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Stephen King: Bridging the Great Divide

Jeremy Bullmore

There are many excellent scientific journals devoted to neurosurgery. Month by month, they publish learned papers, each having been subjected to rigorous peer review, that chronicle the latest discoveries, hypotheses, case-studies and innovations in the neurosurgery world. And the shocking thing is this: they are never read by neurosurgeons.

Those very men and women who earn their livings in the operating theatres, holding scalpel and trepan and the lives of others in their hands, wilfully ignore the invaluable wisdom and teaching of others. There is a yawning gap between what is known and published about neurosurgery and the knowledge of those – if you'll excuse the phrase – at the cutting edge. Patients are put at risk because of the apparent disdain that the practitioners have for academic theory and the accumulated wisdom of others.

You'll have read the above with growing incredulity. That can't be true of neurosurgery, you think. And you're right, thank God. It isn't true. But in another trade, much closer to home, it very nearly is.

I know that advertising isn't neurosurgery; and I know that in the greater scheme of things, the consequences of an unprofessional approach to a marketing campaign are unlikely to be as terminal as an unprofessional approach to an operation on the brain; and I know that, whatever we'd like to pretend, advertising isn't even a profession. But it has always struck me as astonishing that virtually none of those at the cutting edge of advertising – those who create the ads on which the client's money is spent – has ever shown the slightest interest in advertising theory or the dispassionate analysis of accumulated experience.

What proportion of the readership of Admap, the International Journal of Advertising, or Market Leader, is made up of executive creative directors, I wonder? Or account handlers? Or even account planners?

It sometimes seems that both groups of people – the thinkers and theoreticians, and the movers and shakers – are not only content to live in parallel universes, divided by a common subject, but actually prefer it that way. Professors of marketing communications can publish their papers quite uncontaminated by any marketplace experience, while at exactly the same time, agencies know that it's all about raising the bar and pushing the envelope and that history has nothing of value to teach them.

These thoughts have returned to me as a result of the death of Stephen King. There have been several magnificent exceptions to the picture I paint above – and Stephen was the magnificent exception I knew best. He was also, by common consent, one of the most influential. He could occupy both universes with confidence and was fluently bilingual. He could act as interpreter from each to the other – and was as quick and as qualified to detect and expose academic marshmallow as he was vacuous creative work. His huge contribution to advertising thinking was rooted stubbornly in the practical. His unshaken belief remained that advertising was at its most irresponsible when it was least efficient; and that the only test of case-based theory was its ability to minimise advertising irrelevance and maximise its effectiveness.

In 1957, Stephen King had joined the marketing department of J Walter Thompson, then comfortably the largest agency in London. He came with a degree in modern greats, a mind that was incapable of fudge and muddle, a gift for parody and pastiche, a love of the arts – and all the practicality of the handyman he was: he
gutted and rebuilt his first small London house almost single-handedly. He was also an excellent squash player, which is why I only played him once.

These were some of the things that immediately intrigued him: what was advertising for? How did it work? How did communication work? How many different roles could advertising have? What was the value of research? Could research predict the outcome of an advertising campaign? Did research research the right things – or only the things that were easy to research?

On every one of these thoroughly fundamental topics, and a great many more, he made great and original contributions.

On his retirement in 1988 (he was by now a member of the worldwide board) JWT put together, for private publication, a small selection of his published writings. Called The King Papers, they span the years 1967 to 1985. Here are some of the titles: 'Can research evaluate the creative content of advertising?'; 'What is a brand?'; 'Practical progress from a theory of advertisements'; 'Advertising: art and science'. They remain timelessly potentially valuable but are an almost unexploited gold mine. Another 30 or so exist but languish in filing cabinets.

Looking back, it seems inevitable that all this digging, all this hard handiwork, would have led him to identify the need for a new specialised agency role. Coincidentally, Stanley Pollitt at BMP was reaching the same conclusion. As Stephen said a million times: they didn't invent account planning. You can't put pen to paper without some sort of rudimentary planning. What they did was isolate planning as a discrete discipline. They invented account planners and the account planning department.

The success of this controversial venture within JWT was crucially aided by the fact that Stephen himself was a brilliant planner. He earned the awed respect of clients such as Guinness, TSB, Kellogg's, Bowater Scott and dozens of others. When RHM innocently asked the agency how it might make more money from the flour it milled (to cut a three-year-long story short) he led the team that invented Mr Kipling: packs, name, ads, in-store material, range: even a couple of recipes. Twenty years later, he was deeply amused by all this fancy new interest in something called integration: he'd taken it for granted, and practised it, from the beginning.

On all his accounts, the creative work was applauded, because the way that the planners worked didn't challenge creative people: it helped them look in the right direction, then liberated them to be inventive. I was head of the creative department at the time and had half-expected a bit of truculence. There was none.

What planning, at its best, can do is bridge that pointless gap between the better academics and the more thoughtful practitioners. That's not the least of the King legacies. He bridged that great divide in both his perceptiveness and his actions.

And he did it with wit – often mordant. His favourite fictional marketing director was Nick Thrust, whom he played himself on several memorable conference occasions. Nick Thrust was, as his name implied, obsessed with getting rid of stuff. Nick once wrote an entire marketing plan, full of forceful initiatives couched in impenetrable marcombabble, at the end of which you still had absolutely no idea what the brand was or what it was supposed to do. But, boy, was it impressive. And, boy, did the many Nick Thrusts in the audience squirm in their seats. Or at least the ones bright enough to understand it did; I expect the others just jotted it all down gratefully.

I was lucky enough to know Stephen King for a barely believable 60 years. There are hundreds of us around the world who know how much we learned from him, how much we owe him and how much we relished his company. There are thousands more who heard him speak and who read his papers and who keep them still.

David Ogilvy, deservedly a legend in India himself, once returned from a conference there looking unusually rueful. 'They seemed to appreciate that research chap of yours even more than me,' he said. They later got to know each other well – lucky, lucky them.

Stephen King was born on 25 February 1931 and died on 16 February 2006, eight days before his 75th birthday. He and his wife Sally (a fine copywriter) have three grown-up children. He is survived not only by his family but by a body of work that demands to be disinterred, edited, published – and widely read and
implemented. That pointless gap between the theoreticians and the practitioners is not yet closed – and Stephen King is still around to lead the charge to close it.
Publishing has Adapted to Competitive Change: Time for the City to Follow Suit?

