recurring buzzword within the marketing community. In a more recent past, the research by Collins and Porras propelled the concept of BHAG (*Big, Hairy, Audacious Goal*) firmly into the vocabulary of strategic marketing.⁶⁸ Collins and Porras contrasted visionary companies with a control group of comparison companies. The criteria for a company to be selected as visionary

within its industry were very demanding. A visionary company was deemed visionary if it was established before 1950; had gone through multiple product/service life cycles and multiple generations of executives; had changed the world that we live in; and was revered by insiders as a leader in the industry. Among the 18 companies selected were 3M, Walt Disney, Sony and Ford. A defining characteristic of many visionary companies is their drive to realise a BHAG. From a historical perspective, the current concepts of BHAG or strategic intent simply rebrand the existing concept of vision. However, buzz words and jargon need a little smart marketing before they can rise to stardom. And Collins and Porras were smart marketers: they even indicated how the acronym had to be pronounced (*'bee-hag'*).

An intelligent BHAG is mission-critical for the company. Jim Collins employs the metaphor first coined by Isaiah Berlin about the *hedgehog* to elegantly capture the essence of a BHAG. Isaiah Berlin divided authors in foxes and hedgehogs. Foxes can do many things, but hedgehogs can do one thing very well.⁶⁹ The shrewd fox attacks the hedgehog in a variety of ways. The hedgehog always responds with an almost boring but highly efficient tactic: it curls itself up. An intelligent BHAG is located at the cross-section of the answers to three questions: (1) what is the organisation passionate about; (2) what activities can the organisation be the best in; and (3) what drives the economic engine of the organisation?⁷⁰

A healthy ambition requires an internal and external mental repositioning of the company, concentrating emphasis on what the company intends to be. This means, like any other branding campaign, that a simple, clear and compelling message is communicated to its audience in a consistent way. A BHAG creates a powerful and simple image of the strategic ambition of the organisation. A wonderful example is provided in the foreword to the very first Michelin Red Guide in 1900: *"Ce guide est né avec le siècle. Il durera autant que lui."*⁷¹

KNOWLEDGE AND IMAGINATION

During the board meeting of a company we were advising, we asked the three divisional managers to state their ambition for their division. The manager of one of the divisions cynically observed:

"I don't have an ambition. The 400 employees in my division produce a nice turnover,... that's good,... and a respectable profit,... that's good as well. The profits are then used to fund corporate investments. But I cannot think of an ambition for my specific division."

Such situations are dangerous. If the commander-in-chief of a business unit, a division or a corporation does not have an ambition, or is not capable of formulating one, how can he or she expect the rest of the organisation to function in harmony? “Good leaders know where they are going.”⁷² Many methods have been described to shape the formulation of a strategic ambition. The formulation process of such an ambition (according to the theorists) must reconcile two opposites: knowledge and imagination. We often observe that managers are under the misapprehension that information precludes imagination – or vice versa. Clearly, this is a wrong idea, since imagination is *always* necessary. The competition will try to read the industry context as thoroughly as possible and will also assess key players. In addition, their ambition is also likely to be a version of the same *faster-stronger-higher* story. Marketing managers must therefore employ information as creatively as possible and use their own internal and external analyses to develop a solid strategic ambition.

‘The company vision we are defining is best described as ‘bold,’ i.e., if this vision is not accomplished, we are convinced that our company will not survive’

8% SD	34% D	30% N	22% A	6% SA
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‘The employees were strongly involved in the process of developing the company's objectives’

8% SD	23% D	33% N	27% A	9% SA
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‘The company has clearly communicated the objectives we need to attain in the future’

18% D	21% N	48% A	11% SA
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The vision of most companies is not extremely bold, to say the least. Only 6% strongly agree and 22% agree. In all, 42% consider that their company vision is not bold (8% strongly disagree with the statement, 34% disagree). Employees are only moderately involved in the process of developing the company's objectives. However, communication is considered to be adequate (48% agree, 11% strongly agree)

(SD=Strongly Disagree – D=Disagree – N=Neutral – A=Agree – SA=Strongly Agree)

A strategic ambition can only be as good as the information on which it is founded. Contrary to the belief of many, information is abundant, as long as one is willing to invest in the necessary efforts to find it (also see Chapter 3). As Keith Patel had observed, it took a person almost two months to locate a randomly selected piece of information in 1800; a little more than 5 days in 1900; less than 1 day in 1990; 70 seconds 10 years later; and about one second in 2004.⁷³ However, the same author also cautions:

"[W]e have been conned. At best, we have erred. We have erred on the most fundamental things. Erred in believing that the analysis will reveal the answer. Erred in believing that we are strategists. Erred in believing that analytic frameworks, methods, models and formulae would make us strategists. (...) The equality of labels leads us to call a draughtsman an architect, an illustrator a designer and an analyst a strategist."

BOUNDARIES TO AMBITION

The emphasis on ambition never implies that a company must indecently pursue a policy of unbridled greed. Nonetheless, it appears that ambition and diversification are strongly intertwined. Let us restate the observation that we made in Chapter 3: empirical evidence shows that unrelated diversification and corporate performance correlate negatively. Boasting synergies without having an understanding of the true complementarities is a hallmark of corporate failure.

An adequate understanding of a company's real distinctive competencies and a focus on the core of the corporation is a liberating rather than a limiting factor in the creation of sustainable competitive advantage. "From focus comes growth; by narrowing scope one creates expansion."⁷⁴

WHEN AMBITION IGNORES ETHICS

Having an ambition does not imply that an organisation can overstep ethical boundaries. For the purpose of business roadmapping, ethics are first and foremost concerned with the question of benefit and harm within the context of the interplay of stakeholder interests. The recent *scandalitis* has brought about a renewed interest in such matters and has led to a sharpening of the laws. Corporations such as WorldCom, Parmalat, Ahold, Enron and Lehman Brothers have alerted public opinion to the need for ethical constraints on business ambitions. An organisation cannot successfully pursue the interests of a single stakeholder, while consistently damaging the interests of other stakeholders. Some of the recent scandals remind us of the notorious speech by asset stripper Gordon Gekko in the classic movie *Wall Street* (1987):

“The point is, ladies and gentlemen, that greed – for lack of a better word – is good. Greed is right. Greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit. Greed, in all of its forms – greed for life, for money, for love, for knowledge – has marked the upward surge of mankind. And greed – you mark my words – will not only save Teldar Paper, but that other malfunctioning corporation called the USA.”⁷⁵

An ethically conscious business policy implies that customer interests are not damaged (e.g., the early withdrawal of important components), nor the interests of employees (e.g., unashamedly relocating production facilities to low cost countries). In our view, the realm of ethics must be broadened to include all stakeholders. The demand for sustainable business must be viewed from this perspective. The trend towards green strategies has been inspired by such a broad view of the stakeholder spectrum. Al Gore’s *Inconvenient Truth* succeeded brilliantly where many political parties have failed, i.e., raising awareness among policy makers and the general public for matters relating to climate and energy. Stakeholder interests can be spread rapidly and broadly in the global communication community. An American class-action obesity lawsuit against McDonald’s immediately attracted international attention. At the opposite end of the obesitas scale, excessively slim ladies have cast dark shadows over the fashion industry. When Ana Carolina Reston and Luisel Ramos, two skinny fashion models, died of anorexia in 2006, the fashion industry attracted all the negative attention it had been seeking to avoid. Someone like Twiggy was a role model in the Swinging Sixties. Not any longer. When fashion divas, thin as a rake, die in action on the catwalk, there is a diversity of stakeholder interests anxious to protect youngsters from such devastating exploitation.

Even in contexts where the economic texture is less obvious, ethics have become a major issue. Zidane was reprimanded by the media for his head butt against Materazzi in the 2006 World Cup final. In the wake of high-profile doping scandals (e.g., Ben Johnson, Marion Jones, Floyd Landis, Barry Bonds) sports organisations have initiated a genuine crackdown on the sportsmen who abuse drugs. Time and again, stakeholders are starting to exert their power. For instance, Germany’s ZDF withdrew its television crew from the 2007 *Tour de France* following the positive drug test by Patrick Sinkewitz. Later, yellow jersey Michael Rasmussen was expelled from the same Tour, after it became clear that he had lied about his whereabouts before the start of the event. He commented:⁷⁶

“It is at the edge that the very best distinguish themselves from the best, and the extremely passionate from the merely passionate.”

That is a correct observation. But there are ethical bounds, and those bounds emerge when other stakeholder interests are severely damaged.

LEADERSHIP

MANAGERS VERSUS LEADERS

The tasks outlined above suggest that marketing management is not for the faint-hearted. Strategic vision is not written, it is constructed.⁷⁷ The term *marketing management* itself may very well be a misnomer as far as business road-mapping is concerned. A company needs marketing *leadership*, if it wants to survive in the competitive arena.

An all-embracing treatise on leadership is beyond the scope of this book. While there are clear differences between managers and leaders, even specialists in the field have become disillusioned – almost despairing – by the many opinions on the subject. Without entering the field of – *pardonnez-nous les mots* – organisational claptrap, we find that the scholar most often linked with research into the distinction between managers and leaders – i.e., Abraham Zaleznik of Harvard University⁷⁸ – synthesises the opinions of many:

“The crucial difference between managers and leaders is in their respective commitments. A manager is concerned with how decisions get made and how communication flows; a leader is concerned with what decisions get made and what he or she communicates. In short, for the manager it is style over substance and process over reality. (...) [m]anagers are practical people. Typically, they are hard working, intelligent, analytical, and tolerant of others. Because they hold few convictions with passion, except perhaps for the need to extract order out of potential chaos, they exhibit a high degree of fair-mindedness in dealing with people. Leaders are more dramatic in style and unpredictable in behaviour. They seem to overcome the conflict between order and chaos with an authority legitimized by personal magnetism and a commitment to their own undertakings and destinies.”⁷⁹

Discussions on leadership often centre around an even more nebulous concept: charisma,⁸⁰ and its translation to the workforce through the process of transformational leadership.⁸¹ Contemporary research opposes transactional leadership (in which leaders direct and motivate their co-workers by means of tangible and intangible rewards) in favour of transformational leadership (in which business leaders inspire their co-workers and alter needs, beliefs and values).

HUMAN RESOURCE IMPLICATIONS OF STRATEGIC MARKETING

From a strategic marketing perspective, good marketing *managers* are persons who are capable of running the current business very well (i.e., business exploitation). Outstanding marketing *leaders* are persons who are capable of running the business very well, while at the same time successfully changing the business and preparing it for the future. This can only be accomplished by marketers who (1) have the capabilities to discover new business opportunities, (2) translate these opportunities through entrepreneurial actions into real business, and (3) show integrity throughout their decisions and actions.

The clever leadership scale developed by Jim Collins in *Good-to-Great*⁸² provides an instrumentally useful perspective on marketing leadership. His taxonomy involves five levels. Translated into the marketing function, we can distinguish the following levels:

- Level 1: '*Highly Capable Marketer*,' i.e., a marketer who is technically good and contributes reliably to the team;
- Level 2: '*Contributing Marketing Team Member*,' i.e., a marketer who transcends mere technical contributions and facilitates team processes;
- Level 3: '*Competent Marketing Manager*,' i.e., a marketer who plans activities, organises marketing resources and controls their implementation in order to accomplish predetermined goals;
- Level 4: '*Effective Marketing Leader*,' i.e., the marketer who envisages the future and inspires marketing colleagues in the pursuit of that ambition; and
- Level 5: '*Level 5 Marketing Executive*,' i.e., an executive endowed with humility and professionalism, yet capable of inspiring a marketing vision across functional, divisional and even national boundaries.

Clearly, the concept of transformational marketing leadership applies to levels four and five; transactional marketing leadership (i.e., senior marketing management) applies to level three; and marketing operations apply to levels one and two. In terms of the composition of your marketing team, there is no magic recipe: a balance will be needed. A company cannot be run solely with level one or level two marketers. Similarly, too many marketing kings and queens in the organisation – i.e., an abundance of level four and five personnel – will generate dysfunctional effects. However, because of the scarcity of true marketing leaders, this scenario is not very likely. The challenge for many organisations will be to position themselves as an attractive environment for a visionary marketer to work in. Here also Collins provides some crisp advice: "The old adage 'People are your most important asset' is wrong. People are not your most important

asset: the *right* people are.” (emphasis in original)⁸³ And yes, we definitely need managers as well, i.e., level three marketeers who plan and budget, organise and supervise staff, and control and solve problems.⁸⁴

A WORD OF CAUTION

The job of a business academic is a comfortable one. We enjoy the benefit of hindsight and have the luxury of explaining the future by looking at the past. The actual creation of the future: that is the job of the marketing hot-shots! However, there is a caveat to our job: our understanding rarely is perfect. When Peters and Waterman explored so-called ‘excellent’ companies (see earlier in this chapter),⁸⁵ just a few years later, the performance of these companies was less glowing. The same is true for the companies that were listed as visionary companies in *Built to Last*. A decade later, the performance of almost half of these flagships had faltered dramatically.⁸⁶

Two accounting scholars, Hamilton and Micklethwait, examined in-depth eight recent, high-profile corporate disasters⁸⁷ and grouped the reasons for their downfall into six baskets: “poor strategic decisions; over-expansion and ill-judged acquisitions; dominant CEOs; greed, hubris and the desire for power; failure of internal controls at all levels from the top downwards; and ineffectual or ineffective boards.” These insights are intriguing. The responsibility of leaders, in the event of a business breakdown, is immense.

“The task of a leader,” Henry Kissinger once observed, “is to get his people from where they are to where they have not been.” That is correct, but incomplete. *With power comes responsibility*. The question “What do you want?” must never be viewed in isolation from the stakeholders who are dependent on the quality of the leader’s choices. It is the task of leaders to get their co-workers and other stakeholders to a *better* place. Within a strategic marketing context, this means that all stakeholder interests must remain secured. Corporate governance is a necessary system to prevent enlightened leaders from slipping down towards a state of wayward despotism.

Many of the leaders who have inspired business researchers and reporters to write words of praise fell from grace shortly afterwards. A telling example is provided by Gary Hamel’s *Leading the Revolution*.⁸⁸ In retrospect – the convenient get-out of the business researcher – Gary Hamel would probably have toned down the Enron eulogy in his book:

“Enron believes that radical ideas come from radical people. Ken Lay recalls that his highest priority when he became chief executive was to get a ‘game-breaking player’ – someone who could transform an industry – into every job. (...) Lay has proved at Enron that it pays to hire the best.

You can't build a forever restless, opportunity-seeking company unless you're willing to hire forever restless, opportunity-seeking individuals."

Enron went into economic hibernation when it was declared bankrupt in 2001. Ken Lay found eternal rest in 2006, awaiting his sentencing for conspiracy and fraud. Ambition is definitely needed, but must be embedded in reality.⁸⁹ Real leaders use influence, rather than power, to enthuse the organisation – and they use this talent almost subversively.⁹⁰ The American obsession for heroes must not dazzle us. Business leaders have a responsibility towards all their stakeholders – and not only towards their own ego. We must not romanticize leadership.⁹¹ True marketing leadership implies that real marketing leaders maintain their operational credibility at all times, have constant access to high quality information, relate to the organisation, create a committed team, walk the talk, perform under stress, make people identify with the strategic ambition and educate them accordingly.⁹² In addition, control helps them to focus correctly.

BUSINESS ROADMAPPING AUDIT:

QUESTIONS FOR THE MARKETER

RAISON D'ÊTRE

- *What is the reason for the existence of the company? Is our company mission realistic and well communicated?*
- *Who are the primary stakeholders whom our marketing executives and personnel must interact with? Who are the internal customers of the marketing plan? What is needed to sell a plan convincingly in our company?*

SUSTAINABILITY

- *Do we create distinctive value for the customer? Do we address a durable demand? Do we possess superior resources to create the value proposition?*
- *How easy is it for the competition to attack us? Can the value proposition easily be duplicated by the competition through imitation or substitution?*
- *How proficient are we in capturing value from the activities we deploy? Is operational efficiency at the required level? Are we capable of appropriating a substantial part of the profits that are created in the total supply chain?*
- *Is value created simultaneously for our customers and our company?*

COMPANY VISION

- *What should be the big, hairy, audacious goal of our company (BHAG)? What is it that we truly want to accomplish in the mid-range and long-range futures? What do we want to achieve three to five years from now? What are our commercial goals for next year?*
- *Is our strategic ambition bold but also realistic? Is everybody in the organisation passionate about it? Can we really be the best in what we aim for? Is it in line with the economic drivers of our company?*
- *Does the ambition of the company overstep ethical boundaries?*
- *Does our company have the marketing leadership needed to inspire the organisation to create and accomplish the BHAG? Are changes introduced successfully and is the business being prepared for the future?*

CHAPTER 5

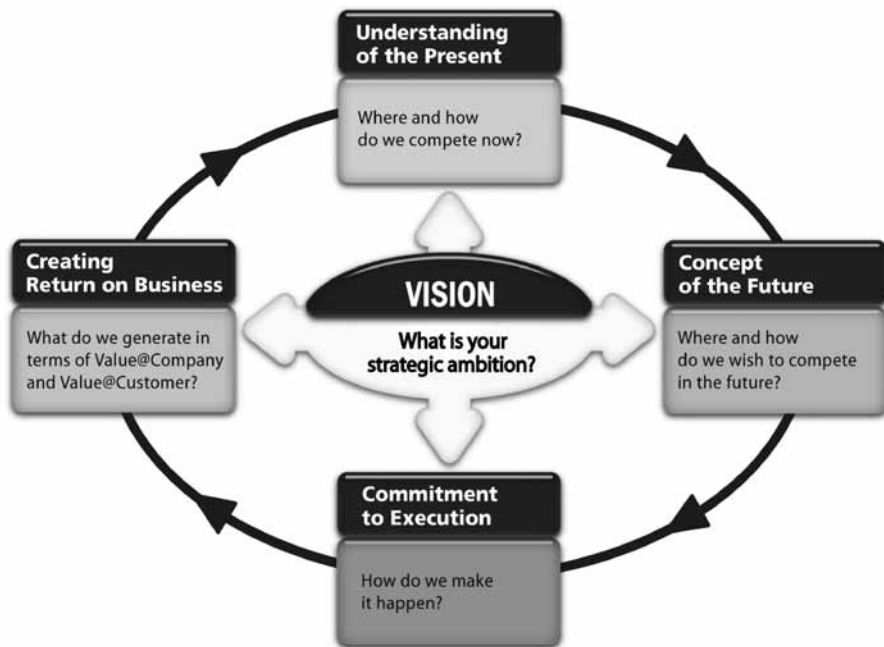
A CONCEPT OF THE FUTURE

Innovation!

One cannot be forever innovating.

I want to create classics.

COCO CHANEL



PILLARS OF SUSTAINABLE BUSINESS

Building sustainable business is the essence of marketing. As the previous chapters showed, marketing excellence is the creation of superior value for the customer and value for the supplier through a competitive customer value proposition and a clear business model. Essentially, in addressing the future, strategic marketing must answer three questions:

- Who will we serve in the future? Translated into a marketing vernacular: What are the customer segments that the company will target?
- What will we offer in the future? Translated into marketing terms: What is the customer value proposition that the company aims to offer to the selected customer segments?

- How will we accomplish this? Translated into a marketing vocabulary: What is the business model that will enable the customer value proposition for the selected segments?

Ries and Trout observed that marketing is ‘war’ and the competition is the ‘enemy.’¹ A competitive advantage implies that a company must distinguish its offering on key customer benefits, as perceived by the customer. In the final analysis, this is indeed a question of *marketing warfare*:

“Ever since World War II, King Customer has reigned supreme in the world of marketing. (...) But today every company is customer-oriented. Knowing what the customer wants isn’t too helpful if a dozen other companies are already serving the same customer’s wants.”²

The objective of marketing warfare is to help build sustainable business. One of the authors lives ten miles from the historical battlefields of Passchendaele. Today, these old battlefields offer pleasant scenery and excellent mountain bike tracks. The only reminders of the infamous Battle of Passchendaele, which took

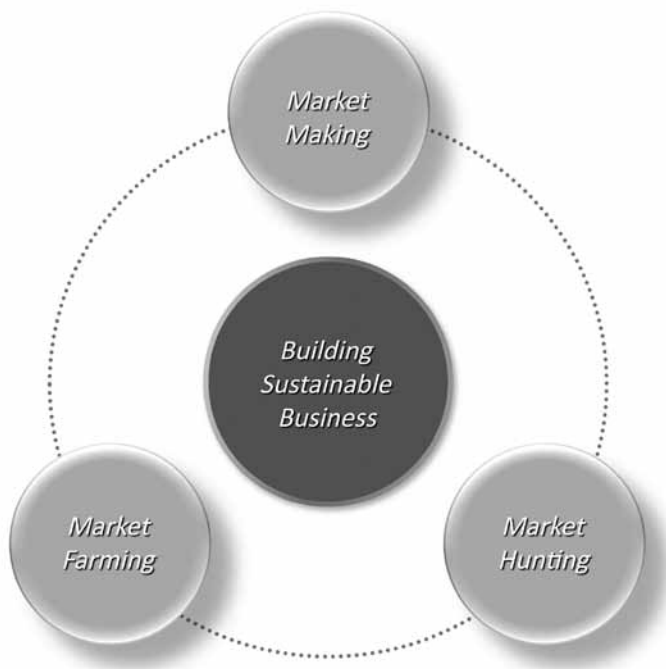


Figure 5.1 • Pillars of Business Development

place here, are the numerous cemeteries and memorials that dot the landscape. Also known as the Third Battle of Ypres, it began on 31 July 1917 and ended on 7 November of the same year. During the intervening months, the Allied forces were able to capture only a few miles of mud at a cost of more than 500,000 lives. A historian once described this battle as “the blindest slaughter of a blind war.”³ Central to the drama was the plain ignorance shown by the army command of the conditions on the battlefield.⁴ Heavy rains had soaked the entire region, making tanks useless and any human advance close to impossible. A Canadian infantry officer observed that “mud is the ally of the defenders and the enemy of the attackers.”⁵ It is a lesson worth remembering in business.

Marketing warfare pursues a much more peaceful goal. Even so, marketers must make choices about the ‘hunting grounds’ (segments to serve, i.e., where to compete) and the ‘hunting strategies’ (competitive strategies, i.e., how to compete) to realise sustainable business. A company can build business along three different paths (Figure 5.1). The first path is the path of *market making*. Through market making, a company develops radically new customer value propositions that redefine market space. A second path involves *market hunting*, i.e., acquiring new customers for existing customer value propositions. The third path is labelled *market farming*, and consists of nurturing or streamlining the relationship with existing customers. The decision-making processes that lead a company to each of these paths are pivotal moments in its history. It is as Dr. Bunsen Honeydew and his unfortunate assistant Beaker from the Muppet Show used to describe it: “The future is being made here today.”

This model clearly demonstrates the dominant modes for business development. Reality is never that simple, of course. Market making may involve market hunting (e.g., broadening the customer base to new segments). Market hunting in turn often involves modifications to the customer value proposition (e.g., a low-cost alternative to conquer price-sensitive pockets in the market place); some market farming may also be intermeshed with the whole process (e.g., to allow the creation of a total solution). Thus:

“We should not forget that we are artificially and heuristically chopping up reality into conceptual bite-sized pieces. Although such processing may aid digestibility, it also adds an ersatz flavor.”⁶

In the three sections that follow, we will investigate the key challenges that await marketers in crafting sustainable business: (1) market making, (2) market hunting, and (3) market farming. Building sustainable business requires organisations to capture new markets (through market making or market hunting) *and* govern existing markets (market farming).⁷

MARKET MAKING

THE SEARCH FOR CLASSICS

In a competitive market context, the renewal of products and services must be a permanent point of attention for the marketing team. Apple, for example, has introduced a number of classics. When the world witnessed Apple's unparalleled 1984 commercial, directed by Ridley Scott, during the Superbowl XVIII on 22 January 1984, Apple and Macintosh not only surprised the competition: they also enchanted many new customers. Apple has not always operated cleverly. But the brilliant iMac again created strong emotional ties with the public. When an update arrived at the store somewhat later than planned, hardware marketing director Greg Joswiak winked, "What are a few days between friends?"⁸ Later, Apple rediscovered itself yet again. Prodigal son Steve Jobs served *ad interim* and was praised *ad infinitum*. The incomparably stylish Apple iPod is a prime example of a commercial classic, redefining the music industry almost overnight. When Steve Jobs invited rapper Dr. Dre for a demonstration, the latter spontaneously remarked, "Man, somebody finally got it right." Apple continues to disrupt markets with instant classics (iPhone, iPad).

Following the commodity magnet analysis in Chapter 4, management must balance incremental projects and breakthrough projects. Our experience suggests a healthy company invests 30% of its innovation budget on radical breakthrough projects and 70% on incremental projects. Strategic innovation projects are the insurance premium for the future. A company needs incremental innovations to guarantee today's positive cash flow (business exploitation); it needs radical innovations to guarantee the cash flow of the future (business exploration). Michelin studies a revolutionary new tyre, the *Tweel*, but realises that a tyre-without-air will meet with many technical problems and human prejudices. Incremental improvements are therefore necessary. Too strong a focus on radical improvement at the cost of incremental innovations wreaks havoc on a business.⁹

There is always the worry, however, that product or service innovation – and the way it is executed – do not deliver truly sustainable advantage. Marketers frantically search for quick-fix wins that help them to achieve the next quarterly goals. Even in non high-tech industries, marketers feverishly look for possible product extensions. A director of a Dutch bank confided in us, "We have more than 22,000 products. Even the bad ones we string along for years." Numerous small adjustments may realise extra revenues in the short term but in fact reduce the value of the brand. We can restate Gresham's law¹⁰ for a business environment: "*Incremental innovations drive out strategic innovations.*" The

diversity in many electronics stores signals the awful marketing reality behind this statement. Nowadays, there are so many models on the market that a new oxymoron appeared: uniform diversity.¹¹ With the exception of Bang & Olufsen, Bose and Apple, no design leaves a lasting impression. TBC – the acronym for ‘Time-Based Competition’ – is (perhaps not inappropriately) also the acronym of a disease. Time-based competition is not about being fast *per se*, but about being *on time* to market.

The performance of a company’s current portfolio is determined by the new product portfolio choices of the past (Figure 5.2). However, a company does not only develop new products and services through its innovation efforts; it also develops competences and grows brands. A major flaw of much marketing thinking is the heavy focus on the current product portfolio and the neglect of the new product portfolio.

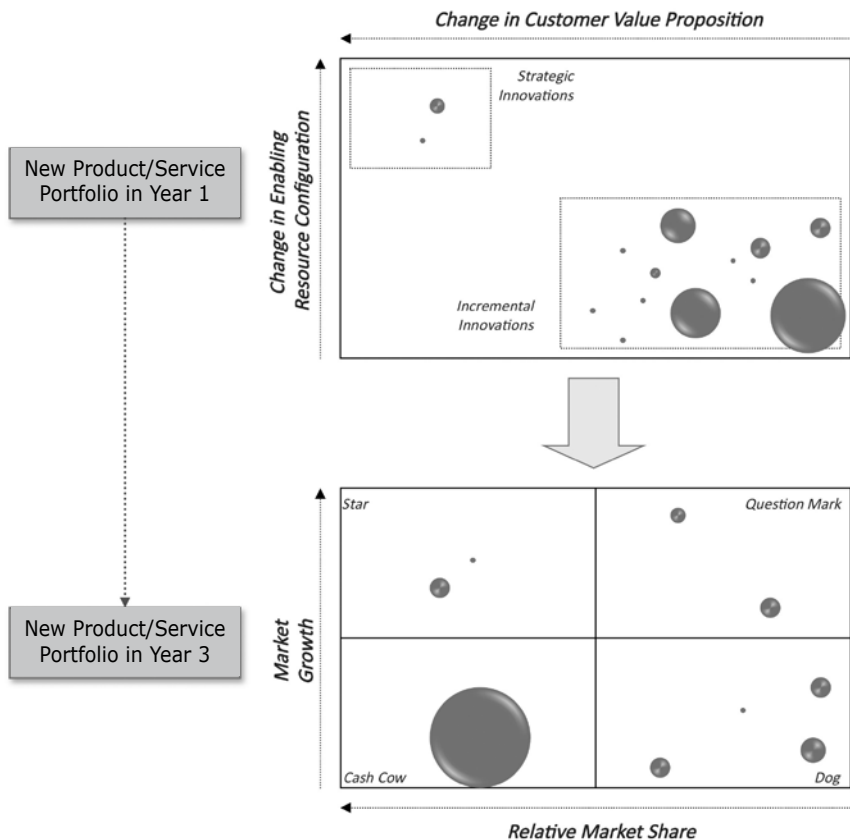


Figure 5.2 · The new Product Portfolio Feeds the Product Portfolio

There are major policy implications for those wishing to pursue a balanced new product portfolio approach:

- *Budget:* While incremental innovations are financed by the business units, strategic innovations very often require a corporate budget. One marketing director at the Philips Corporation observed: “We have three managers and four year plans.”¹² Business managers, who aim to maximise short-term results, are not likely to invest in capital-intensive projects that do not generate returns in the immediate future.
- *Management:* Heavyweight projects require heavyweight team leaders.¹³ Lightweight people create heavyweight problems in such contexts. Given the many uncertainties surrounding strategic innovation projects (e.g., market, competition, technology, resources), experienced team leaders are essential.
- *Evaluation:* The criteria for assessing project success depend on the type of innovation project. While market success and on-time-to-market are critically important for incremental innovations, learning is an important additional outcome variable for strategic innovations.
- *Deletion:* Marketers must not only consider the products to add but also the products to delete from the portfolio. Often, this is an area that arouses tension between marketing managers (who want to rationalise the assortment) and sales managers (who want to maximise the assortment).

ON OPTIMISM

At the start of any new industry, uncertainty will prevail. “The essential characteristic of an emerging industry from the viewpoint of formulating strategy is that there are no rules of the game.”¹⁴ It is precisely this absence of rules that makes marketing decisions so difficult in emerging markets. The absence of a dominant design¹⁵ forces the competition to experiment with customer benefits and pricing. Companies will pursue product innovation (effectiveness in the market) rather than process innovation (efficiency within the organisation). Firms that venture into new markets will be confronted with high launch costs and often with swift cost reductions.

A mistake made by many marketers when targeting new markets is to be overly optimistic about the condition of the market. Markets are not inherently attractive or unattractive. The central question is whether the company can build a competitive advantage in that market and thereby capitalise on the opportunities offered.¹⁶ A growth market is not necessarily of interest to your company and a mature market is not necessarily uninteresting. The CEO of Egemin, a Belgian company in the material handling and business automa-

tion industry, concluded that for product-market combinations with a single unknown (a new market or a new product, but not both) 20 out of 25 initiatives were successful during a 15-year period. Of 400 so-called 'brilliant' ideas (new products for new markets) only three were successful in that same period.

Marketers cannot expect to successfully answer the question 'where the company will compete' without addressing the question of 'how the company will compete.' The dotcom implosion at the start of the first decade of the 21st century illustrates this point perfectly. If a marketer proposed a plan that evolved around e-commerce, a veritable deluge of sources existed to prove the enormous growth in the targeted market (e.g., Dataquest, Forrester Research, Gartner Group, Merrill Lynch, Ovum, Yankee Group, et cetera).¹⁷ On the basis of idiosyncratic data, a positive, exponential growth was predicted. Based on last year's observations and the current year's estimates, many plans projected steep expectations for the future.

Even when growth is realistic – and not the result of a mere numerical extrapolation – winning is not that easy. Among the hallmarks of emerging markets are high degrees of technological and strategic uncertainty, complex international legislation and restrictive local protection. Entering such markets may involve high initial costs, thus hindering flexible adjustments. The company must educate customers about the value and use of the new technologies and services.¹⁸ Where are the *killer applications* that will signify the breakthrough of the UMTS standard? Telecom operators all over the world spent €109 billion on UMTS licenses. *The Economist* defined it as "probably the biggest gamble ever on the introduction of a new technology."¹⁹ The sale of the 4G licenses did not create a similar fuss. Having overpaid in 2000, mobile operators now demonstrate greater matter-of-factness.²⁰

It is dangerous to be optimistic about the growth of markets – and about your own chances in those markets. Positive realism is needed. Competing companies will also be seeking fame and fortune through investment in the same emerging opportunities. One simply cannot expect to be the only competitor in the race. This is not the way things happen at the Olympic Games and it is not the way things happen in modern business – at least not since both these phenomena started over 100 years ago:

"Most of us date the beginning of the car industry with the arrival of the Model T in 1909. (...) The fact is that an enormous number of carmakers were operating in the United States before the Model T was introduced. Indeed, more than one thousand firms populated the industry at one time or another! Fourteen firms entered the fledgling U.S. market between 1885 and 1898; nineteen entered in 1899, thirty-seven in 1900, twenty-seven in 1901, and then an average of about forty-eight new firms entered per year from 1902 until 1910. Thereafter, the surge sub-

sided: from 1911 until 1921, an average of eleven new automobile producers started up per year. (...) Even more remarkable than the population of producers is the enormous variety in cars they produced.”²¹

To summarise, growth markets, upon first entry, may reveal unpleasant surprises to the optimistic investor. In business, optimism is a sympathetic form of stupidity.

WHO CLAIMS THE CUSTOMER?

Much ink has been spilled to describe (or to doubt) the existence of ‘first mover’ advantages. There are undoubtedly benefits associated with companies that are first-to-market. Empirically, there is evidence that the first-to-market holds a market share advantage.²² However, it is not necessarily the best product that wins the market contest. Apple created an industry (Apple II), redesigned the industry (Macintosh) and keeps on redesigning it (iMac, MacBookAir). Apple already offered superb user-friendliness while other personal computer manufacturers were still discovering the textbook on graphical user interfaces. Yet how could it be that Apple continued to delight its customers in this way, but that its market share continued to be so low?

The answer is related to the winner-takes-all nature of many high-tech and information industries.²³ Such industries have very high initial development costs and require a habituation period for the customer. For instance, once a customer has learned the routine of a software application (e.g., PowerPoint for presentations; Adobe Photoshop for photo editing; SPSS/PASW for statistical analysis), a groove-in effect takes place. Customers are reluctant to switch to another application, since this involves the learning of new routines. Network externalities also become increasingly important. A product such as PowerPoint or a Blu-Ray player increases in usefulness if more people start using it. This is one of the reasons why IBM released many of its patents. This gesture is a well-considered experiment in business egocentricity, the aim being to become a dominant party in a highly integrated market.²⁴

In winner-takes-all markets, the strong get stronger and the weak get weaker. Many high-tech environments host three kinds of players: a gorilla (market leader), a few chimpanzees (seconds in command) – and numerous monkeys.²⁵ The gorilla often commands a market share of more than 50%, while reaping over 70% of the industry profits. The monkeys get the peanuts: few (if any) economies of scale, high investments and low sales result in poor financial results. A market goal of 10% market share in a winner-takes-all market can be dangerous. While Symbian (Nokia) still reigns on many mobile phones,

contenders such as Google's Android platform use network dynamics to gain momentum. In winner-takes-all markets, the recipe for market success defies linearity:

*"It is casino gambling, where part of the game is to choose which games to play, as well as playing them with skill. We can imagine the top figures in high tech – the Gateses and Gerstners and Groves of their industries – as milling in a large casino. Over at this table, a game is starting called multimedia. Over at that one, a game called web services. In the corner is electronic banking. There are many such tables. You sit at one. How much to play? you ask. Three billion, the croupier replies. Who'll be playing? We won't know until they show up. What are the rules? Those'll emerge as the game unfolds. What are my odds of winning? We can't say. Do you still want to play?"*²⁶

SOFTWARE FOR THE MIND

Consumer activists may shudder at the thought, but positioning gives customers a sense of direction and selection.²⁷ There is so much information available at present that each tenacious attempt to process absolutely everything must be seen as a symptom of information obesity. Consumers are the veterans of marketing communications – they are confronted daily with about 5,000 seductions.²⁸ *Brain positions* serve the customers' interest – whatever consumer activists and anti-globalists would like to make us believe. Ironically, the concepts of anti-globalisation and the name Naomi Klein have become brands in themselves.²⁹

Even when a company has built a strong customer value proposition, they need to check how and where they can best reach the relevant market. The concept of *brand added value* refers to the advantages that exist when a brand occupies a strong position in the thoughts of current and future customers. These advantages are awareness, loyalty and positive associations.³⁰ Such associations can be very emotional in nature:

- According to Roy Pinto, Harley Davidson's European Director of Marketing, "There is no rational reason to buy a Harley Davidson. So the experience must be 100%."³¹ Even Hell's Angels have a lovemark carved in their souls for their favourite two-wheeler!
- Emotional commitment is not the exclusive preserve of consumer marketing. Hardcore industrial marketers fall for it as well. "You need to be much more emotional," said Jürgen Hambrecht, BASF's CEO, "You can't just work via the brain, you need to get to people's hearts, to try to explain the social value of things, what the chemical industry stands for, and that it is so essential for human beings."³²

POSITIONING: THE RULES OF ENGAGEMENT

Marketing is a battle of perceptions. Technically speaking, the Toyota Prius and the Porsche Cayenne Hybrid both are hybrid cars. However, even an untrained eye immediately notices a huge difference between the technical design and the market positioning of both cars. While green engines benefit the environment, Porsche customers want first and foremost to drive a powerful car. In the same arena, a team of Silicon Valley engineers created a new brand, Tesla. The fully electric Tesla banks more on its dazzling appearance and sporting power than on its concern for the environment.

Did you notice the brands? Toyota Prius, Porsche Cayenne Hybrid, Tesla. Customers think in terms of brands and symbols. To paraphrase Descartes, companies brand in order to be. In positioning a new offering, four branding issues must be addressed (Figure 5.3):

1. *What theme?* What do you communicate? If carefully crafted, the positioning options are literally unlimited (product scope and benefits, product uses and users, country of origin, company characteristics, etcetera).³³ The limiting factors rest with the resources of the company and the imagination of the marketing team and its advisers.

Apple is an iconic brand, and its CEO is an important constituent of its *brand identity*.³⁴ The content and form of each presentation by Steve Jobs emphasise the same message over and over again: “We are different! We are fabulous!” Have you also noticed that Steve Jobs’ wardrobe contains only a single outfit?

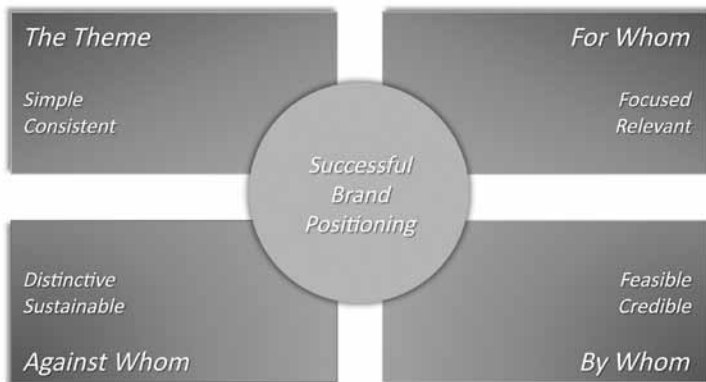


Figure 5.3 • Positioning: the Rules of Engagement

Each time he introduces an innovation on the big stage of the Consumer Electronics Show in Las Vegas, he is trimmed with “a black mock turtleneck, faded blue jeans and white sneakers.”³⁵ The Apple CEO illustrates that, as far as clever marketing is concerned, even a nonconformist wears a uniform. But it also shows that powerful themes are simple and consistent.

While the human race has evolved tremendously, its cognitive processing capacities remain disappointingly limited.³⁶ *Simplicity* is required in positioning a brand. “Abstraction is the luxury of the expert,” Chip and Dan Heath observe in their ingenious analysis of sticky messages.³⁷ For better or for worse, minds will reduce complex messages to a simple tag line. Achieving simplicity is difficult, realizing dysfunctional complexity is all too easy.

Additionally, a strong positioning requires *consistency*. Once a customer has made up his or her mind, it is difficult to change. Communication inconsistencies will, however, wear down the clarity of the brand identity. Successful market making not only requires a novel offering; it also obliges the innovating company to write the software of the customers’ mind with careful continuity from the launch onwards.

From a positioning perspective, guerilla warfare is not a wise strategy, as was neatly illustrated in the Internet browser war between Netscape and Microsoft. Jim Barksdale, Netscape’s CEO, formulated a clear guerilla strategy:

*“If Microsoft is a shark, we strive to be a bear – and make sure the battle takes place not in the ocean but in the jungle.”*³⁸

The ominous view of Intel’s Andy Grove was later validated by market reality:

*“Their [Netscape] advantage comes from their ability to live in the forest, live off the land, be very mobile, and do things that the professional army would never dream of doing. In this regard, Netscape has mounted a very substantial challenge to Microsoft. The guerilla war has been very effective. The problem is they’re running out of space, munitions and food.”*³⁹

2. *For whom?* A positioning strategy must be *focused* and *relevant*. The quest for ‘mental monopolies’ is summarised in the first three of Ries and Trout’s famous 22 *Immutable Laws of Marketing*:⁴⁰

- “It is better to be first than it is to be better” (*law of leadership*). McDonald’s, Disney, CNN: all have shown leadership in their approach to the market;
- “If you cannot be first in a category, set up a category that you can be first in (*law of category*)”. Volvo may not be first in the category of luxury cars, but it became definitely first in the category of safe cars;

- “It is better to be first in the mind than to be first in the marketplace” (*law of the mind*). Intel’s brilliant Intel Inside campaign relegated PC manufacturers to second place in the mind of the customer.

3. *Against whom?* The positioning must be *differentiated* from the competition. Communicating an undifferentiated customer value proposition results in a bloody red ocean. “Who do you trust?” was the theme Karl Rove initiated for George W. Bush during the 2004 US presidential elections. It successfully positioned Bush at the top of the trustworthiness scale and deposed John F. Kerry to the bottom of that very same scale. Audi, in its eagerness to top the world charts of the premium car brands, positions the fabulously shaped Audi R8 against brand category icon Ferrari.⁴¹

The positioning strategy must, of course, be sustainable. The concept of sustainability has been treated in depth in Chapter 4. It is worth remembering two historical guidelines that are critical in marketing warfare:

- “God is always on the side of the big battalions” (Voltaire). Everything else being equal, the army with the greatest number of troops is expected to win. That is why creativity and momentum are so important in marketing warfare. Size does matter – but so (fortunately) does commercial ingenuity;
- “The defensive form of warfare is in itself stronger than the offensive form” (Von Clausewitz). At a theoretical level, it is easier to defend a position than to conquer new ground. However, more recent thinking adds a qualification to this maxim: “(...) while the defence is the stronger form of combat, the offence is the preferred form, for only through the offence can we truly pursue a positive aim. We resort to the defensive when weakness compels.”⁴² Conse-

	M3 - 1986	M3 - 1992	M3 - 2000	M3 - 2007
Engine	4 inline 2302 cm ³	6 inline 2990 cm ³	6 inline 3246 cm ³	V-8 3999 cm ³
Power	195 hp 240 Nm (@4750)	286 hp 320 Nm (@3600)	343 hp 365 Nm (@3600)	420 hp 400 Nm (@3900)
Weight	1200 kg	1440 kg	1570 kg	1655 kg
Top Speed	230 km/hr	250 km/hr (lim.)	250 km/hr (lim.)	250 km/hr (lim.)
0 - 100 km/hr	6.7 sec	6.0 sec	5.2 sec	5.1 sec

Figure 5.4 • Evolution of BMW M3

quently, a proactive attitude is required: a company must show the courage to question its existing routines, attack complacency and renew itself, when needed. Many of the problems that Sony faced with regard to Playstation 3 resulted from its self-satisfaction with the results obtained by Playstation 1 and Playstation 2. BMW, for instance, always adopts a proactive approach. It proactively upgrades its BMW M3 to the standards required (Figure 5.4).

4. *By whom?* The positioning strategy must be *feasible*. As long as ‘range anxiety’ prevails among car buyers, the electric car is cognitively not considered to be a legitimate substitute for the conventional car.⁴³

Feasibility is only part of this equation. The greater challenge lies with *credibility*. Existing companies have a brand heritage that makes business credible and some business non-credible. As long as the batteries in our laptops give up on us within a couple of hours, few people will believe the batteries in a car to be much more long-lasting. Similarly, it was simply not credible for Volkswagen to launch the Phaeton as a vehicle for the rich and happy few. Within the same industrial family, Skoda has long been confronted with the shaky image of Central European cars. Lately, this is less of an issue: many youngsters are not aware of the Iron Curtain era.

THE PRESSURE IS ON

Price pressure has always existed. David Aaker has wryly observed that only one participant out of the many thousands who have attended his brand seminars ever raised his hand to the question if their industry was one that was not characterised by harsh price-competition. That person was the director of the Panama Canal!⁴⁴

Companies face stiff competition from low-cost competitors. Globalisation on the supply side, concentration on the demand side and pricing transparency on the Internet all contribute to the current price competition spiral. In addition, the dynamics of the commodity magnet are at work. Shortly after Apple delivered an electronic gem to the consumer market, Aldi already provided an alternative. The *AldiPod* sold for about 40% less than a comparable 20 gigabyte iPod.

Market making is not limited to the high end of the market. It may involve opening up the low-price end of the market as well. Southwest Airlines, Wal-Mart and Aldi have built business empires on the basis of a straightforward, low-price value proposition. Marketers must identify the price corridor of the mass market.⁴⁵ How does this translate to customer value? The *perceived customer value added* is the difference between the perceived total value of an offering to the customer and the perceived total costs to the customer, including

acquisition costs (Figure 5.5).⁴⁶ One can increase this value by increasing total value, reducing costs, or a combination of both. The price a customer pays for a certain offering reflects the value of the product, the customer process and the image advantages of the offering for the customer.

The more a company builds its selling strategy on price, the more the company educates its customers to negotiate on price. Most companies benefit from a differentiation in terms of product, customer process or image, and see price as a result of those advantages. Price buyers are loyal to the price, not to the company. With price there can be only a single winner; with differentiation there may be many winners. “We realised that we could no longer compete on price at the low end of the market. We had to improve our brand, design and technology,” said Erik Kim, Samsung’s executive vice-president of marketing.⁴⁷ For many companies and brands, the best differentiation occurs when the company offers a unique value and the customer cannot compare.

The proclamation by Ryanair’s Michael O’Leary that they are “the best well-known brand at the lowest price” offers an excellent target for the competition. But do not be taken in. Just like Wal-Mart, Ryanair does not always have the lowest prices. Successful price competitors use everyday low prices for a limited number of products to create a lowest price impression.⁴⁸ As Aldi shows, however, it is also possible to develop a genuinely sustainable pricing advantage. Carrefour underestimated the strength of this hard discounter, and even its home advantage on the French market did not help much in the battle against Aldi and Lidl. It is intriguing to see that one of the largest retailers in the world –

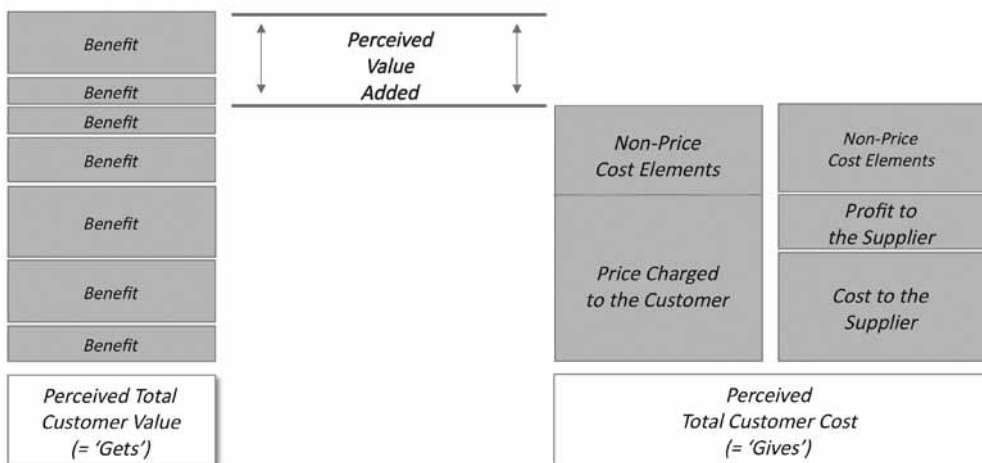


Figure 5.5 • Price, Costs and Value

who should be able to develop substantial economies of scale – needs to develop guerilla strategies to fight off the German hard discounters. However, even a colossus like Wal-Mart did not succeed in gaining a foothold in the tough German market.

An often employed strategy by industry incumbents facing low price competition is the deployment of a *fighter brand*. Several airlines such as KLM, USAirways, Delta Airlines, United Airlines and Qantas, acquired or created a low cost carrier to fight their price-leading competitors. It is not difficult to have a low price temporarily; realising a sustainable low price over a longer period is another matter. A no-frills ‘company within a company’ is seldom compatible with the culture and image of the parent company.⁴⁹ Marketers must not forget that every fibre in the business model of a successful price fighter is drenched with a no-compromise ambition for the highest efficiency possible. Aldi achieves its low prices through a ruthless approach, as witnessed, for example, by its limitation to 600 unbranded goods, its hard-boiled negotiations with suppliers, its bare buildings in bare neighborhoods (with its less affluent customers living right around the corner) and its versatile cashiers, whom they select for their speed and cleaning capacities. A simple detail underlines this maniacal search for efficiency. Until 1992, there were no phones in the Dutch Aldi branches. It added to costs, and there was no use for them anyhow (or so the reasoning went). In case of an emergency, such as a fire, the Aldi employees were expected to ask the neighbours to call the emergency services!⁵⁰

MARKET HUNTING

SALES STRATEGY

When the strategic market options involve market hunting, i.e., increasing market share in the targeted markets, the sales function becomes critically important. In a hunting mode, a well-balanced sales force is a major weapon:

“The sales force is typically the most empowered organisation in a company. Usually working alone and unsupervised, salespeople are entrusted with a company’s most important asset – its customers. The most important connection the customer has with a company could be the salesperson; for many customers, the salesperson is the company. (...) A sales force is a powerful force. There is not a single sales force anywhere that could not seriously hurt its company’s performance. Likewise, there is not a sales force anywhere that could not significantly improve its company’s position.” (emphasis in original)⁵¹

Selling is a business function that has undergone tremendous changes. In the presence of new technologies and changing market contexts, the traditional seven steps of selling (prospecting, pre-approach, approach, presentation, overcoming objections, close, follow-up) have evolved from a transactional approach to a relational approach.⁵² In view of the costs of a sales person, the sales process design has become a major challenge for many organisations.⁵³ With costs soaring, in some industries, to €400 and more per sales call for a regional prospect or customer, management is understandably keen to optimise revenue from sales.

The *prima donnas* of sales are often viewed with ambiguous emotions, even envy, by other employees. Why do they have such a nice car? Why are they having a nice time selling in the Far East, while others are working so very hard here at home? Why is it that they are earning a nice commission on unprofitable sales? Much of the problem can be explained by a difference in attitude and climate. A strong business model, however, requires the organisation to weld all its business processes seamlessly together. Five elements will determine the performance of a sales force:

- What is the quality of the information that the sales force has at its disposal?
- What is the competitive strategy deployed by the company within the market?
- How well is the company equipped to recruit good sales representatives and how does the company train its sales force?
- What are the motivation and compensation systems used by the company?
- How does the company monitor the performance of its sales representatives?

In making market hunting plans, it is wise to explicitly address the issue of sales capacity. In a company we were once working with, sales growth from new customers for the following year was budgeted at €2.3 million. A quick calculation revealed the true challenges. Being in the business of equipment sales, the company's accounting records over the past two years suggested that the average new customer bought €116,000 worth of equipment. In view of inflation, a figure of €120,000 was used in the subsequent calculations. This implied that 19 new customers were needed to realise the market hunting goals. A check with the sales staff and the sales manager revealed that the average sales person conducted one sales visit per day. Converting a lead into a success required an average of seven sales calls. It also took an average of two sales calls to deem a prospect a non-hit. In view of their limited market share and brand appeal in the market, they were successful with approximately 1 out of 9 leads. The mathematics are simple:

- The expected number of sales calls needed to acquire one new customer is 23 $((1*7) + (8 * 2))$;
- The approximate number of sales calls needed to accomplish the objective is 437 $(19 * 23)$;
- Assuming 220 working days per year, the company needs two full time sales persons to achieve the market hunting goals $(437 / 220)$.

The calculation is easy, but finding an appropriate solution is more difficult. ‘Working harder’ is not generally a wise response. In this specific case, the sales persons were already reasonably stretched, spending 50% of their time on customer interactions, 30% on the road and 20% on administration. In addition, they operated with limited market information. One straightforward option was the recruitment of two additional sales reps. Another option involved the possible re-allocation of scarce sales force time from C-customers to the hunting segment. Another approach could have been a revision of the go-to-market strategy.

GO-TO-MARKET STRATEGY: DIVIDE AND CONQUER

“Customers buy more when you meet them where they want to do business. Otherwise they will buy less.” This is Friedman and Furey’s matter-of-fact conclusion.⁵⁴ A successful *go-to-market strategy* sets its sights on the customer. It is the task of the marketer to describe the way-to-market architecture, relate it to the customer process map and determine the final go-to-market strategy.⁵⁵ This may involve the use of distributors to bring the company’s offer to the market place. Distributors fulfill multiple roles in exchange for the margin they receive: they stimulate demand, keep stock, deliver goods, provide after-sales service, etcetera. A successful distributor accomplishes a very difficult task: getting the right assortment at the right place at the lowest cost to the right buyer. We have decided to include the go-to-market map of an industrial SME (Figure 5.6). While simple, it summarises the go-to-market strategy of many such firms. In this example, the company distinguishes between its key accounts and the customers whom it services through resellers. While this go-to-market map is conveniently straightforward, it nonetheless revealed major issues for the company concerned:

- The criteria for handing on calls from the company call centre to either the internal sales force or the external resellers were subjective rather than objective;
- Cold sales calls are very expensive. The analysis showed that the sales representatives, already being over-stretched, were too heavily engaged in lead

generation, leaving not enough time for tendering important prospects;

- Once the company call centre relayed a request for a tender to one of the resellers, all direct contact with the end customer was lost. The company Internet platform could have been used to maintain a link with these customers;
- Similarly, the website was used primarily for lead generation, but it assumed no role of importance further down the customer process chain.

Optimising and exploiting a channel structure is not accomplished overnight. The company must adapt the channel structure to its offering, integrate the channel design into its business model, anticipate and deal with channel conflict, and finally balance market coverage and channel control.⁵⁶ The globalisation of markets complicates matters still further, as the examples below clearly show:

- The internationalisation of the movie industry poses serious challenges for Hollywood. Whereas action movies leverage easily across borders, American

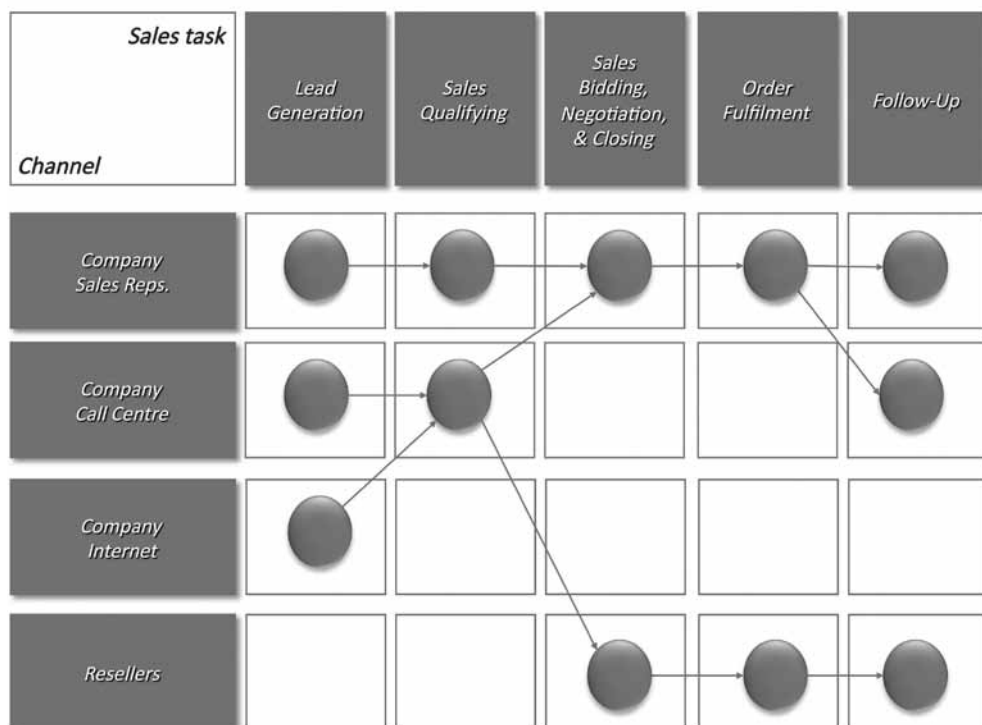


Figure 5.6 • Go-to-Market Map

comedies starring actors such as Will Ferrell and Adam Sandler have great difficulty in replicating box office success abroad.⁵⁷

- The R&D manager of an international food ingredients company, with multiple subsidiaries in Europe and North America, was highly critical about its efforts at Pan-European marketing: “Our only true Pan-European products are American products.”
- Differences between countries not only have a major impact on product customisation but also on channel strategy. Retail companies, while being a power to be reckoned with, cannot roll out a uniform approach worldwide (see Figure 5.7). Huge differences exist between neighbouring countries and economies. For instance, Germany is a typical discounter country compared to France, where hypermarkets prevail. Spain is more discounter-oriented while Italy has a stronger supermarket culture. The Czech Republic favours hypermarkets and is less discount and supermarket-minded than neighbour Poland.

2010	France	Germany	Italy	Spain	Czechia	Poland
<i>Discounter</i>	12.5	26.7	9.7	16.1	17.5	22.7
<i>Hypermarket</i>	45.3	19.8	14.9	14.4	38.7	22.7
<i>Supermarket</i>	26.4	20.6	46.1	41.5	15.1	19.0

Figure 5.7 · Value Market Shares of Selected Retail Channels for Fast Moving Consumer Goods (2011)
(Source of data: GfK)

An additional challenge involves the real danger of value migration towards the channels. In an optimal setting, the internal, external and interactive marketing efforts of a company match harmoniously. Channel partnering creates important opportunities. However, it also involves three risks (Figure 5.8):

- *Risk of inconsistency*: The customer expects a consistent offering. “Three is company, two is none,” according to Oscar Wilde. When suppliers join forces, it becomes more difficult to offer a consistent value proposition to the end customer;
- *Risk of competence leakage*: the interactions between the personnel of the company and the personnel of the channel partner may result in the leakage of competences (e.g., factual knowledge about key customers, procedural knowledge about business routines); and

- *Risk of appropriability loss*: A critical question in any go-to-market strategy is the issue of end customer ownership: does the manufacturer or the distributor own the end customer? The distribution channel is consistently receiving more space and power in the value chain.⁵⁸ One of the results of the *slugfests* between manufacturers and retailers for mindspace and shelfspace has been the many private labels launched by retail companies.⁵⁹ Manufacturers, in response, seek to arm themselves. For instance, it is said that the conditions negotiated by Wal-Mart with its suppliers form one of the key reasons for the acquisition of Gillette by Procter & Gamble.

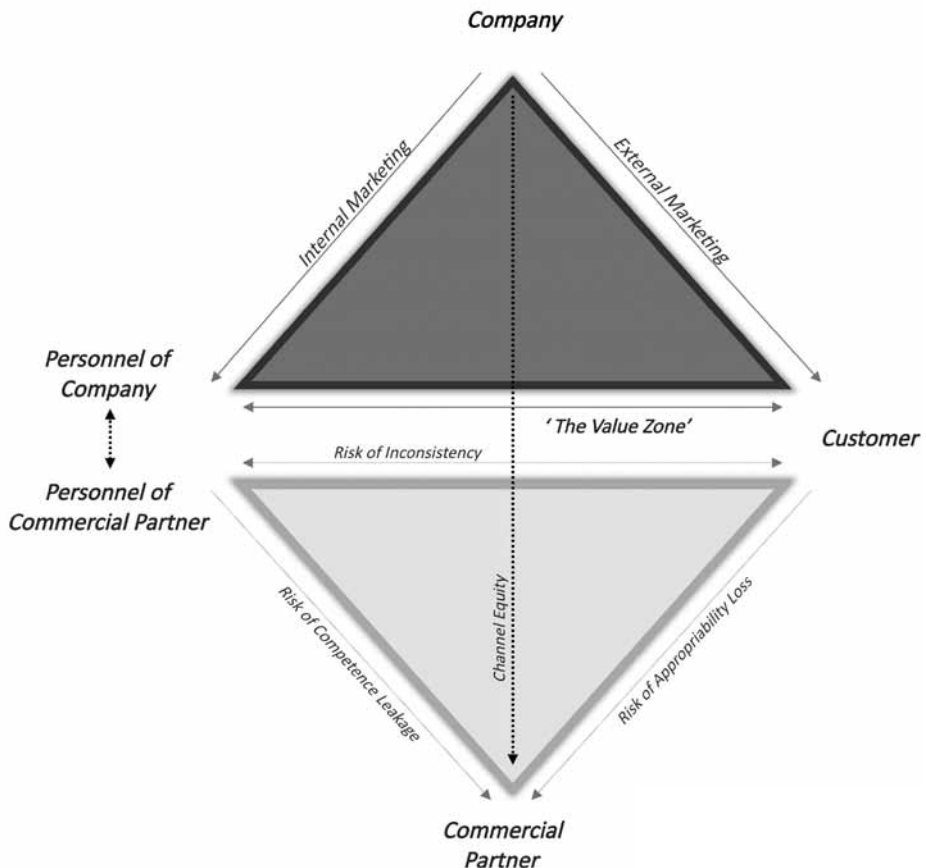


Figure 5.8 · Value Creation and Value Migration in Commercial Partnerships

ONLINE CHANNELS: CHECK THE ASSUMPTIONS

Manufacturers hope that the online world will give them some much-needed breathing space. Four key arguments underlie the deployment of online channels in the go-to-market approach of most companies. Unfortunately, many marketers adopt an optimistic rather than a rational-positive view on these arguments. Pessimism is not needed in e-marketing in particular, nor in strategic marketing in general. What *is* needed is a positive and realistic outlook on marketing strategies and their expected contributions. All too often the assumptions turn out to be wrong. Checking the validity of these assumptions before the necessary investments occur, is critical for turning the online market space into a healthy business opportunity.

The transaction cost argument. The optimistic view states that online channels enable companies to acquire products and services more efficiently. Focal arguments include the reduction of search costs in procurement, the elimination of unnecessary business processes through process re-engineering, and the sharing of information that leads to a reduction of purchase cycle times and inventories. The realistic view states that the interaction between buyer and seller often involves a vague trial-and-error process. For instance, in industrial markets, it is through personal interaction that the buyer discovers his true needs and specifications. Similarly, these personal interactions help the supplier to discover what competences are required in order to make the order-winning customer value proposition.

The market expansion argument. The optimistic view states that e-commerce enables a better matching of suppliers and customers and offers faster, broader and more personalised access to customers, resulting (amongst other things) in a less volatile demand. The realistic view states that successful contenders develop unique differentiation and build up switching costs (see below). As the Internet increases market transparency and lowers information asymmetry among the contenders, it may enhance market homogeneity through imitation and substitution. In addition, it may potentially lead to reduced switching costs. This led mass-customisation guru Joe Pine to proclaim that: “The Internet is the greatest force for commoditisation ever invented.”⁶⁰

The disintermediation argument. The optimistic view on this argument states that online channels enable the supplier to bypass intermediaries and reach the end customer directly. The realistic view states – as we observed earlier – that it is not easy to efficiently distribute products and service, so that they are available on time, at the right place and in the right volume. The axiom is simple: you can eliminate the middle-man, but not the middle-man’s functions. In addition, channel conflict may emerge during the transition phase, while

the company must also develop strategically different businesses upstream and downstream in the supply chain. Moreover, these developments limit strategic flexibility and accumulate risks in the event of market turbulence. American Airlines now tries to bypass central reservation services such as Expedia and Orbitz, and re-establish customer intimacy with the passenger.⁶¹ Will it work? *The market diversification argument.* In essence, this argument is used when hype occurs in cyberspace (Amazon; Second Life; Facebook; Groupon). The optimistic view holds that the Internet provides bricks-and-mortar companies with ample opportunities to diversify and build business elsewhere. Business reality is, however, harsh: diversification remains a risky undertaking and first mover advantages are often elusive: many market races in cyberspace are winner-takes-all contests. In addition, diversification in new market space often over-estimates synergies with the existing business and under-estimates the differences in competences. There is also a tendency of not anticipating the reaction of the incumbent competition, leading to overall neglect of the bricks-and-mortar business.

MARKET FARMING

THE BUSINESS VALUE OF CUSTOMERS

An American study showed that 10% of hotel guests account for 44% of nights spent. But these customers divide their stays over several hotel chains.⁶² Mobile operators, having moved into a more mature phase of the lifecycle, discover that the Pareto rule applies to their markets as well. 80% of the revenues is created by 10 to 20% of the customer base. The operators now try to connect better with these key customers.⁶³ Marketers cannot afford to be democratic, as their large customers may in turn behave democratically toward their suppliers.⁶⁴

Relationship management is an important pillar of modern marketing thought. It finds a rich breeding ground in concepts such as one-to-one marketing, e-commerce and customer relationship management. Modern relationship thinking in marketing is less modern than we generally assume. Already in 1925, Strong published in the respected *Journal of Applied Psychology* ideas that still are surprisingly innovative even today:

*“But as the years have rolled by, more and more sellers have come to see that the objective of selling is not a single sale but a customer. The word ‘satisfaction’ should consequently be included in any formula to emphasize this new objective. But many authorities have not seen this point, apparently.”*⁶⁵

A good relationship only exists if both parties, i.e., the supplier and the customer, profit from doing business together. Businesses can pamper small customers better through an account *selling* approach; larger, strategic customers prefer an account *management* approach. It looks like a subtle distinction but it reflects a world of difference. In the first approach, sellers aim to sell a maximum assortment. In the second, they aim to create an *optimal* assortment. Businesses must strive for efficiency with small customers and effectiveness with large customers, and not the other way around.⁶⁶

In calculating the lifetime value of a customer, four elements must be taken into account (Figure 5.9):⁶⁷

- What is the base business of the product or services that the company sells to the customer?;
- What is the extended business that a supplier may create by selling other products and services to the same customer (i.e., cross-selling)?;⁶⁸
- Finally, what is the leveraged business that a company may derive from the customer through (1) positive word-of-mouth communications and references made by the customer and (2) new insights that the supplier acquires by doing business with this customer (e.g., a lead customer)? While the former two elements may be easily calculated, the elements of leveraged business are hard if not impossible to calculate – but must nonetheless be pursued. For this reason, one must be careful about accepting at face value any quantification of leveraged business opportunities in a marketing plan.

MOMENTS OF TRUTH

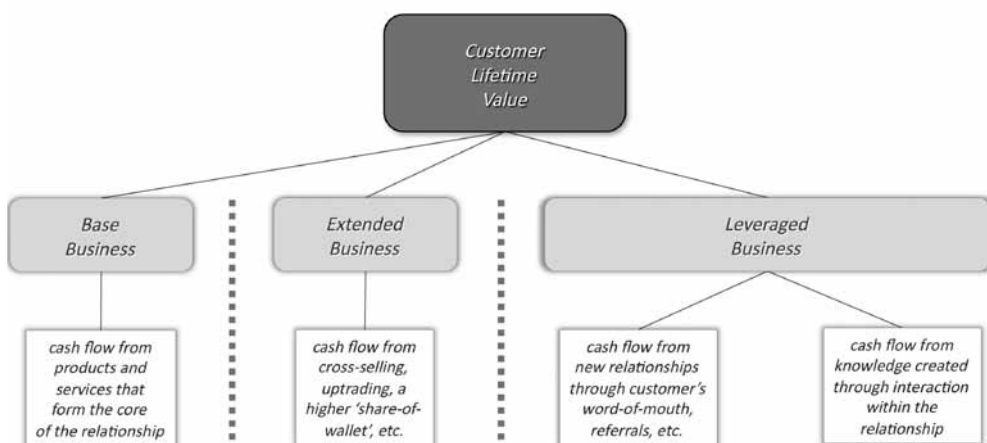


Figure 5.9 · Customer Lifetime Value
(Adapted from: Stahl, Matzler & Hinterhuber, 2003)

In Chapter 2, we defined customer processes as the communicative and distributive interactions between a company and its customers, as perceived by the customers.⁶⁹ Important customers should feel that they are important to the supplier.⁷⁰ It was the personal approach of former Russian President Putin that helped Sochi to win the venue for the 2014 Winter games. His personal address to the International Olympic Committee, in English, helped the Black Sea resort to triumph over South Korea's Pyeongchang by a margin of four votes. "The Putin charisma can explain four votes," said ski legend and IOC-member Jean-Claude Killy afterwards.⁷¹ Do we truly still believe that "participating is more important than winning?"

Personal interactions represent vital *moments of truth* for suppliers and customers alike.⁷² If the company fails, they become moments of misery rather than the moments of magic that the marketer so badly needs. An international study of 75,000 B2C and B2B customers compellingly shows that poor service ignites disloyalty among the customer base:

*"Another way to think about the source of customer loyalty is to imagine two pies – one containing things that drive loyalty and the other containing things that drive disloyalty. The loyalty pie consists largely of slices such as product quality and brand; the slice for service is quite small. But service accounts for most of the disloyalty pie. We buy from a company because it delivers quality products, great value, or a compelling brand. We leave one, more often than not, because it fails to deliver on customer service."*⁷³

When the customer loses an illusion, the supplier loses his bread and butter: competitors will happily reap the reward of the human failings of a company. This raises formidable challenges within the international context. Global account managers, for instance, must match a diversity of customer requests with diverging internal views. Good global account managers must excel in analysis (identifying opportunities), politics (possessing the diplomacy and empathy to convince customers), entrepreneurship (use the freedom to create new business) and co-ordination (the administrative organisation of selling and delivery).⁷⁴

Selecting and training personnel is therefore an important issue in determining the right customer processes. Staff also need training and incentives for service recovery, i.e., adequately reacting to shortcomings in the service provided.⁷⁵ Good selection and supervision create a warm welcome for customers. Human resource management is a strategic function. Disney, for instance, is well-known for engineering customer-friendly processes in its resorts and theme parks.⁷⁶ They showed, in co-operation with Florida Hospital, that customer-orientation

also benefits providers and patients alike in the medical industry.⁷⁷

Similarly, it is possible to encounter striking customer experiences in lesser known and more unlikely places. The Londoner, a pub in the Austrian ski resort of Kitzbühel, provides a great venue for a pleasant after-ski party. A live band plays classic rock anthems, including impeccable interpretations of *Sweet Home Alabama* (Lynyrd Skynyrd) and *Another Brick in the Wall* (Pink Floyd). Day after day, the team at The Londoner works hard to make this a truly memorable experience. Sometimes, the little details tell the whole story. To the thunderous rhythm of an AC/DC classic, some of our friends started to dance on the tables. The stewards pointed this was not allowed, but urged them to continue dancing on the chairs and the benches instead of on the dance floor. Customer orientation starts with customer understanding.⁷⁸ The Londoner perfects the art of after-ski fun. It is never boring, and it never derails – to the best of our knowledge – into a mindless brawl.⁷⁹

THE SONG REMAINS THE SAME

An often cited study⁸⁰ by TARP (Technical Assistance Research Program), commissioned by the American Bureau of Consumer Affairs, concluded that half the unsatisfied customers register a complaint with front office personnel. Only between 1 and 5% file a complaint at management level. Customer rumors have a preference for bad news. “Twice as many people hear about a bad experience than about a good experience.” The TARP studies show that the costs for winning a new customer – depending on the market – are twice to twenty times higher than keeping an existing customer. 20% of the complaints stem from personnel, 40% from unpleasant surprises with the product, the service or the processes, and another 40% from the customer and from wrong expectations.

Customer friendliness is created by good people (your staff) and good customer processes – and there are no short cuts.⁸¹ Bluntly copying best practices does not deliver a blueprint to improve your own service; instead, it is an excellent recipe to increase interchangeability with your competition. Some recent examples illustrate this:

- Many business-to-business marketers have discovered account management as the ultimate way of building productive relationships with strategic customers. Account management entails a lot more than retraining your current sales representatives to be proactive account managers and putting responsibility for strategic accounts on their shoulders;
- Loyalty programmes offer a different (and so-called) ‘effective and fast’ customer-oriented solution. American Airlines launched AAdvantage in 1981.

Since then many competitors have used the same recipe. But has anyone ever truly benefited from that recipe? We doubt it. In 2002, Air Miles circulated at a value of \$500 billion.⁸² Apart from the customer relations that they were able to build as the first mover, even American Airlines is not really different from the rest;

- Real Customer Relationship Management (CRM) means that the company changes perspective and focuses on the customer portfolio rather than on the product portfolio. Your staff is passionate about fulfilling the customer's expectations and, where possible, exceeding them. The emphasis is not so much on functions as on solutions. Successful CRM requires a total approach in which the software and the resulting database form but one important part. Unfortunately, many marketers adopt a highly deficient recipe. Company A buys a software platform from Siebel and determines its customer profiles based on standard data. In this way, the company expects to out-perform the competition. The problem is that other companies in the same industry have chosen the same recipe. Again, everybody battles with the same weapons.⁸³

A COMPANY CANNOT NOT POSITION

A brand cannot become a strong brand without trust. The brand name Aldi stands for 'cheap' – and Aldi elaborates on this theme consistently. According to an AC Nielsen study, this German discounter is the best-known trademark in European distribution. And their customers are proud of their supplier and what they do. Some Belgian members of the Aldi *customer community* even started their own website, independent of Aldi, in 2002.⁸⁴ The loyal customers have become true brand ambassadors.

3M is well known for its innovation track record. This company, selling with pride more than 50,000 different products – amongst which are the famous brands of Post-It and Scotch tape – did not start out so successfully. After its foundation in 1902, the five founders quickly discovered that the land they had bought did not contain the natural abrasive they were looking for, namely the mineral corundum. As a consequence, they changed from supplying to the abrasives industry to supplying abrasives – in the first instance, sandpaper.⁸⁵ The rest, as the expression has it, is history. In the course of time, 3M has built an impressive list of innovations. Strictly speaking, the advertisements in which 3M proudly boasts its innovative performance are highly credible. For the insider, however, they contain obsolete information. The truth is that 3M has been putting its money where its mouth is for over a hundred years. That is why most people have come to know 3M as an innovative organisation.

A company never competes on the basis of its current activities alone. A com-

pany or an organisation such as UNESCO establishes a certain position in the consciousness of the society in which it operates through the activities, products, services and brands it produces. An image reflects this cumulative presence and its associated communication in the market.⁸⁶ Advertising gurus put too much emphasis on commercial advertising and ignore the history of an organisation in the development of its reputation.

An image involves more than decisions about products and brand names. What is at stake is the way in which a market sees an organisation, its people or its products. A company writes the software for its customers' brain through success and failure, through trial and error. Communication theorists Watzlavick, Beavin and Jackson stated:

*"One cannot not communicate."*⁸⁷

If we translate this axiom into strategic marketing, it should read:

"One cannot not position."