Rt. Hon Lord Michael Heseltine
Chartered Institute of Marketing

Historically, the success of the City of London probably has little to do with marketing, at least not marketing as it is traditionally understood. But this may well be changing, possibly quite rapidly. There is no shortage of major cities that seek to challenge London's supremacy. If another global financial centre is developed, it will probably be in Shanghai. To keep its position, it may well be that London will have to market itself much more actively, both through the actions of individual companies and, collectively, as 'the City'.

It may be worth drawing a parallel here with London's 2012 Olympics bid. It was no accident that the London bid team was heavily staffed by marketing professionals. Like all good marketers, they found out what their customers – in this case the IOC delegates – wanted, and that was to focus on sport itself. They approached the bid as they would a marketing brief. The film that London ran, as compared with that of Paris or New York, depicted sport at its most pure, simple and aspirational. A triumph for clear-minded, sharply focused marketing.

So, it may be that now is the time for the City consciously to take marketing more seriously. And of course, this must embrace a very wide range of professional services: investment banking, legal services, property-related services, insurance, IT, telecoms, management consultancy, and so on.

Economies like India's are gearing up to become major exporters of services. If – or rather when – they succeed it could have the same dramatic effect on our economy as the Japanese had on manufacturing in the 1960s and 1970s. How long will it be before a Chinese bank buys a western investment bank? With both Bank of China and ICBC planning to float internationally next year, and thereby placing themselves among the world's biggest banks, the answer to the question is: probably quite soon.

We should not underestimate the potential impact on our economy of genuinely global competition in services. Three-quarters of the British economy is based on services, and one in four workers in the UK is engaged, in one form or another, in professional services.

Clearly, to stay ahead we must build upon all our existing advantages. It may be harder perhaps to develop new ones, especially in fields like marketing that cut across some of our traditional, and not always helpful, attitudes and assumptions. Historically, with an empire at our beck and call and with little need to reach out to new markets – for example, to learn their languages – we have not always been especially good marketers.

I know for a fact that it is certainly true of the sector I now work in, namely publishing.

When I returned to business, and looked at the state of UK magazine publishing, I wondered how well those four pillars of marketing – price, product, promotion and place – were holding up. I concluded that they were necessary but not sufficient to meet the new challenges.
So far as products are concerned, there has never been greater confusion of choice among competing products and services. Nearly every commercial sector and market segment is being slivered into ever-thinner slices. The internet already provides infinite examples – just ask the music industry, auctioneers, travel agents, insurers, publishers. Every product suffering from underinvestment in its development, not least in its marketing, is being commoditised by this. The only remedy seems to me to be continuous patient investment.

PLACE

I will not dwell here on the particular challenge to news-stand publishers posed by the onward march of the big retailers. I would rather focus on the opportunities we all now have to reach ever-wider audiences via increasingly capable, user-friendly electronic media like the internet.

The clear-out of middlemen predicted when online shopping and trading started ten years ago is now happening on a vast scale; eBay, Amazon, Monster and so on are just the sharp and visible tips of this.

So far as publishing is concerned, if your content is valued, the internet is neither a graveyard nor a zero sum game, but a wonderful opportunity. In my business, I am finding that trusted brands like Autocar and What Car? are going from strength to strength now that they are online and available in hard copy across the globe.

PROMOTION

This P has changed most during my time away. Every communications medium has fragmented in pursuit of ever-sharper focus on ever more specialised and harder-chased audiences. The resulting detriment to content quality is most evident on TV and radio (so many channels, so little worth watching) but it is universal. It is more than just dumbing down; it is production values made slave to niche economics. Nevertheless, the opportunity to differentiate yourself by providing content of exceptional quality is there for those bold enough to step (and spend) apart from the herd.

Content, including advertising, is becoming more bite-sized, targeted and accountable. One of its aims is to draw more information from its audience through increasing degrees of interaction.

This is contributing to a proliferation of personal and professional communications, leading to information overload and the rise of all kinds of data sifters and sorters becoming the new information mediators and editors, such as The Week and Ask Jeeves.

PRICE

Everyone wants their product to be premium-priced but, with China, India and Eastern Europe joining the list of high-quality suppliers, most sectors are in such oversupply as to find themselves experiencing perpetual downward pressure on prices. In a world of oversupply and, in Europe at least, frighteningly high restructuring costs, volume becomes paramount, with price-discounting and camouflaging becoming the norm.

In an industry as innovative and as transparent as publishing, where barriers to entry, especially online, are low and falling, there is inevitable pressure on prices: great news for advertisers, a daily wake-up call for media owners. I doubt that professional service providers will for long find themselves any better protected. There are 65,000 Chinese undergraduates in the UK, and we may safely assume that they don't all want to work in manufacturing.

THE FUTURE: THE FOUR RS

Looking to the future, what useful marketing rules of thumb are there to complement if not replace the four Ps? If my recent experience is any guide, for service providers like ourselves, there are four Rs.

Reach

The first of these is reach. Since the internet became a global reality, almost everyone has the ability to
become a global player. It seems to me obvious that to compete with such entrants into our market, we must learn effectively to enter theirs. If we don't, our rivals will enjoy economies that we will lack.

The car manufacturers, telecoms suppliers and plane-makers have long known this, but I wonder if the penny has dropped with service providers.

Response

My second marketing R is response, and there are two elements here. First is the ability to move swiftly. When you develop a potentially successful service, you should get it out as far and as fast as possible before others copy, improve or even steal it, recognising that service sector intellectual property is usually quite brittle.

Eight years back into business, I find that any window of opportunity I think I am looking through turns out to be smaller and harder to open than I first thought. To climb through it, all kinds of devices have had to come into play, like overseas partnerships, content and brand licences, and brand-leveraging ancillary products. The instant you break cover, what you thought was your opportunity also becomes your rivals'.

The second element of response is the need to demonstrate to customers that you live up to your claims. This is especially true for media owners, who must show that whatever it is that their titles are acting as a hoarding for, gets sold. It can be antique cars in *Classic & Sports Car*, perfume in *eve* or marketing jobs on *Brand Republic*. If it works, people notice. If it does not, ditto. More effort is going into ensuring good quantity and quality of response. If you don't have robust measures of the advantages you confer on your clients, you will have problems.