A company always occupies a certain position in the mind of its customers and prospects. Whether this position actually facilitates business is another matter. A strong image makes business possible – and other business impossible. The Dutch Stork organisation possesses the image of a reliable yet conservative partner for industrial services. This somewhat serious image does not lend itself for expansion into the flashy IT industry. In short, the image of Stork is a strength in many markets but not in turbulent IT markets. There is nothing wrong with that. Marketers must look realistically at what the company and its product brands represent, and how they can best deploy them.

If we look back to the business lunches at the turn of the century, many of the business conversations revolved around the attractive companies listed on the NASDAQ and the NYSE. Three years later, the difference was amazing. A seemingly permanent stream of bad news effected what even Alan Greenspan had looked upon as impossible: a never-ending backwards ride on the rollercoaster of stock prices. Jim Hartman, an American financial advisor, explained: "I have no confidence in recommending an individual stock to somebody. It isn't because of what I know. It's because of what I don't know."⁸⁸ One cannot *not* position. Also today, many are afraid to entrust their money to the stock exchange. It has become a very risky business. Consider the British bank Northern Rock, which re-introduced the term 'run on the bank' in September 2007. It was definitely less funny than the bank run in *Mary Poppins*!

Many industrial companies, retailers, consumer services and institutes only

have a single brand name: their company name. Such companies have the advantage that they only have to build a single brand. For instance, the classic Jochem de Bruin campaign by the Dutch Rabobank, a co-operative bank, brilliantly deposed its Anglo-Saxon banking opponents and positioned itself as a caring, reliable bank.⁸⁹

However, a company may be in serious jeopardy if something goes wrong. When they heard about Arthur Anderson's role in obstructing the Enron court case, every newly appointed partner at Arthur Anderson knew that their rosy future would not be as rosy as they had hoped. The fire in Houston suffocated many employees around the world.

The credibility of a company is measured against the legacy of the past. Events define and destroy reputations. The Catholic church in Belgium has suffered tremendously as a consequence of multiple sex scandals. In the wake of these very severe problems, the rector of the K.U.L. (Katholieke Universiteit Leuven – the Catholic University of Leuven) openly questioned the value of the 'K' ('C') in the brand name of one of Belgium's most traditional and best respected universities. Tiger Woods provides another contemporary example. When his many affairs became public, not only did his wife Elin Nordegren leave him, but also many of the brands he endorsed, including Gillette and Accenture. Tiger Woods' behaviour was a complete mismatch with the image these companies wanted to portray.

Social media⁹⁰ redefine the speed and the pervasiveness of word-of-mouth communication. A study of Fortune 100 companies shows that online brand connectivity increasingly occurs through Facebook and less through the company website.⁹¹ Feedback and opinions, positive or negative, race all over the globe. While consumer markets provide the vast majority of successful examples, professional service organisations also embrace this new communication platform.⁹² Nowadays, the scope of marketing communications extends beyond one-directional communications. Marketers no longer have a choice: they must become conversation managers.⁹³

The rise of social media results in greater transparency. Customers, especially Generation Y customers, now demand openness and honesty from their beloved brands. As Vineet Nayar observes, transparency is a good way to build trust. Transparency "keeps the house clean."⁹⁴ Companies can no longer *fake* an identity, they must *be* that identity.

ON SWITCHING COSTS

Many people overlook the essence of relationship marketing. Relationship marketing is not an act of charity. The objective of relationship marketing is a financial or psychological insurance that your customer neither *can* nor *wants* to change supplier. An us study by Reichheld showed that between 65% and 85% of customers who changed suppliers were in fact satisfied with their original supplier.⁹⁵ This is in line with the average satisfaction rate in the automotive industry, which lies somewhere between 85% and a dazzling 95%. Yet, average brand loyalty in that sector stands at around a mere 40%.⁹⁶

“We wanted a change,” was the customer’s brief comment to a Dutch industrial service provider, when the company changed supplier after 50 years. They sacrificed an annual €450,000 contract for a mere €5,000 in bonus. This commercial relationship had gone through numerous waves of mergers on the supplier side and was regarded as a show case for the industry. Suddenly, however, the curtain was drawn.

Marketers must *help* the customer to stay. You do this by keeping the business and psychological exchange rates for changing suppliers as high as possible. You can compare this to shifting from first gear to second gear in your car. It is impossible to change gears when the gear wheels are interlocked. You can only shift gears using the clutch. Releasing the clutch moves the gear wheels closer to each other. Similarly, locking into a customer’s value chain creates switching costs for the customer. For consumer markets this may, for instance, imply that the company makes the customer’s buying cycle more pleasant (e.g., a friendly and helpful salesperson in a shoe store). Relationship marketing in industrial markets implies that the supplier facilitates or takes over the customer’s internal critical processes. The company needs to invest time and money to adapt personnel and resources or to change processes and procedures.⁹⁷ It is essential for an industrial marketer to understand how customers in turn create value for *their* customers. Logistics companies attach themselves more and more to the value chains of electronics firms.⁹⁸ Accountancy and consultancy firms very shrewdly infiltrate the value chains of their customers. “Our best marketing is done by people who did not make it in our office,” remarked a partner of the Ernst & Young organisation, without any hint of cynicism. Competent staff, who value family life over business, are helped to find a job with current client organisations or prospects.

‘THE PRICE IS RIGHT’

Marketers and sales people must learn to sell value, not price. They must become true *value merchants* in communicating the ‘gives’ and the ‘gets’ of an offering.⁹⁹ “Quality is remembered, long after the price is forgotten,” is the Gucci family slogan. A correct balance between the gives and gets of an offering is defined as *price integrity*. Often, a low price integrity is the consequence of sloppy analytics or questionable prejudices.¹⁰⁰ Whatever Ferran Adrià’s brilliance in the kitchen, his economic judgment is indisputably much poorer. An average meal at El Bulli cost €230. “What would be the normal thing to do?” he asks. “Raise prices. It should be €600. But I do not cook for millionaires. I cook for sensitive people.”¹⁰¹ He is so wrong. The experience at El Bulli is really, really unique and it provides one-of-a-kind bragging rights afterwards (see Chapter 2). The sales price elasticity of a dish at El Bulli is most likely extremely inelastic (probably between 0 and -0.2), and there are no thresholds, since El Bulli is the best of the best. The end benefit that Ferran Adrià and his team provide to the customers is much greater than the price they charge.

The profit of a company is extremely sensitive to the price. Price is the only marketing mix variable that generates a direct revenue. As such, it is an incredibly important lever of a firm’s profitability. A study of the income statements of 1,200 global companies showed that, on average, fixed costs amounted to 24.5% of sales revenues, variable costs to 66.4% and operational profit to just 9.1%. A simple simulation leads to some staggering conclusions:

- A 1% sales volume increase will raise operational profits by 3.7%;
- Reducing fixed costs by 1% improves operational profits by 2.7%;

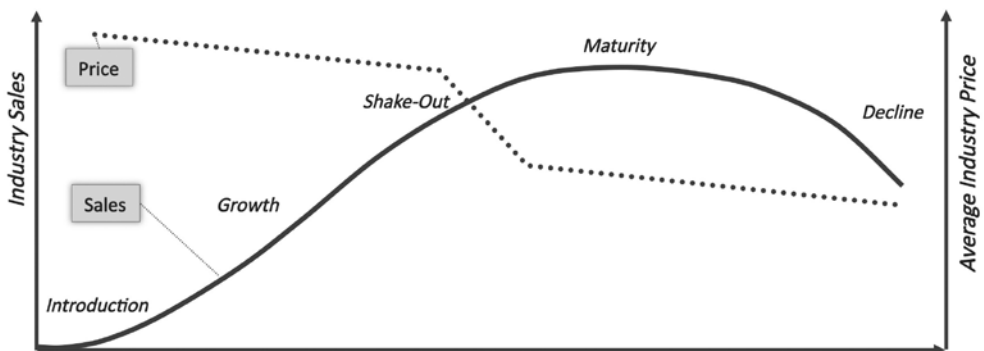


Figure 5.10 • Product Life-Cycle and Price Evolution

- Lowering variables costs by 1% boosts operational profits by 7.3%;
- A 1% price increase improves operational profits by 11%.¹⁰²

The cost structure of many companies will not be as lean and mean as in these global organisations. In fact, in many industrialised nations average after-tax profits are “dangerously close to zero.”¹⁰³ Consequently, a 1% price increase will result for many companies in an impressive profit improvement. Alternatively, further price erosion may result in higher unit sales and attract more customers, but this is very likely to reduce the already slim profits even more. Upon closer inspection, marketers are often amazed to see little or no correlation in a two-dimensional scatter diagram that plots account size versus realised price levels.¹⁰⁴

BUSINESS STREAMLINING

While, on the face of it, mature markets do not convincingly appeal to the shrewd business investor, they need not be uninteresting *per se*. They do, however, differ fundamentally from growth markets. The crucial phase is not the phase when the market is saturated but when market growth declines.¹⁰⁵ Dur-

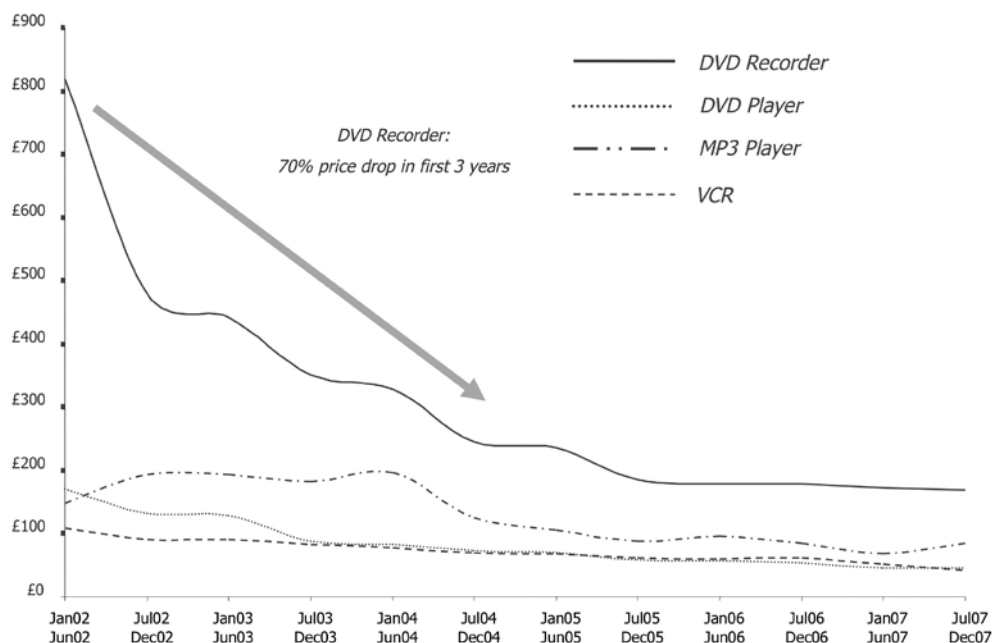


Figure 5.11 • Price Erosion of Consumer Electronics in the UK Market (Source of Data: GfK)

ing the growth phase, optimistic sales estimates may be achieved by keeping pace with market growth. This is very difficult in markets where growth is slowing down. Ambitious growth targets can then only be achieved by expanding market share. Lower prices are a frequently used instrument to conquer such market share (Figure 5.10).¹⁰⁶ However, one must be careful with such generalizations. Much depends on the corporate stakes and ambition. Even when the DVD recorder market was growing rapidly, price levels in some European markets went down dramatically (Figure 5.11). In the UK market, the prices for DVD recorders decreased by 70% between January 2002 and December 2004. In the shrinking market for DVD players, price erosion was equally fierce (prices minus 60%). Price erosion for other consumer electronic applications was milder, whether the market was declining (VCR) or growing (MP3 players – price levels even rose during that period).

A shake-out phase provides a 'sweat-shop' experience for industry incumbents. Without sweating out redundant inefficiencies, companies cannot enable the heavy price reductions that may be needed. This phase urges the firm to make clear choices with regard to price setting, the complexity of the assortment and the customer portfolio.¹⁰⁷

According to strategy guru Michael Porter, it is not possible to differentiate and be efficient at the same time.¹⁰⁸ Some studies support the Porter framework,¹⁰⁹ some provide a nuance to that framework,¹¹⁰ while others suggest that companies that try to combine low cost and differentiation do not necessarily end up 'stuck in the middle.'¹¹¹ Empirical and anecdotal evidence suggest that companies can exercise both strategies simultaneously without ending up in the cursed stuck-in-the-middle playing field. This is the essential axiom of the Total Quality Movement: quality and efficiency can go together. Furthermore, efficiency and differentiation are not independent alternatives but are related in time. Most companies first differentiate and then aim at internal efficiency. In many industries there is an evolution from product innovation (differentiation) to process innovation (efficiency).¹¹²

The search for efficiency limits strategic flexibility and it is questionable whether investments that stimulate a lowest costs position can be recouped in markets where you need to innovate quickly. Product innovation and cost efficiency seldom go together. Also, the sustainability of cost leadership is often perceived to be limited. "If you look for the curve of the lowest cost, be prepared to live like a hamster: run, run, run!" warns Michael Porter.¹¹³ Why is this so? Firstly, technological innovation may allow competitors to weaken the low cost strategy of the company. Secondly, competences associated with a low cost strategy, such as efficiently allocating resources, may find their way to other companies through personnel mobility. Lopez has shown this perfectly when

transferring from General Motors to Volkswagen. Thirdly, the internationalisation of markets, the advance of international distribution channels and currency fluctuations can significantly erode cost leadership.

Marketers should not only look for efficiency on the supply side. A company prospers as a result of healthy customers. It is not good for a company to give in to the umpteenth request of a price-driven customer. On the demand side, price-driven customers will experience that low prices may have a high, hidden price tag: worse logistics, less reliable products or feeble after-sales service. A value chain is as strong as its weakest link. For instance, industrial customers cannot afford to infect a healthy value chain by continuously 'excelling' in weaknesses through faulty sourcing.¹¹⁴

On the supply side, price wars and promotions may decimate profits, reduce investments in innovations, make suppliers nervous and educate customers to buy on price.¹¹⁵ A price war is often as dangerous as a barbecue among haystacks. According to Warren Buffett, pricing power may be more important than good management in determining the financial results of a company.¹¹⁶ Remember our basic premise: the objective of marketing is not only to create value for the customer, but also value for the company:

*"Rivalry is especially destructive to profitability if it gravitates solely to price, because price competition transfers profits directly from an industry to its customers."*¹¹⁷

There are viable alternatives to a free fall in price. One international industrial distributor decided to track prices more strictly, whilst at the same time training their sales people to adopt a value merchant approach. The marketing director acknowledged that asking the sales people to work on tight margins without educating them and giving them the necessary tools would only increase frustration. "We have many good people," he said, "many of them with twenty years of experience. One year of experience, twenty times over." The training fostered dramatic improvements. In the new situation, 56% of unit sales were realised within the targeted price bandwidth (up from 26%); only 27% were below the target price (down from 46%) and 17% were above the target prices (down from 28%). Interestingly, while loss-making price-setting occurred less often, the frequency of compensating 'rip-off' prices decreased as well.

A company can also bundle products and services, in order to limit a customer's understanding of the matter.¹¹⁸ Manufacturers of luxury cars such as Mercedes, BMW or Audi present a model with standard equipment, which they then fill with attractive and expensive options. There is also latent bundling. Companies minimise acquisition costs, but charge heavily for the cost-to-use (e.g., inkjet printers and cartridges). Bundling sounds easy but requires an in-

depth integration of the supply chain. In addition, competitors and legislative powers are continuously on the look-out for initiatives that disturb competition. The European Court required Microsoft to unbundle its media player from the Windows operating system. When large companies bundle their products, other players apparently bundle legal forces.

And how do you price a digital offering in online market spaces, where customers are used to accessing services for free? This question continues to cause great uneasiness and companies are experimenting. Warner Brothers has released a rental version of the blockbuster movie *The Dark Knight* on Facebook, and digital music companies are investigating the business success of iTunes, Pandora and Spotify.¹¹⁹ It takes courage, however, to install a pricing scheme – as the New York Times recently did. With 30 million unique domestic monthly visitors to its website, the New York Times Company wants a better balance between the value offered to its customers ('gives') and the price it charges ('gets'). It took its management several years to evaluate more than one hundred product/price combinations.¹²⁰ Even so, it still is a bold move. The media industry has collectively trained its audience not to pay for content. Arthur Sulzberger Jr., the chairman of The New York Times Company, summarised it as follows:

*"A few years ago it was almost an article of faith that people would not pay for the content they accessed via the Web. This move is an investment in our future. It will allow us to develop new sources of revenue to support the continuation of our journalistic mission and digital innovation, while maintaining our large and growing audience to support our robust advertising business. And this system is our latest, and best, demonstration of where we believe the future of valued content — be it news, music, games or more — is going. The challenge now is to put a price on our work without walling ourselves off from the global network, to make sure we continue to engage with the widest possible audience."*¹²¹

BUSINESS ROADMAPPING AUDIT:

QUESTIONS FOR THE MARKETER

BUILDING SUSTAINABLE BUSINESS

- *Where will we compete in the future ('hunting grounds')? How do we intend to compete ('hunting strategies')?*
- *What are the future drivers of sustainable business for our company? Will we accomplish such business through market making, market hunting or market farming?*

MARKET MAKING

- *How strongly is the performance of the company's current portfolio influenced by the new product choices of the past? What needs to be changed in the new product/service portfolio?*
- *Is the new product portfolio balanced? Are there activities in the portfolio aimed at making the competition irrelevant? Do we have sufficient incremental initiatives to successfully apply leverage on existing platforms?*
- *How realistic are the market predictions? Are we a first mover in the market? Has a dominant design already emerged in the market? Is it a winner-takes-all market or are multiple winners possible?*
- *Do we communicate to our customers on relevant dimensions? Do we position ourselves distinctively and sustainably against the competition? Is our positioning feasible and credible?*
- *How strong is the price pressure in the market? In case of a price war, how do we avoid price and profit erosion?*

MARKET HUNTING

- *Is our sales force empowered? What is the quality of the information the sales force receives? How well is the company equipped to recruit good sales representatives? How well does the company perform in training its sales force? What are the motivation and compensation systems? How does the company monitor sales performance? Do we have enough sales people to realise our business goals?*
- *Is our go-to-market strategy optimised? Are we able to maintain a strong way-to-market architecture? Are we capable of appropriating high, stable returns?*
- *Are our assumptions in the online channels valid? Do we truly improve efficiencies or expand the market? Can the middle-man effectively be disintermediated? Are*

the economic benefits from virtual diversification real?

- *Have we positioned our offering (our company) firmly in the market mindset?*

MARKET FARMING

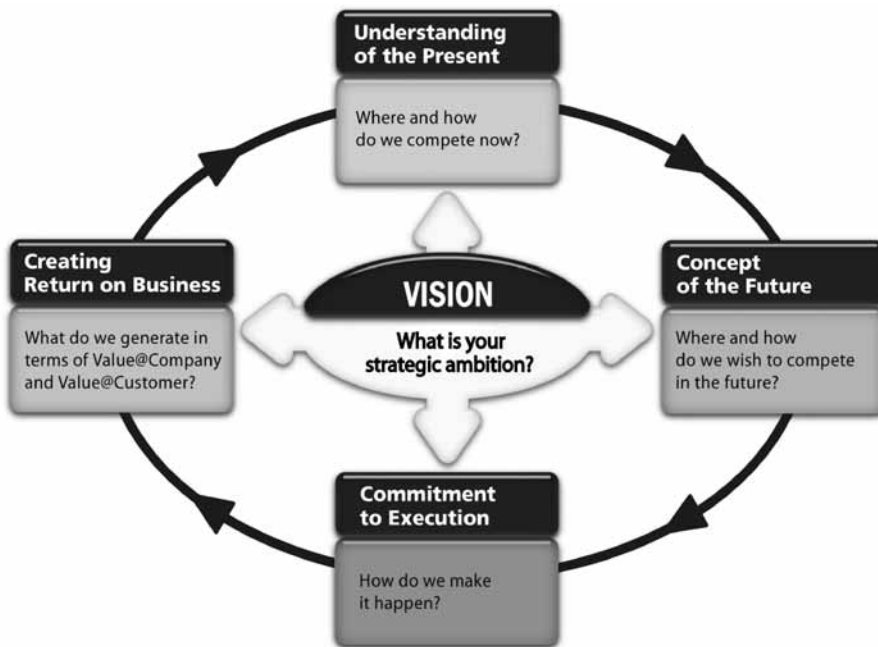
- *What is the lifetime value of our customers? What is the base business of the product or the services the company sells? What is the extended business the company may create by selling other products and services to the same customer? What is the leveraged business the company may derive from customers?*
- *Does the company have true account management? Do we have the right personnel with the right skills and attitudes to farm the market appropriately?*
- *Are our loyalty programmes distinctive? Do we have a real perspective-changing CRM? Do we have loyal customers who have become true brand ambassadors? Do we succeed in exceeding expectations?*
- *Are we capable of determining the right customer processes? Are we well integrated into customer processes and activities? How high are the switching costs for our customers?*
- *How consistent and credible is our positioning?*
- *Is price erosion likely in the near future? How will we react? How efficiently are we organised? How professional are we in our pricing policy? What is the profit that we 'leave on the table'?*

CHAPTER 6

SHAPING THE FUTURE

*Discovery consists of seeing what everybody has seen
and thinking what nobody has thought.*

ALBERT VON SZENT-GYORGY



IDEATION OF STRATEGIC OPTIONS

The previous chapters have led us to the point where we now need to decide on how to reach our objectives. In business roadmapping, a strategy is a collection of strategic projects that together bring the company to the place where it wants to be. You can also regard this collection as a means to take the company into safer or richer waters. We refer to this collection of projects as a marketing or a business plan. The next question we need to answer is how to create those projects that will bring the company into its future position. Before we explain this process, we must first turn to the concept of strategic options.

The major themes in a business roadmapping session with a French company involved the development of a new product platform (market making), the organisation of a global account management structure (market farming) and

the deployment of e-channels to acquire new customers (market hunting). During the break, the participants scanned their e-mails for news from the French home front. After the break, they moved slowly, in a depressed fashion, back into the lecture theatre. What had happened? Because of the continuing negative trend in sales and profits, the corporate marketing budget had been slashed *hic et nunc* by 30%. However, when the workshop participants presented their future business models that very same afternoon, any outsider could see there was nothing new or innovative in their thinking. When asked what they thought the chance would be that a competitor would come up with a similar business model after a day of brainstorming, the reply was cool: '99 percent.' One and a half years later, one of their largest European subsidiaries shut down permanently. Einstein once stated: "If you do what you always did, you will get what you always got." This does not fully apply to a competitive market context. *If a company does what it always did, it will steadily get less than what it always got.*

The formulation of strategic market options is a first step to plan the business concept of the future. Real option theory defines an option as the right, but not the obligation, to take an action in the future.¹ The formulation of strategic market options comprises all actions of marketers to generate investment opportunities aimed at maintaining or improving a company's competitiveness. However, as the example above aptly demonstrates, things that look simple seldom really are simple. Thinking out of the box is more difficult than it seems.²

The traditional swot methodology (Strengths – Weaknesses – Opportunities – Threats) has been criticised for exactly this reason: shallow analyses resulting in vague descriptions, leading to biased interpretation, thereby nipping authentic strategic renewal in the bud.³ A swot matrix contains many more peculiarities than the average manager suspects. What do colleagues mean exactly when they talk about a *strength*? A quick glance at the marketing and strategy literatures brings little enlightenment – it is difficult to find a persuasive definition. A typical definition describes a strength as a factor that enables a company to react adequately to upcoming opportunities and threats. A weakness – you've cracked it! – is the opposite. How can an ineffective instrument generate a good strategy? As Hill and Westbrook observe:

*"Not only does this lead to poor results and bad practice but it may actually inhibit the take-up of newer and better approaches. It may be time to relinquish our fondness for SWOT analysis which seems now to have passed its sell-by date."*⁴

In our opinion, you do not need to throw out the baby with the bathwater. Solid ideation requires a variety of approaches. We will review multiple methods for creating new business ideas, i.e., option generation.

TREND-SPOTTING

Systems theory views organisations as systems that interact with their environment.⁵ Hence, the first and logical source for finding competitive business ideas is *trend-spotting*. “We’ve come to the conclusion after many years that we’ve never met a trend that we didn’t like,” former Rubbermaid CEO Schmitt observed.⁶ What are the most important trends your company should take account of? Which opportunities (gifts) and threats (nightmares) appear in your market?

All too often, marketers pathetically create long, meaningless shopping lists of so-called important trends with which they subsequently engage in a platonic relationship. Across the industrial field, we see the same themes recurring over and over again. The top results obtained in the ‘Competing in Changing Markets’ survey will appear on the agenda of many companies and competitors (see Insert).

Unfortunately, managers become conditioned by the context in which they work. Such acquiescence creates a comfort zone. At the same time, it leads to dysfunctional navel-gazing: threats are often opportunities that the company has not reacted to adequately or in time. The majority of the music industry incumbents saw the Internet as a problem. A few regarded it as an opportunity. By launching the wildly successful iPad, Apple redefined the publishing industry and now takes a healthy, profitable bite out of it.⁷

There are very few people with the ability to decipher the future in visionary terms. Even the great Bill Gates admitted at the beginning of the 1990s that he read articles about the Internet for half an hour a day, just to understand what was going on.⁸ IBM started a *rent-a-researcher* programme where they put researchers in external consultancy projects. This helped them to acquire original ideas. It appears that fresh air is good, even for an IT professional.⁹

Helpful steps for outlining trends are the use of the standard tools for industry analysis (Porter’s 5-forces framework, a company’s value net, strategic group analysis) and the assessment of the broader environment (STEP-analysis: see Chapter 3). Marketers must be challenging and must not limit themselves to the known and important threats and opportunities (e.g., e-commerce, globalisation, concentration of buyer power, imports from developing countries, commoditisation, shortening product life-cycles, deregulation, etcetera). They must also seek to identify new and enlightening opportunities and threats, which have yet not been considered by senior management.

Some strategy gurus claim that it is not possible to predict markets; you need to create markets. Unfortunately, recent marketing practices have merged these two sentences: some marketers now create predictions. Envisioning the future

2009	Impact on business next 5 years	2009	2007	2003
1	Economic growth	3.53	3.42	-- --
2	Economic downturns	3.48	3.15 (10)	3.45 (4)
3	Product innovation	3.47	3.58 (1)	3.42 (5)
4	Alliances and partnerships	3.37	3.52 (2)	3.65 (1)
5	Increasing competition	3.36	3.44 (3)	3.54 (2)
6	Increasing customer power	3.31	3.34 (9)	3.40 (6)
7	Information technology	3.31	3.35 (7)	3.47 (3)
8	Process innovation	3.30	3.39 (5)	3.36 (7)
9	Internet (incl. intra and extranet)	3.22	3.35 (8)	3.20 (8)
10	Government policy	3.21	3.05 (11)	3.12 (9)
11	Adequate supply of human resources	3.12	3.36 (6)	3.03 (10)
12	Environmental concerns and policy	3.11	2.99 (13)	2.77 (16)
13	Industry shake-out	2.82	2.80 (16)	3.02 (12)
14	Entry of substitute products	2.81	2.80 (15)	2.80 (15)
15	Changes in cost of capital	2.79	2.71 (18)	2.63 (17)
16	Globalization of markets	2.76	3.02 (12)	3.03 (11)
17	Entry of new competitors	2.70	2.91 (14)	2.87 (13)
18	Changes in material and energy costs	2.65	2.79 (17)	2.47 (19)
19	Increasing supplier power	2.52	2.59 (19)	2.51 (18)
20	Deregulation of markets	2.51	2.56 (20)	2.83 (14)

On a scale of '1' (no impact) to '5' (very large impact), the respondents in the 'Competing in Changing Markets' survey evaluated the impact of environmental trends. The top trends will figure prominently on the agenda of many companies: economic growth and downturns, product innovation, alliances and partnerships, increasing competition... The economic context is expected to have the highest impact on commercial operations and marketing strategy in the next 5 years. Finding the right human resources has dropped since 2007 (from 6 to 11). For all the hype around the Internet, it was ranked 8th in both 2003 and 2007, and only 9th in 2009. Ethnic diversity, foreign political instability, anti-globalisation and religion do not appear in the top-20, despite their high levels of attention in the media. They all have an emotional impact but a strong impact is not expected on business prospects.

remains a tricky process. In the age of Facebook and Twitter, in an age when auditioning for actors in the Shrek movies occurs through YouTube, the original vision of Bill Gates in 1993 now seems a little naive:¹⁰

“When I think of the information highway, I think of an incredible breadth of applications. The information bulletin boards will be very diverse. In a certain sense, you won’t think of your community as the people who happen to live physically close to you. Rather, you’ll think of communities that are formed very easily across this network. People who want to go hiking or who hold a similar political point of view can become part of your community. There will also be incredible disintermediation. There is no reason a popular columnist couldn’t go out on the network, with just her name as their brand name, and say, ‘Here’s my column; every time you look at it, one cent will be deposited into my account.’ HBO or Showtime – or even the TV networks – would no longer be necessary as the vehicle to get information out.”

AUDIT OF WEAKNESSES

An audit of a company’s weaknesses is a classic tool for generating strategic market options.¹¹ Weaknesses are critical success factors that the company falls short on. In order to conduct a comprehensive audit of a company’s competitive tickets to ride, we have found a slightly altered version of the value chain proposed by George Day to be a very useful instrument¹² (Table 6.1). A simple two-by-two matrix can be used to map weaknesses in business processes and assets (Figure 6.1). The horizontal axis indicates the competitive deficiency and the vertical axis reflects the real costs or the opportunity costs (or both) of each weakness. Such two-dimensional maps conveniently simplify matters and stimulate discussion and analysis. It helps the company to confront harsh reality.¹³ After having conducted such an analysis, an entrepreneur in the interim staffing business very matter-of-factly summarised his company’s situation by observing: “We have very strong weak points...” There is, of course, always the possibility of negative side-effects, if you conduct an analysis of weaknesses. By talking about a company’s weaknesses, employees may trigger an atmosphere of doom and gloom. This is not the desired end result.

A weakness analysis may induce a bias towards ‘healing options,’ i.e., strategic options that take care of hygiene factors, but do not enhance a company’s competitive position (see below). However, a good analysis of the weaknesses and a creative answer to deal with these weaknesses may result in a breakthrough in market opportunities. For instance, the poor yield of some of his land forced Belgian farmer Etienne Delbeke to have the soil analysed. The report was devastating: there was no practical farming use for it, ‘except for growing vines’. While this is not the natural thing to do in Belgium, he started

Core Processes	Relevant Y/N	Performance versus Competition	Cost / Opportunity Cost	Comments (Best-in-Class; Specifics on Core Processes)
<i>Value defining</i>				
• Market sensing & intelligence	O	-- - 0 + ++	0 € €€ €€€	.....
• Selecting target markets	O	-- - 0 + ++	0 € €€ €€€	.....
• Strategic planning	O	-- - 0 + ++	0 € €€ €€€	.....
<i>Integrating and resourcing</i>				
• Finance & resource allocation	O	-- - 0 + ++	0 € €€ €€€	.....
• Human resource management	O	-- - 0 + ++	0 € €€ €€€	.....
• ICT implementation	O	-- - 0 + ++	0 € €€ €€€	.....
• Technology development	O	-- - 0 + ++	0 € €€ €€€	.....
• Control	O	-- - 0 + ++	0 € €€ €€€	.....
<i>Value developing</i>				
• New product/service development	O	-- - 0 + ++	0 € €€ €€€	.....
• Procurement & vendor selection	O	-- - 0 + ++	0 € €€ €€€	.....
• Strategic partnering & alliances	O	-- - 0 + ++	0 € €€ €€€	.....
• Channel design	O	-- - 0 + ++	0 € €€ €€€	.....
• Pricing	O	-- - 0 + ++	0 € €€ €€€	.....
<i>Value delivering</i>				
• Operations/Manufacturing	O	-- - 0 + ++	0 € €€ €€€	.....
• Logistics	O	-- - 0 + ++	0 € €€ €€€	.....
• Selling and communications	O	-- - 0 + ++	0 € €€ €€€	.....
• Order fulfilment	O	-- - 0 + ++	0 € €€ €€€	.....
• Service delivery	O	-- - 0 + ++	0 € €€ €€€	.....
<i>Value maintaining</i>				
• Channel relationship management	O	-- - 0 + ++	0 € €€ €€€	.....
• Customer relationship management	O	-- - 0 + ++	0 € €€ €€€	.....
• Managing brand equity	O	-- - 0 + ++	0 € €€ €€€	.....

Table 6.1 • Audit of Core Processes in the Value Chain

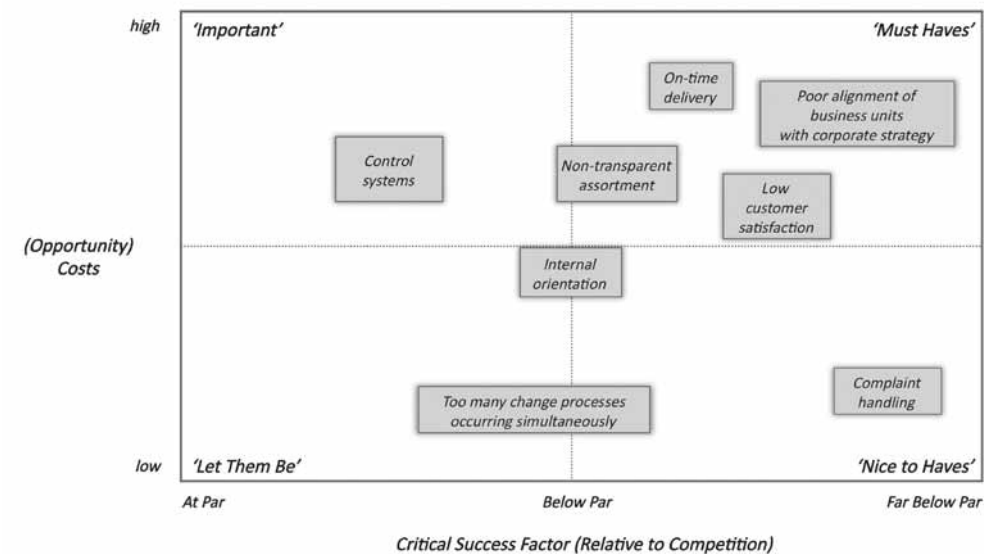


Figure 6.1 • Mapping of Weaknesses

growing vines. With the help of a prestigious oenologist from the Champagne region, Thierry Gobillard, he has now created *Cuvée Ruffus*, a very successful *Crémant de Wallonie*.

In our ‘Competing in Changing Markets’ research, the participating companies indicated the five core processes that would require investment in order to maintain or improve the company’s competitive position in the next three to five years (see Insert). The top five processes will appear in many corporate agendas. Your company is not the only one in the industry to appreciate the importance of product development, strategic alliances and market intelligence for the future. The more important question is this: *what will you do better or differently?*

THE COMPANY’S HERITAGE

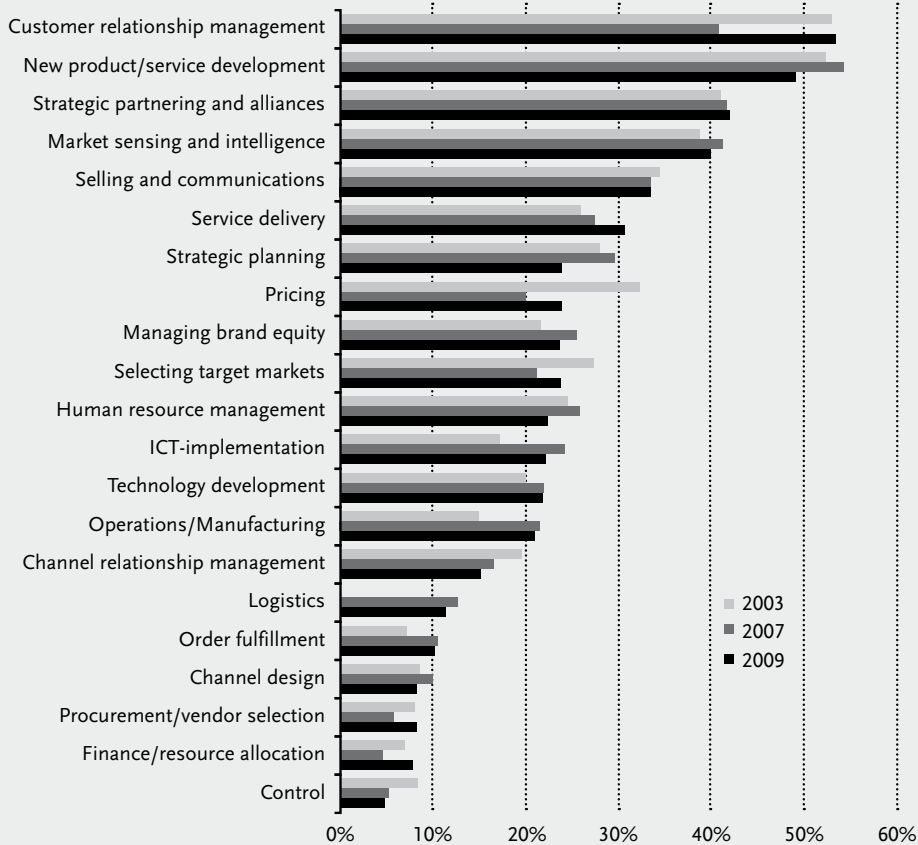
The eradication of the past, i.e., starting with a clean slate, is a manifest pitfall in many ideation sessions. However, a company’s past may be a source of sustainable competitive advantage (Chapter 4). While some of the existing assets and competences of the current business model are weaknesses and need rethinking, others will be the source of even greater business advantage. Two questions need to be addressed: (1) what are we good at and (2) can we successfully use our heritage as leverage for further expansion of our company?