Retention and Relationships

My third R was a coin-toss between retention and relationships.

Consider retention. We all know that the cheapest-to-recruit customer is an existing one. Whether you are selling add-ons to what has been bought already or new products, the aim is the same: to confirm the customer's original belief that he comes to the right place when he comes to you.

Saying is easier than doing. Many fields, including some financial services, suffer from high rates of customer churn. It is the same in publishing where subscription marketing is now, for many publications, a survival skill. But if the retention of customers, values and employees is primarily a marketing communications issue, it is fair to ask whether it is treated as such. I doubt it is always the case.

In a world where customers are less trusting and look increasingly to friends and family for referrals, word-of-mouth marketing has become critically important. This has long been recognised for low-priced items like books, films and music, and even more important in high-priced fields like private medical and legal services. But how many businesses consciously build word-of-mouth possibilities into their marketing plans? How many even know how?

My alternative third R is relationships, not least since they are the *sine qua non* of retention. It goes without saying that building relationships is vital in business no less than in life, and the tools available for building business relationships have never been sharper.

This may be the area where magazines score highest among media. The well-crafted page is cosier, more familiar, more controllable and trustworthy than the screen. It slows the pace and comes into play when the user chooses. By comparison, screens, with their pop-ups, buttons and other clutter, can be impersonal, intrusive and add to overload.

Renewal

My final marketing R is renewal – of every aspect of the business, continuously reaffirming its values, reinvesting in its products and processes. I urge this not in any messianic way, but from the simple belief that
it is generally harder for competitors to hit a moving target.

I have always felt that running a business has something in common with riding a bicycle – the slower you move forward, the harder it becomes. It is always mistaken to believe propaganda, especially your own.

Falls from grace are generally preceded by a period of self-satisfaction, a blindness to gathering realities, a decreasingly justified self-belief. In other words, just the kind of thing that happens after someone has told you that you have overtaken New York as the world's number one deal centre.
Home Retailing: the Death of Home Shopping?

Stephen Fox
Fox Kalomaski

Depending on which papers you read, and when you read them, this year's holiday trading period was either retailing's salvation or damnation. However, a recent Ernst & Young report suggested that high-street discounts were at record levels with 30% below the pre-Christmas norm, and mark-downs of up to 80% in the January sales that followed. While retail sales volumes may have held up, or even grown year-on-year, it seems highly unlikely that the same can be said for profitability.

Underneath the contradictory trading figures from the vital pre-Christmas period and the January sales lies a seismic shift of the tec-tonic plates in retailing.

I think we have reached a tipping point, which means we need to redefine 'home shopping' as 'home retailing'. This may look like wordplay for the sake of it, but in fact it represents a shift in perspective from that of the customer to that of the company.

HOME SHOPPING AND HOME RETAILING

'Home shopping' is one of the longest established retailing channels but it has its roots in customers' geographical distance from shopping centres and their need for credit, unavailable elsewhere. 'Home retailing' is the emerging skill required by companies who are finding that customer behaviour is changing radically as a result of the internet and other digital media. Increasing numbers of companies have to manage these multiple channels for 'home retailing' on top of their traditional ones.

Customer touch-points for home retailing include catalogues and web-sites, as well as agents, with orders made by post, email, telephone, mobile phone call, SMS text and via the iTV 'red button' (see Figure 1). These new routes to market share the qualities of low cost and convenience, and provide an array of opportunities to present merchandise and services to the customer whenever and wherever they're wanted.

Google has become ever more powerful (and controversial), so depending on which top ten list you read, it is the first or second most visited site in the UK, and more and more small businesses have come to rely on web-based, paid-for-search for their customer orders. The story from The Search by John Battelle about a Google-dependent specialist in outsize shoes whose customer enquiries disappeared overnight when Google changed its algorithm, is a salutary one.

But the impact of digital interactive communications is not just a threat to these small entrepreneurial operations that have grown up in a symbiotic relationship with the net. Indeed, some very big players are feeling the squeeze and not just those in digital media, such as the music business – look at the pressure on HMV – and high-street bookselling where the massive inventory required and the relative value/weight ratio makes home delivery such a threat.

THE INTERNET IS CHANGING CUSTOMER SHOPPING PATTERNS

This is because customers' shopping patterns are changing with a particular impact on higher value, relatively
infrequent, considered purchases. Car marques such as Honda report that the average number of test drives in
the new car buying process has fallen from an average of five or six to one or two. Today, many prospective
purchasers do all their research on the internet, decide on the make and model and then go straight to the
dealer.

Of course this places an enormous premium on the quality of service that the buyer encounters at the
dealership, but an even greater one on ensuring that the brand is sufficiently attractive to pass muster and
generate the traffic in the first place.

This culling of the shortlist before a physical contact is ever made has intensified competition in the car
market. The result has been an increased focus on brand communications, both at the 'broadcast' and the
'narrowcast' ends of the spectrum.

But what is increasingly disconcerting retailers of other sorts of consumer durables is the relegation of their
expensive high-street shops to the status of showrooms. It's just too easy nowadays to research a DVD player
on the internet, make all the price and quality comparisons, delivery charge included, and then go into a retail
outlet just to make sure that the look and feel are right, before returning home to make the actual purchase
online. An acute in-store assistant may be able to rescue the sale, but often at the cost of reducing margin to
match the online price.

**Electronics**

It's no surprise then to read that DSG (Dixons Store Group) is to experiment with much larger out-of-town
Dixons Warehouse formats, (it already offers price compatibility with web prices through its PC World
stores), where the sheer range on offer and 8% lower pricing, can perhaps offset this new buying pattern. At
the time of writing DSG is also reported to be in negotiations to acquire the internet retailer DABs.com, a full
circle back to the success its Freeserve innovation might have become for DSG.

In this context, it will be interesting to see how Dixons' online presence works in harness with its physical
outlets in delivering a comprehensive and competitive 'home retailing' offer.

**Travel**

Meanwhile, in another high-ticket market, there's been retail carnage. Customers are finding it easy and
enjoyable to search for possible holiday destinations online, and are quite happy to make the purchase there
too. As interactive TV really gets under way, travel customers will also be able to buy on channels such as
Thomas Cook TV. With an intangible such as a holiday, where there is nothing to touch and feel until you get
there, the added value to be obtained in a travel shop is negligible in the mass-market package sector.