As an all-round entertainer, the Disney Corporation has based numerous details of the infrastructure, the scenery and the cast in its theme parks on a very deep understanding of the customer experience:

*“Whenever and wherever possible, Disney and his successors used their own designers and engineers to create the buildings and spaces and systems at Disneyland and Walt Disney World. The reason was quite simple: their designers knew how to create a happy environment, and their engineers knew how to make them work. They did not need any outside help – they had pleased their customers for many decades.”*¹⁴

Competing amusement parks unsuccessfully mimic Disney. The successful creation of experiences requires many years of ... experience.

A gloomier example of leveraging heritage to develop business is provided by the nuclear reactor industry. In the wake of the horrific tragedy at Chernobyl in 1986, a Russian physicist improvised a core-catcher in order to prevent the liquefied core from sinking into the earth (the China Syndrome). In the end, it was not needed. The core was stopped at the foundation of the reactor building. However, this unique experience – one that no one wants to relive – has helped the Russian company Rosatom to successfully engineer and com-



The companies were asked to indicate the five processes that require the most fundamental change in order to maintain or improve the competitive position of the industry in the next three to five years. In 2009, customer relationship management was the number one process that needed continued investment, followed by new product and service development, strategic partnering and alliances, market sensing and intelligence, and selling and communications. Product development, strategic partnering and alliances, and market sensing and intelligence were among the top five choices in all the years we administered the survey (1999, 2003, 2007, 2009). Interestingly, of the five core processes that discriminate most between success and failure (see: *Competing in Changing Markets 2*, Chapter 2), only 'Market sensing and intelligence' appears in the top five for investment.

mercialise core-catchers into the design of their nuclear reactors. The events at Fukushima, following the massive earthquake and tsunami in 2011, are a grim reminder that dangers offer business opportunities.¹⁵

VALUE INNOVATION

Is it possible to integrate the value propositions of two different business models? Nokia's early success in the mobile phone business relied on a clever fusion of fashion and high-tech. At the same time, they banked heavily on the community feeling among youngsters created through ring tones and networking gadgets. Quicken's financial software was as accurate and as quick as other financial software, but without the features that no one used. This enabled Quicken to market financial software that was as user-friendly and as cheap as the pen (the most used alternative), as well as being as accurate as competing software. Kim and Mauborgne¹⁶ label this process as value innovation:

"Because instead of focusing on beating the competition, you focus on making the competition irrelevant by creating a leap in value for buyers and your company, thereby opening up new and uncontested market space."

While Kim and Mauborgne have captured the imagination of many managers with their sharp insights and witty buzzwords (e.g., *blue ocean strategies* as opposed to *red ocean strategies*, *strategy canvas*), their *four actions framework* deserves attention. In essence, a company must ask, based on a comparison across industries and contexts, how it may improve its customer value proposition by (1) creating, (2) raising, (3) reducing or (4) eliminating factors that the industry has come to accept as given. Themes 1 and 2 are often at the centre of activities intended to promote strategic marketing renewal. However, a company may also improve its customer value proposition – and its profitability – by explicitly including themes 3 and 4 as well. A marketing executive once told us that he explored the Bulgarian and Hungarian markets for industrial radiators. The customers in those countries demanded less powerful radiators, which were cheaper to buy and operate. He quipped that "being an engineering firm, we are very good at upgrading products, not at downgrading them." However, whenever a product fulfils customer needs more adequately, it is always an upgrade – and never a downgrade. (One of the authors took the decision to upgrade his Windows XP system to Vista. Never was a product upgrade such a successful downgrade. The system did not work properly anymore and he ended up buying an iMac and a MacBookPro, with which he co-wrote this current book!)

We label the tendency to over-design an offering as *Christmas tree management*.¹⁷ Every year, new bells and whistles are bought for the Christmas tree, without asking: “What are we going to do away with?” This question is necessary, because if the Christmas tree gets fuller and heavier, it does not necessarily become more attractive. Such Christmas tree management occurs daily in marketing programs. One marketing executive aptly described the new product efforts of his company as ‘irreparable improvements.’ Less may indeed be more. A distinctive customer value proposition is not a matter of maximising or minimising but of optimising.

Being average is often the result of very hard work, resulting from mimicking and subsequent attempts to improve each and every aspect of competitive offerings. Such ‘copy-paste-improve’ recipes add dysfunctional waste to the Christmas tree. Nordström and Ridderstråle referred to this as *karaoke management*:

“The ‘surplus society’ has a surplus of similar companies, employing similar people, with similar educational backgrounds, working in similar jobs, coming up with similar ideas, producing similar things, with similar prices and similar quality.”¹⁸

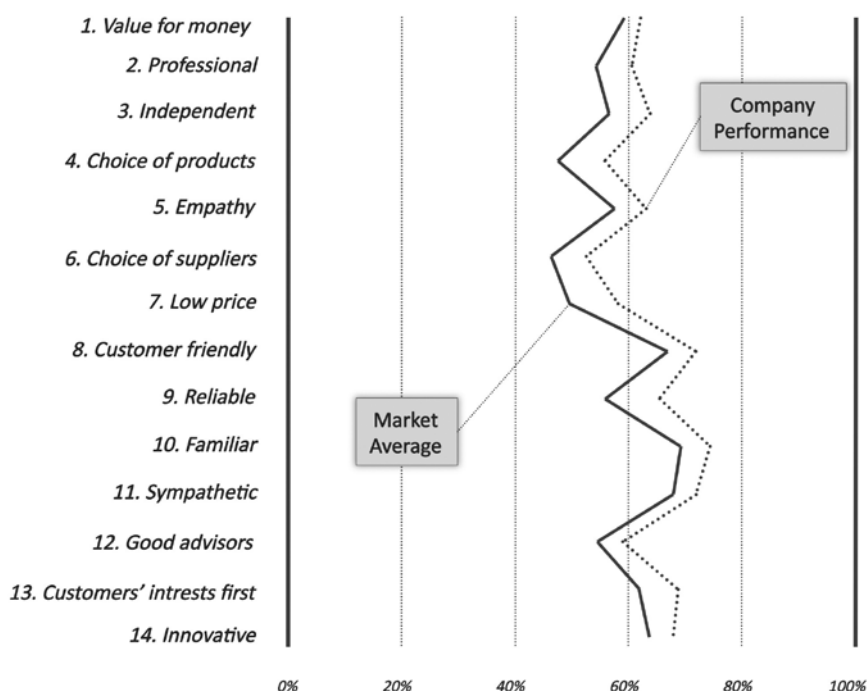


Figure 6.2 • Strategy Canvas of the Customer Value Proposition of a Bank

Figure 6.2 shows the results of a survey of a Dutch bank for one of its offerings. The percentages on this strategy canvas indicate the number of customers that are satisfied or very satisfied with the offering. While the bank consistently outperforms the market average of other banks ('being good at everything'), it does not distinguish itself substantively on any focal dimension ('being excellent at something'). Our advice to this bank would be that they should not only address what they want to improve, but also what they need to *stop doing!*

CUSTOMER PROCESS MAPPING

A 3M subsidiary was confronted with a decline in the automotive aftermarket. As a consequence of stricter speeding regulations in towns (fewer small accidents) and an economic crisis (fewer car repairs), the total market for its range of products fell by more than 20% in a single year. Alfons Dom, the country's business leader for the automotive aftermarket, mapped the customer processes of his customers (i.e., the automotive repair shops) and optimised the 3M assortment for the customers' value chain (Figure 6.3). As a consequence, he was able to maintain sales volume and prices in a declining market.

The above example focuses on the product-in-use. Customer value may also be created in other phases of the activity cycle of customers.¹⁹ Multiple phases can be distinguished. Overall, from a customer perspective, we can distinguish pre-consumption, consumption and post-consumption phases. Marketing activities often focus on the purchase and consumption phases. However, marketers must also understand how to differentiate their offering through customer process differentiation in the pre- and post-purchase and consumption phases of the customer activity cycle. For instance, many business school professors use Harvard cases in their teaching – not because the cases are better, but because review copies and teaching notes are easily available online. Academics are almost chaotic by definition, so they attach high value to the ease afforded by online presence. Competitors have started to copy Harvard but so far no one can compete with the user-friendliness of Harvard Business School Publishing.

A convenient way to develop ideas and opportunities for distinctive advantage is to map the various activities of a customer. In Figure 6.4, we represent the customer activity map of a person who wants to go trekking in the Everest region.²⁰ A trekking organisation may analyse the customer process map in order to identify points of leverage, especially in the pre-consumption and post-consumption phases.

On the negative side, some companies deliberately forego opportunities to connect with their customers in the pre- or post-consumption phases. Ignor-

ing customers in this way transforms a moment of delight into a moment of pain – for both parties! In a single day, the Dutch cabaret artist Youp van ’t Hek drew tens of thousands of his fellow-countrymen to his Twitter page when he exposed the arrogance and negligence shown by T-Mobile towards its mobile phone plan customers.

Customer process mapping is a great tool for organisations that want to provide total solutions for their customers through their products and customer processes.²¹ It may also be used as a segmentation tool: some customers desire a comprehensive offering, while others do not.

A company may, of course, also use a lifecycle approach to improve customer value. ‘Lifecycle’ may be interpreted quite literally! For instance, Disney now targets maternity hospitals in the us, and has given away over 200,000 bodysuits for babies in the process. The Disney Corporation has started its own apparel business for newborns, but the wider objective is not to be misunderstood: “Apparel is only a beachhead,” states Andy Mooney, the chairman of Disney Consumer Products.²² They want to connect at a very early age with future

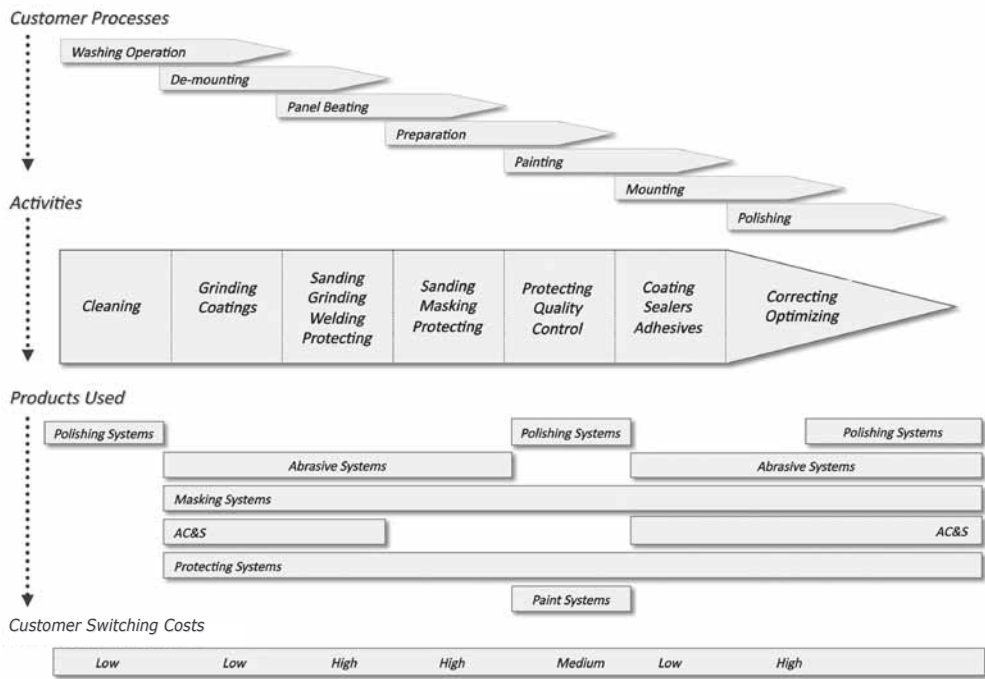


Figure 6.3 • Understanding the Value Chain of the Automotive Repair Shop

theme park visitors! In a similar vein, they acquired Togetherville, a social network for children younger than ten.²³ Disney is not the only company exploiting the lifecycle of clients-to-be. Some banks are initiating trainee programmes for the offspring of their private banking clients.²⁴

Again, we must warn against the possibility of Christmas tree management creeping into the strategic planning process. A real danger exists that the marketers' efforts to please customers may result in an offering that does not enable the company to generate a sufficient return. However, customer process mapping in combination with value innovation (see above) or inspiring examples (see below) makes it possible to identify the real *moments of truth* for the customer. Customer activity mapping inevitably draws much needed marketing attention to the often ignored pre-consumption and post-consumption phases.

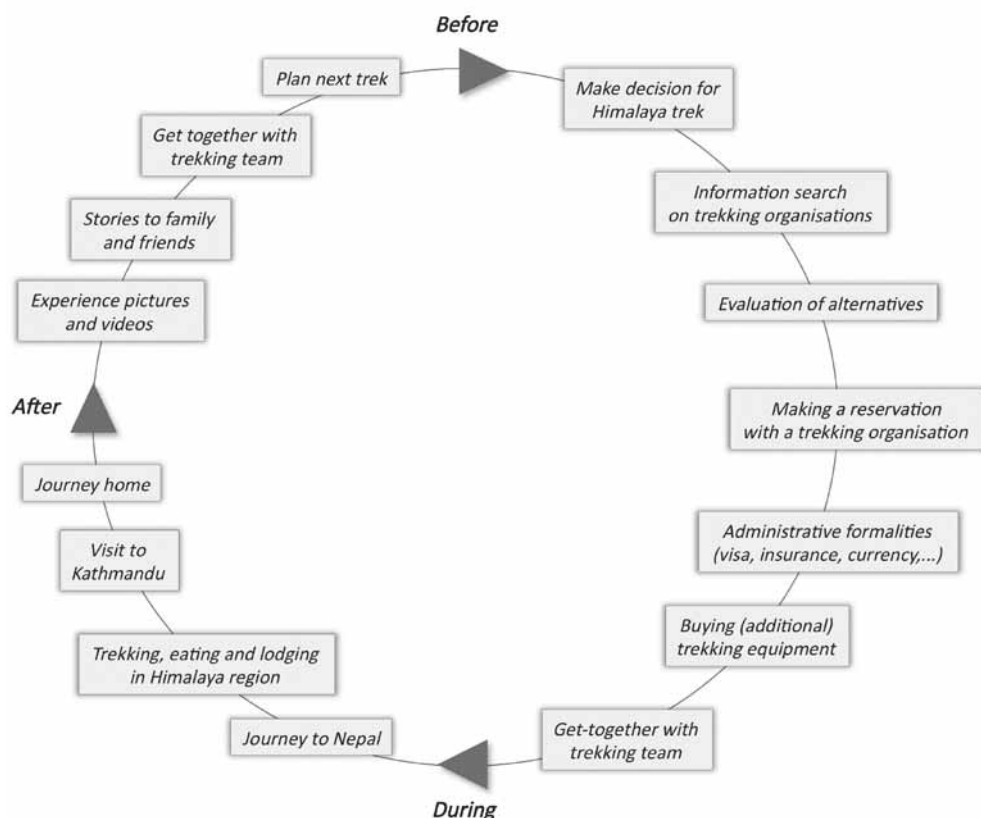


Figure 6.4 • Customer Process Map

In some markets, marketing will need to consider multiple chains in the way-to-market. For instance, business-to-business companies will find it useful to construct and analyse the customer process maps of their end customers, the indirect channels (e.g., distributors and value added resellers) and complementors (e.g., advisors, partnering organisations).

INSPIRING EXAMPLES

Mapping the competition on the four dimensions of the CODA-model (offering, customer processes, image and price) provides useful insights into relevant opportunities for competitive differentiation. We recommend using a variety of companies. For big companies, small competitors can sometimes be very inspiring. The larger company may not be able to fully use the strategies of smaller companies because of mobility barriers, but some ideas may be interesting for optimising market strategy. Moreover, limiting the search to direct competitors is likely to result in a second-best positioning. Even a company as powerful as Wal-Mart realises this. In competing with Amazon, the retailer posted banners on the wall of its corporate offices: “You can’t out-Amazon Amazon.”²⁵

There is nothing wrong with building a good idea on the back of what others do in the same market. ‘*Beg, steal or borrow*’ may be the ticket to successful business. Sometimes, business units or subsidiaries of the same corporation provide excellent examples for other business units or subsidiaries. Hagemeyer, a Dutch industrial wholesaler, started a ‘Shameless Stealing Award’, honouring the subsidiary that successfully borrows and implements a business idea from another subsidiary of the Hagemeyer group.

In thinking up a new future, a creative mind is a powerful advantage. Questions based on lead users may provide gateways to market renewal (Chapter 3). You can also examine *leading companies*. If another company – perhaps in a remote industry – has a good concept, the completion of a thorough and objective evaluation may provide wonderful opportunities for differentiation. In a chemicals company, the marketing teams of the four divisions made a *tour d’horizon* of the strategic projects for the future. They concluded that the projects all lacked originality. The teams subsequently searched for other companies that had succeeded in creating new markets and had then succeeded in conquering large shares within those markets (a basic characteristic of the strategy of the company). A first attempt yielded a number of solutions close to home (Cisco Systems, Intel, Microsoft). Extending the company’s search for market creation and market leadership qualities to other markets generated a diverse spectrum of inspiring examples (the Beatles, Body Shop, Disney, McDonald’s, Pokémon, Volkswagen). An analysis of what made these compa-

nies unique revealed that Pokémon in particular was an interesting example. “Gotta catch ‘em all!” provided a beautiful concept of cross-selling – an objective that the company wanted to realise. Admittedly, there is some danger of getting this kind of information out of context.²⁶ However, as long as you are aware of the underlying assumptions and limitations in the relevant fields, there is nothing wrong in examining success stories in other industries.

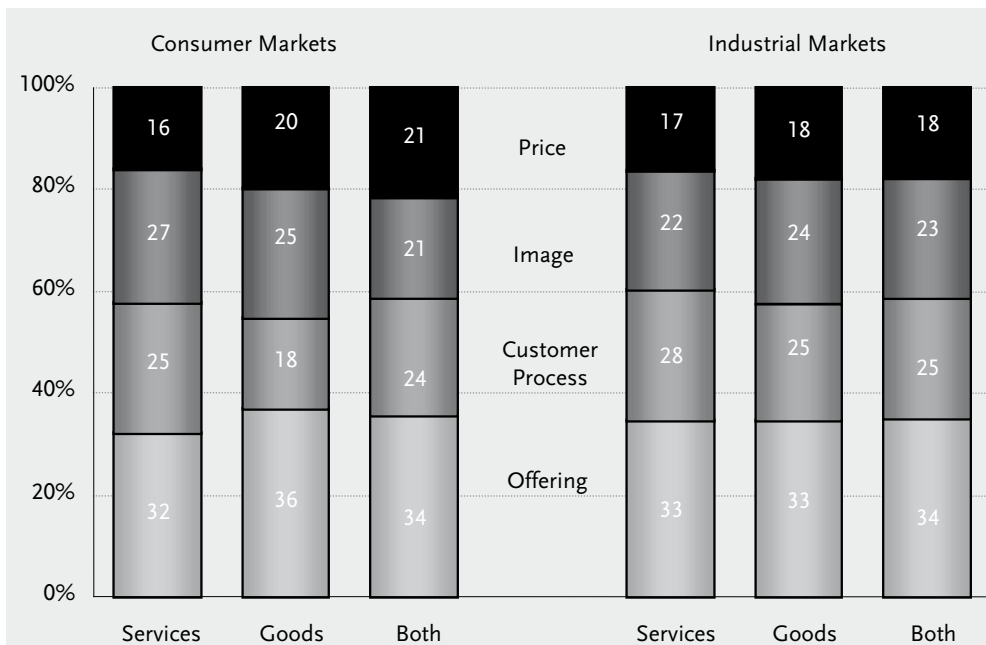
EXPLOITING THE VALUE NET

Natalia, a nice-looking young lady with an immense voice, was runner-up in the first Belgian edition of *Idol*. One of the highlights of her performance was a splendid imitation of Aretha Franklin’s *Think*. Natalia is now one of the leading female singers in the Low Countries. However, she fully realises that she is still at the start of her career and that there are some things she cannot yet accomplish by herself. In addition, Belgium is a small country. For her first big show in a concert hall (seating 12,000 people), she therefore decided to team up with the internationally renowned Pointer Sisters. Together, they sold out the Antwerp Palace for nine straight shows. Natalia and the Pointer Sisters are like Microsoft and Intel, Disney and McDonald’s, Philips and Douwe Egberts: they are complementors to each other’s offering.

An offering is a complementor to a company’s offering if customers value the company’s product more in combination with the offering of the complementor. This means that companies can sometimes – but not always – win by co-operating. Hence, the term ‘co-opetition’.²⁷ Alliance-based strategies have a long standing in the strategy literatures.²⁸ Innovative strategic market options may be found by searching for complementors. The diversity of competences and technologies embedded in present-day offerings requires companies to specialise and collaborate.²⁹ Apparently, modern marketing managers are fully aware of this fact, as our survey ‘Competing in Changing Markets’ shows (Inserts 6 & 7). Leading companies nowadays put strategic alliances high on their agendas:

- The Philips Corporation has developed a very strong competence in forging alliances. They followed the Senseo success (in co-operation with Douwe Egberts) with an alliance with AB-InBev (for their home beer tap PerfectDraft).
- Intel and Microsoft are ‘traveling partners.’ Bill Gates reportedly said to Intel executives: “We will fill the vessels you build with more software.”³⁰
- Similarly, Apple’s App Store is best viewed as one giant and successful experiment of co-creation between app developers and the Apple corporation.
- The ‘Invent-it-Ourselfes’ R&D mantra at Procter & Gamble has been replaced by ‘Connect and Develop’. In 2006, the improved linking with external part-

ners resulted in 35% of their product innovations in the market being fitted with external elements (an increase from 15% in 2000, and well on the way to reaching the intended target of 50%). R&D productivity improved by 60% and innovation costs – expressed as a percentage of sales – tumbled from 4.8% in 2000 to 3.4% just six years later. This programme is not a faddish management gimmick. When speaking to companies and research institutions at an award ceremony in 2010, the CEO of P&G declared: “We need bigger innovations that create more value. We want you to come to us with your big ideas first.”³¹



Companies were asked to indicate why their customers would buy their products or services five years from now. The respondents were asked to allocate 10 points to the four dimensions of the CODA-model (see Chapter 2), so that the distribution reflected the relative contribution to the company's future customer value proposition. In 2009 there were no sharp differences in comparison with the current relative distribution (see Chapter 2). Across the board, pricing differentiation gains importance. The sign of the times?

It is important to remember that complementors have *equal* interests in creating economic value, but *opposite* interests in distributing this value. Long-term interests require a company engaging in complementary business offerings to juggle regularly with value appropriation and value sharing.³² Already in 1989, Kenichi Ohmae likened alliances to marriages:

*“An alliance is a lot like a marriage. There may be no formal contract. There is no buying and selling of equity. There are few, if any, rigidly binding provisions. It is a loose, evolving kind of relationship. Sure, there are guidelines and expectations. But no one expects a precise, measured return on the initial commitment.”*³³

In a networked economy, companies need to acquire the capabilities for managing alliances.³⁴ It is important to remember that the partners of a complementor-based business relationship may have business models, cultures and ambitions that differ widely. Within the context of the marriage metaphor, the observation by Oscar Wilde was not without some truth: “Men marry because they are tired, women because they are curious; both are disappointed.”

A CREATIVE MIND(SET)

This review does not exhaust the methods that marketing managers can use to generate strategic marketing options. Other methods include the Kano-method,³⁵ the ‘Destroy Your Own Business’ exercise advocated by Jack Welch at GE, the ‘market busting’ approach discussed by McGrath and MacMillan,³⁶ co-creation³⁷ and crowdsourcing. In short, there is a wide range of creativity techniques available. *A creative mind is a joy forever.*

One final comment. If resources and customer value proposition are two sides of the same coin, it is important to obtain leverage insights from other fields than marketing during the ideation process. Involving personnel from production, R&D, logistics, sales, IT and human resources is not an option – it is a necessity. Marketing is too important to leave it to marketers. *“Du choc des idées jaillit la lumière.”* Freely translated: “It is the clash of small ideas that triggers the greater idea.”

SELECTING STRATEGIC OPTIONS

A MARKETING PLAN MUST BE SOLD

A company needs to develop competences to enable its vision of the future.³⁸ A business roadmap contains several strategic projects, i.e., investments in people and resources that enhance or alter the current business model. A strategic market option becomes a strategic market project when it is selected: it passes the selection criteria and will be implemented. It moves from an idea to a consistent set of actions, in order to realise the idea in an optimal way. Marketers must consequently view their marketing plan for what it really is:

An internal tender to the senior management of the firm, aimed at receiving the budget and resources necessary to compete in the coming year.

Having defined it in these operational terms, it becomes clear that a marketing plan involves more than writing nice prose and integrating spreadsheets. Marketers must not only offer a value proposition for their customer, but also for their management: “No business idea takes root within an organisation purely on its own merits. Instead, it has to be sold.”³⁹

CHOOSE OR LOSE

If competitive advantages and resources are two sides of the same coin, it follows that a company must not spread its resources too thinly. The logic of spreading investments thinly is a strategy that may work perfectly well on the stock market, but its results are devastating in a business environment. Competitors do not give presents. Partial commitment is not a realistic option for any significant task. Robert Maxwell phrased it quite eloquently, “If I had been a woman, I would have been constantly pregnant. I simply cannot say no.”

The German Army did not lose World War II because of the inferiority of its troops. One of the key reasons for its defeat was its failure to restrain expansion. In view of the relatively limited number of German soldiers, you do not need to be a rocket scientist to conclude that an increase in the territory ultimately led to increasingly fewer German soldiers per square kilometer. The opposition, however, remained tough and as strong as it ever was. In other words, it should be clear to everyone that there are limits to expansion, but it is precisely this type of expansion that unsuccessful managers seek to pursue. For instance, technical innovations in telecom deliver unequalled opportunities on an almost daily

basis for companies to create revenues and profits – or so it seems. Yet what do we find? The telco's that refuse to make choices, preferring instead to try all options, are not the winners.

The ideology of growth remains immensely popular among marketing executives. We have already discussed this point in Chapter 4: while management may aim for the company to be big, it will only accomplish this if the company is strong. "Growth for growth's sake is the ideology of the cancer cell," American essayist and radical environmentalist Edward Abbey once stated. The fundamental principles of the old economy still rule: there are many opportunities, but limited resources. The company can only grow and remain competitive by making choices and committing fully to those choices. Michael Porter views this as the core task of strategy: "The essence of strategy is choosing what not to do."⁴⁰ Jean-Marie Leblanc, the former manager of the *Tour de France*, admits: "One has to be able to say 'no'." Making choices may seem to limit an enterprise, but in fact it creates competitive power for that enterprise.

Having a strategy implies making choices. Let us go back to World War II. Anyone who has seen a movie such as *Saving Private Ryan* cannot fail to have the greatest admiration for the many soldiers who went ashore on 6 June 1944. It was unquestionably a very risky undertaking. However, spreading the same resources over the whole of the French coast would have been an even riskier choice. What at first seems like a low risk strategy (spreading the risk) can in fact be a very high risk strategy (accumulating the risk). 'Safe' can sometimes be very dangerous indeed.⁴¹

Unfortunately, human judgment suffers from severe decision-making biases.⁴² For this reason, it is useful to focus on the decision criteria in selecting strategic projects. "The distinguishing characteristic of strategic management is its emphasis on strategic decision-making."⁴³ There is seldom a lack of strategic options: a good brainstorming session with an inspired team easily delivers the labels of ten or even twenty strategic options within a few hours. Quantity is never the problem, it is the quality that is often missing. Even if all the options are excellent, resource limitations will force management to make a choice. A marketer wants to provide the best options with the best chances of success. In Chapter 1, we defined the key characteristics of strategic decisions: they are important, require substantive resources and are not easily reversible.⁴⁴ As a consequence, it is important to make the right selection.

What, then, is a good option? In other words, which criteria do managers use to rank investments in 'must have,' 'important' and 'nice to have' categories? Research and experience teach us that managers evaluate strategic market options on the basis of four criteria⁴⁵ (see Figure 6.5):

- First and foremost, the project must represent a business *opportunity*;
- In addition, a strategic project must be *competitive*;
- Next, it must be *feasible* to realise the project; and
- Finally, what is the *leverage* created by a project for other and future options?

It is the task of the marketer to develop a winning tender. If senior management does not 'buy' a marketing plan, it is usually the seller's fault. More often than not, the marketing plan was not good enough in terms of one or more of the above criteria. Sometimes it is a good plan, but it has not been sold convincingly. While incompetent senior management might also be a possible explanation for non-selection, capable marketers must be proficient at selling a winning plan. The customer is king. One experience with a major leading publisher in The Netherlands made this very clear. In response to a question about which criteria he emphasized in selecting strategic projects, the CFO answered: "Of course, the numbers need to be right. But you have to convincingly sell the plan – you have to believe in it."

BUSINESS OPPORTUNITY: SIZE THE PRIZE

At the base of each marketing strategy there is a business opportunity. When asked about his decision criteria in capital investment projects, one company's

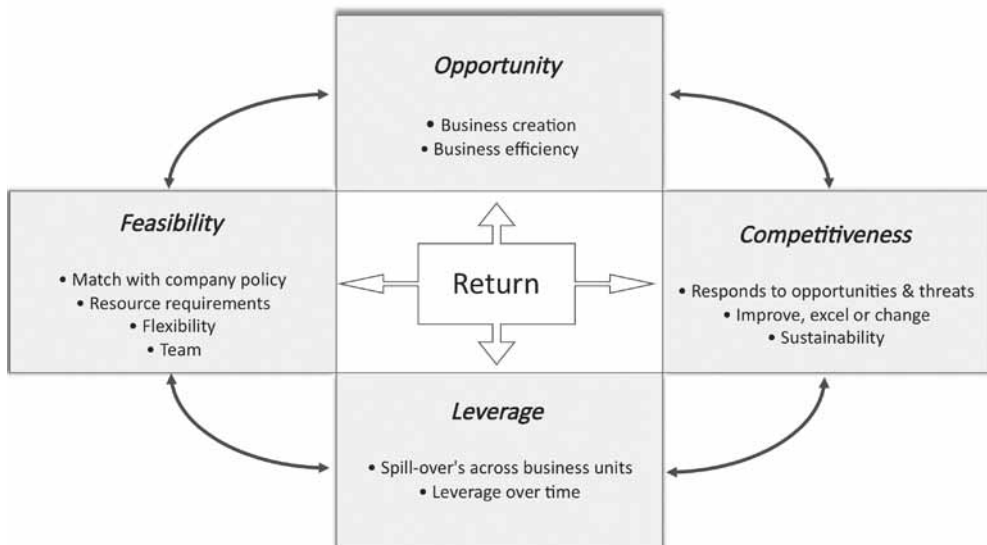


Figure 6.5 • The Scoreboard of Strategic Market Options

CEO summarised it very succinctly: “Money. Twist and turn it any way you like, but all the rest is inessential.” In the eyes of the creators of the plan the business opportunity is the prize to aim for. This prize can contain a number of elements and have results for the short, medium and long terms: increase in market share, increase in customer share, access to new markets or distribution channels, maintaining or increasing prices, increasing margins, increasing the efficiency of business processes, increasing the appropriability of revenues, increasing the economic value added, etcetera. More precisely, each opportunity can represent a chance to improve revenues and reduce costs – or a combination of both. Turnaround management situations are a special case, where business opportunities are screened in terms of the opportunities they provide for survival. Said one manager: “It was not that we said: ‘We want to set a new direction.’ I think it has been a bare necessity.” An underlying criterion will be the time-to-business of the selected market options. Otherwise stated: what is the time horizon involved in achieving the required results?

We have mentioned it before: optimism is a sympathetic form of stupidity. The opportunity per se, however big, is a necessary but ultimately *insufficient* condition to approve a marketing strategy. If the opportunity is not approached in a competitive and feasible manner, the prize may quickly turn to dust and ashes: yet another case of business fiction.

While we emphasise direct monetary returns in analysing strategic options, sometimes major investments are not made for immediate financial reasons. With the BlueGene project, IBM announced that it intended to invest \$100 million in the development of a petaflop computer (with a thousand trillion floating point operations per second). Big Blue had, however, set its sights on a different kind of return on investment. Ambuj Goyal, the head of computer science at IBM Research, expressed it as follows: “BlueGene has attracted a number of the world’s most talented graduate students to IBM. What’s the return on investment of that?”⁴⁶ IBM is not a whizz-kid charity club. These talents are expected to boost future profits.

COMPETITIVENESS: CAN WE WIN?

The internal tender – the business roadmap containing the strategic projects – needs to lead to a competitive customer value proposition. Thus, a first evaluation criterion relates to the extent to which the plan has a competitive answer to the identified threats and opportunities. Unfortunately, we regularly observe a tendency towards *Thatcherian* planning with many marketers, i.e., a strategy developed in splendid isolation of the context of threats and opportunities.

A second criterion along the competitiveness dimension is concerned with

the nature of the competitive advantage you are seeking to build. Does it provide a small or a substantial improvement to the existing customer value proposition or does it lead to an opportunity to change existing market rules? Will you remain in the current arena or do you move to a new arena? Search engine Google started as a welcome breeze in the Internet landscape, but it ultimately had a seismic impact on market structures. It did away with useless banners, appeared unstoppable in the thoroughness with which it searched the World Wide Web and excelled in simplicity. Its financial model revolutionised the way companies earn money through Internet activities.

The third important criterion pertains to the sustainability of the created competitive advantage. How fast can a competitor come up with a similar business recipe? If the company persists in creating a competitive advantage that offers only a temporary advantage over the competition (i.e., it can be imitated or substituted in a relatively short period of time), there will be little breathing space. This will drive the company into a competitive no-man's-land in the commodity spiral. One manager visibly loathed the limited sustainability of a chosen low-price strategy and its low returns: "It is like selling refrigerators on the North Pole."

FEASIBILITY: CAN WE DO IT?

The proposed strategic option must be feasible. When acting as *créateurs de stratégie*, business unit and marketing managers dare at their own peril to neglect the basic tenets of the corporate policy and mission statement. If they take this risk, then their strategic option will most likely not be selected. For instance, even if senior management is convinced that the go-to-market strategy involves the use of channel partners, a marketing strategy that bypasses these intermediaries, aiming to reach the end customer directly, will not be chosen – no matter how good the quality of the proposal.

The danger of inertia is imminently present in the case of radical changes. The concept of the tipping point⁴⁷ may be applied to organisational decision-making in such contexts. A good metaphor for the initiation of radical change is the bringing down of a row of high and heavy dominoes. The biggest and heaviest domino is located at the front: it represents the inertia at the top of the firm. Instead of trying to push the stone in vain – thereby squandering the viability of the idea in the process – it is often better to keep the option alive and wait for the appropriate circumstances, the circumstances that cause senior management's root beliefs to waver. When the first stone tips over, *that* is the time to push the idea. For instance, the marketing director of an electronics firm decided to turn to resident engineering, which refers to joint development with the customer.

The choice for this strategic project, which involved a radical differentiation in the customer processes, increased orders by 50%. Admitted the director: “It was not our choice, it was necessary.” The tipping point had occurred, and had been recognised as such.

The second feasibility criterion relates to the resources required, the capital investments over time and the possible effect on the company’s business model. To what degree must the core processes and assets in the current business model be changed? Business process re-engineering sounds like a straightforward technical intervention, but the failure of many projects of this nature implies that the need for significant organisational changes drastically reduces feasibility. The solution, many suggest, lies in networking. Through alliances and virtual organisations, costs become variable and (apparently) the risks are reduced. However, where firms enter into alliances to increase flexibility and turn-over speed, practice often shows the opposite results. There are so many cultural ins and outs to networking, that a proper connection among companies will not automatically appear of its own accord when working out the so-called details.

The third criterion revolves around flexibility. What opportunities does the company have for adjustment once the projects are implemented?⁴⁸ As mentioned before, optimism is a hallmark of many marketing plans. If business turns sour, however, the execution of a marketing plan is equivalent to trying to escape from an inferno in a building without emergency exits. The consequences of optimistic thinking are further aggravated by the inertia that results because of the historical costs that have been accumulated. A CEO once remarked: “We knew it would not succeed. But we had already invested €3,750,000. In fact, we invested the final €250,000 to be sure that we were wrong.” Apparently, there is a huge difference between the financial principle and the psychological experience of *sunk costs*. Trying to correct the past is often equivalent to correcting sunk costs. It may turn a company’s future into its history.

The fourth criterion concerns the quality of the team that proposes the strategic option. Who are the managers and employees behind the team? Is it an A-team, consisting of heavyweights who are well networked, or is it a B-team of lightweight marketers? In terms of marketing leadership, on what level is the team located (Chapter 4)? If senior management must choose between an A Team with a B Plan and a B Team with an A Plan, executives will often prefer the A Team.

LEVERAGE: WHAT ARE THE SPILL-OVERS?

Consider the following scenario. Strategic market options A and B require the investment of €1 million each and both are expected to generate €7 million net income. In contrast to option B, option A can be used in other business units of the corporation. Positive spill-overs are nice-to-have factors that senior executives are likely to consider when making investment decisions. For instance, leverage arguments are often used to fund IT-related projects. While the investments in a new CRM-platform for a single division may be prohibitive, it will be argued that it provides necessary learning that will only be fully exploited following implementation in other departments.