As a result, I suspect all the major travel companies would get shot of most, if not all, of their high-street
leases if they possibly could and this represents a very significant and threatening 'overhang' for the
commercial property market. The issue of supermarkets destroying the high street will look like a minor
skirmish compared to the situation landlords will face as the 'new' web-driven businesses desert their bricks
and mortar.

But is there still an opportunity for advisory services in the travel market? Could these be provided as part of a
'home retailing' approach using a combination of website and call centre, with perhaps even visiting
consultants at the top end of the market? I think so.

As more and more people shop online, and more and more businesses get into home delivery, a virtuous circle
will be created whereby efficiency and reliability will increase dramatically, further encouraging this
shopping pattern.

**Appointments on Demand**

This new trend coincides with the deregulation of the Royal Mail and the entry into the market of competitors
such as Deutsche Post and TNT alongside existing delivery companies such as UPS, FedEx and DHL, to say
nothing of Tesco, Sainsbury's and Ocado. Two-hourly reliable appointments for home delivery are already
offered by Ocado and Topshop (within two hours of London), and hourly ones are just around the corner. People will no longer have to take time off work to wait in for half a day for their goods, as was the case up until quite recently.

**More Men Shopping, More Women Online**

While women are catching up fast, it's still the case that men are the dominant users of the internet – 54% of men versus 46% of women, according to New Media Age – and are likely to remain so for a few years to come. We have seen the impact that this has had on online transactions, especially in the case of eBay and the phenomenal growth this company enjoys – every third UK internet user now visits eBay.

This site has engaged men in the shopping process like never before. In the hard-copy, off-line world, trading publications like *Exchange & Mart*, *Auto Trader* and *Dalton's Weekly* have always been male-dominated and this has been transferred online in a massive way. Deals done on eBay are now a major topic of pub conversation and have given men confidence to shop online for many other things, and not just sex, (drugs) and rock 'n' roll! Indeed, research by Nielsen shows how important male purchasing is online (with 40% making a purchase once a month) and this represents a big opportunity for a well-organised 'home retailing' strategy targeted at men.

Meanwhile, there's enormous potential to engage more women in online shopping. The supermarkets and the top national department stores are already doing a frighteningly good job of this, but perhaps the leisure and entertainment sectors could benefit too. We might expect cinemas, theatres, clubs, casinos, bingo halls and other venues to exploit the 'social organiser' talents of women (who organises your weekend?!) by taking a more integrated approach and delivering an engaging 'home retailing' package.

**A NEW WORLD OF HOME RETAILING EVOLVES**

It's too soon to say which of these 'home retailing' platforms will emerge as the dominant mix, but it seems very likely that ordering from a website accessed via a PC or a TV is going to feature strongly. According to MORI, 35% of the UK population is connected to broadband and the penetration of personal video recorder (PVR) is 10% and rapidly increasing. As a result, the utility of websites will engage the mass market and become an integral part of the shopping process.

The challenge for companies is to ensure that they integrate customer interactions across all these contact points and avoid the build-up of silos of customer data on the company side, which do not communicate with each other and prevent the construction of a holistic view of the relationship with their buyers. (see Figure 2)

But what has been less discussed is the need for far better integration on the customer side of the equation, in terms of the communications channels being employed, and the range and pricing being deployed therein.

In other words the 'home retailing' presence for the individual customer.

What is clear to me is that this article simply scratches the surface of the issues surrounding the most dramatic change in our shopping culture and habits since shopping-time began. But what really are the implications?

- From a commercial point of view I expect to see enormous repercussions on the commercial property market, which will have knock on effects on domestic property and ultimately our pension funds.
- I expect to see Royal Mail home delivery make huge profits and other new entrants do very well.
- I expect to see our retailers shedding staff in ever increasing numbers, and re-training those left to be experts in their field and help customers in store place orders on the net.
- I know travel will never be the same again. If my wife can plan and book a three-week tour of Canada on the net without leaving home or talking to a travel shop, I am pretty sure I can book a weekend in the Cotswolds.
Database management companies that can link legacy systems to new ones and integrate all the customer databases to enable true relationship management will add enormous value.

The best of these will challenge traditional agencies as they build marcoms campaigns off the back of intimate customer understanding.

Companies need to put themselves in the customers' shoes and create a new, holistic 'home retailing' offer that marshals all the key touch-points to deliver the optimum brand experience.

In summary, if communicators do not reach out more effectively to home shoppers with all the accumulated intelligence and skills we have used to attract customers to 'normal' retailing, then huge and costly mistakes will be made and immense opportunities lost.

'Home shopping' is far too simplistic a term for a retailing sea change that has finally achieved the impossible — after all, now even men think that shopping (online) is fun.

NOTES & EXHIBITS

FIGURE 1: THE RANGE OF CUSTOMER TOUCHPOINTS

FIGURE 2: IMPROVED SERVICES IN HOME DELIVERY AND COMPETITION IN THE MAIL INDUSTRY ARE FACTORS IN THE RISE OF HOME RETAILING. TOP: AN OCADO DELIVERY VAN. ABOVE: TNT NOW DELIVERS REGULAR MAIL AS WELL AS PARCELS.
The Dawn of the Marketing Venture Capitalist

Martin Deboo
Ingram, where he focuses on organic growth issues

In may 2005, Coldplay's single 'Speed of Sound' went straight into the top ten of the US charts – the first time a British group had achieved this feat since the Beatles with 'Hey Jude' 37 years before. For Coldplay's record company, EMI, it marked a return to the glory days when the Beatles were guarantors of its US sales. For the British music industry, it brought to an end a long era of transatlantic famine.

For the industry worldwide, the event represented a celebration of its distinct model for cultivating success: ten years ago Coldplay were a student band at University College London, before being discovered in 1998 playing at a music festival in Manchester by a record label A&R (Artist & Repertoire) scout, Debs Wild.

The music industry reflects what we will call the 'discovery' model of innovation in its purest form. In this model new ideas and new talent are predominantly 'found' not 'made', the commercialisers of ideas tend to be different to their originators and success is nurtured by a diverse, vibrant and self-sustaining ecosystem where talent and ideas bubble up from the bottom.

Significantly, in music there is a recognition and acceptance that success is fundamentally a percentages game: to win big you are going to have to be prepared to lose frequently and that is fundamentally OK. Management and investors may cavil about the risk and earnings volatility, but the model has proved durable. As Sony BMG Records CEO Andrew Lack said recently, "My responsibility to the shareholders is to say: "Look, you're in a casino – if I place a bet ten times, then once or twice my number will come up.""

THE GROWING INFLUENCE OF THE DISCOVERY MODEL

While the discovery model is epitomised by the music business, it is by no means unique. In industries such as pharmaceuticals and software, the large global players have been successful in 'talent scouting' externally among independent R&D labs or hotshop code warriors in pursuit of the next hit molecule or application.

Beyond the traditional corporate world, the growing influence of private equity as an alternative ownership model has demonstrated the virtues of a discovery-based approach to creating value.

The private equity model is different to that of the traditional corporate and depends less on interventionist management skills and more on the ability to skilfully identify and then arbitrage undervalued assets. The focus of the private equity investor is on the blending of these assets with management talent and powerful incentives to foment success.

Just as in the music industry, private equity investors recognise that they have to play the percentages game: late-stage investors typically work on a 40/40/20 ratio of big successes, middling successes and relative failures. In early-stage investing the odds are longer: more like 20/40/40.

Nonetheless this has proved to be an effective model. For example, in the consumer space in the UK, niche brands such as Molton Brown, Simple skincare, Wagamama and Hobbs have all been acquired and then re-sold by private equity owners, usually with spectacular returns.
While the discovery model has been the dominant force in industries like music, pharmaceuticals and private equity, the consumer goods industry has not traditionally embraced it. Instead consumer goods firms depend primarily on the ‘invention’ approach. In this model new ideas tend to be made not found: originators and commercialisers are usually the same entity; and the flow of ideas is as likely to be top-down (driven by perceived new needs and segments) as bottom-up.

Fmcg majors bet big on the invention model. Almost all branded players conduct their R&D and NPD in-house and are prepared to invest heavily behind success: R&D budgets typically amount to around 1–3% of sales. Behind these investments lie elaborate innovation management structures and intensive staged-gate development processes.

Viewed in the round, the model is institutional and deterministic: research the market – identify the need – meet the need. Ready-aim-fire as opposed to the almost gleeful ready-fire-aim mentality in the music business.

And yet – despite this commitment – managers and investors in fmcg are professing themselves disappointed with the returns on their investment in innovation (see Figure 1). Top-line growth remains elusive (and is scarcely higher than underlying inflation); the majority of new products still seem to fail and the fruits of the process frequently seem more incremental than radical.

So, to deliver against expectations, the majors have to maintain a relentless focus on costs, contemplate risky investments in emerging markets and/or continue to box clever in the ceaseless fight with the retailer.

Unilever's much-vaunted 'Path to Growth' strategy illustrates the magnitude of the challenge. Ruthless divestment of non-core brands and the admirable clarity of the reporting served only to illuminate the poverty at the core of the project: revenue growth among the company's 400 leading brands only briefly reached the declared 6% pa target and had fallen back to 2% or less by the time the initiative was abandoned.

Perhaps none of this should be surprising: successful innovation is hard at the best of times and is exceptionally so in mature markets where jaded consumers, high rates of marketing investment and retailer power all conspire to elevate the barriers to success and breed risk aversion as a result.

CEOs have therefore tended to prefer the elixir of major acquisitions (despite evidence that the majority of these transactions destroy value) over the slower and rockier path to organic growth. For most consumer goods CEOs, innovation remains the great unsolved problem of how to drive success.

In their recent book, Fast Second, Costas Markides and the late Paul Geroski reached the conclusion that large corporates have a poor track record at primary innovation but a much better one at scaling innovative new products sourced from elsewhere. Their message is that firms need to make a choice between playing the role of ‘coloniser’ or ‘consolidator’ within their industries.

According to Markides and Geroski, 'Some firms are natural colonisers, able to explore new technologies quickly and effectively, making the creative leap from technological possibility to something that meets consumer needs ... Other firms are natural consolidators. They are able to organise a market, turning a clever idea into something that can be economically manufactured and distributed to a mass market.'

**CHALLENGES FOR THE MARKETING FUNCTION**

Faced with this choice, consumer goods companies need to think harder and sharper about how they are going to play the innovation game. Central to this decision is the need for firms to make a clearer choice about where and how to participate in the innovation 'value chain', based on an honest assessment of their real capabilities and advantages.

This in turn has implications for the marketing function and should cause marketers to ask themselves some profound questions about the role they can play and the contribution they can make to the corporate growth agenda.

Some 150 years after the industrialisation of the West and more than 50 years after the invention of
marketing, we are still taught that the purpose of marketing is to fulfil 'unmet needs'. In the 1950s, when clothes were still predominantly washed by hand, floors were cleaned with a brush and the journey to work was on foot, by bus or by bike, the concept of 'unmet need' inspired a rich agenda. The implication was that consumer needs were both patent and identifiable, and that a guided programme of inquiry could identify fruitful opportunities and niches to be exploited by new products and services.

The result was that firms created substantial institutional structures and put generous funding behind NPD. When this started to have mixed success, an element of risk management was introduced by the advent of staged-gate innovation processes designed to weed out borderline projects on strict and transparent success criteria.

Despite these refinements, the traditional NPD model remains risky and the probability of success is low. But this should perhaps come as no surprise when we look around us. As a cursory walk around TriBeCa, Dubai, Notting Hill or even Shanghai would suggest, we are living in a world where consumption choices are being driven more by lifestyle preferences and status anxiety than by 'unmet need' per se.

As a result, the ability of the traditional model and structures to identify or anticipate new opportunities is weakening. In markets as big and diverse as alcoholic drinks, fashion, cosmetics and perhaps even cars and white goods, the obvious functional gaps that could reliably be identified by traditional needs-based analysis have long ago been filled.

Axiomatic to the needs-driven model is that marketers are in the driving seat of what is a primarily institutional and organic approach to innovation. The skill set of marketing is therefore rooted in consumer understanding, fuelled by significant investment in consumer insight. Most marketers see innovation as core to their role and most probably think that they are good at it: being 'innovative', like being 'strategic' or 'entrepreneurial' is something that few people like to admit to being bad at. Conversely, few if any marketers would be flattered to be described as 'consolidators'.