What can the world's largest search engine add to its portfolio? Google acquired YouTube for a dazzling amount of money. To what extent has this acquisition been a strategic option? With the acquisition of YouTube, Google reserves for itself the right to play in the next phase of customer spending in the domain of personal computers. Having people locked to their screens makes them a more or less captive audience. Combining the glue factor of YouTube with Google's powerful search and advertising engines, the next steps might be to acquire a telecom company, internet radio stations and internet stores – hence it made a \$ 6 million bid for Groupon. In that way, Google can attack all our senses with their portfolio. The strategic option that they have exercised is the right to occupy as much of the internet consumers' attention and time as possible.

Critical issues to consider when assessing possible leverage effects from a strategic option include (1) the future spin-offs that may follow from this investment within the business unit, as a result of the competences that are created, (2) the potential business opportunities it provides outside the business unit to other businesses within the same corporation, and (3) the negative spill-overs within the business or across the businesses that may follow from investment in this project. It is crucial to adopt a realistic perspective on spill-overs:

*"(...) synergy can provide a big boost to the bottom line of most large organisations. The challenge is to separate the real opportunities from the illusions."*⁴⁹

FINDING BALANCE

You can only win first prize if your project is competitive *and* feasible. Life is about striking the golden mean. Depending on the choices made, you can depict the projects in single or multiple portfolio analyses. To illustrate this, we present the risk/return matrix of an actual strategy session. Figure 6.6 shows

three options. The size of the circles represents the required investments, the vertical dimension is the return on investment and the horizontal dimension is the associated risk (the probability of not successfully realising the project). Such analyses can be supplemented with other assessments, such as flexibility and sustainability, but it is management that makes the final choice – not a set of graphs.

Management executives in established companies prefer ‘*sure winners*.’ They often assume a reluctant attitude towards more risky projects.⁵⁰ However, many of the so-called blockbuster projects are far from certain successes – their incremental nature allows other firms to copy them. This imitability of projects lowers the expected return on investment. At the opposite end of the scale, big and adventurous projects rarely live up to expectations either. The inherently risk-based nature of the business, allied to the long time horizons often involved with such projects, make success difficult. It makes selling them difficult as well.

Our own research shows that managers exhibit severe risk aversion in strategic decision-making, up to the point where it becomes counterproductive. In the *ex ante* prioritisation of new product development options, we found that managers’ preferences are determined first and foremost by the feasibility of the proposed new product plan (34%) and the business opportunity it

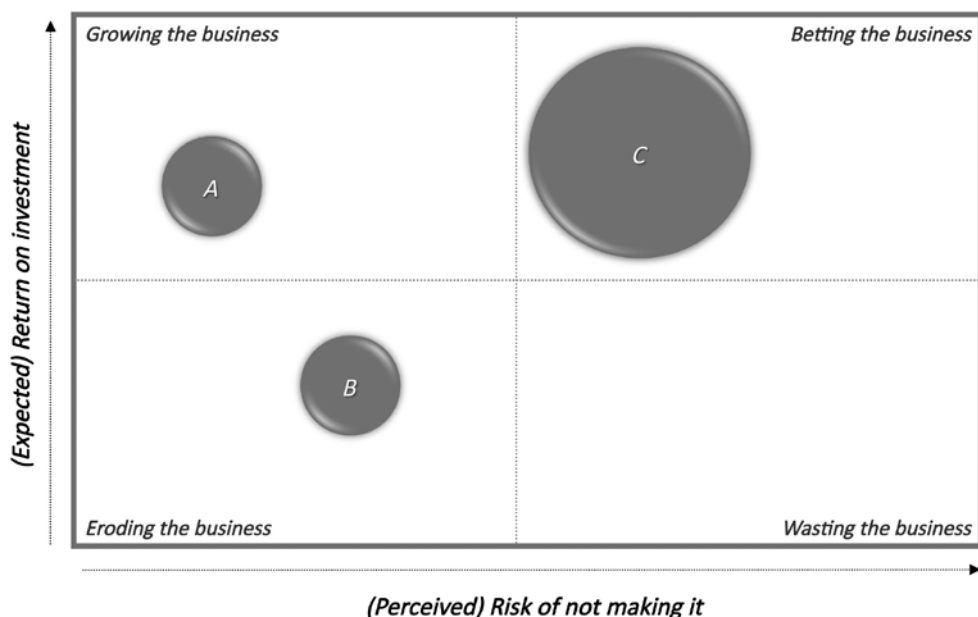


Figure 6.6 · Risk/Return Analysis of Strategic Options

offers (32%). The competitiveness (21%) and the leverage (13%) are distinctly less important. The same research study showed that, *ex post*, the key factors for determining success related to business opportunity and competitiveness!⁵¹

A good analysis does allow you to opt for apparently risky projects – and helps you to sell the internal tender to management. For instance, the board of a small high-tech business was very suspicious of an investment that equalled the company's annual turnover and would generate its first cash inflows in year seven (Option D in Figure 6.7). A thorough analysis of the programme revealed that the first two years involved a feasibility study, requiring little funding, in order to test the feasibility of the technically advanced idea, for which a patent was pending. The end of the two-year period would give a better insight into the target market, with all options for further investments remaining open (self-financing, venture capital, selling the patent). What seemed at first a peculiarly utopian scheme now appeared to be a highly feasible project. Marketing sold the pre-development work (€200,000) instead of the total project (€3,200,000).

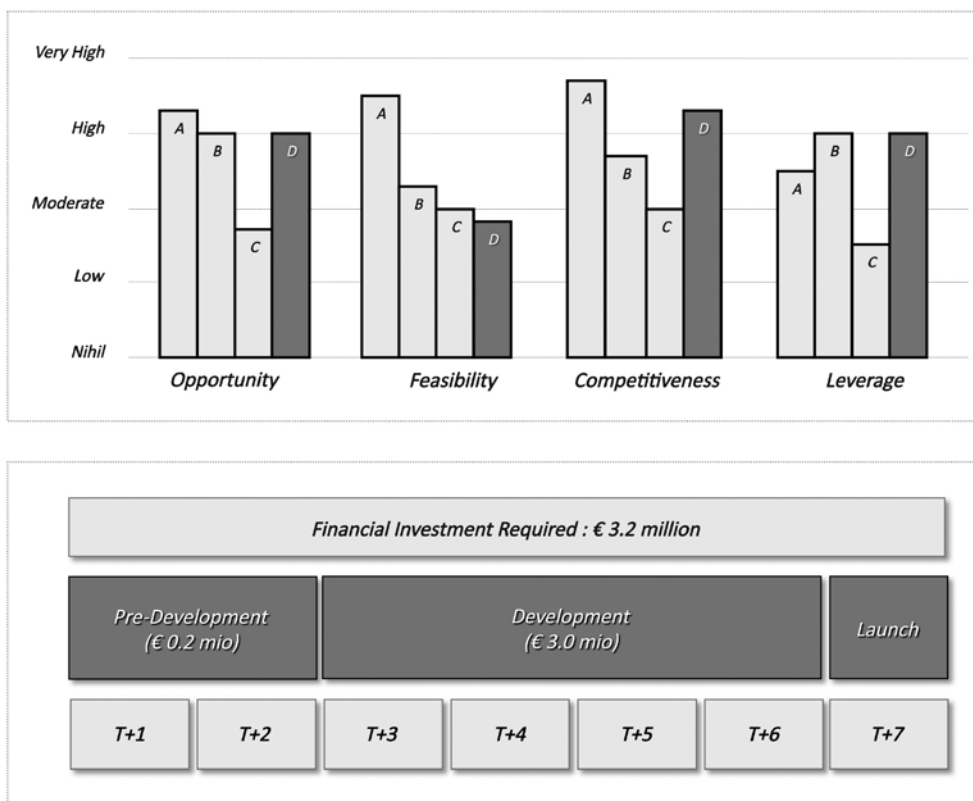


Figure 6.7 • Assessment of Four Strategic Options

The above discussion raises the question of the unit of analysis. The above mentioned criteria relate to an individual strategic option. However, senior management must deal with a portfolio of various market options. The above criteria are instrumental in sifting the wheat from the chaff. Ultimately, the company will need a balanced portfolio. The emphasis that we place on competitiveness does not imply that the selection must be biased towards new-to-the-world initiatives. In fact, every company can benefit from the continuous fine-tuning and upgrading of its business model. For instance, a weakness audit may reveal serious deficiencies. While healing these deficiencies will not automatically imbue the organisation with battle-winning competences, it at least enables it to participate in the competitive game. The following distinction is useful when analysing a strategic options portfolio:

- *'Heal the Company'*: this involves strategic market options aimed at mitigating existing weaknesses. These options can be viewed as hygiene options: most often, they are tickets-to-ride rather than tickets-to-heaven.
- *'Excel at the Rules'*: this involves strategic market options that conform to existing market rules. Often, this means strengthening the current customer value proposition by elaborating the company's unique competences and assets.
- *'Change the Rules'*: this involves the so-called *blue ocean strategies*. The aim of these strategic market options is to rewrite the basis of competition in the market, rendering current business approaches obsolete.

It is not an immutable law, but we propose the following portfolio as a benchmark ideal: 40% of resources to be allocated to healing projects, 40% to projects aimed at excelling at the existing rules and 20% aimed at changing the rules (Figure 6.8). Such a portfolio stimulates a company to pro-actively look for rewarding combinations of projects. We have observed that in formulating strategies for start-ups the emphasis tilts toward activities aimed at changing the market (up to 80% of investments). Such an approach is a truly risky business, since it ignores basic necessities, such as logistical fulfillment and order processing. Larger, more bureaucratic organisations tip to the other extreme, focusing more on repairing weaknesses (again using up to 80% of the investment budget). This approach is insufficient to create a distinctive customer value proposition in the market.

CONSEQUENCES

We fully agree that learning must take place along the road of strategy implementation.⁵² Whatever the quality of the up-front thinking, the future is only to

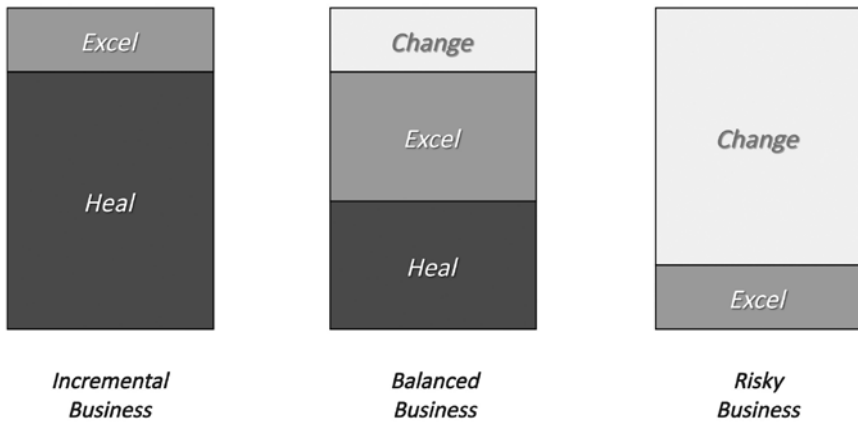


Figure 6.8 • Portfolios of Strategic Market Projects

be savoured one day at a time.⁵³ Strategic planning must leave opportunity for the endowment of promising strategic initiatives as they emerge.⁵⁴ But marketers do not benefit the organisation by abandoning strategic rigour altogether.⁵⁵ The business roadmapping method has been applied many times by many companies across many industries: business-to-business and business-to-consumer, physical products versus services, profit and not-for-profit, European versus non-European. Each application has led to better business insights and better business performance.

But there are still other beneficial effects from applying the business roadmapping method. In the first place, it helps to counter criticism on marketing's place and function within the business. Whereas some companies doubt the legitimacy of marketing,⁵⁶ the business roadmapping method explicitly requires other business processes and disciplines to contribute to a company's overall market strategy. In this way, marketing once again fulfills its basic objective, namely the creation of sustainable business. Marketing can assume a positive role in strategy formation.⁵⁷ Marketing is not a functional discipline, but is a holistic discipline, as illustrated by the following quote from Cart Carter, cmo and later cfo of Wal-Mart.com: "[I was surprised] that I interacted so much with functions outside of marketing. I didn't realise that it is a holistic assignment. Then I realised that I really had to understand things like product supply, cost break-evens and accounting."⁵⁸

Secondly, our methodology requires organisations to rethink how they understand, create and deliver value. The dual causality mechanism that we propose is very simple. Value creation, in terms of building sustainable busi-

ness, requires organisations to create value for the customer in such a way that it also creates value for the organisation. Hence, it is imperative to know what the customer needs.

Thirdly, the business roadmapping method requires those who create and implement strategies – a collection of strategic projects – to think about why they are carrying out these projects, who they are doing it for and with what effects. Given that both the desired objectives and effects have been specified in advance and will be measured, the inherent evaluation of these projects will make the projects themselves – and thus the overall strategy – accountable. In this way, the often-voiced criticism that marketing activities cannot be expected to deliver results may be finally dismissed. Many CEOs or managers try to be witty during speeches by including the rather worn-out quote by Sir Thomas Lipton about “not knowing which half of the budget is spent ineffectively.” The business roadmapping method makes a marketing plan – or, for that matter, a business plan – accountable. The principles are similar to those in physics research: if you cannot measure it, make it measurable. That is what we have tried to do through this methodology.

BUSINESS ROADMAPPING AUDIT:

QUESTIONS FOR THE MARKETER

CREATING STRATEGIC OPTIONS

- *Learning from trend-spotting: which factors do we take into account?*
- *What are the results of the auditing of the core processes in the value chain?*
- *What is the company's heritage? How can this be leveraged? Are there any 'golden nuggets' that we have not deployed enough?*
- *What are the opportunities for value innovation? What may we need to create, raise, reduce or eliminate in our offering?*
- *What can we learn from mapping customer consumption and production processes?*
- *Beg, steal or borrow: what can we learn from inspiring success stories in other industries? What can we learn from successful and unsuccessful industry competitors? If we were standing in the shoes of the competitor, where would we attack? Where are we particularly vulnerable?*
- *Do we fully use the opportunities that are provided through alliances and partnerships with other companies?*

SCREENING STRATEGIC OPTIONS

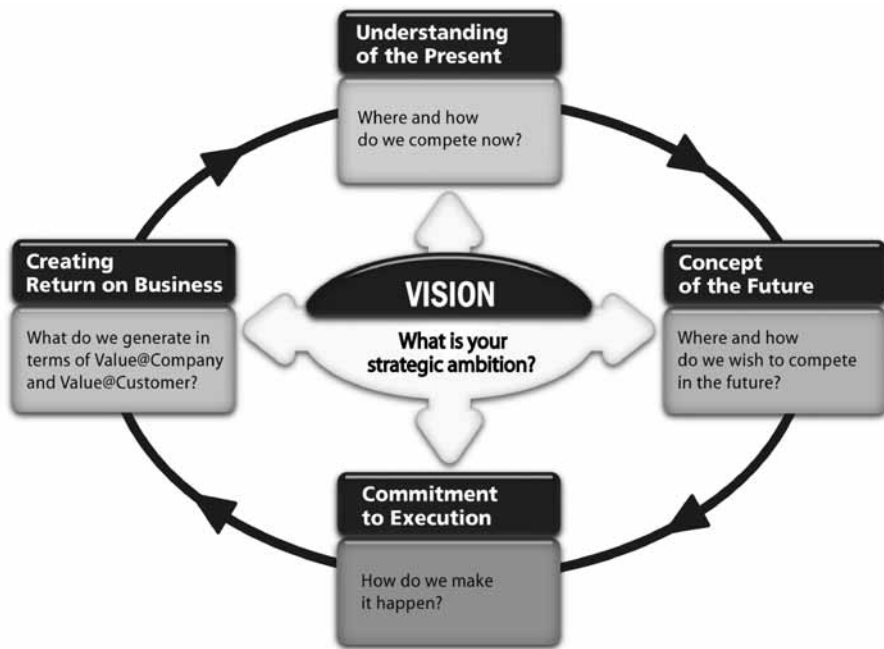
- *What are the 'must have', 'important' and 'nice to have' strategic options?*
- *How do each of these options score in terms of business opportunity, competitiveness, feasibility and leverage? In a risk/return analysis, how are the chosen options positioned?*
- *Is the strategic agenda – i.e., the portfolio of selected strategic options – a balanced agenda of 'healing the company', 'excelling at the existing rules' and 'changing the rules?'*

CHAPTER 7

COMMITMENT TO EXECUTION

I've passed them the baton of my conviction.

ESTÉE LAUDER¹



RUNNING AND CHANGING THE COMPANY

THE RUBBER MUST HIT THE ROAD

Strategic marketing involves the formulation and implementation of decisions aimed at developing a sustainable competitive advantage. While this sounds easy, in reality it rarely is. Progress can never be taken for granted.² Some scholars argue that the major goal of strategic thinking is to formulate a response to changing contexts.³ Unfortunately, it is precisely in this aspect that management ostensibly fails, especially in big organisations.⁴ For example, a Scandinavian IT consultancy firm once unveiled iVAS, i.e., a global plan for its future market strategy, involving 'Integrated Value Added Services'. The original iVAS

document was laden with hollow, strategic prose: big ambitions, few concrete objectives, dangerous assumptions and many operational uncertainties. This became all too obvious during a business roadmapping workshop we held with the senior management team. Afterwards, the reality turned out to be stranger than fiction. The executive board asked us during the subsequent management development sessions with their senior management workforce to only discuss the past and the present of the company – never its future! The unclear nature of the future had become *terra non grata*. Not surprisingly, IVAS was never successfully implemented.

In the example above, the strategic choices were doubtful and the implementation failed. However, even when there is little wrong with the strategy, the devil is often to be found in the details of the implementation of that strategy. Please note that we see implementation as an integral part of business roadmapping, and not as a mere detail. Many marketers employ the same philosophy when implementing a new strategy as Hollywood veterans do when marrying. Even though the choice is apparently a no-brainer, the implementation nevertheless consistently fails. In all honesty, the formulation of a competitive strategy is never a sinecure, but successful implementation is even harder to accomplish. Words, knowledge and intentions need translation into action. Many well-founded ambitions wash ashore in the surf of daily practicalities. A strategic action plan too often appears to be a *contradictio in terminis*, which can lead to annoying flashbacks years after the fact. “What where our plans back then?” is one of the most common questions asked in companies! Typically, the average performance loss of a strategy has been estimated at around 37%.⁵ This strategy-to-performance gap indicates that if a certain strategy in reality brings in, say, €50 million, then a potential of €29 million has not been realised. Imagine what a company could do with this extra cash. Marketing roadmaps repeatedly suffer the same fate as the market research that preceded it. Written with the best of intentions, they end up in a forgotten drawer of a dusty office.

DUAL MARKETING: EXPLOITATION AND EXPLORATION

Many organisations operate at a fierce pace – today in this market, tomorrow in a different one – and, as a result, often bring about their own demise. As we observed in Chapter 4, the realisation of a *sustainable* competitive advantage is no easy thing. “Winning in and of itself is difficult enough. To keep on winning is much harder,” said Luca Cordero di Montezemolo, the man who led the fabulous turnaround at Ferrari. Sports always offer a fascinating theatre to observe the rise and fall of self-proclaimed semi-gods. In their 79th season, the Detroit Lions (American Football) wrote history, although it was hardly the sort of his-

tory they will want to be reminded of. The Lions suffered an astonishing string of defeats, and ended the 2008 season with no wins and sixteen losses. There is a difference between *consistent excellence* (for example, the Pittsburgh Steelers, with six Super Bowl rings) and *excellent consistency* (the Detroit Lions, who have never qualified for the Super Bowl). This does indeed require an “ability to descend to the occasion.”⁶

Is it any different in business? Not really. Of the 100 biggest industrial companies in America in 1980, during the following twelve years 18 improved their position, 13 maintained their ranking, 25 sank on the ladder and 44 disappeared altogether from the list.⁷ Keynes warned us long ago that the long term implies a terminal process for all of us. Twelve years is not a horizon that managers see as the long term, especially when it concerns their own possible downfall! Clearly, then, maintaining leadership is amazingly difficult – even for the best of the best.

The widespread idea that firms erode their competitive position by a lack of action must be interpreted correctly. There is compelling evidence that business failure is not only the consequence of inaction; it may also be caused by the blind application of a given success formula. Miller refers to this as the *Icarus paradox*:

*“[...] outstanding firms will extend their orientations until they reach dangerous extremes; their momentum will result in common trajectories of decline.”*⁸

Strategic perspectives become blinding; winning core processes erode towards non-competitive routines; the business network partners provide chains rather than opportunities for the organisation; and yesteryear’s energising values have transmuted into immobilising dogmas.⁹ Managers all too often focus on maximising the output from the current business model. Andrew Van de Ven, in a brilliant essay, observed crisply:

*“[...] what most individuals think about the most is what they will do, but what they do the most is what they think about the least.”*¹⁰

As we explained in Chapter 4, sustainable business success requires the concurrent realisation of business *exploitation* (generating a solid economic rent on current activities) and business *exploration* (investigating the future and the activities that will be needed to generate a continued economic rent).¹¹ This is encapsulated in the concept of the *ambidextrous organisation*.¹²

The objective of change is therefore to seek stability. It is precisely the lack of thoughtful change that will cause instability. The implementation of a mar-

keting plan has a dual character. “Running a company and changing it are not sequential, but parallel pursuits,” Derek Abell wrote.¹³ A company cannot afford a sabbatical for building or revising a marketing strategy. A company must compete today, whilst preparing for tomorrow. A marketer cannot demote 90 percent or more of the company’s current revenues to a mere footnote in an action plan. Changing successfully is like learning to play the violin while the paying audience is already present in the theatre! Demands are high – and contemporary stakeholder audiences are rarely in a forgiving mood.

Some organisations choose to ignore the call for change. FIFA provides a classic example. Many soccer enthusiasts became annoyed – and rightly so – at the peculiar refereeing during the 2002 world soccer championships in Japan and Korea. One of the authors and many other fellow-Belgians – and even some of our Dutch neighbours! – felt that they were robbed of the lead in the game against Brazil. What could have become one of the biggest shock results of all time was smothered at birth, when the Jamaican referee inexplicably disallowed Marc Wilmots’ goal in the thirty-fifth minute. Quite a few spectators thought that the ref – Prendergast was his name – would have been better suited to an amateur beach volleyball game than to a key World Cup match! Prendergast later won the ‘zero of the day’ nomination on the CNN website. The days that followed saw the world championships degraded to a collection of bizarre refereeing decisions. Judging the offside rule proved too difficult for many of the referees, resulting in a number of painful blunders. On Dutch television, sports commentator and former Dutch soccer international, Youri Mulder, even suggested doing away with the offside rule completely. The Dutch newspaper *Dagblad van het Noorden* accepted the challenge and found two soccer clubs – Emmen and Veendam – that were willing to play a game without offside. The Royal Dutch Football Association (KNVB) supported the initiative and afterwards the clubs, the spectators and the media were also in favour. However, it all made no difference: the world soccer association ruled against the game in November 2002. Without giving any real reasons, FIFA preferred to maintain the status quo. Indeed, changing the mindset in that particular organisation may require several more World Cups! In the highly anticipated game which matched Germany against England in the 2010 World Cup, Frank Lampard’s shot clearly crossed the goal line but the English goal was still disallowed. The day after, FIFA saw no reason whatsoever to install electronic technology to help its referees make better decisions – or fewer blunders. Likewise in 2011, when confronted at a press conference with serious allegations of bribery within FIFA (Qatar was rumoured to have bought the hosting of the 2022 World Cup), its CEO Sepp Blatter blurted out: “Crisis? What is a crisis? We are not in a crisis. We only have some difficulties and these will be solved inside our family.” Just

because a game is popular does not mean its governing body is necessarily intelligent: with all information gathered by friendly and public sources, one might hope for a better application of the market intelligence data!

THE UNPRODUCTIVE RITUALS OF A RAIN-DANCE

Mindful of Bananarama's advice "*It ain't what you do, it's the way that you do it,*" one cannot but observe that the strategy process is often poorly designed. Strategy formulation and implementation have become a sort of ritual rain-dance: "It has no effect on the weather, but it makes those who engage in it, feel as if they are in control," says James Brian Quinn. Strategic planning has become a kind of annual folklore event. The yearly marketing rituals involve painstaking spreadsheet aerobics, numerous budget rounds and lengthy approval procedures.

External advisors may sometimes help to bring the company's strategy to a higher level. Unfortunately, more often than not they represent a further refinement of the rituals rather than an improvement of the output. Bright brains dressed in expensive, tailor-made suits prove the truth of the old saying that form all too often prevails over content. In addition, the fickle economy has caused some advisors to avoid asking fundamental questions that might put a 'billable' relationship under pressure.¹⁴ In the film *Moulin Rouge* star actress Nicole Kidman's character remarked, "I am a courtesan. I am paid to make men believe what they want to believe." Replace the word 'courtesan' with 'consultant' and you won't be far wrong!

In our view, it is above all the employees of the firm who should assume a pivotal role in the strategy formulation process. This, however, means that senior management must be open-minded towards such an approach. One banking

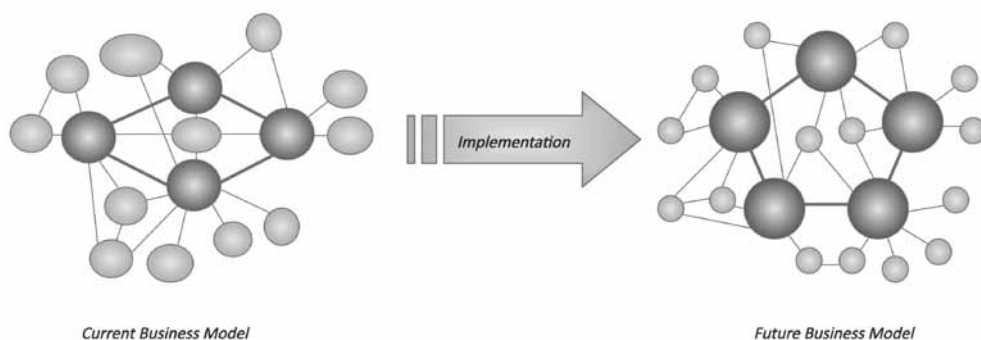


Figure 7.1 • Implementation = The Journey to a New Business Model

CEO once quite sternly remarked during a guest presentation in front of 30 of his own marketers: “We do not need people who think about strategy. That’s senior management’s job. But only every four years, otherwise things change too much.” At that very moment, thinking in the room came to a grinding halt.

PHASING IMPLEMENTATION

Embedded within a strategic marketing plan lies a modified business model, i.e., a modified customer value proposition and an enabling resource configuration. Implementation essentially involves the roles and processes that a company and its management design in order to make a successful transition from the current business model to the future business model (Figure 7.1).

In Figures 7.2 a – e, we have summarised the business models of two different firms at two different moments in time.¹⁵ De Witte Lietaer is a French-owned manufacturer and distributor of household linen. It supplies its products to retail outlets and to leading hotel chains (e.g., Marriott). Their business model has changed radically over the past decade. Many of the changes in this business model between 2001 and 2004 were related to the emergence of China and other Asian countries as leading textile producers. In addition, a fully automated warehouse was established, the promotional niche markets were explored and both internal and external communication was refreshed. Since



Figure 7.2 a • Business Model of De Witte Lietaer (2001)

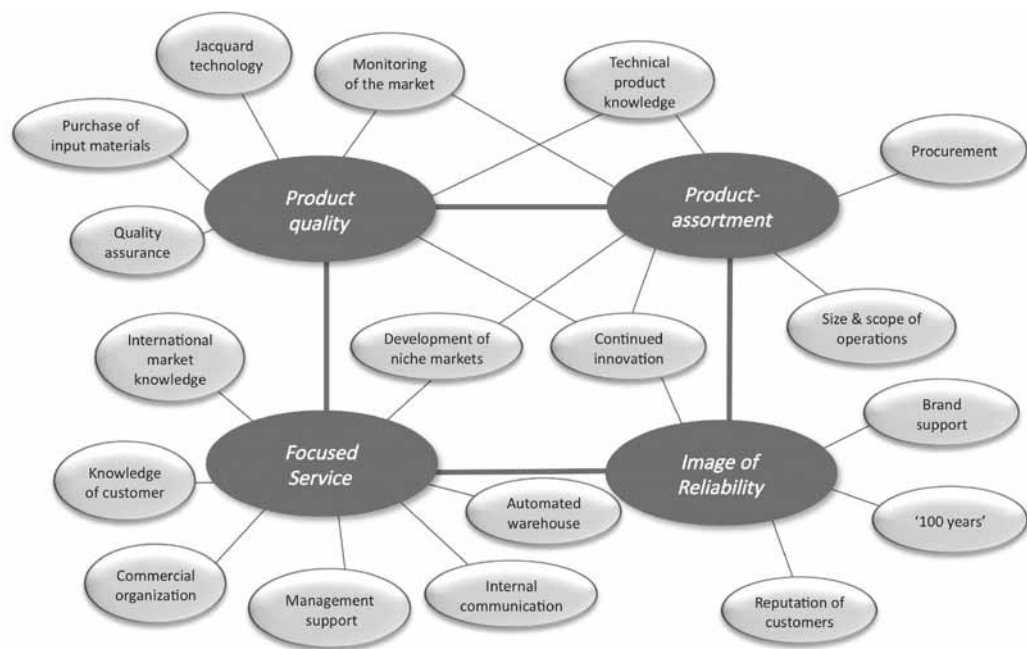


Figure 7.2 b · Business Model of De Witte Lietaer (2004)

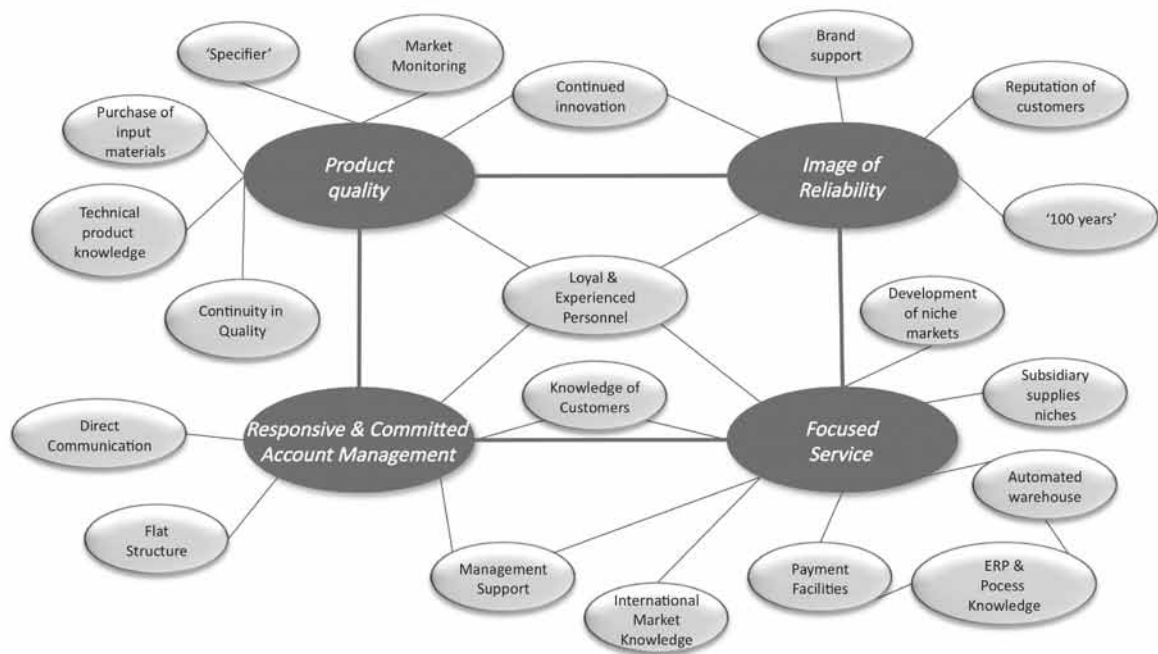


Figure 7.2 c · Business Model of De Witte Lietaer (2011)

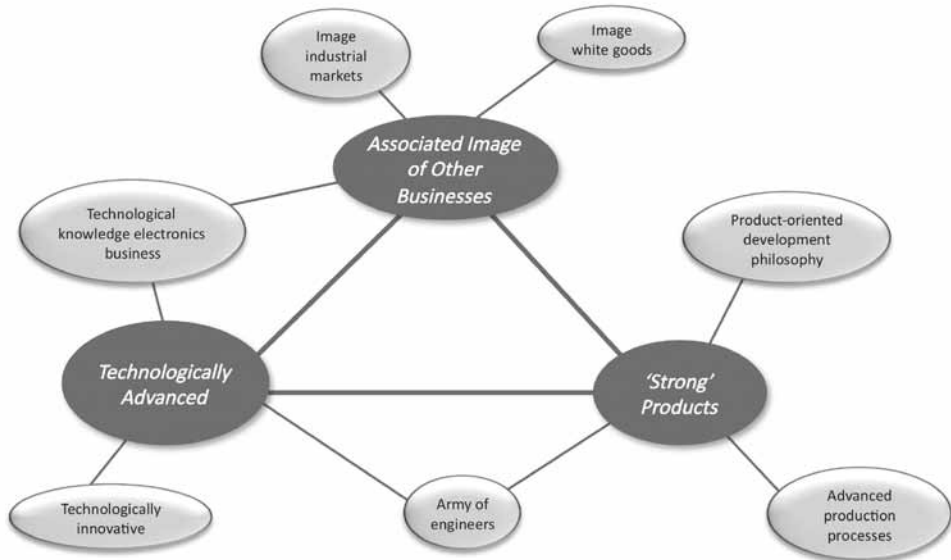


Figure 7.2 d • Business Model Siemens Mobile – The Netherlands (1995)

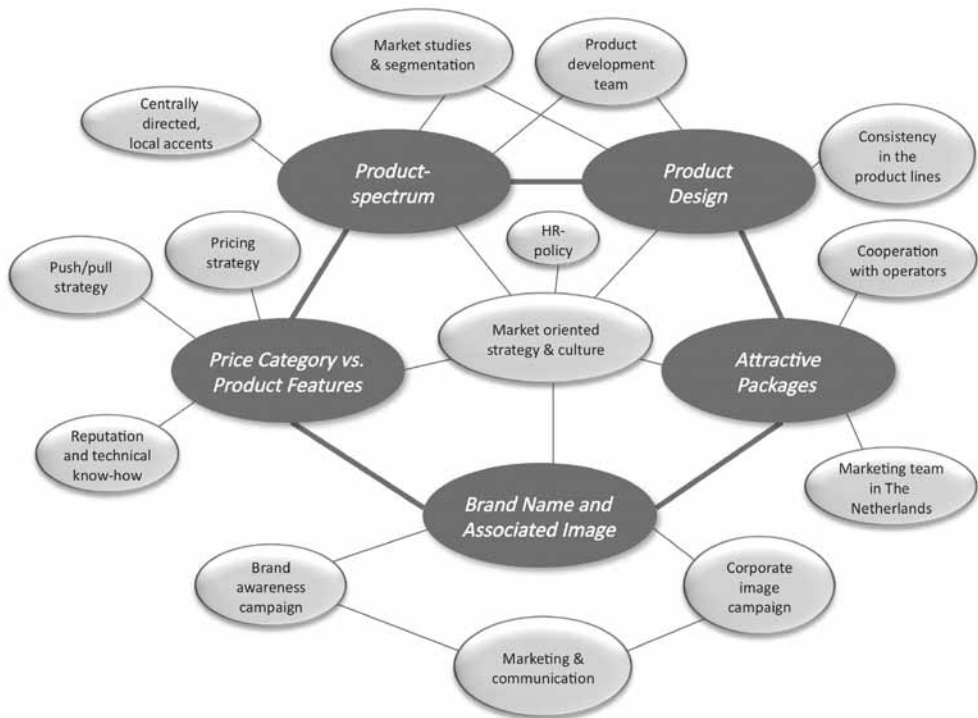


Figure 7.2 e • Business Model Siemens Mobile – The Netherlands (2001)

2004, De Witte Lietaer has successfully transitioned from a production-driven organisation to become a more service-driven organisation. Knowledge and process excellence are key enablers of its customer value proposition. Competent personnel and process excellence have reduced the order-delivery response cycle to an average of 4 hours 12 minutes!

The customer value proposition and the business model of Siemens Mobile also changed dramatically between 1995 and 2001. The company moved from an inward-looking, engineering-driven company towards a market-oriented business. The competition, however, remained tough and Siemens Mobile was eventually sold to BenQ.

The success of implementation is defined along three dimensions:¹⁶

- *Completion*: the activities to migrate from the current business model to the future business model are carried out in such a way that the balance of competitiveness, investments and milestones is optimised during the implementation;
- *Achievement*: the degree to which the new business model performs as intended;
- *Acceptability*: the degree to which the implementation occurs satisfactorily for the primary stakeholders of the company.

While the first two dimensions involve hard business performance measures, the third dimension relates to the softer human aspect of strategy implementation. Marketers all too often behave as technocrats when designing a marketing plan and forget that strategy implementation involves people. A marketing strategy that does not take account of the employees involved is doomed to failure. You cannot reconfigure business processes on the assumption that the human components will behave as dumb pieces of machinery. In organising successful implementation in terms of completion, achievement and acceptability, we can distinguish three phases (Figure 7.3):¹⁷

- *Seeing*: people will not move to a new business model if they do not see the need for doing so;
- *Starting*: for a successful take-off, the implementation must be embedded in the day-to-day organisational activities; and
- *Sustaining*: the organisation must maintain its efforts, if it is to accomplish the implementation programme.

In the next sections, we will detail each of these phases.