Marketers therefore tend not to exploit the talent-scouting qualities that seem to be serving the music and private equity industries so well.

**A CHARTER FOR THE MARKETING VENTURE CAPITALIST**

Marketing is labouring under a big limitation in that it tends to be viewed internally as the 'department of organic growth'. And only a modestly successful one at that!

As a result CEOs tend to view the real work of value creation as happening in the finance and mergers and acquisitions (M&A) function, where big issues like 'synergy' and 'consolidation' get thrashed out by the MBAs and investment bankers. Meanwhile marketers get busy with their line extensions and advertising campaigns.

The consequence is twofold. First, plenty of step-change acquisition and consolidation as the majors merge businesses, acquire 'strategic' brands and divest 'secondary' ones. Second, a frustrating lack of success in driving up organic growth and the rate of successful new product launches.

Meanwhile the middle ground of fast-tracking small but high-potential brand properties gets left to the start-ups and private equity players.

The time is therefore ripe for marketers to question their role and the contribution they are making to innovation-driven growth. This implies a new and different skill set and a more eclectic approach to driving innovation.

In short, marketers need to start behaving less like an institutional salariat and more like venture capitalists. What marketing venture capitalism requires is root and branch reform of marketing organisational structures, skill sets and success models. But what would a charter for a marketing venture capitalist look like? There are four critical elements, highlighted in the next section.

**WHAT NEXT? SOME PRACTICAL PRESCRIPTIONS**
But what might this mean practically? What should firms wanting to travel this road do? And what needs to change in marketing? The following guidelines provide some starters for ten.

Assess Your Capabilities

Start with an honest assessment of your capabilities and develop a sense of where you do add value – and don’t. This article is not trying to argue that there is no role for traditional in-house, organic innovation. However, it is almost certainly the case that there is too much of it about. Too many companies are deluding themselves that they have genuine capability in this area when their real skills lie elsewhere.

CASE STUDY 1

Apple: buying technology; not making it (see Figure 2)

The story of Apple is well known and the company is generally regarded as the sine qua non of what innovation is all about, with a stunning track record of successful new products such as the Apple II, Macintosh, iMac and iPod.

But what is really striking about Apple's strategy is that it has not depended on classic 'first mover' innovation. Instead the company started with a clear vision: to make the computer the 'digital hub' in the home and a facilitator of a new digital lifestyle around music, photography and video. Allied to this vision is a clear choice about where and where not to play in the innovation value chain: superb industrial and human interface design, 100% product compatibility and incisive branding and marketing. But not primary innovation. Apple didn't waste time re-inventing wheels but instead acquired the technologies it needed to fast-track to the digital hub proposition, as Table 1 shows.

CASE STUDY 2

P&G: 'Open Source' Innovation

By the late 1990s, Procter & Gamble, along with many of its fmcg peers, was struggling with the problem of driving top-line growth in what were its largely mature markets. Over-aggressive corporate restructuring and the diversion of resources from big brands into peripheral activities had sapped morale and the company needed new direction. CEO AG Lafley was appointed in June 2000 and announced a 'back to basics' strategy focused on getting the most out of core brands and categories. (see Figure 3)

Improved innovation performance was central to this strategy and in 2003 Lafley declared that his vision was that in future '50% of P&G's discovery and invention could come from outside the company.' At the time only about 20% of P&G's programme arose from this source. In fact, prior to Lafley's appointment, P&G was spending c. $200m a year (in excess of 10% of its total R&D budget) on internal 'skunk works' projects. P&G has now re-branded its 'research and development' function as 'Connect & Develop', recognising what is becoming a more open and eclectic approach to innovation.

Behind Connect & Develop is a highly directed but networked model. Extensive use is made of web-based sources. Search and visualisation tools are used to mine information about a wide range of developments in technologies, markets, competitor behaviour, social and political trends, etc. These are then brought to the attention of relevant managers by a team of 'gatekeepers.'

This search process is complemented by other ways of connecting – for example, an internet-based business (NineSigma.com), which enables client organisations 'to source innovative ideas, technologies, products and services from outside their organisation quickly and inexpensively by connecting them to the very best solution providers from around the world'. They also work with another website – InnoCentive.com – which provides an online marketplace where organisations seeking solutions to problems are brought together with scientists and engineers with solutions to offer. (see Figure 4)

P&G has also applied the Connect & Develop approach to internal idea generation. The company has a wide range of active communities around product groups, technologies, market segments, etc, which it leverages through intranets. An example is the 'Encore' programme, through which retired staff of the company – and
potentially those of other companies – can be mobilised to act as knowledge and development resources in an extended innovation network.

The underlying approach is a shift in emphasis, not abandoning internal R&D but complementing it with an extensive external focus. P&G sees its task not just as managing 'know-how' but also 'know-who'. According to Nabil Sakkab, head of research and development at P&G's fabric and homecare division, the company's model for intellectual property formation has changed from 'the Kremlin to the Acropolis'.

The results have been encouraging. Under Lafley, the company is delivering organic revenue growth of c. 7% pa – excellent for a mature consumer goods business. P&G's new products are consistently ranked in IRI's annual table of top consumer goods product launches and, in recent years, have included the Swiffer duster (developed from acquisition of a Japanese competitor), the Crest SpinBrush electrical toothbrush (another acquisition of a nascent competitor) and Bounce, the world's first dryer-added fabric softener (based on technology acquired from an independent inventor).

Source: P&G; FT; McKinsey Quarterly

The energy that goes into the creation and evaluation of new products needs to be balanced by a rigorous assessment of the last several years innovation answering the questions of what worked, what didn't, what went right, what went wrong, and what can and can't be fixed. Many will conclude from this exercise that they have been ill-served by the traditional model and need to find new routes to success.

Confront the Trade-Off: Should New Products be Made or Bought?

The weight and recurrence of R&D spend, the classic NPD process and the disconnect between marketing and M&A all conspire to suppress the question of whether to 'make or buy' new products. The so-called 'business development' function is almost exclusively concerned with M&A, while marketing is exclusively focused on organic growth. The two parties need to talk a common language of value creation. New structures and formats need to be created to bring them together and force the trade-offs.