SEEING THE NEED

A COALITION FOR CHANGE

Changing an organisation is not a democratic activity. “Never doubt that a small group of thoughtful, committed citizens can change the world. Indeed, it’s the only thing that ever has,” was an axiom of American cultural anthropologist Margaret Mead. Most successful, innovative strategic marketing programmes start with a relatively small, highly inspired and committed coalition. They are the movers and shakers which the organisation needs. Some of them (but not all) are likely to be level 4 or level 5 marketing people (see Chapter 4). They have the vision to see the need for change and the ability to create the personal degrees of freedom needed to initiate the first sparks. Such change may be of a proactive or a reactive nature. In the first case, the roadmap for change is initiated at a time when it is apparently not needed. While resistance may be high, implementation costs are minimal. In the second case, the company is confronted with an internal or external threat. In such situations, the company cannot afford the luxury of waiting. While such a shock induces change, it is change of a costly nature. Consequently, the moral is clear but sometimes difficult to accept: most organisations benefit from a proactive stance towards change.

Good marketing leaders know where the organisation is going, show entrepreneurial qualities and facilitate action.¹⁸ They tell stories, rather than providing their people with bullet lists.¹⁹ They are sense-makers of the company’s environment and sense-givers for the organisation as a whole.²⁰ Josephine Esther Mentzer, the founder of the Estee Lauder cosmetics imperium, was a true marketing leader. The choice of the right department store as the distribution channel ensured that Estee Lauder did not have to invest in training salespeople in traditional drugstores and chemists. Sampling – *Tell-a-Woman marketing*, as Estee Lauder called it – came into existence because the marketing budget did not allow for traditional, expensive advertising strategies.



Figure 7.3 • The Triple-S Model of Strategy Implementation

However, we want to repeat the word of caution with which we ended Chapter 4. In our opinion, there is no reason to romanticise leadership.²¹ That being said, in recent times we have witnessed a growing search for business icons. This search for icons seems to have moved from Russia to the United States, the religious Messiah being replaced with a more mundane commercial version.

'We aim to offer a portfolio of related products or services that are strongly based on a common set of competences in our company'

5% D	18% N	63% A	14% SA
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'Our marketing professionals have a lot of experience in other functions (e.g., in production, finance, etcetera)'

8% SD	28% D	34% N	25% A	5% SA
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'A number of strategic projects have been identified to implement the needed changes in our marketing operations'

4% SD	17% D	25% N	48% A	6% SA
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'Marketing changes are monitored by means of formal procedures (milestones, budgets, actions undertaken)'

7% SD	25% D	33% N	30% A	5% SA
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The data above represent the responses of the 2009 sample. Companies maintain a strong focus in their market strategies (63% agree, 14% strongly agree and only a negligible 1% strongly disagrees). In their self-assessment, many of the respondents agree that the cross-functional experience of the marketing professionals in the company is not strong. In terms of project roadmapping, strategic projects have been defined in the majority of cases (48% agree and 6% strongly agree). However, the monitoring of the project trajectory is only moderate (almost one third do not have milestones, budgets and actions specified).

(SD=Strongly Disagree – D=Disagree – N=Neutral – A=Agree – SA=Strongly Agree)

Apparently, managers love to read about the kind of leader who *schwarzeneggers* his followers with unimpeachable selflessness through the competitive arena. It is, however, dangerous to over-romanticise leadership in this way. Altruism is hardly ever the true driving force of leaders. General Electric's Jack Welch, for example, was often idealised as the type of prophetic leader, with an unsurpassed, genuine savvy for business. But that was only part of the story. His interview with Suzy Wetlaufer, then-editor of the prestigious *Harvard Business Review*, ran into a romantic sequel. This resulted in the outside world getting to know about Welch's monetary details. His exorbitant pension financed by GE amounted to \$2.5 million annually, as Jane Welch explained when she filed for divorce!

Unfortunately, greed is deeply embedded in the structure of our organisations.²² Dan Pink's *Drive* enlightens the reader about human motivation in the modern age. In the introductory paragraphs, he reminds us of an experimental study by Harry Harlow at the University of Wisconsin in 1949. Harlow's research showed that monkeys performed some tasks because they were intrinsically motivating, not because they were extrinsically rewarding.²³ In other words, monkeys solve puzzles simply because they enjoy them, whereas executives need to be paid huge salaries because the job of leading a company is not, by itself, sufficiently motivating. It is a strange world we live in!

But fair is fair. Many directors struggle daily to save their company's skin and to keep their own heads above water. Sometimes the scenarios are truly painful and very public. When the battle surrounding Michael Eisner's chairmanship at Disney broke loose, the respectable *Economist* quickly renamed the company 'The Tragic Kingdom'.²⁴ The present-day pressure on senior marketing managers is almost indecently high. As we peruse the war stories that cover the pages of many business magazines, we suspect that a great number of corporate leaders tactfully forget the things that previously frightened them in the dark! "There is light at the end of the tunnel. And this time, it is not oncoming traffic," the coo of an international publishing company once quipped during a strategy presentation. Two months later, *Teflon Thomas* was on his way out. The seemingly indestructible protective layer that endowed him with his illustrious nickname was not sufficiently resistant against the scratches left by disappointing results.

In many companies the position of staff on the hierarchical ladder has more to do with age than with competence. The fact that somebody has risen to the top ranks in spite of a lack of competence does not necessarily mean that this person will act humbly afterwards. We may need to expand the term 'white collar crime' to also embrace the stupidities that often arise in the twilight of a leader's complacency, stubbornness or downright self-interest. And if there is one thing worse than a manager wanting to save his own skin, it is a top manager who knowingly

wants to prove himself in bad times. “I don’t know about technology and I don’t know about finance and accounting,” proclaimed Bernard J. Ebbers, the former CEO of WorldCom during his testimony in court.²⁵ In such circumstances we can ask ourselves a simple question: when the director drives to work each morning, has he decided to cling vehemently to his previous decisions as a matter of principle or has he simply left his common sense at home? In both instances, the results are the same: a meltdown in the top echelon of the company.

In 2007, the Belgian/Dutch bank Fortis teamed up with RBS and Banco de Santander and succeeded in acquiring and dividing its Dutch archrival ABN-Amro. It is good to be ambitious, but one must never be foolishly ambitious. Shortly thereafter, the financial crisis struck. It soon became apparent that Fortis did not possess the financial strength to support the deal. The bank succumbed, becoming virtually worthless in just a few months. In the vaudeville that followed, the board was humiliated and ousted, and Fortis was acquired by BNP-Paribas. Roughly similar in size some years before, Fortis was now an easily digestible ‘amuse-bouche’ for the French bank. The logo of Fortis reflected ‘the diversity of the communities we serve.’ Intriguingly, its composition resembled the famous last painting by Mondriaan: *Victory Boogie Woogie*. There are other interesting parallels to be made. Mondriaan worked on this painting until the day he died (February 1, 1944). It was never completely finished and it is extremely expensive. The same is true for Fortis: CEO Jean-Paul Votron and his board were terminated, the magnum opus was never finished – and it also cost a fortune.

INTERNAL MARKETING OF THE VISION

In Chapter 4, we explained the need for a marketing vision. The well-known quote from *Alice in Wonderland*²⁶ summarises this beautifully:

“Cheshire Puss,” Alice began, rather timidly, “would you tell me please which way I ought to go from here?”

“That depends a good deal on where you want to get to,” said the Cat.

“I don’t much care where -,” said Alice.

“Then it doesn’t matter which way you go,” said the Cat.

“- as long as I get somewhere,” Alice added as an explanation.

“Ah, you’re sure to do that,” said the Cat, “if only you walk long enough.”

A new roadmap demands efforts throughout the organisation and needs support from a powerful vision statement. A compelling vision communicates a winning ambition and creates commitment and momentum across the board.

A good example of a successful BHAG is the vision of former Ferrari CEO, Luca Cordero di Montezemolo: "I always want to be before the trend."²⁷

Unfortunately, reality often contrasts sharply with dreams. Following a soporific presentation by a member of the corporate marketing staff of a leading company, there was little euphoria among the marketers. When the Q&A session revealed further strategic errors, the last bit of hope faded. "I wish he had not spoilt my illusions," one of the participants remarked. It was the kind of occasion that the former French President Jacques Chirac would have described in the following terms: "You have missed a perfect opportunity to remain silent." Companies need a BHAG; not an extra dose of valium, disguised as strategy. Weak ambition statements bring companies terrifyingly close to punk business: "Don't know what I want, but I know how to get it."²⁸ When Yahoo's strategy was doubted by one of its large shareholders, and this shareholder also asked for a new CEO to be appointed, the Yahoo board refused because it "was afraid to make another bad decision."²⁹ You can't get much closer to punk business than that!

A true BHAG is intelligently constructed, balancing the ambition and the genome of the corporation.³⁰ "*In der Beschränkung zeigt sich der Meister*," as the Germans say. The menu of market making, market hunting and market farming is never a menu à la carte. What a company enjoys tomorrow depends on what it absorbs today. A company cannot thrive in the absence of focus. One must therefore also judge a marketer's commercial intellect on his or her appetite for focus. The bets are sometimes enormous, as are the investments.

Everybody knew that eternal fame awaited the first person to reach the South Pole. Roald Amundsen and Robert F. Scott vied for this honour. Both reached the South Pole, Amundsen on 14 December 1911 and Scott on 17 January 1912. As he died in dramatic circumstances on his way home, Scott became as famous as Amundsen. The words in his diary remind us of the last thoughts of many managers when they stare at their first results in the Promised Market. "Great God! This is an awful place."

SENSE OF URGENCY

Strategies that involve more than merely marginal changes are generally resisted.³¹ The reason for this resistance lies in the fact that every stakeholder pursues his or her own self-interest through the organisation. Many of these stakeholders will prefer the status quo. Five hundred years ago, Machiavelli was already summarising the Catch-22 of change management:

*"It should be borne in mind that there is nothing more difficult to handle, more doubtful of success and more dangerous to carry through than initiating changes in a state's constitution. The innovator makes enemies of all those who prospered under the old order and only lukewarm support is forthcoming from those who would prosper under the new. Their support is lukewarm partly from fear of their adversaries, who have the existing laws on their side, and partly because men are generally incredulous, never really trusting new things unless they have tested them by experience."*³²

There is an abundant literature on resistance to change. The sources of this resistance are varied: the vision of a founder that slows down the entire organisation, an inert corporate culture, a lack of resources, fear of the new situation, working place and time, inadequate reward structures, the demanding nature of the new job requirements, a company's track record of past failures, a lack of convincing communication, a loss of status or position, diverging beliefs, limited job security, personal relations – and so on, and so forth.³³ The quintessential obstacle hindering correct strategy implementation is the unwillingness of employees to embrace the new order of things. What is the consequence of this attitude?

*"Companies don't make the most of new opportunities because they're making the most of old ones."*³⁴

Resistance to change provides senior management with the challenge of appealing to the personal interests of the employees.³⁵ Put another way, management must not only provide the employees with a vision of where the organisation should aim to go, but also with a reason why the company and its primary stakeholders cannot afford to stay in the same place. It must demonstrate what employees may gain by embracing the future – or what they stand to lose by staying where they are. It is the latter aspect that organisational change guru Kotter encapsulates in his phrase: "Sense of urgency."³⁶ According to Kotter, more than 50% of companies already fail in this phase: they are not able to provide their employees with a great enough sense of urgency. In initiating a new implementation agenda for marketing, it is imperative that marketing executives describe the '*pain of no gain*,' the dysfunctional nature of the comfort zone.

This has lately been illustrated on a broader scale than business marketing. While environmental pressure groups have worked assiduously for many years to convince us that we must change our behaviour in order to preserve our planet, it is the rapid succession of devastating hurricanes in the US, the absence of a clear seasonal pattern in Western Europe and the forcible arguments of Al Gore's *Inconvenient Truth* that has induced new behaviour on a world scale.

The internal memo sent by Stephen Elop (CEO Nokia) in early 2011 must be seen as an impressive wake-up call to the whole Nokia organisation. He wanted to create a much needed sense of urgency within the mobile phone giant. The Nokia employees were urged in the strongest terms to shake themselves free from their dangerous inertia:

*"We too, are standing on a 'burning platform', and we must decide how we are going to change our behaviour. (...) For example, there is intense heat coming from our competitors, more rapidly than we ever expected. Apple disrupted the market by redefining the smartphone and attracting developers to a closed, but very powerful ecosystem. (...) At the lower-end price range, Chinese OEMs are cranking out a device much faster than, as one Nokia employee said only partially in jest, 'the time that it takes us to polish a PowerPoint presentation.' They are fast, they are cheap, and they are challenging us. (...) (...) In the meantime, we've lost market share, we've lost mind share and we've lost time. (...) Consumer preference for Nokia declined worldwide. (...) How did we get to this point? Why did we fall behind when the world around us evolved? This is what I have been trying to understand. I believe at least some of it has been due to our attitude inside Nokia. We poured gasoline on our own burning platform. I believe we have lacked accountability and leadership to align and direct the company through these disruptive times. We had a series of misses. We haven't been delivering innovation fast enough. We're not collaborating internally."*³⁷

UNDERSTANDING THE BARRIERS TO THE NEXT STEPS

To many people, a marketing strategy is a marketing *communications* strategy. However, marketing is not a function – it is a process. The marketing strategy determines the customer value proposition and the enabling resource configuration. *De facto* this means that many business processes in the company will be involved. Consequently, a market strategy is also automatically a business strategy. In this context, the authors vividly remember a meeting with a European truck manufacturer. Following two days of intensive workshops and brainstorming on their future competitive power, the strategy team proposed a business model in which IT was splendidly absent. Unfortunately, big fleet contractors demand a high level of control over their fleet of trucks. IT is a dream come true for this customer group – and for marketers looking to cater for their needs. How could this strategy group ignore IT, one wonders? The answer is deceptively simple: there was no IT-representative in the group.

"Individuals play the game, teams win championships," Bo Schembechler, the former successful coach of the University of Michigan's football team, once remarked. In other words, the whole organisation must be involved with and must support innovation. Clearly, this means that a new market strategy will

have many human aspects. A strategy that ignores the human dimension will lead into a cul-de-sac. Such a roadmap links interesting words to nice pictures, but runs little risk of being implemented in practice. For this reason, marketing must understand the barriers to 'the next steps.' Figure 7.4 provides a useful tool to acquire insight into these barriers.

The procedure is simple. Draw a 2-by-2 matrix, of which the horizontal axis reflects the probability that an organisational bottleneck will emerge in the course of strategy implementation. The vertical axis represents the negative impact of the bottleneck. In an interdisciplinary group of six to ten people, everybody notes down the likely barriers to the proposed strategy and marks these in the appropriate place on the 2-by-2 matrix. Often these factors will relate to the human dimension: resistance to change, rigidity in management, unadjusted remuneration, uncooperative unions, etcetera. Givens within corporate structures (e.g., headquarter's inertia) or environmental changes (e.g., new legislation) may provide additional burdens, but in the case of a well-conceived plan most obstacles will be human-based. An analysis of the organisational barriers provides excellent input for human resource managers. It allows them to design projects that facilitate the acceptance and implementation of the other aspects of the overall strategy project. These will become the HRM projects in the project roadmap (see below).

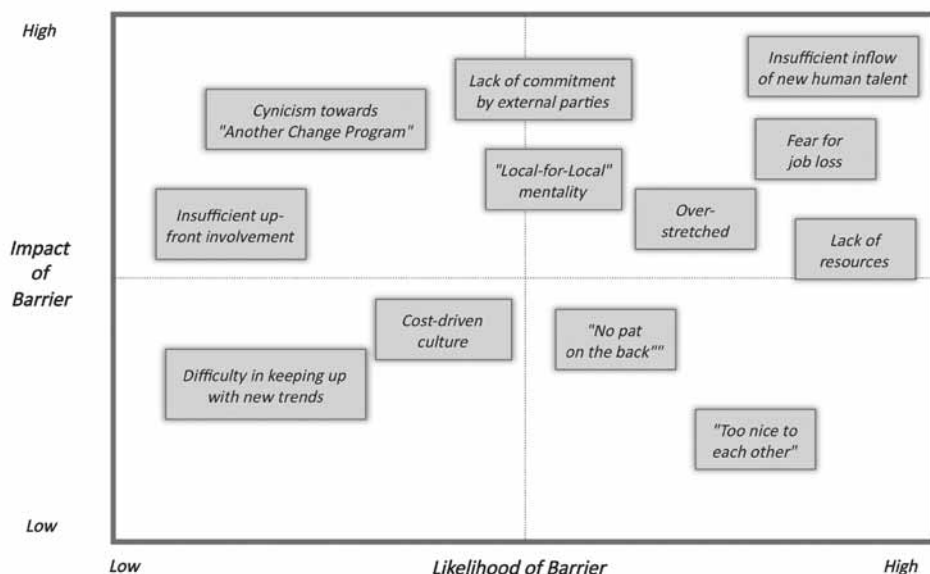


Figure 7.4 · Mapping Organisational Barriers to Change (Example)

STARTING UP THE ORGANISATION

PROJECT ROADMAPPING

“Everybody who says that business people deal in facts and not in fiction has never read old five-year year projections,” Malcolm Forbes once observed. In hindsight, many marketing plans contain more fiction than the *Lord of the Rings* trilogy! Part of the solution lies in a correct formulation of the trajectory. Changing the route that a company takes calls for a delicate balance between autonomy and guidance:

“Once autonomy is no longer directed by the organisation, it has little more than a random chance to be relevant to the organisation.”³⁸

If staff enjoy total freedom, then it is only likely to be by pure chance when such a ‘motley crew’ – an expression we encounter regularly in companies – contributes towards the goals of the organisation. Admittedly, the other extreme is equally damaging: an environment where everyone is tied up in rules (including exceptions to the exceptions), stifling initiative and killing enthusiasm. Many ISO certifications have produced little but paper, frustrating those who want to renew their company.³⁹

The quality of strategy implementation has an impact on a company’s competitiveness.⁴⁰ Marketing leaders must carefully manage the processes that are needed to realise the new business model. Successful businesses (or successful marketing leaders) excel in seamlessly integrating several disciplines through temporary projects. Academic jargon labels this as an *adhocracy*.⁴¹ Formalising the route is a *conditio sine qua non* for the organisation to reach its objectives. Thorough project management translates a strategic ambition into an action plan and allocates human, financial and technical resources, as well as specific project leaders. In addition, clear milestones are powerful instruments to keep people on the right track in complex and knowledge-intensive environments.

Let’s look at some radiating examples to highlight this idea:

- In 2002, Fiat’s existing business model appeared to be highly uncompetitive. A new approach was needed for the besieged company. The main focal points were reducing costs and improving sales (so no surprise there!). The 2002-2005 action plan entailed the further development of profitable models (SUVs, for instance) and the introduction of 20 new models; heavy investment in improving product quality (€2.6 billion annually between 2003 and 2005); and the redesign of the distribution network (€150 million annually between 2002 and 2005).⁴²

- The change taskforce that CEO Stephen Elop set up inside Nokia at the start of 2011 involves nine separate domains: winning (1) in the high-end smartphone market and (2) the low end mobile phone market; (3) building next-generation offerings; (4) shaping the ecosystem; creating efficiency (5) in market operations and (6) organisational processes; organising (7) inter-unit operative processes, (8) change management and (9) cultural transformation.⁴³

To summarise, a project roadmap is a consistent and sequenced set of activities that aims at successfully realising the transformation from the present business model to the future business model. The roadmap that led to the integration of two European banks amounted to 70,000 pages! Indeed, a project roadmap typically contains a diversity of disciplines. Consequently, it is necessary to determine the tasks that need to be accomplished during the coming 2 to 3 years (or more), in order to successfully create the future business model. For each of the sub-projects, an action plan must be developed. This will require answers to be given to the following questions:

- Who will lead the project and who are the members of the project team?
- What are the resources that will be allocated to the project?
- What is the time frame and what are the milestones?
- What is the expected return of the project?
- What will the company do better than the competition as a result of the project?

The last question in particular is a difficult one for many marketers and executives. Nevertheless, defining what will happen in each of the projects and assessing how this will enable the company to differentiate itself successfully from the competition lies at the very heart of all competitive strategy. Often, a visual representation of the strategy can offer useful support during the formulation and implementation periods.⁴⁴ Consistency between the various projects is an important point for the management's attention.

The success of implementation depends on the strength of the weakest link in the design of the marketing strategy. During the project definition phase, marketers all too often forget the deep-rooted human elements involved in strategy implementation. As mentioned above, the results of the barrier analysis (Figure 7.4) must be translated into the project roadmap. This may be done explicitly (by defining HRM-projects) or implicitly (by ensuring the business projects cover all the human bases). In the example of Figure 7.5, three explicit HRM-projects were defined ('Competence profile'; 'Training'; 'Link BHAG to marketing goals').

Many marketers have little problem in defining next year's agenda (i.e., the 'marketing calendar'). Everybody benefits from a detailed middle-range hori-

zon: it ensures that the first year is fully calibrated and it indicates the steps to be implemented. But the real trouble starts when it comes to the design of the second year. Marketers apparently have difficulties in thinking beyond Christmas. The following project labels will begin to creep into the project roadmap: 'to be defined,' 'to be assessed,' 'to be fine-tuned.' The second year in a marketing plan often has a definite Shakespearean feel: to be or not to be, that is indeed the question. As the future is constantly in motion,⁴⁵ changes will inevitably occur and the medium horizon will need revision. Nevertheless, simply leaving year two blank is not an option.

In the example of Figure 7.5, projects are grouped along major themes. Such clustering is important, as it provides the necessary simplicity and synthesis to be useful in everyday practice. White-collar workers and blue-collar workers must both be able grasp the 'big picture,' if implementation is to succeed. Such a simple, theme-based synthesis is therefore not a gimmick, but a necessity. The importance of simplicity should not be underestimated. Eighty percent of

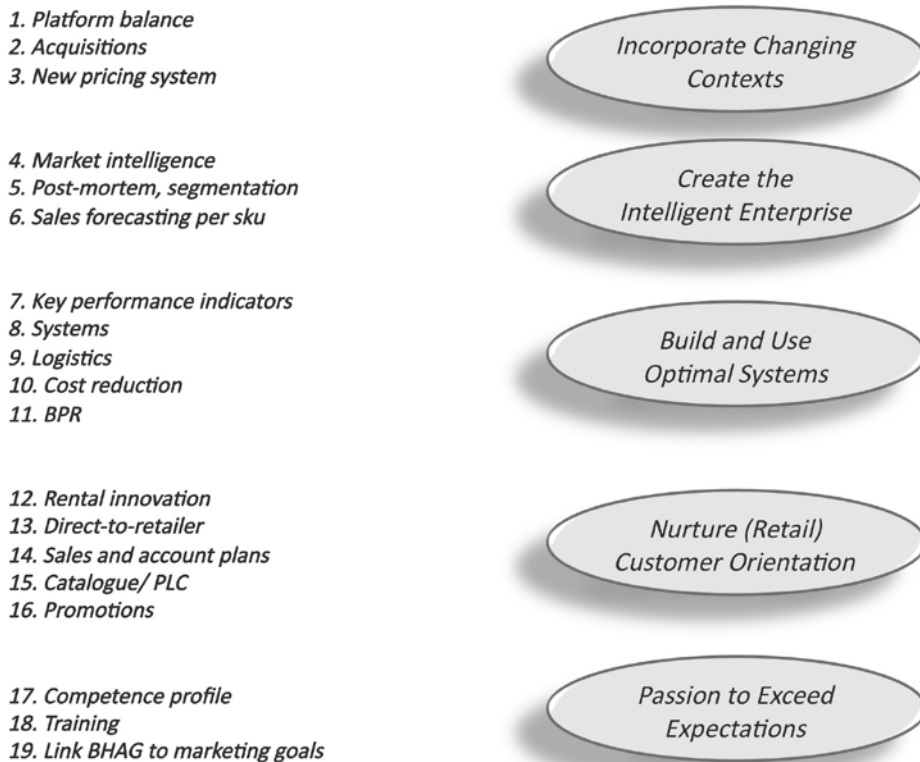


Figure 7.5 • Project Roadmap (Example)

the general population can remember a telephone number that consists of 7 digits, while only two percent can remember a number of 10 digits.⁴⁶ It is no surprise that two leading management gurus, Jack Trout and Edward de Bono, each published a book calling for more simplicity at the recent turn of the century.⁴⁷ Successful management typically boils down to systematised common sense. But, as Voltaire long ago realised, “*Le sens commun n’est pas si commun.*”⁴⁸

While many executives opt for a functional or divisional grouping of projects, we strongly recommend a theme-based clustering. Such an approach enables the company to optimally synchronise both internal communications (towards the employees) and external communications (towards customers, suppliers and interest groups). In the case of a functional or divisional clustering of the projects, a further translation is often necessary before it may appeal to the outside community. In addition, this will create confusion within the company itself. It is also recommended to maintain consistency in the themes over the years. While minor modifications may be needed, profound up-front thinking enables the marketing team to develop company-specific themes that can be exploited over an extended horizon. Changing themes rapidly and radically will create misapprehension, change-fatigue and cynicism. To use the terminology of Chapter 5: internal change must be *branded*!

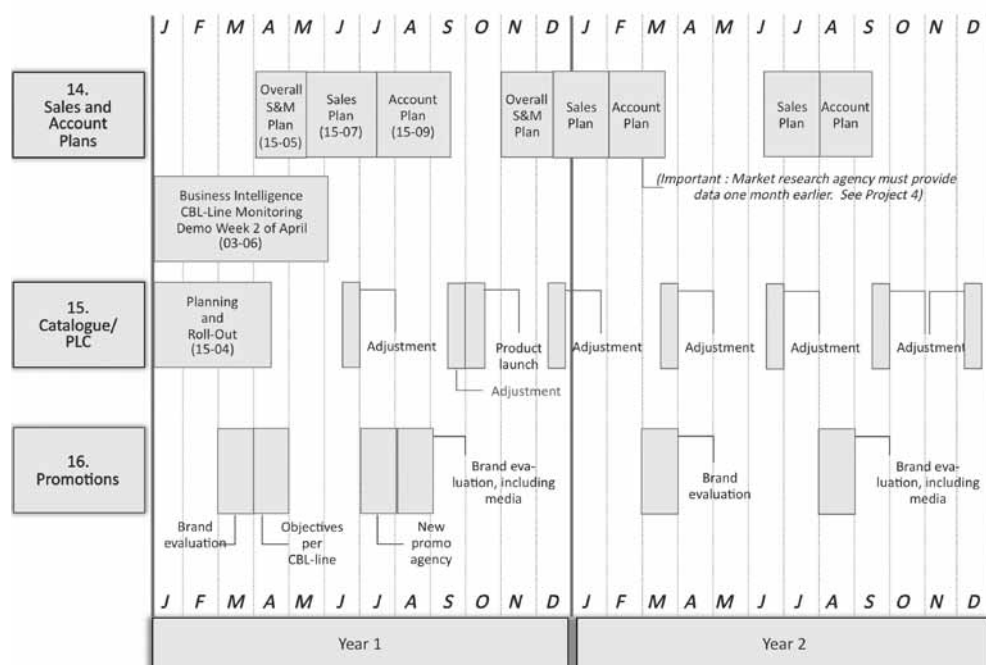


Figure 7.6 • Project Roadmap Detail (Example)

We often use the example of Figure 7.5 and 7.6 in our classes and in-company marketing sessions. One question we always ask our participants is: “How many of the projects that were defined in this company at the start of the two-year period were still on target two years later?” The number most frequently mentioned (the modus) is two. This reveals much about the sense of realism that prevails in many companies. In reality, seventeen of the nineteen projects were on target at the end of the two-year time span. Only two projects were *not* on target (they were slowed down because of dependence on the American headquarters and other subsidiaries). This shows that strategies can be successfully implemented, as long as the agenda for implementation is carefully crafted. But it remains hard work, as Peter Drucker observed in his inimitable style:

*“In innovation, as in any other endeavour, there is talent, there is ingenuity and there is knowledge. But when all is said and done, what innovation requires is hard, focused, purposeful work. If diligence, persistence and commitment are lacking, talent, ingenuity and knowledge are of no avail.”*⁴⁹

EXPANDING THE COALITION

There is a close correlation between a project roadmap and the quality of the project owners and co-workers. Employees are needed who are willing to take on the projects and view them as their personal challenge. From such a perspective, project leaders are *intrapreneurs* who run a company-in-the-company. This small, internal company does not have a reason for existence in its own right. However, the success of its implementation is necessary to the health of the company as a whole. The company’s pool of young high potentials forms a good catchment area from which to select project leaders. The business cards of such persons look like this: thirty-something with a varied experience, able to analyse business problems thoroughly, capable of motivating others and willing and able to play the internal game of politics. High potentials see the project roadmap as an excellent opportunity to prove themselves in the eyes of their peers and superiors. It is precisely this pursuit of their own self-interest that helps to promote the organisation’s interest and prevents roadmap milestones from becoming implementation tombstones. Good project owners are entrepreneur, manager, strategist and relationship therapist, all rolled into one. Cultural differences do exist, however. The entrepreneurial loner is less esteemed in Western European than in American companies. In Western Europe, group entrepreneurship clearly dominates.⁵⁰

There is, of course, a catch in all of this. If senior management deploys high potentials, it cannot easily turn back the clock. High potentials clearly under-

stand the fine difference between loyalty and naivety. They will not settle for a lesser situation and will prefer to explore other business horizons, if their project is cancelled. Assigning high potentials to critical projects is equivalent to awarding an insurance premium to protect your company against the eventual quarterly short sightedness of management executives. Having said this, high potentials remain something of a rarity. In some organisations they represent a pressing issue. A West-European telecom company identified 150 high potentials for an intrapreneurial development programme. Unfortunately, only three out of these 150 (2 percent!) responded to the challenge...

Project coordination is also critical. A leader from the top of the organisation is best suited to this task, especially when it involves a thorough adjustment of the business model, with various divisions or departments affected, or when the organisation is large or internationally dispersed. Such a sponsor legitimises the programme and creates the necessary sense of operational expediency throughout the company. The role of the sponsor as the *bonus pater familias* of the idea of change must begin at the start of the implementation process. Informing and involving parties at an early stage and coordinating the different initiatives requires a degree of ceremonial communication that evokes a feeling of importance in those taking part. This ground floor involvement is crucial for the implementation of cross-functional change strategies. Everybody should know what everybody else is up to: inadequate up-front involvement suffocates future commitment.

CREATING MOMENTUM

Everybody who starts a change process needs an initial success to help them on their way. Initiating an agenda for change will usually occur amidst a whole host of other operational worries. It is important to create and celebrate early wins. According to the former CEO of ABB, Percy Barnevik:

*"You have to exploit your success stories to break resistance. If you want to break direction, you have to shake people up, not by threatening them, but by illustrating in a similar situation what can be accomplished."*⁵¹

Strategic change will involve cross-functional, cross-divisional and even cross-echelon interactions. In large, established firms, this is not standard practice.⁵² It is important that the organisation sends signals of praise for employees who embrace the agenda for change. Early adopters should be sought out, recognised and explicitly praised for their endeavours. For many employees, the change agenda is an imposition on top of their existing agenda. The worst thing

that senior management can do is to neglect or ignore these early supporters of the change strategy. Instead, they need to realise that it is the first *followers* who define change leadership; it is their leadership – and *not* the leadership of the current management – that discovers, initiates and drives the change process.⁵³

SUSTAIN THE EFFORTS

MOBILISE COMMITMENT

Let us be clear: building sustainable business is everybody's responsibility. Everybody must understand how they can contribute to the competitive power of the firm. Employee commitment is needed, not only to the overall strategy, but also to individual responsibilities.⁵⁴ However, it must be remembered that "organisations rarely do exactly what they are told to do."⁵⁵ Convincing co-workers that current routines need change requires unlearning and forgetting.⁵⁶ Even in companies that are not performing well, many employees continue to enjoy the comfortable yet dysfunctional habits of the past. In this sense, the past and the present jeopardise the future. Even genuine capabilities have a downside: they become core *rigidities* when change is needed.⁵⁷ Change requires employees to reinvent themselves.

Employees' opinions about strategic marketing decisions depend on where they are located within the organisation.⁵⁸ Marketers have the difficult task of convincing the rest of the organisation to board a train that may ride into unknown business territory. Employees at all levels must be able to recognise and understand their own position in the strategic agenda.⁵⁹ In most instances, marketers lack formal authority outside their own department. This calls for the kind of marketing leadership we discussed in Chapter 4, in order to convince other functions and divisions to embrace the roadmap at all levels. This is not easy. Even President Obama, for all of his marketing success, has not been successful enough in bringing people on board the *Change Train*:

*"Given how much stuff was coming at us, we probably spent much more time trying to get the policy right than trying to get the politics right. There is probably a perverse pride in my administration — and I take responsibility for this; this was blowing from the top — that we were going to do the right thing, even if short-term it was unpopular."*⁶⁰

Time is the 'most important commodity' of the marketing professional.⁶¹ This time must be devoted to action and communication that can sustain the initiative and bring about organisation-wide cooperation. Mintzberg sums up the essential balance in a few words:

“The manager who only communicates or only conceives never gets anything done, while the manager who only ‘does’ ends up doing it all alone.”⁶²

This means that actions and communications must, *at all times*, be in synchronisation with the strategic ambition and the project roadmap. From an internal marketing perspective, it should be noted that also marketers cannot *not* position (see Chapter 5). The task becomes even more challenging if one considers the context of an international corporation with multiple subsidiaries.⁶³

Implementation will not be accomplished if organisational values and individual mindsets are not aligned with the roadmap – and vice versa. Some executives dismiss organisational culture as too soft to be of any interest: “The only culture round here is in the yoghurts in the canteen,” was the caustic appreciation of one executive.⁶⁴ ‘Hard’ values may end up in a spreadsheet, suggesting objectivity and managerability; but the soft values are the true drivers of organisational change. The true test of marketing leadership is impressively challenging: without any form of formal authority, to simply walk the talk outside marketing walls, changing individual mindsets and behaviours in order to accomplish the company’s BHAG and sustain its successful implementation over an extended period of time:

“Leaders are tested on a daily basis for the consistency between their walk and their talk. And, yes, they can be forgiven and sometimes their behaviour can be forgotten; but more often, they are judged on their most recent actions. They, and their visions, are judged by how well they have mobilised commitment, by how new ways of working have become routinised and, finally, by how well the overall culture, including their own behaviour, supports and reinforces their vision. It is no small task. But it is for no small reward.”⁶⁵

PEOPLE ON THE TRAIN

Developing a new business model often implies a thorough change in an organisation’s core processes. Without the right co-workers, this change is impossible. As mentioned in Chapter 5 when reviewing the new product portfolio, the reality is often harsh: *lightweight people cause heavyweight problems*.

If we compare organisational change to a train full of people, we can distinguish four separate groups. The first group helps you to turn the train in the chosen new direction. An organisation needs people in this group – but not too many of them. Otherwise, the company will run the risk of turning into an expensive NATO debating society — *No Action, Talk Only*.

The second group comprises a larger group of passengers who prefer not to lead, but who understand that change is necessary. Their agenda may be full or they may feel dangerously inexperienced in the new situation. If you communi-

cate with them in the right way, they will enjoy the ride. You need this group.

The third group is often, proportionally speaking, the largest one. This group views the road ahead with trepidation. Change is seen as a passage through an unlit tunnel. However, since business innovation and business development imply achieving extraordinary goals with ordinary people, this third group is also necessary to your project. In turn, this reasoning implies that truly extraordinary leaders must do ordinary things very well by successfully motivating these ordinary people.⁶⁶ If you persuade these doubters gently, they will travel with you. In this sense, ordinary people may turn into extraordinary resources for the organisation.

Finally, there is a fourth group of passengers who do not like the proposed agenda for change and will do whatever they can to keep the train on the current tracks. They represent a virus that can spread much negative comment and gossip within the company (this may be a downside of viral marketing and social media — and therefore another urgent reason to get an organisation's ideas about word of mouth properly organised and defined). They are dangerous adversaries who are well-versed in amiably destroying a company's working atmosphere. It is better to lose this group of people rather than keep them. "It is dangerous to be reasonable with stupid people," a mobster observes in one of Mario Puzo's novels. Getting rid of unprofitable employees saves the company major opportunity costs.

"We truly excel in thinking in reverse. Have you seen any visionaries in our organisation? Of course not, they have all left the firm!," a partner of an audit company once exclaimed to his colleagues. Fragmented commitments and competences within an organisation create fault lines in the project roadmap. A competitive organisation is only possible if there is a solid network of competent people who are passionate about their work. Bartlett and Ghoshal refer to this as the *building* challenge (attracting and retaining competent personnel), the *linking* challenge (networking among personnel) and the *bonding* challenge (the passion personnel shows for the organisation).⁶⁷ Cirque du Soleil lists 30 talent scouts on its website, holds multiple auditions to select the best performers, organises long boot camps (often lasting months) to perfect the skills of new recruits, and has its veterans serve as mentors to create the much wanted 'band-of-brothers' feeling.⁶⁸

In this respect, management has a major responsibility. While some personnel are beyond improvement, many companies use task training and cultural education (in addition to formal education) to align the competences of the personnel with the requirements of the future business model.⁶⁹ There are no quick fixes as far as employee mindset is concerned.⁷⁰ During a presentation at an IT company, we asked the participants to write their job titles on their

nametags. This simple action allows us to understand someone's frame of reference when they ask a question. The information we received in advance from the employer showed that 15 account managers were present, along with one senior account manager. However, the participants themselves spontaneously described their jobs as 'Sales Manager' and 'Senior Sales Manager.' Yet there is world of difference between account management and sales management! This is a classic case of uptitling: the nametag displays a fancier name, but the approach and evaluation remain the same. Implementing account management, without considering its human resource aspects, simply reinforces the status quo and – even worse – triggers irritation.

TRACK AND CELEBRATE PROGRESS

There are many schools of thought in the strategic management literature.⁷¹ The 'emergent' school holds that companies must be able to deal with emerging opportunities. In short, companies must be able to cope with events that occur outside the scope of their original vision. The entry of Honda into the American motor market provides a good example. Honda's success was not so much the result of the quality of its original vision, but more the result of its adaptive persistence.⁷² Management needs to continuously reinvent itself.⁷³ A project roadmap involves multiple interdependencies. The delay of a project on a critical path of the full roadmap jeopardises the success of the complete operation and erodes the company's competitiveness. A strategy has an order date, a delivery date and a best-before date. Decisions involving the postponement of milestones or major reorientations of the strategic agenda must not be taken lightly. With the exception of the fourth group of people described in the previous paragraph, nobody in the organisation intentionally kills the company's strategy. However, extra resources and additional time are often wasted resources and lost time. Continuous tracking of progress in relation to the milestones is necessary (see Chapter 8).

Unfortunately, under the influence of writers such as Mintzberg⁷⁴ and Hamel and Prahalad,⁷⁵ it became fashionable in the mid-1990s to surround strategic planning with a cloud of suspicion. Formality was viewed as an evil. However, there is no replacement for a thorough understanding of a company's internal and external environments. "History shows that an owner-entrepreneur can rely on a flash of genius. I have worked with entrepreneurs for forty years. Those who wait for a flash of genius, fizzle out," observes Peter Drucker. Marketers who fail to plan, plan to fail.

It is the eclectic myopia of an outsider that attributes permanent successes to entrepreneurs in spite of a lack of market knowledge. When Akio Morito devel-

oped Sony's us strategy, he had already lived in New York for three years. While it may not have resembled a traditional market study, his stay is best viewed as an impressive anthropological expedition to better understand the New Yorker. A strong internal and external orientation allows for dramatic improvements. When designing the Renault Twingo, the successor of the highly successful Renault 4, Renault allowed some important parts to be designed by their suppliers. The suppliers were able to manufacture the components at a cost price that was 17% below the most optimistic estimation of Renault's own cost department.⁷⁶ Enough said!

BUSINESS ROADMAPPING AUDIT:

QUESTIONS FOR THE MARKETER

FROM THINKING TO IMPLEMENTATION

- *How proficiently do we conduct our strategic planning processes? What is the value added, if any, from the external experts who we involve in our strategic planning?*
- *What is the result of our investigations about the future and the activities that are needed to generate an economic rent? How good are we at converting such strategic ideas into real action? Do we have a strong track record of achieving our business goals? What are the major disconnects that explain unrealised initiatives?*
- *Are strategic changes easily accepted by key stakeholders?*
- *Do we balance present and future in the planning and implementation phases?*

SEEING THE NEED FOR CHANGE

- *Do we have a powerful coalition for change? Do we connect A-marketers to A-plans?*
- *Is the BHAG communicated strongly within the organisation? Do the employees see the need of the new business model (sense of urgency)? Do they see ‘the pain of no gain?’*
- *Does the coalition for change understand the barriers that confront them?*

GETTING STARTED

- *Does the organisation maintain the necessary effort to accomplish the implementation programme?*
- *Is the implementation embedded in the day-to-day running of the organisation? Are action plans developed for each project (project leader, team members, resources, time-frame, milestones, expected return and what will be done better or differently than the competition)? Do we have strategic themes that enhance the internal and external acceptance of the changes?*
- *Is everybody convinced that building sustainable business is everybody’s responsibility? Do we have high potentials and interested sponsors who want to be front runners in the implementation of this plan?*
- *Do we tell success stories to others? How do we reward the champions of change?*

SUSTAINING THE EFFORTS

- *Do our leaders 'walk the talk?'*
- *Who are the people on the train of change? Who is thrilled to be on the train? Who understands why this train is needed? Who is afraid? Who wants to hinder the train from reaching its destination?*
- *Do we measure and celebrate progress?*

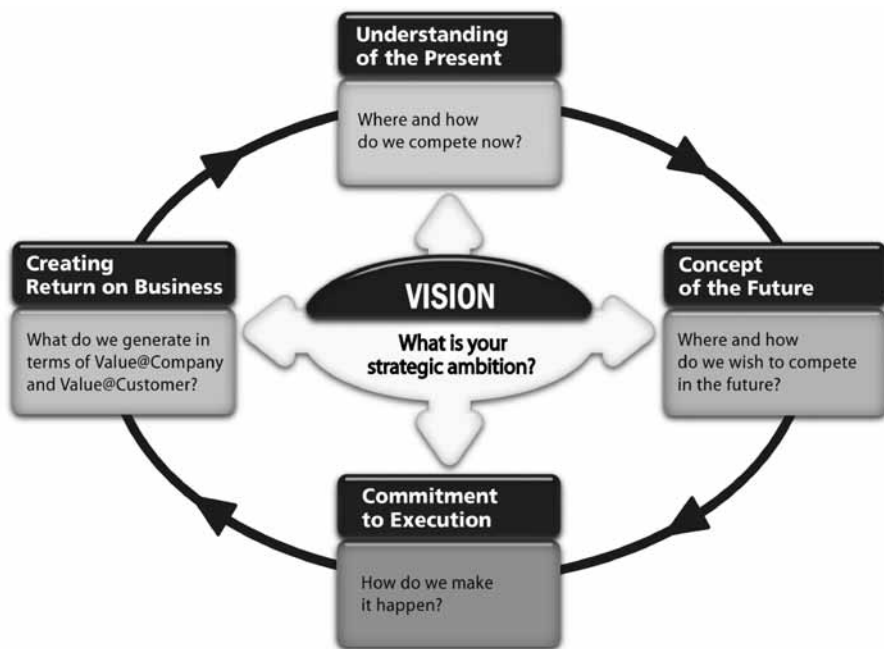
CHAPTER 8

RETURN ON BUSINESS

Don't teach the standards.

Train people by using the principles.

SIR DAVID TWEEDIE¹



RETURN ON BUSINESS

A FACT-BASED PERSPECTIVE ON 'RETURN ON MARKETING'

Marketing is the process of building sustainable business. Consequently, it is mandatory that professional marketers regularly pose themselves the following question: "How do we perform in this task of building sustainable business?" This chapter elaborates on a wide range of marketing metrics that people responsible for marketing and its performance can use. Our basic premise is that all persons, functions and departments in a company are involved in marketing. We have no desire to exclude any of the CXOs: CEO, CFO, CIO, CMO, et cetera.

Assessing 'Return on Marketing' provides an *ex post* perspective on marketing inputs and outputs. In turn, it positively influences company performance and the stature of marketing within the company.² Marketing needs measurement – and somebody has to do it. However, it appears that nowadays “marketing is one of the least understood, least measurable functions at many companies.”³ This contrasts sharply with the euphoric title of a classic 1989 marketing article: “The marketing audit comes of age.”⁴ The practice of the marketing audit has matured quite slowly, it seems.⁵ Fortunately, marketing thinking has recently awarded this issue substantial attention.⁶

“To measure is to know” is a frequently used expression among academics, but it has found little translation into marketing. Sir George Bull, a marketing guru in the British beverage industry, brilliantly expressed the feelings of many:

“[The marketing function] bears all the hallmarks of abstract art – it costs an arm and a leg, it bears only a passing resemblance to real life and you’re never quite sure what you’ve got at the end of it all.”

This chapter provides metrics that can be used and understood by all relevant persons. One definition of a metric is ‘a measuring system that quantifies a trend, dynamic or characteristic.’⁷ Metrics create and facilitate the understanding of marketing and its results, and the potential consequences for planned action. A good scoreboard communicates and clarifies the marketing strategy and its objectives. It aligns the human resource sections of the company project through the consensus and the commitment it creates. Abstract objectives (‘we excel in service’) find a translation into operational terminology (‘the maximum waiting time for the telephone is 15 seconds’). Budgets and resources become streamlined and can be properly adjusted, based on feedback. Coupled to the right incentive systems, such feedback further motivates employees.⁸

A marketing scoreboard introduces facts into a commercial discussion. Issues that are made measurable also become visible. While abstractions may lead to agreement more easily than facts do, this does not help the company in its day-to-day operations. Some marketers equate the success of an assessment meeting with the extent to which they succeed in hiding their own failures! Marketing, however, only works when people commit themselves. For example, a key ingredient in building a formidable marketing engine within GE involved the development of a *Maturity Evaluation* process. Eight capabilities were defined, comprising 35 skills and 140 definitions. This made it “impossible to fake your way through.”⁹

Business roadmapping needs a multifunctional scorecard. There is no single indicator that is perfect in this respect; this is why a scoreboard is likely to

contain a portfolio of measures. Having measures from multiple viewpoints and sources allows for validating and cross-validating of data, thereby facilitating well-grounded marketing strategies. Nevertheless, marketing must refrain from including too many criteria in the assessment. It must not become a fetish of marketing professionalism.¹⁰ Common sense dictates that the focus should be set on information that *'cannot be ignored.'*¹¹

THE BALANCED MARKETING SCORECARD

Customers and the media judge a wine harvest by the quality and the quantity of the end product. A wine farmer will use his common sense to make an assessment of the annual harvest based on *the year as it proceeded*. When and for how long did it rain? When did the sun shine? What was the average temperature?

Just like an experienced wine farmer, a company needs to monitor the relevant processes without becoming a politbureau that kills entrepreneurship. The *'balanced scorecard'* is an excellent example of systematised common sense in business life.¹² It translates the business vision into daily practice by linking action to measurable objectives. These objectives have a balanced distribution over finance, internal business processes, learning processes, growth and customer response. The main principle of such a scoreboard is that if you cannot measure it, you cannot manage it.

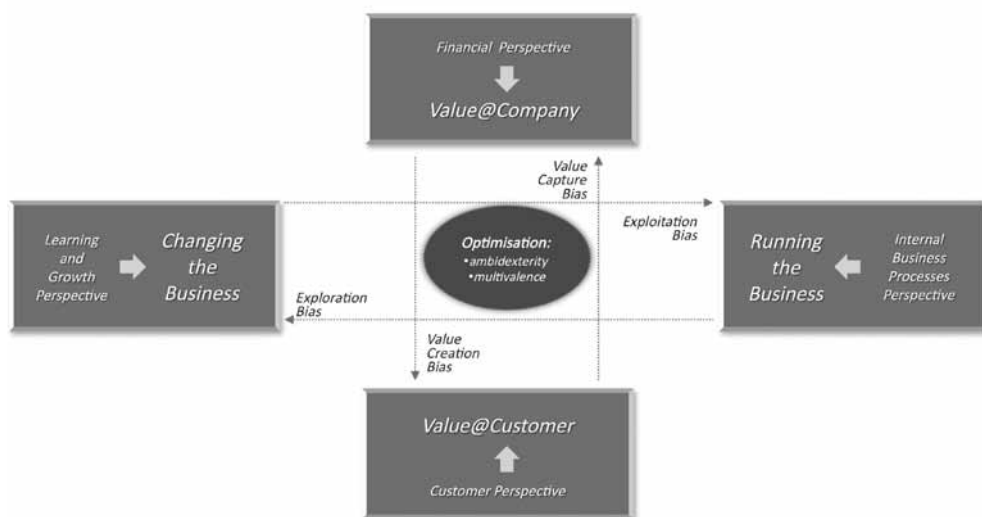


Figure 8.1 · Balanced Marketing Scorecard

In light of the sustainability discussion in Chapters 4 and 7, we may usefully translate the original four dimensions into respectively: value@company (e.g., revenues, margin, commercial growth, economic value added); value@customer (e.g., number of complaints, brand evaluation, customer satisfaction, percentage of customers lost); running the business (e.g., sales productivity, resource efficiency, promotional responses, Internet traffic, customer service); and changing the business (e.g., training, introduction of new products) (see Figure 8.1). Value creation for the customer and value capture for the company often act in opposite directions. Greater value creation for the customer frequently occurs at the expense of the value captured by the company – and vice versa. Similarly, a greater focus on business exploitation often reduces the resources that can be allocated to business exploration – and vice versa. However, strategic marketing is not about minimising one dimension in the scorecard and maximising the other; the central task is one of *optimisation*. The goal is to accomplish *multivalence* (value for the company *and* value for the customer) and *ambidexterity* (business exploitation *and* business exploration).

In this chapter, we will focus on these four themes. However, we advise the reader to customise this measuring instrument in such a way that it encompasses the variables specifically needed by his own organisation. On the playing field of differentiation, the pay-off from doing the same things as the competition is very low. The original balanced scorecard must be viewed like a measuring instrument in physics: if it does not measure what *you* need, change the instrument. It may decrease the ease with which a company can be compared by financial analysts – but even so, this is exactly what companies need to perform in the market place. For example, a comprehensive stakeholder approach implies the possible extension of the marketing scope in order to include stakeholder interests other than the basic interests of shareholders, customers and employees.¹³

A properly designed balanced marketing scorecard keeps marketing management well informed and ensures that they do not take their eyes off the road. Key criteria for good measurement tools relate to their metric quality, their ease of use and their relationship to the underlying company strategy.¹⁴

- *Metric quality*: Good performance indicators are valid and reliable. Validity requires that measuring tools actually measure what they are intended to measure. For example, to what extent does the ‘number of lost customers’ really indicate ‘customer satisfaction?’ Reliability means that changes in a score are the result of true changes, not of noise or error.
- *Ease of use*: Good performance indicators are those that can be efficiently collected, are easy to understand and easy to access. One often hears industrial

marketers at the Wailing Wall, complaining that they have little knowledge of their market share. Easy access (particularly in large companies) requires a well-functioning IT infrastructure to collect consistent data and create an up-to-date picture (for example, of customer data collected at customer visits by sales representatives).

- *Relationship to the underlying company strategy:* Finally, the balanced marketing scorecard must relate closely to the business roadmap. This implies a natural diversity in the nature of the performance parameters. This in turn means that a distinction will often have to be made between short-term and long-term metrics.¹⁵

MARKETING ACCOUNTABILITY

We have a healthy suspicion when it comes to delays of whatever kind in the implementation of the project roadmap (Chapter 7). Nevertheless, during periods of turbulence, some adjustment may be called for. “If you can find a path with no obstacles, it probably doesn’t lead anywhere,” the American actor Frank A. Clark once remarked. Organisational adjustment requires a human willingness to change. Managers conveniently assume that the dangers of slow responsiveness reside almost exclusively in the lower ranks of the organisation. To some extent, this may be true. Change programmes in today’s modern organisations succeed each other at a rapid rate, leading to change-fatigue on

'We continuously evaluate the implementation of new market strategies'

6% SD	21% D	32% N	37% A	4% SA
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'We have become control freaks. We continuously measure progress'

15% SD	36% D	25% N	18% A	6% SA
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Common sense prevails in tracking the implementation of new market strategies. The implementation of new marketing is monitored, but not in an excessive manner. (SD=Strongly Disagree – D=Disagree – N=Neutral – A=Agree – SA=Strongly Agree)

the work floor. Employees refuse to be swayed by the important issues of the day: “Relax, keep cool. This management fad will soon die away.” This is a cynical approach that has caused some companies to rot to the core. However, the top ranks of management are also part of the problem. Some managers cannot accept and digest the failure of their original strategy, clinging fanatically to the set course. Narcissism is a bad factor in driving change. There are some “roosters that are proud to sit on the biggest pile of manure.”¹⁶ Managers must keep an enthusiastic yet realistic eye on the road ahead of them – and on the road already travelled. Of course, there is nothing wrong in looking back on your achievements with pride – but preferably not with awe. A company needs rational adjustments. The film *Titanic* was a monster hit at the box office, but in real life it was a disaster – and the consequence of arrogant captainship. Every student of business administration learns the difference between single-loop learning (adjusting activities when the objective is not reached) and double-loop learning (re-assessing the initial objectives).¹⁷ In practice, double-loop learning often ends belly-up as single-loop learning.

To appreciate the value of the concepts discussed in this chapter, it is necessary for managers to take heed of the following advice. Strategic marketing projects and business plans follow the logic of the ARCI system.¹⁸ ARCI stands for Accountable, Responsible, Consulting and Informed. These are the four roles a manager or a team *can* assume when it comes to the implementation, control and evaluation of marketing strategies. These roles automatically state which information should reach the manager and how he should act upon it.

- If a manager is accountable for a project, the project results will end up on his or her desk, either directly or indirectly. For instance, a CEO is accountable for a company’s HR policy, but is not responsible for implementing that policy. In this sense, the concept of accountability is closely related to ‘answerable’;¹⁹
- When a marketing manager is responsible for a project, it means that he or she must ensure that the project is completed. If the project succeeds, the manager receives the credits – or the blame if it fails;
- A consulting role exists when a marketer is contacted because he or she has information that may be critical to the success of the project (for instance, when issues in the project are unclear);
- An informing role means that a marketer gets information on the progress of the project when his or her job may be affected by the project in question.

Being accountable or responsible means that the marketer will have executive powers of some sort. When a marketer is in a consulting or informing role, this means that those with executive powers need to (or wish to) consult him/her or

have an obligation to inform him/her. Such roles, however important, are non-executive in nature.

VALUE CAPTURE AND VALUE CREATION

FINANCIAL RETURN ON MARKETING

“Today’s boards don’t need chief marketing officers with creative flair but no financial discipline. They need ambidextrous marketers who offer both.”²⁰ The principal language in business is P&L – companies and their CEOs talk in terms of profit and loss. The 1969 Woodstock festival was successful in every respect – except the financial one. The organisers needed until 1980 to pay back the \$2 million debt it created.²¹ Following the maxim set forth earlier in this book, one of our long-term business clients remarked: “Without a P&L statement I do not enter into a discussion with any of my co-workers. It is just a matter of systematised common sense.”

For many managers, there is only one financial concept that matters for the proper assessment of marketing: the number at the bottom right-hand corner in a profit and loss statement. In other words, it is the bottom line that counts. “You’re building the brand, but killing the business,” retorted one CEO to his marketing manager. In similar vein, the successful vice-president of the local operations of a renowned international entertainment company remarked:

*“It’s all about my four Ps of marketing: profit, profit, profit and profit. I can’t fill up my car’s fuel tank with a percentage increase in profitability... with profits in cash, I can.”*²²

To be able to make statements about if, why and how a company makes a profit on its activities, two concepts deserve extra attention – costs and profits. In everyday terms, costs and profits are easy to define. Yet when it comes to theory *and* practice, both concepts appear difficult to encapsulate in a single, persuasive and generally acceptable definition. Costs come in many varieties: acquisition costs, communication costs, capital costs, depreciation costs, distribution costs, manufacturing costs, marketing costs, overhead costs, retention costs, R&D costs, sales costs... The list is virtually endless. In principle, costs are the expenditures needed to create value for the organisation and its stakeholders, while simultaneously creating value for the customer, both in a sustainable manner. Some costs need to be broken down into fixed and variable costs, based on whether they change per unit manufactured, delivered or sold (variable costs) or not (fixed costs). There is also debate about whether spending

can be seen as a cost (immediate write-off) or as an investment (depreciation over a number of periods/years). For a simple consultancy firm, with a single employee, costs and their definitions are easy to understand and calculate. For a multinational company, costs and their allocation may be very complex, leading to high expenses on accountancy and tax advice.

Profit, according to common wisdom, is more a matter of opinion than fact:

“Over time, the income statement and the cash flow statement in a well-run company will track one another. Profit will be turned into cash. (...) Just because a company is making a profit in a given time period doesn't mean it will have the cash to pay its bills. Profit is always an estimate – and you can't spend estimates.”²³

It is perfectly possible for a multinational corporation to report a profit under European legislation, whereas the same figures will result in a loss in the USA.²⁴

Assessed over time, against the competition:

- Segment volume
- Segment prices
- Price premium
- Market share (in units; in value)
- Share-of-customer
- Customer/segment cost-to-serve
- Customer acquisition cost
- Customer profitability
- Unprofitable customers
- Customer switching costs
- Customer life-time value
- Variable and fixed costs
- Direct and overhead costs
- Marketing costs
- Contribution margin
- Sales revenues per employee
- Return on sales
- Return on investment
- Economic value added
- Shareholder value

Table 8.1 • Examples of Financial Metrics

Although this is the stuff that consultants dream of, the basic premise is that net profit is what is left over from revenue once all costs have been subtracted. This financial contribution justifies and allows the allocation of resources throughout the company.

We have summarized suggestions for financial metrics in Table 8.1 and the operational working of selected key financial metrics in Table 8.2.²⁵

Profitability is often expressed in percentages, in order to create an internal benchmark. Based on the net profit metric, we can calculate the Return on Sales (ROS). This is the percentage that results from dividing net profit (in €) by sales revenue (in €). This percentage can be used to compare different business units within a company or different companies across an industry. However, this measure does not take account of the cost of capital or the investment that companies need to make, in order to create this net profit. A related -and popular - measure is Return on Investment (ROI), which is the ratio of net profit (in €) over investment (in €).

Profitability can also be expressed as economic profit. Companies use acronyms such as EBIT and EBITDA (earnings before interest, taxes, depreciation and amortisation) or EVA (economic value added) to refer to this economic profit. The latter measure has the distinct advantage that it is a currency metric and adjusts for the cost of capital incurred by a company. However, these qualities

Market share (%)	= [Unit Sales / Total Market Unit Sales] * 100
Relative market share (I)	= [Brand Market Share / Largest Competitor's Market Share]
Share-of-Customer (%)	= [Unit Sales / Total Category Purchases by Buyers] * 100
Customer Lifetime Value (CLV) (€)	= Margin _€ * [Retention Rate _% / (1 + Discount Rate _% - Retention Rate _%)]
Year-on-Year Growth (%)	= [(Value in year T _{€, #, %} - Value in year T-1 _{€, #, %}) / Value in year T-1 _{€, #, %}] * 100
Unit Margin (%)	= [(Selling Price per Unit - Cost per Unit) / Selling Price per Unit] * 100
Break-Even Volume (#)	= Fixed Costs / (Selling Price per Unit - Variable Cost per Unit)
Price Elasticity (I)	= Change in Quantity _% / Change in Price _%
Return on Sales (ROS) (%)	= [(Total Sales Revenue - Total Costs) / Total Sales Revenue] * 100
Return on Investment (%)	= Net Profit / Investment
Cost of Capital (€)	= Capital Employed _€ * Weighted Average Cost of Capital (WACC) _%
Economic Profit (€)	= Net Operating Profit After Tax (NOPAT) - Cost of Capital

Table 8.2 · A Selection of Key Metrics (Source: Farris et al., *Marketing Metrics*, 2006)

ff (monetary value), % (fraction), # (count), I (index)

also make it a more cumbersome metric to calculate. Economic profit is equal to the net operating profit after tax, minus the cost of capital. The cost of capital is the money a company pays to obtain its funds (loans and equity).

The company may also want to analyse and track the return of specific projects. An easy method is to assess overall payback time: how many periods (months, years) does it take for the project to recoup the money invested in it? The longer the payback period, the less attractive the investment. Other, more sophisticated methods involve the Net Present Value method (NPV) and the Internal Rate of Return method (IRR).²⁶

- NPV calculates the current value of future cash flows resulting from the investment. The future cash flows are discounted to a present value, in order to reflect the time value of money (€100 today is, *ceteris paribus*, worth more than €100 next year) and the risk (€100 in the hand is a certainty; a projected future €100 has not yet materialised and is therefore uncertain). Discount rates can be set on the basis of business literature, experience or research.
- The internal rate of return or IRR is closely associated to NPV; it is the discount rate at which the NPV of the investment is zero. As such, it specifies the maximum uncertainty that a company is willing to accept when making an investment. For instance, if a company has a standard policy only to accept those investments which yield an IRR of over 9% (the internal hurdle), this means that projects running a lower IRR – and therefore with higher risks – will not be accepted.

CUSTOMER PROFITABILITY

From a supply side perspective, satisfied customers are the mechanism through which a company creates economic value. Instead of focusing exclusively on product profitability metrics, companies may benefit from scrutinising customer equity data.²⁷ Customer lifetime value (CLV) is a forward-looking metric that places a monetary value on the relationship that a customer has with an organisation. The calculation is straightforward (see Table 8.2). One needs to know the actual or desired retention rate of customers and the discount rate. The formula works adequately when margins and retention rates do not fluctuate strongly over the relationship period. It is useful in determining the upper limit to spending on customer acquisition – once you know what a customer group could potentially yield in income, spending decisions are easier to make. Although the purpose of this metric is to attach a financial value to each individual customer, in practice it may be almost impossible to do so, especially in B2C markets. In B2C markets, it is customary to use segments or cohorts

instead of single individuals. In this way, a company follows a group of customers over their lifetime. In B2B markets, where the number of customers is typically lower, a separate analysis for each customer may seem easier to make. However, future cash flows linked to specific industrial accounts may be very difficult to estimate, since they may to some extent also derive from hard-to-estimate cross-selling opportunities, industry network effects and lead user-generated business insights (Chapter 5).²⁸

However appealing CLV might be as a concept, a number of warnings should be borne in mind when using it. Firstly, CLV is not a static phenomenon that, once calculated, remains unchanged. For example, banks discover that their student customers eventually graduate, find a job and move on with their careers. Pregnant women do not stay pregnant for the rest of their lives, and so their circumstances will change. CLV calculations should reflect such customer dynamics. Secondly, changes in major environments need to be reflected in the CLV. Thirdly, companies using CLV to allocate funds to groups of customers need not necessarily spend the most money on the most valuable customers. Instead, the company should allocate resources in such a way as to optimise the results of their customer portfolio. This may mean that more resources go into the segment of so-called second tier customers, to increase their profitability; or to move below-zero customers to a new segment or to a competitor. In this sense, Farris and others (2007) talk about rewarding, growing and firing customer groups. After all, “some customers are more equal than others.”²⁹

*“Marketers cannot afford to be democratic. They must invest their efforts and their budgets where they will produce the most return. The most valuable customers deserve special treatment to build and retain their loyalty. The risk of not giving it to them is great. If a marketer treats high-profit consumers like everyone else, they will treat the marketer’s brand like any other.”*³⁰

SHAREHOLDER VALUE

We now turn to the biggest beast in the zoo of metrics, namely shareholder value. This book finds itself at the important crossroads of strategy (value for the shareholder) *and* marketing (value for the customer) *and* planning (how do we choose) *and* implementation (how do we realise our choices). In successful companies, value creation for the customer and value creation for the shareholder form a symbiosis. In these circumstances, a good marketing strategy essentially becomes a business strategy. Market orientation is about pleasing all the organisation’s stakeholders; it is not about pleasing just a single stakeholder, i.e., the shareholder. In the light of the previous chapters, marketing as

we see it implies that an organisation defines and realises excellent customer value for a chosen target group, while simultaneously creating excellent value for the shareholders and employees.

The principle of shareholder value is that a company should be managed with the objective of maximising shareholder returns. To calculate shareholder value, the value of a company's debt must be subtracted from the total value of the company (or business unit). The value of a company (or business unit) can be determined through discounting future cash flows. The use of shareholder value analysis (sva) can be considered both from a financial and a marketing perspective. From a financial perspective, companies often use accounting measures (e.g., ROI and price to earning ratios) instead of shareholder value to evaluate their performance. However, using cash flows provides important advantages over using profits, the most important one being that cash flow calculations are more objective and less arbitrary.³¹ From a marketing perspective, marketing needs sva to prove its utility in creating long-term competitive advantage. Marketing strategy lies at the heart of sustainable value creation. There are four reasons why sva is of great value to marketing: (a) sva enables marketing managers to demonstrate how different marketing strategies increase the value of a company; (b) sva provides marketing with a stronger theoretical base; (c) sva encourages profitable marketing investments; and (d) sva penalises arbitrary cuts in marketing budgets that boost short-term earnings.

Shareholder value is judged to be the most important financial measure for many publicly listed companies and organisations. There are two major ways to create shareholder value, namely rationalisation and market-led growth.³² Rationalisation, often focusing on the short-term, can be implemented through cutting costs, cutting investments, raising prices and divestments. We have labeled this process 'business streamlining' (Chapter 5). It should be noted, however, that it is difficult to shrink your way to market glory. Market-led growth is the opposite of rationalisation, often has a long-term focus and is possible through exploiting current customers (market farming), finding new customers (market hunting) or creating new business (market making):

*"What Renault needs today is not restructuring. Renault needs growth, Renault needs products, Renault needs a brand image. And Renault needs management that commits itself to a very precise timescale."*³³

Shareholder returns come in the form of cash dividends and capital gains/losses on shares. Shareholder value is created when the market value of shares surpasses the book value of the shares. The market value of shares derives from investors' expectations of a company's cash-generating abilities. Market value

will increase when investors consider a company to be operating in attractive markets and pursuing effective marketing strategies. sva is a useful concept, but management and analysts need to be aware of the fact that it does not typically contain an analysis of multiple scenarios, but rather of a single one. Many CEOs and company boards have elevated sva to a tool for general decision making.³⁴ The biggest problem with sva – however useful an internal tool it may be – is that it by and large ignores the market. From a marketing perspective, sva also needs to look at how cash flows originate from the market and how the company can increase such cash flows.

Basically, sva meets with two types of criticisms: conceptual and behavioural.³⁵ Conceptual problems with sva reside in the fact that it more or less projects the present into the future in simple terms, without proper allowance for changes in external and internal environments. It excludes important non-financial drivers and focuses on internal variables that a company can financially quantify. sva leads to customers and employees being viewed solely as a means to the end of creating profits and enhancing the price of shares, thus instilling the idea in both groups that the company is using them.

There are also behavioural issues with sva. By simply comparing current alternatives, sva enhances internal competition – and this may not always be a good idea, since the best alternative within a company may not be a winning alternative in the market place, when compared to what the competition has to offer. Once marketers master the principles of sva, they may – as with all number-crunching exercises – focus on getting the numbers right rather than on getting their marketing strategies right. The real, value-creating and money-generating competition resides outside the company, and not within it. Finally, sva favours alternatives that can be expressed easily in monetary terms, but penalises proposals that may create radical or even disruptive innovations, which could propel the company into new markets and value spaces.³⁶

CUSTOMER METRICS

Ideally, customer metrics tell an organisation, *from the perspective of the customer*, how well the organisation is doing in terms of the value created by its product or services, the price incurred by customers, the company's image and its customer processes. When looking at the number of available customer metrics options, it is easy to become discouraged by the enormous choice. Without pretending to be exhaustive, a list on customer metrics could look like the one in Table 8.3. This almost excessive variety makes choosing difficult. The selected measures must reflect the relevant information a company needs in order to monitor the results of its marketing strategies.

Customer satisfaction (cs) metrics are nowadays used across the globe, in both small and large organisations, in B2B and B2C companies, for service and manufacturing companies, etcetera. Individual customers register their satisfaction with one or more dimensions of the supplier's offering. Aggregation of the individual data then leads to an overall picture of how satisfied customers are as a group. However, cs's widespread use cannot hide severe shortcomings. Perhaps the most important one is that cs should not be used in isolation. A sports company may be highly satisfied with a certain caterer for their employee events, but may switch to a newcomer who fits better in the company's strategic profile. Thus, *relative* cs may be called for in some cases. In this respect, there is also another issue that needs consideration. Customers always evaluate performance in relation to their expectations of the offering. Such expectations may arise from marketing communications, recommendations or previous experience. If customers are satisfied, this may be indicative of good performance – or low expectations. Conversely, unsatisfied customers may not necessarily indicate that something is wrong with the offering – it might simply be that customer expectations have risen. Either way, a company needs to investigate

Assessed over time, against the competition:

- *Brand recall (top-of-mind brand awareness)*
- *Brand recognition (aided recall)*
- *Brand strength (perceived relative brand value)*
- *Website use*
- *Social media conversations*
- *Preference*
- *Purchase intention*
- *Buyer readiness*
- *New customers attracted*
- *Trial rate*
- *Repeat purchase*
- *Customer satisfaction/delight*
- *Complaints*
- *Net promotor score*
- *Customer loyalty*
- *Lost customers*
- *Customer churn*

Table 8.3 • Examples of Customer Metrics

customer expectations of the offering's performance before reaching a conclusion for remedial action.

Although a cs survey is relatively easy to administer, the intricacies are not always well understood. Such a survey typically acts as a thermometer – when there are no disturbing values, business can continue as usual. Or can it? Not really, since we need to relate the survey results to the company's objectives and historical cs data. If we analyse the trends in the data, what do we see? We have seen a large retailing company compare their cs scores with the operating companies it supported. Such a comparison may trigger internal competition – we are not necessarily big fans of that – but totally ignore the customer, who also shops at other retailers. What do the competitors' cs scores look like? How well is a company doing relative to the competition? It is vital to do this – because this is precisely what the customer does: deciding who is performing better in the market. Customers make relative considerations, not absolute ones.

Loyalty guru Fred Reichheld is particularly critical towards satisfaction surveys and refers to this practice as a pseudo-science:

“Though the science of measuring profits had progressed steadily since the advent of double-entry bookkeeping in the fifteenth century, measuring the quality of relationships remained stuck in the dark ages, trapped by the pseudoscience of satisfaction surveys.”³⁷

Admittedly, loyalty is a stronger form of customer–supplier bonding. Customer loyalty is the extent to which customers repurchase the same brand or from the same supplier. There is a behavioural component and an attitudinal component to customer loyalty. Monopolists by definition have loyal customers, but only in a behavioural sense. The entry of a new player into the market may awaken existing customers' dormant desires to change or induce variety-seeking behaviour, as the introduction of Route Mobil next to incumbent ANWB (the Dutch Automobile Association) clearly showed. But there is also an attitudinal component. For instance, many men shave wet and for many of these shavers Gillette is their preferred brand. They are convinced that Gillette is the best brand for them (attitude) and most of them display true loyalty through their repurchase rates and convictions (behaviour).

This brings us to the next step: customer advocacy. When sons (and, these days, also daughters) of convinced Gillette users ask their parents which brand they should use for their growing grooming needs, the chances are that the parents will answer 'Gillette.' This phenomenon has recently attracted much business attention, since it contains the promise of more effective and less costly marketing: viral marketing, be it online or offline.³⁸ Pur, a water purification powder produced by P&G, can effectively lower diarrhoeal fatalities in develop-

ing countries. When senior P&G executive Greg Allgood, the brand ambassador of Pur, climbed Mount Kilimanjaro with 12 celebrities to boost awareness and raise funds, Pur attracted 50,000 Facebook fans in a single day.³⁹

Increasing the number of customers who are willing to recommend a company's offering to potential new customers now appears to be a useful addition to traditional marketing communications. The percentage of customers willing to recommend a company (promoters) minus the percentage of customers unwilling to do this (detractors) gives the so-called Net Promoter Score or NPS.⁴⁰ A high NPS clearly indicates that there are few detractors; a low NPS may mean nearly as many promoters as detractors or simply few promoters. NPS has not met with universal praise in academic and business circles, but it may form a useful alternative or complementor to traditional customer satisfaction measurement.⁴¹

Customer satisfaction, customer loyalty and customer advocacy may represent three phases in the lifecycle of a company. Being able to create satisfied customers paves the way for a license to *operate* in a market. Having loyal customers can create a license to *excel* in the market, whereas having customer advocacy may be an indication of a license to *lead* the market.

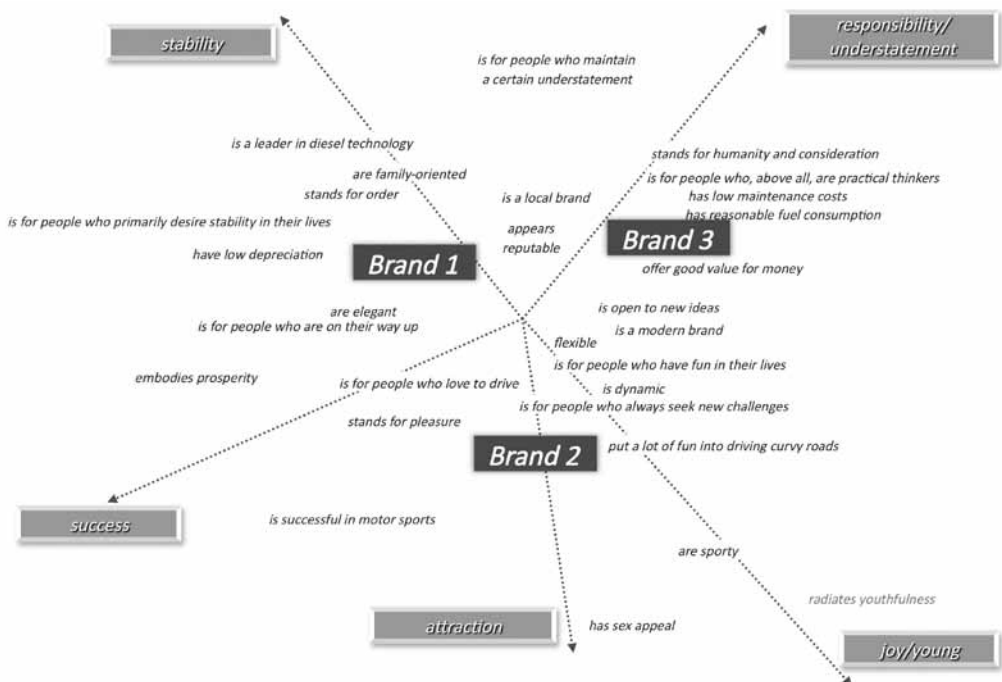


Figure 8.2 • Correspondence Analysis of Three Premium Automotive Brands (Germany) (Source of Data: gfk)

There are other approaches to assess the value offered to the customer. For instance, much brand research aims to position the brand optimally in the mind space of the customer (see Chapter 5). Companies must monitor the positioning of their brand in the market. Figure 8.2 shows a correspondence analysis⁴² of market perceptions in respect of three premium brands in the German market. Such continuous tracking enables the company to follow up on one of its key assets, i.e., its brand equity in the market place. For example, the chairman of Starbucks concluded that the rapid growth towards more than 13,000 shops had had a severely negative, commoditising impact on the brand experience. Customers found it “sterile, no longer reflecting the passion our partners feel about coffee.” In a memo to senior executives, the chairman proposed to revive the authentic Starbucks brand experience.⁴³

BUSINESS EXPLOITATION AND BUSINESS EXPLORATION

A company must optimally exploit its current resource configuration (‘running the business’) and prepare itself for the future (‘changing the business’). A key resource in this respect, operating on both sides of the strategic marketing equation, are the human resources of the organisation.