Acquisitions are frequently criticised for failing to earn returns in excess of the cost of capital. But how often is internal R&D spending assessed on comparable rate of return criteria? Based on a set of typical ratios for an fmcg company, a firm needs to derive 5–10% of its annual sales from new products every year, in order to meet return on investment criteria on internally sourced R&D. This is a tough target in the context of the low success rate of new NPD and typical organic growth rates of c. 5%.

Make the R&D Budget Contestable

The logical consequence of the make or buy model is that the R&D budget should be seen as only one of a number of routes to securing growth. In other words, it needs to fight for its place at the table alongside acquisition, licensing or outsourced R&D as a solution.

Contestability could have a very significant impact on the shape of growth strategies, as significant value is locked up in R&D budgets: $10 billion turnover fmcg company will be spending c. $200m pa on R&D – equivalent to a capitalised value of c. $1.5–$2bn. Diverting even a portion of this sum on targeted acquisitions could be a source of real impact on the top line.

Bring Deal Origination Skills into the Mix

Marketing has traditionally been defined as a creativity and insight-driven function, based on the ability to listen closely to consumers and translate their needs into products. Marketers are not disposed to look outside the firm for new ideas. Nor do they tend to look through the lens of the business strategist or corporate financier around the opportunity to arbitrage undervalued assets.

The Marketing Venture Capitalist's Charter

• Shift the emphasis of new product and service development away from 'invention' and towards
Adopt a more diverse and eclectic approach to innovation, embracing approaches such as acquisitions, JVs and licensing as well as traditional organic methods.

Define a new role for the marketer as investor – someone at the heart of the growth agenda who is skilled and empowered to take 'make or buy' decisions around innovation, based on rate of return criteria.

Cultivate a new approach to risk management based on the notion of innovation opportunities as a series of real options, rather than the convergent logic of the traditional staged-gate process.

However, while financiers spend their lives trying to do precisely this, they do it from a mechanistic financier's perspective, distant from exposure to consumer dynamics that are the meat and drink of marketing. Marketers are therefore much better positioned to bring consumer insight and trend analysis to bear on acquisition scanning.

The problem is that many marketers are neither particularly analytical nor have had anything more than rudimentary finance training. A tall order to combine the two, maybe – but imagine the impact and influence of individuals who can both understand and divine consumer trends and link these to acquisitive growth opportunities.

Small companies with proven revenues can be bought for less than it takes to get many 'blockbuster' innovations to market. P&G secured the ultimate purchase of SpinBrush for $475 million – equivalent to 2.3 times its previous year's sales and widely considered to be a steal.

**CASE STUDY 3**

**Premier Foods: The Proud Consolidator**

Premier Foods, which floated on the London Stock Exchange in 2004, is a large British food company with a distinctive heritage. Originally an MBO from Cadbury Schweppes in 1986, Premier was subsequently acquired by conglomerate Hillsdown and was then the subject of a second leveraged buyout by American Private Equity firm Hicks, Muse, Tate and Furst. Hicks Muse's strategy for Premier was to build its scale as a 'house of brands' comprising products that were regarded in some quarters as the walking wounded of the British food industry, among them Branston Pickle, Ty-Phoo Tea and Hartley's Jam.

Following its successful stock market float, Premier has continued to prosper and expand its portfolio. Its R&D ratio, at 0.1% of sales, is very low even by food industry standards. However, Premier has proved willing to grow via well-judged acquisitions. In 2005 it acquired Marlow Foods, the owner of Quorn textured vegetable protein, for £172 m. Premier's share price rose by 7% on announcement of the deal. This was unusual for an acquisition as markets traditionally mark down the shares of the acquiror, implying strong endorsement of the strategy by investors.

And rightly so. What Premier apparently recognises is that their strategy is that of a pure – and proud – consolidator. It does not delude itself that its core skill is to be innovative and doesn't waste cash on R&D as a result. However it does it has confidence in its ability to deal with the UK grocery trade and to turn around tired and/or underexploited brands.

Sources: FT; company website

**Think Differently About How to Manage Risk**

Innovation is a risk that no amount of Bases II tests and staged-gate systems are going to eliminate. In fact, the culture of risk reduction may be having the opposite effect by inspiring either too much incrementalist, imitative innovation, or blowing shareholders' funds on too few failed big ideas.
Most new products are going to fail. They just are. Marketers need to start thinking about innovation opportunities as a portfolio of options rather than a converging funnel that leads to the single big idea. The imperative should be to get as many of these options as near to the market as is possible at reasonable cost. With the possibilities of viral marketing and the growth of the internet as a sales channel it's getting easier rather than harder to avoid the set-piece listing negotiation with the big retailer that has been the traditional hoodoo of the NPD process.

**Challenge the Tyranny of the Boston Matrix**

The current vogue for global branding and portfolio rationalisation is making marketers blind to the buried treasure that lies within the tail of their brand portfolios. The failure of a strategy like Unilever's Path to Growth should serve to make people leery of the false gods of global 'drive' brands.

At the root of the problem is too-slavish application of outmoded frameworks like the BCG matrix and pursuit of leadership positions in markets that are too widely defined. The consequences can be highly toxic for growth: everybody knows that the career fast-track is on the 'drive' brands; the secondary brands get starved of talent and investment and so decline.

As a result, entrepreneurialism and the potential to look afresh at opportunity get quelled. The perverse result is that arbitrageurs get to make huge returns while the majors struggle to make progress.

**Shape the Organisation Around Consumer Segments, not Traditional Categories**

A striking feature of the music industry is that, while its zest for global consolidation has been strong, care has been taken to preserve the identity and genre focus of individual labels. Record companies have appreciated that while there are substantial synergies available in manufacturing and distribution, artist and repertoire activities thrive on distinctive cultures.

Record labels have therefore kept their individual identities and physical locations, even though a global behemoth like Sony or Warner is running the back office and keeping an eye on the numbers. Instead of preaching the mantra of organisational restructuring, record company execs talk proudly of maintaining a 'myriad' of labels (see Table 2).