RUNNING THE BUSINESS

Much of the value creation of the business model hinges on the solid execution of a selected number of core processes.⁴⁴ Marketers must understand these core processes, communicate this understanding to the rest of the organisation and measure their progress relentlessly. A comprehensive study, analysing 25 product categories and 70 brands in France, found that product and distribution have a much larger effect on brand sales than discounting and advertising.⁴⁵ But guess what many marketers have their minds set on? That’s right: the next discounting and advertising campaign!

Current operational status is indicated by many financial and non-financial metrics. In evaluating current competitive power,⁴⁶ the most critical measures to assess relate to *the core processes in the current business model*. This effectively means: (1) conduct an in-depth examination of the company’s business model; (2) assess the key processes and assets; and (3) develop performance metrics for the selected processes and assets. As was discussed in Chapter 2, the customer value proposition is the result of many processes that do not strictly belong to the domain of marketing (e.g., logistics, IT, human resource management)! For instance, in the El Bulli business model (Chapter 2) some of the key metrics for

business exploitation would also include measures on the quality and motivation of the staff. A Canadian bank has shown us all how this can be done. The RBC Financial Group has won numerous customer awards. How did they do it? Here is an important part of the answer:

*"To really deliver on the brand promise, we've got to be able to capture the hearts and the minds of people. We focus on four things: greeting customers warmly, calling them by name every time, thanking them for the business and asking them if there is anything we can do to help them. And we measure that; currently we're up over the 90 percent level."*⁴⁷

This may look too simple to be true. But we have mentioned it before: doing simple things consistently well is not an easy task. Doing simple things erratically: that's easy! For many passengers, going through London's Heathrow Airport is a nightmare. Flight schedules seem to follow a random pattern, the broken English of many employees is hard to understand without subtitles and at check-ins and check-outs every passenger is treated as a likely terrorist.⁴⁸ Heathrow excels at being consistently inconsistent. Admittedly, this is excellence of some sort, but it definitely does not qualify as quality!

For many marketers, translating the company's enablers into measures is a challenging and inspiring exercise. It forces them to dismiss empty container concepts and to develop a hands-on, company-specific business model. It also helps them to streamline the core processes of the company.⁴⁹ It follows that the suggestions for business exploitation metrics in Table 8.4 must be viewed with the necessary caution. Each company – in fact, each business unit – may need to develop its own set of critical business exploitation metrics.

The business model approach, as we have defined it in this book, focuses on those critical success factors that are tickets to heaven (Chapter 2). Performance relating to basic requirements, i.e., tickets to ride, may need to be monitored as well. For instance, in many markets operational excellence is needed to maintain costs within a reasonable bandwidth. Basic quality problems affected some four to six million Xbox consoles upon its launch in the us, causing Microsoft to spend approximately \$1.15 billion on repairs.⁵⁰ Adding insult to injury, Sony took advantage and slashed its prices to steal market share.⁵¹ Similarly, the production and assembly delays of the new Airbus 380 were estimated to have caused more than €4 billion in missed profits between 2006 and 2010.⁵² On a smaller scale, and slightly more ironic – except for the passengers involved – a train ride between the two biggest cities in Belgium (Brussels and Antwerp) nowadays lasts 8 minutes longer than in 1935!⁵³ Yet the trade unions of the national railway service continue to claim they maintain high levels of operational excellence!

An important element in any business model is the human resource dimension. The above mentioned shareholder value analysis is actually the logical end result of optimising the value of two stakeholders, namely the employee and the customer. Indeed, “marketing is the means of achieving shareholder satisfaction through first achieving the goals of customers and employees.”⁵⁴ Research that looks into the relationship between employee and customer sat-

Assessed over time, against the competition:

- *Lead generation*
- *Response rate*
- *Cost per lead*
- *Quality of leads*
- *Lead conversion*
- *Sales force performance metrics*
- *Service orientation*
- *Partnership and distributor agreements*
- *Weighted distribution*
- *Share of shelf and visibility in store*
- *Average sales per point of sale*

Employee measures may include:

- *Headcount*
- *Employee capabilities*
- *Employee commitment*
- *Employee satisfaction*
- *Employee loyalty*
- *Customer-brand empathy of employees*
- *Corporate pride*

Measures outside the marketing function may include:

- *Resource efficiency (e.g., production, logistics, etcetera)*
- *Asset turnover*
- *On-time delivery*
- *Average stocks volume*
- *Working capital requirements*
- *etcetera*

Table 8.4 • Examples of Business Exploitation Metrics

isfaction shows a clear and persuasive positive link between both measures, suggesting that increased employee satisfaction corresponds with increased customer satisfaction.⁵⁵ Although the evidence is correlational rather than causal in nature, casual observation and common sense suggest that it is the employee who is key in providing customer satisfaction, especially in so-called 'high-touch' or 'high service' industries. An example of the latter was established at Sears, the retailer, where the application of the so-called service profit chain led to increased performance. Sears' management concluded that "... it is our managers and employees who, at the moment of truth in front of the customer, have achieved this prodigious feat of value creation."⁵⁶ This view allows companies to focus on the true drivers of sva, rather than focusing on sva itself. As Henry Ford once stated: "A business absolutely devoted to service will have only one worry about profits. They will be embarrassingly large."

Some authors see the employee as the first customer of the company and suggest a clear connection between employee satisfaction and customer satisfaction.⁵⁷ This is particularly so for so-called employer-brands – brands or companies that employees value – where the potential contribution of human resource management to shareholder value is estimated at nearly 17%.⁵⁸ Marketing executives all too often view the workforce as variable costs, especially when it concerns blue collar workers. Employees, however, must also be viewed for what they really are: revenue generators.⁵⁹ This also means that the employees have an important responsibility:

*"Freedom is only part of the story and half the truth.... That is why I recommend that the Statue of Liberty on the East Coast be supplanted by a Statue of Responsibility on the West Coast."*⁶⁰

Employee metrics come in a wide variety. Some of them are sales or revenue oriented (sales force effectiveness, sales funnel or pipeline, compensation) whereas others are satisfaction or experience related (employee buy-in, employee satisfaction, employee morale). The first measures are likely to indicate an employee's – or their function's – effectiveness and efficiency. Such measures are necessary to keep track of the extent to which business goals have been achieved. For Americans working at Toyota plants, it is quite a shock to see that the targets and performance of individuals are on display for all their colleagues to see! The objective, however, is to make problems manifest and to involve others in finding solutions.⁶¹

The second type of measuring is more attitudinal. Based on the level of an employee's understanding of and commitment to the organisational goals, it is possible to distinguish, for example, weak links, bystanders, loose canons and

true champions.⁶² One UK study suggests that one in five employees can be characterised as a ‘saboteur’.⁶³ Given that most modern societies are service oriented economies, the effect that employees can have on company performance is potentially enormous, as a study of US companies showed.⁶⁴ Another recent study among customers of coffee shops showed that the stronger the smile strength of the employee, the more satisfied the customers were.⁶⁵ In contrast, at the British Gas call centres job turnover amounted to 50 – 60 percent: more than double the industry standard. The new managing director reshuffled the senior management team and focused attention on the employees operating in the value zone (i.e., call centre staff and service engineers).⁶⁶

CHANGING THE BUSINESS

Moving toward a future goal or implementing a marketing strategy requires that an organisation changes direction, reallocates resources or both. For instance, the new head of the Siemens’ supply chain organisation has communicated three numerical targets to be achieved in the medium term: 60 (percent increase in pooled spending) – 25 (percent increase in sourcing in emerging countries) – 20 (percent reduction in the number of suppliers).⁶⁷ In making the transition towards *green retailing*, Carrefour is likewise tracking its progress. It scaled down energy consumption by 9.2% in 2007.⁶⁸ However, such tracking can also be successfully implemented on a much smaller scale. Management guru Jim Collins measures the time he spends on tasks related to research (target: 50% of his work time), teaching (30%) and other activities (20%). In other words, when we talk of ‘measuring’, this is not meant to be viewed figuratively: *Mister Good-to-Great* uses a stopwatch to track his time allocation!⁶⁹

Which metrics should be in the toolbox to assess the quality and the progress of these processes? Key insights will be provided by developing a visual representation of the future business model, comparing it to the present and highlighting the key tracks that require change. Formulating measurable targets for each of the processes and tracking these processes meticulously enables the company to achieve its intended business model. Following analysis, a consultancy firm once came to the conclusion that the *current* business model was actually a representation of the *intended* business model. Such delusions create comfort, but wreck competitiveness. Of the enablers that were included in the ‘present’ business model, eight were seriously under-performing (e.g., account management, risk management, market knowledge), another eight were not yet implemented at the intended level (e.g., portfolio of management consultants, project management, co-ownership) and only three were executed at the level of excellence that was required (including customisation and involvement).

We propose that a company should devote specific attention to the development of measuring systems that assess the company's vision, its external orientation, its focus, the extent to which change is formalised and the extent of professionalisation (Table 8.5 presents some examples).⁷⁰ To what degree do employees in a company share the same vision? A clear and compelling vision is necessary to instill a sense of urgency within a company. A sense of urgency is needed to create an atmosphere that encourages organisational change. Communicating this vision is essential to the success of organisational change and is facilitated by simple, visual representation.

The difference between the present and the future business models – and thus the differences between the customer value proposition and the enabling resources – fuel the inception and design of strategic projects. Whether the implementation of the marketing strategy is simple or complex, a clear project roadmap increases the chances of success. 'Formalisation' means the existence of a well-defined change programme that allows all the participants in the change process a clear view of how to approach the project (see Chapter 7). Within such a programme, employees have autonomy to execute their indi-

Assessed over time, against the competition:

- *Strategic and incremental innovation initiatives*
- *Percent of sales by new business during last three years*
- *Percent of sales by new products during last three years*
- *Percent of sales by new channels during last three years*
- *Active innovation support*
- *Perceived resource adequacy*
- *Quality of market intelligence gathered*
- *Leverage of global experience*

Employee measures may include:

- *Appetite for learning*
- *Awareness of company goals*
- *Commitment to company goals*
- *Commitment to deliver*
- *Employee training & education*
- *Freedom to fail*

Figure 8.5 • Examples of Business Exploration Metrics

vidual tasks as required. Milestones are needed, as well as criteria to assess the organisation's performance during the process. Sometimes the process may be too complex to measure the input, as is often the case in professional services firms. Such instances may therefore necessitate the measuring of output, rather than input.⁷¹ Monitoring the human resource dimension will also be important. Commitment, integrity and effort are vital for the successful completion of the project roadmap.⁷² Professional support of the change process is needed.

At the same time, the organisation does not function within a vacuum. The extent to which a firm exercises an external orientation is important for the success of any marketing strategy. External orientation refers to the degree to which a firm involves the views and behaviours of external stakeholders in designing and implementing a marketing strategy. Such external orientation enables marketing to reassess market opportunities and to spot important changes early on. It also helps to put new market opportunities into the right perspective. "It is very difficult to make predictions, particularly about the future."⁷³

An external orientation also helps the company to maintain focus in its operations. Without demanding rigidity, managers prefer a clear direction in terms of markets, competences, strategic projects, products and services.⁷⁴ As the customer value proposition model shows, it is the alignment of market focus with core competences that leads to success for most companies – and not a single focus on either of them.

SYNTHESIS

In Chapter 2, we defined a competitive advantage as a strength of the company that influences the customer decision process in favour of that company. The questions raised by this customer perspective are clear: do customers look for your customer value proposition, do they prefer it, do they view it as mediocre or do they dismiss it because it is insufficient?⁷⁵ The palette of choice for successful differentiation is enormous. A company can differentiate on offering, customer process, image or price – or any combination thereof.

A company's resources and competences allow it to excel under existing market rules ('be better') or to change those rules ('be different'). Without a successful differentiation, the organisation ends up in a *rat race*. If a company succeeds in differentiating itself successfully, while developing efficiency and appropriability in their processes, it will realise above-average business results or *above average economic rents*. Figure 8.3 depicts this principle graphically.⁷⁶

By definition, the sustainability of a competitive advantage is limited in time. Sony, whose Walkman changed the way we listen to music, failed to make a suc-

cessful transition into the digital music era.⁷⁷ Without intervention, competitive advantages will erode, as will company results. It is the task of management to create new options and implement the best ones. If an organisation really finds itself in a *rat race*, it will be difficult to escape from it. The power of imagination is an important quality in marketing, when seeking to develop innovative customer value propositions. ‘Innovative’ in this context does not mean ‘innovative to the company’ but ‘innovative to the customer.’ Merely increasing the level of mediocrity only further damages the competitive power of the company. “I tried to be reasonable. I didn’t like it,” as Clint Eastwood once observed.

Executing the right strategic options allows the company to keep or to enhance its differentiating power. It is only after the selection of the right options that the journey really starts. The project roadmap provides an itinerary for the goal (the new business model), the stages (the milestones), the passengers (project leaders and team members) and the vehicle (resources). Investing in marketing does not mean investing in a better slogan – it means investing in superior processes.

In the opening chapter, we defined strategic marketing as the planning and the implementation of marketing activities to optimise the present and the future competitiveness of the firm. Put like this, it seems simple. Reality tells

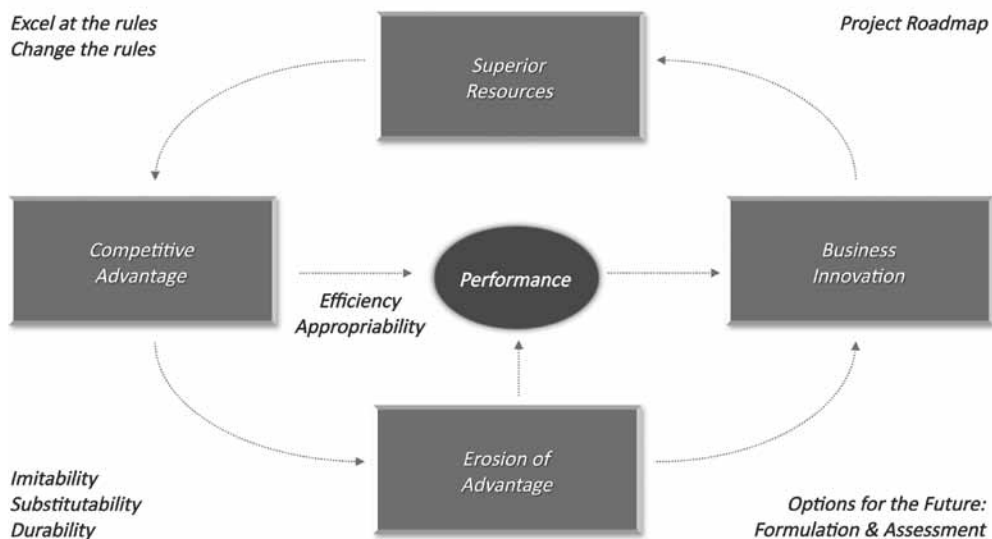


Figure 8.3 · The Competitive Advantage Cycle and Business Roadmapping
(Adapted from: Day G.S. & Reibstein D.J., Wharton on competitive strategy)

us otherwise. All along the road, marketing must balance exploitation *with* exploration (ambidexterity), creating value for both the customer *and* the firm (multivalence). This is not an easy task – but this is what building sustainable business achieves (see Figure 8.4).

What if the company reaches its goal? As is the case with any real journey, the end point is the starting point of a different journey. The competition is never idle, the environment is ever-changing and managers are constantly rethinking their ambitions. These are all good reasons to turn roadmapping into a continuous process for the company. The late Peter Drucker was right. In essence, a company has two tasks: marketing and innovation.⁷⁸ Marketing comprises all the processes that deliver value to the customer *and* the company. There is only one way to win and to keep on winning—continue to innovate. Innovation is the oxygen of marketing.

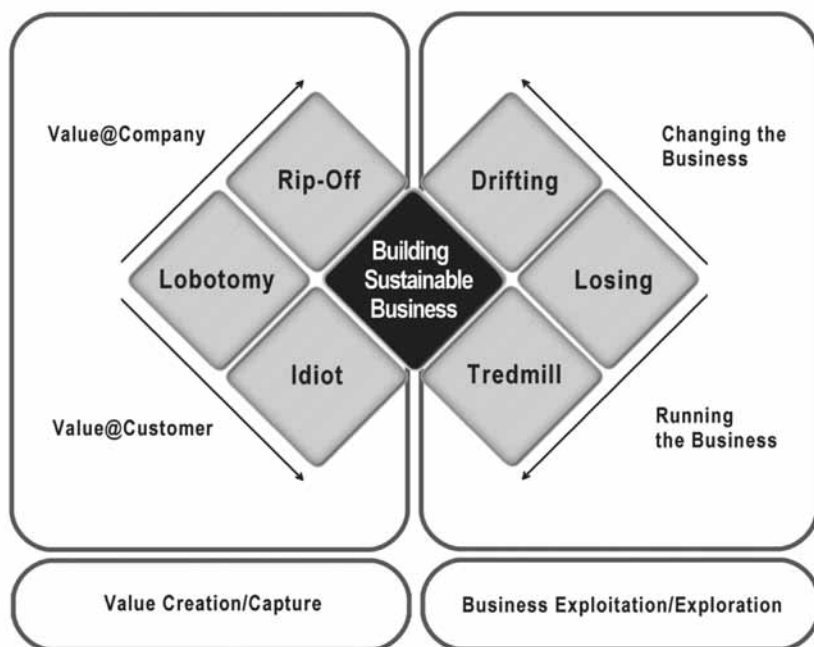


Figure 8.4 · Synthesis: Balanced Score Card Perspective on Building Sustainable Business

BUSINESS ROADMAPPING AUDIT:

QUESTIONS FOR THE MARKETER

BALANCED MARKETING SCORECARD

- *Do the metrics provide valid measures that are easy to collect? Is the balanced marketing score card directly related to the business roadmap? How fact-based is our marketing scorecard?*
- *Within marketing, do we have a clear understanding of the responsibilities and accountabilities?*
- *Is value@company adequately monitored? How do we perform in terms of financial return, customer lifetime value, customer profitability and shareholder value creation?*
- *Is value@customer adequately monitored? How do we perform in terms of customer satisfaction, customer loyalty and customer advocacy?*
- *Is the running of the business (sales productivity, resource efficiency, promotional response, etcetera) adequately monitored? Which employee metrics do we include?*
- *Is business change (training, introduction of new products, etcetera) adequately monitored? How do we perform against milestones, budgets and returns? Which employee metrics do we include?*
- *How well does the company perform compared to the competition?*
- *Last but definitely not least: less is more. Do we have enough focus in our marketing scorecard metrics? What are the truly critical measures? If we were to select a maximum of 10 measures, which measures would we select?*

ANNEX 1

COMPETING IN CHANGING MARKETS

In 1999, Rudy Moenaert (TiasNimbas Business School) and Henry Robben (Nyenrode Business Universiteit) surveyed the practice of strategic marketing in The Netherlands and Belgium. The basic aim was to discover how companies competed and how they prepared for the future.

EXPLORATORY STUDY

On the basis of a literature review, a focus group study was organised with senior marketing executives from major Belgian and Dutch companies. In order to safeguard in-group homogeneity, two separate focus groups were run in both Belgium and The Netherlands: one involving industrial companies and one involving consumer companies. The research team opted for focus groups of 4 members.¹ This enabled the researchers to elaborate in sufficient depth on the complex subject under discussion. Detailed transcripts were made of each of the four focus group sessions. A threefold script was used:

- What has been the significance of the *Internet* and the *Introduction of the Euro currency* to the companies under study? We opted to introduce two ‘critical incidents’ to the participants of both focus groups.² In the *fin de siècle* context, these two incidents were suggested as potentially important changes in the business environment. Participants were encouraged to propose other relevant changes in their respective company environments.
- Next, we asked about the differentiation strategy adopted by the participating companies. Using the proposed model (offering differentiation, customer process differentiation, image differentiation and price differentiation), the major objective was to evaluate its taxonomical and practical robustness.
- Finally, we asked about the intended differentiation strategy for the future (five years from now). We also examined how these companies deal with change in their strategy process. The aim was the development of a valid, robust and practical taxonomy of the major change processes implemented by companies to realise intended change.

CONCLUSIVE STUDY

In order to test the hypotheses, a survey was conducted in Belgium and The Netherlands. The questionnaire was drawn up in English, in order to allow for future replication and validation in other countries. In addition to the section inquiring about respondent characteristics, three major sections may be distinguished in the questionnaire:

- ‘*Who are we?*’ In this part of the questionnaire, we collected data relating to the status of the company under study (strategic business unit, subsidiary, independent company) as well as the size, scope and other relevant demographical information regarding the company and its eventual parent organisation.
- ‘*How do we compete now?*’ Respondents were asked to choose a line-of-business (the most important one in terms of sales) and to provide information regarding the industry, scope, market success, competitive advantage and quality of the core processes.
- ‘*What about the future?*’ Here we asked the respondents to rate the expected impact of changes upon the company’s environment, as well as expected changes in the preferred competitive advantages and the internal core processes. Finally, the respondents were asked about the sustainability of the present competitive advantages and the characteristics of the change processes.

Members of the ‘Stichting Marketing’³ in Belgium, marketing executives of the top five companies of every industry in Belgium and individual members of the ‘Nederlands Instituut voor Marketing’⁴ in The Netherlands were sent an eight-page questionnaire. *In this manner, data was obtained on 169 company units.*

THE 2003 SURVEY

Four years later, much had changed on the world scene. We judged it fitting to refresh our insights and conduct a follow-up study. A major change was implemented in the administration of the questionnaire. It was decided to make use of the opportunities provided by the Internet and to conduct the questionnaire online. This also enabled us to randomise questionnaire item lists. However, the content of the questionnaire remained broadly unchanged, although we added some additional questions (e.g., a question on the position of the line-of-business on the product life cycle), updated the list of opportunities and threats (including, for example, alliances and partnerships, adequate supply of human

resources, changes in material and energy costs, etcetera) and included ICT as a core process in the value chain questions (dropping ‘application engineering’ from that same list).

A diversity of sample listings was used, including the respondents of the 1999 questionnaire, a listing from the NIMA, the top 1000 companies in Belgium and marketing and general management alumni from the TiasNimbas Business School and the Nyenrode Business Universiteit.

In this manner, data were obtained on 260 company units.

THE 2007 – 2009 SURVEYS

In 2007, the third ‘Competing in Changing Markets’ survey was carried out. This time, the original research team (Rudy Moenaert & Henry Robben) joined forces with Peter Gouw (GfK). The questionnaire was again administered online.

The content of the questionnaire was changed very little. We updated the list of opportunities and threats (including, for example, competition from the Far East and ethnical diversity) and including ‘logistics’ as a core process in the value chain questions (dropping ‘customer inquiry handling’ from that same list). In 2009, during the fourth ‘Competing in Changing Markets’ survey, we added some further questions that assessed the business consequences of the economic crisis.

The collection of the data was carried out by GfK. Sampling lists were drawn from prior respondents, marketing managers in the GfK database, NIMA, PIM⁵ and marketing and general management alumni of TiasNimbas Business School.

In this manner, data were obtained on 317 company units in 2007 and 365 company units in 2009.

STATISTICAL REFLECTION

The study must be viewed as a longitudinal, non-equivalent group design. Care must be taken in the interpretation of differences between samples from different years. In the summary table, we have tabulated company characteristics. The sample profiles are very similar. The 2007 sample has a stronger focus on companies in the growth phase, while the 1999 sample has a stronger focus on small companies. In terms of markets served, the samples of 1999, 2003 and 2007 have very similar characteristics; the 2009 sample is biased more

heavily towards B2B companies. The location of company headquarters differs across the samples. Sampling practicalities resulted in proportionally fewer companies with headquarter locations in Belgium in the 2003, 2007 and 2009 surveys.

The respondents' averaged 42 years of age, with average company experience of 9 years. Of the respondents, 30% held a top management position, 30% a senior management position, 29% a middle management position, 5% a first-level management position and 6% placed themselves in the 'other' category.

With the present data set, numerous sub-sample analyses have been conducted. In processing the data for this book, we rescaled some of the 1 – 5 scales to a 0 – 100 range, in order to enhance interpretation. We sometimes contrasted the performance of successful companies with unsuccessful companies (see Chapter 2). Winners are the companies with scores of 4 or higher on a 5-point scale for (1) profitability, (2) customer retention and (3) attracting new customers ($N = 212$, i.e., 19.1% of the total sample). Underperformers are companies with a score of 2 or lower for profitability and a score of 3 or lower for customer retention or new customer acquisition ($N = 118$, i.e., 10.6% of the total sample).

	2009	2007	2003	1999	Total
<i>Sample size</i>	365	317	260	169	1,111
<i>% of total sample</i>	32.9	28.5	23.4	15.2	100
Market					
<i>Consumer</i>	20.8	28.1	25.4	32.7	25.7
<i>Business to Business</i>	79.2	71.9	74.6	67.3	74.3
<i>Services</i>	41.9	39.1	41.2	46.7	41.6
<i>Goods</i>	21.1	26.2	26.5	25.5	24.5
<i>Both</i>	37.0	34.7	32.3	27.9	33.9
PLC-Phase					
<i>Introduction</i>	5.8	7.3	4.6	- ⁶	5.9
<i>Growth</i>	17.3	27.1	13.1	- -	19.4
<i>Transition</i>	27.1	24.9	31.9	- -	27.7
<i>Maturity</i>	38.9	35.0	41.5	- -	38.3
<i>Decline</i>	11.0	5.7	8.8	- -	8.6
Company Size					
<i>≤ 99 employees</i>	36.1	34.2	24.2	46.9	34.3
<i>100 – 499 employees</i>	27.8	20.8	28.1	19.4	24.7
<i>500 – 999 employees</i>	6.0	6.8	9.2	8.1	7.3
<i>1 000 – 4 999 employees</i>	17.9	19.5	15.8	15.6	17.5
<i>≥ 5000 employees</i>	12.2	18.6	22.7	10.0	16.2
Country of Headquarters					
<i>The Netherlands</i>	73.7	68.5	56.2	43.2	63.5
<i>Belgium</i>	7.4	9.1	19.6	34.9	14.9
<i>USA – Canada</i>	8.5	10.1	13.1	7.7	9.9
<i>Rest of the World</i>	10.4	12.3	11.1	14.2	11.7

ANNEX 2

BUSINESS MODEL ANALYSIS – A PRACTICAL PROCESS

Multiple methods may be used to formulate the *current* business model of a company. Ideally, in a first phase, one uses a brainstorming focus group of customers to identify the most important strengths of a company in a given market. In a brainstorm-like fashion, the focus group creates a list of the most important strengths of a company in a given market. A strength is an aspect of the organisation that the *customer* appreciates. To stimulate discussion, do not stop this identification process until at least forty strengths have been noted on the flipchart. It forces the group participants to think thoroughly about what sets a company genuinely apart from the competition. Some of the strengths will flow from the company unit (e.g., a salesperson's expertise within a Siemens division in The Netherlands), while other strengths are the result of the company unit belonging to a certain organisation (e.g., economies of scale offered by Siemens in The Netherlands) or a group of organisations (e.g., the trustworthiness emanating from the global Siemens brand name).

Often, it will be difficult to assemble a focus group of customers or accounts (for example, in international business markets). As a result, marketers may decide to assemble a cross-functional group of managers and/or co-workers instead. Since the customer value proposition is the result of a *total* company effort, it is very unwise to restrict the participation in such a session to the marketing staff only. It is mandatory that the group of employees should represent the core functions and processes in the organisation as a whole, in order to make sure that essential processes are not neglected in the business model. Once the group has been assembled, it is possible to proceed as described above.

Once the general list of forty or more strengths has been compiled, the second phase in the process can begin. This consists of an individual screening. Every participant makes a short list of the strengths that he or she considers to be real competitive advantages. How many strengths should be selected? We like to limit the choice to a maximum of five. It forces participants to make conscious trade-offs.⁷

One needs to be careful here: competitive advantages are defined from the perspective of the customer, not from the perspective of the company. For instance, many pharmaceutical companies view a strong patent as a competitive advantage. But is this really the case? From the customer's perspective, a patent enables a supplier to deliver a remedy for a disease. At the same time, it provides a legal hurdle for the competition to offer the same remedy. A pat-

ent is a company resource, whereas it is an effective remedy that is regarded as the competitive advantage from the customer's point of view. Strengths are competitive advantages when they have the ability to win new customers or to keep existing ones. When the business modelling session is held with company employees or managers, one must constantly monitor the short list in order to be sure that competitive advantages are defined from the customer's perspective. Supply-side 'narcissism' must be vigorously eradicated.

Recent market research reports may be used as an acid test, although many small and medium-sized companies do not have a recent customer assessment available. Some sort of judgment is bound to enter the modelling session. While some may feel uncomfortable with this, it is important to remember that a customer value proposition and a business model are a conceptual representation. As such, the objective of the business model is to represent the most important elements of a real world phenomenon. In creating a business model we use whatever knowledge resides in the company. A business model analysis combines the power of objective data with the persuasive charm of experience, intuition and creativity.

Once every participant has made a short list, tabulate the scores on the original list. The selected strengths now need thematic clustering. The group members should discuss the clustering among themselves and devise a set of thematic clusters (each thematic cluster representing a higher-order competitive advantage). The clusters need labels that reflect the contents of the clusters in a way that customers would use them. This is not a technical but rather a marketing step. Having labelled the clusters in the customer's language, we have now successfully defined the customer value proposition of the company.

Next, the team must ask: "How can we accomplish this?" Each competitive advantage receives connections to the resources that enable its realisation. In order to stimulate the discussion, the original list of 40+ strengths may be examined a second time. Many of these strengths will be assets or processes that act as underlying enablers for the customer value proposition. A value chain can also be used as a kind of diagnostic checklist. For example, the value chain used in Chapter 6 may be used as a platform for identifying critical assets and processes.

INDEX

- accountability 12, 65, 103, 224, 245, 246, 299, 300
 - appropriability 115, 117, 118, 119, 121, 158, 197, 263
- balanced marketing scorecard 12, 31, 243, 244, 245, 266
 - bcg matrix 81
- business model 9, 13, 27, 29, 31, 35, 56, 57, 58, 59, 60, 62, 63, 64, 65, 67, 107, 108, 109, 110, 111, 114, 118, 119, 120, 124, 127, 139, 140, 153, 154, 156, 178, 183, 185, 193, 194, 199, 203, 211, 214, 215, 216, 217, 224, 226, 227, 231, 233, 234, 237, 257, 258, 259, 261, 262, 264, 273, 274, 282, 283, 288, 295, 297
- business roadmapping 5, 6, 9, 10, 11, 12, 13, 15, 21, 25, 27, 28, 29, 30, 31, 50, 88, 97, 125, 126, 130, 132, 177, 204, 205, 210, 242, 264, 280
- business streamlining 11, 169, 252
- changing the business 13, 31, 64, 133, 244, 257, 261
 - channel partnering 157
 - commodity magnet 10, 120, 122, 123, 142, 151, 289
- competitive advantage 9, 10, 16, 18, 26, 27, 30, 48, 49, 50, 52, 53, 55, 57, 58, 59, 60, 62, 64, 65, 66, 74, 91, 95, 105, 106, 108, 109, 118, 120, 121, 124, 130, 140, 144, 183, 194, 198, 209, 210, 252, 263, 264, 268, 273, 274, 281, 282, 283, 284, 285, 287, 288, 299
 - complementor 73, 74, 97, 117, 190, 191, 193, 256, 288, 295
- critical success factors 50, 51, 52, 66, 87, 181, 258
- customer metrics 13, 253
- customer needs 42, 43, 55, 112, 113, 126, 185, 205, 285
- customer process mapping 11, 187, 188, 189
- customer profitability 12, 250, 266, 293

- customer value proposition 9, 29, 31, 35, 36, 46, 49, 54, 55, 56, 58, 59, 62, 63, 64, 65, 66, 67, 105, 108, 109, 117, 126, 139, 140, 141, 147, 150, 159, 185, 186, 192, 193, 197, 198, 203, 214, 217, 224, 257, 263, 264, 273, 274, 281
- derived demand 42, 43
- direct action environment 71, 72, 74, 76
 - diversification 10, 76, 86, 130, 160, 174, 280
 - durable demand 107, 118, 121, 124, 136
 - ecosystem 40, 63, 224, 227, 280, 283, 290
 - ethics 10, 130, 131, 300
- fact-based marketing 10, 93, 95, 96, 97, 292
- focal customer 39, 60, 63, 283
- go-to-market strategy 11, 39, 155, 158, 173, 198, 292
- growth markets 146, 169, 290
- imagination 10, 128, 129, 148, 185, 264
- imitation 109, 110, 118, 136, 153, 159, 191, 195, 288
- indirect action environment 71, 72, 74, 76
 - industry analysis 9, 72, 87, 179
 - inspiring examples 11, 189, 190
- international organisation 78
 - keystone advantage 40, 284, 288
 - market farming 11, 31, 141, 160, 173, 174, 177, 222, 252
 - market hunting 11, 31, 141, 153, 154, 155, 173, 178, 222, 252
 - market intelligence 10, 29, 88, 89, 93, 97, 183, 213, 285
 - market making 11, 30, 141, 142, 149, 151, 173, 177, 222, 252
- marketing leadership 30, 132, 133, 135, 136, 199, 232, 233
- marketing 1, 3, 4, 5, 6, 7, 9, 10, 11, 12, 15, 16, 17, 18, 20, 21, 25, 26, 27, 28, 29, 30, 31, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 48, 49, 50, 52, 53, 54, 56, 58, 60, 62, 64, 66, 67, 71, 72, 73, 74, 75, 76, 78, 79, 80, 82, 84, 85, 86, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 101, 102, 103, 104, 105, 106, 107, 108, 110, 112, 114, 116, 118, 120, 122, 124, 125, 126, 127, 128, 129, 130, 132, 133, 134, 135, 136, 139, 140, 141, 142, 143, 144, 146, 147, 148, 149, 150, 152, 154, 156, 157, 158, 159, 160, 161, 162, 164, 165, 166, 167, 168, 170, 171, 172, 174, 177, 178, 179, 180, 182, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 202, 204, 205, 206, 209, 210, 212, 213, 214, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229,

- 230, 232, 233, 234, 236, 238, 241, 242, 243, 244, 245,
246, 247, 248, 249, 250, 251, 252, 253, 254, 255, 256,
257, 258, 259, 260, 261, 262, 263, 264, 265, 266,
267, 268, 269, 270, 273, 274, 276, 278, 280, 279,
280, 281, 282, 283, 284, 285, 286, 287, 288, 289,
290, 291, 292, 293, 294, 295, 296, 298, 299, 300,
301, 302
- marketing warfare 140, 141, 150, 290, 295
- mission statement 101, 102, 198, 286
- moments of truth 11, 118, 161, 162, 189, 292
- multi-sided markets 40
 - network effects 40, 251, 280
- new product portfolio 143, 144, 173, 233
 - online channels 11, 159, 173
 - open innovation 95, 286, 295
- operational efficiency 115, 117, 121, 136
- organisational barriers to change 225
 - portfolio analysis 10, 29, 80, 97
 - positioning 11, 37, 45, 62, 64, 66, 73, 95, 128, 147, 148, 149, 150,
151, 173, 174, 190, 257, 279, 291
 - price integrity 168
 - price pressure 151, 173, 283
- project roadmapping 12, 31, 219, 226
- relationship marketing 167
 - resource-based view 27, 57, 62, 73, 106, 282, 287
- return on marketing 12, 241, 242, 247
- running the business 13, 31, 133, 244, 257
 - segmentation 9, 43, 44, 45, 46, 47, 49, 66, 76, 188, 279
 - sense of urgency 12, 127, 222, 223, 224, 237, 262
- shareholder value 13, 104, 251, 252, 259, 260, 266, 287, 291, 296, 304
 - stakeholder 10, 30, 101, 102, 103, 104, 127, 130, 131, 132, 134, 135,
136, 212, 217, 222, 223, 237, 244, 247, 251, 259, 263,
279, 286
- step-analysis 179
- strategic business unit 38, 268
- strategic group analysis 75, 76, 179
- strategic market option 27, 31, 153, 178, 181, 191, 194, 195, 196, 200, 203
 - strategic marketing 5, 10, 15, 17, 26, 27, 28, 30, 31, 39, 43, 53, 72, 120, 124,
126, 127, 133, 134, 139, 159, 165, 185, 193, 209, 214,
218, 232, 244, 246, 257, 264, 267, 279, 284, 296

- substitution 77, 109, 111, 112, 136, 159
- switching costs 11, 56, 123, 159, 167, 174
 - swot 178, 294
- targeting 9, 48, 144, 279
- value grid 10, 114, 119
- value innovation 11, 185, 189, 206, 282, 295
 - value net 11, 179, 191
- way-to-market architecture 38, 41, 60, 155
 - weakness audit 203
- winner-takes-all markets 146, 147

ENDNOTES

ENDNOTES CHAPTER 1

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ENDNOTES CHAPTER 3

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ENDNOTES CHAPTER 4

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ENDNOTES CHAPTER 5

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ENDNOTES CHAPTER 6

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ENDNOTES ANNEX 1

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- 6 This variable was introduced into the survey in 2003.
- 7 We have also done similar screenings during plenary sessions, involving 25 participants. In order to maintain momentum in the classroom, we limited the short list of each participant to just two strengths. This worked perfectly well.