There are big benefits from the label model that fmcg majors can exploit. Foremost among these is that labels are targeted at genres, which are defined flexibly according to cultural, regional and ethnic preferences, among others. A recent example is Sony BMG's decision to create a new label, Music with a Twist, targeted at the gay/lesbian and 'gay adjacent' audience – a hugely important segment that has been under-recognised by traditional marketers. In contrast, marketing structures within fmcg tend to be defined by brands within product categories. The risk in this model is that it will tend to drive incrementalist innovation within the bounds of the existing category.

**IN CLOSING**

During the middle years of the last century the global fmcg industry was the cradle of marketing innovation. Yet during the last 20 years or so it has had to grapple with the challenges of maturity. Much has been achieved – in areas such as supply chain management and portfolio rationalisation – in order to defend profits in the face of burgeoning retailer bargaining power. But the end of that road is being reached.

However, fostering a similarly robust strategy for managing innovation has proved elusive. Diverse influences, from the music industry and private equity at one end, through to industry pioneers like P&G at the other, are illustrating new models of success. The time is right for contemplating radical change. This is a challenge that the marketing function can and must face. The dawn of the marketing venture capitalist is here.

**NOTES & EXHIBITS**

<table>
<thead>
<tr>
<th>Company</th>
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<td>L’Oréal</td>
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<td>Procter &amp; Gamble</td>
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<tr>
<td>Sara Lee</td>
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Source: The Inram Growth Index

TABLE 1: APPLE'S TECHNOLOGY STRATEGY
<table>
<thead>
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<th>Product</th>
<th>Category</th>
<th>Origin</th>
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<tbody>
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<td>OS X</td>
<td>Operating system</td>
<td>Acquisition of NeXT</td>
<td>1997</td>
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<tr>
<td>DVD Studio Pro</td>
<td>DVD mastering software</td>
<td>Acquisition of Apple &amp; Space</td>
<td>2000</td>
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<td>Music player</td>
<td>Technology licences from VideoDVD and iPod</td>
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<td>iTunes</td>
<td>Music player software</td>
<td>Acquisition of SoundJam</td>
<td>2001</td>
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<tr>
<td>Final Cut Pro</td>
<td>Digital video editing software</td>
<td>Project acquired from Macromedia</td>
<td>2001</td>
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<tr>
<td>GarageBand</td>
<td>Desktop recording studio</td>
<td>Acquisition of Digidesign</td>
<td>2002</td>
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</table>

Source: www.apple.com, Macworld San Francisco Chronicle

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**FIGURE 3**

![Bounce product](image)

**FIGURE 4**

![Swiffer product](image)

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**TABLE 2: SELECTED LABELS AND GENRES AMONG THE GLOBAL MUSIC MAJORS**
<table>
<thead>
<tr>
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Source: www.appleinsider.com, PCworld, San Francisco Chronicle

Peter Fisk
Strategist and Marketer, and joint leader of The Foundation

From the vision of Apple to the insight of Zara, the passion of Nike and the customisation of Dell, today's leading brands think and act differently.

The 'genius' of business today lies in resolving a number of paradoxes. Connections must be made between: outside and inside; markets and business; customers and shareholders; creativity and analysis; promises and reality; today and tomorrow.

Today's business leaders have much to learn from both Einstein and Picasso, one who started with mathematical rigour and then thought creatively, the other who produced unconventional work, but still embraced the theory of his practice.

When we look at companies and leaders who are shaping, innovating and leading today's markets, their genius comes in many forms, as shown in Figure 1 above.

In recent years business has favoured a highly analytical, logical, measured approach. Indeed our obsession with left-brain precision has often led to forgetting our right-brain imagination, which is required to see the bigger picture, to make connections and instinctive judgements.

We need both sides of the brain – for wider vision and disciplined focus; radical creativity and rigorous metrics. Creating exceptional value for customers is the only sustainable way of delivering superior returns to shareholders.

SEEING THINGS DIFFERENTLY

The starting point is to see the world from where customers stand – to see products and services, business and sectors, the way real people see them. The obvious questions then no longer have simple answers.

Even the world's leading brand, Coca-Cola, has recognised that it must reframe its market context, and that juices and teas, rather than carbonated drinks, will more likely drive its future success (see Figure 2).

The magic, however, is not just in the insight but in the actions that can follow. A business leader who sees a new landscape, with appropriate direction and stimulus, develops the belief and conviction to act differently – to disrupt the industry conventions, to do what everyone else has avoided, to innovate the market rather than just a product.

Look at the leaders of Dell or Tesco, eBay or Zara – they are market-thinking people by background, who intuitively 'start with the customer and all else follows' (as Google defines its number one principle). They bring an outside-in approach, first considering the market rather than what they have to sell. These leaders are
obsessed with their customers and competitors, they champion the brand and innovation, and are constantly searching for new ways to stay ahead. Phil Knight of Nike is a good example (Figure 3).

It is no coincidence therefore that marketers are increasingly the best equipped to be future CEOs. Marketing is in the background of only 21% of FTSE CEOs, yet research shows that these companies on average generate 5.9% better shareholder returns than all others.

While many brands have blindly converged towards sameness, others have had the confidence to run a different race.

Here are some of my personal favourites, who like Einstein and Picasso before them, have embraced both their left- and right-brain to do things differently.

1 ALESSI

The Italian designers combine design and technology to create objects of household utility and desire. In 1921, Giovanna Alessi first struck his lathe in the Alpine village of Crusinallo, with the belief that no man should be forced to dine from a boring plate. From Anna G, the corkscrew, to a radio called Poe, the Alessi design family enjoys and celebrates the simplicity of everyday objects, while constantly pushing the boundaries of both function and form. They are guided by the creativity of designers such as Philippe Starck and Aldo Rossi rather than following the whims of the market, and the possibilities of materials, more recently embracing colourful plastics to complement their classic medium of stainless steel. Two-thirds of Alessi products are now exported to over 60 countries, helping them to build an intensely loyal customer base, who typically build up a collection over a lifetime.

*Genetics: design and technology, boldness and imagination.*

2 ENTERPRISE

Enterprise has quietly grown to become the largest car rental company in North America by rejecting the conventional wisdom of focusing on holiday and airport locations. Instead Enterprise and its 57,000 staff, who all share in the business success, have grown up in the inner cities, focusing on short-term and replacement rentals. Their people share an incredible entrepreneurial spirit more associated with a small company, working customer by customer, car by car, to be the best rather than the biggest. Their service culture and market focus enables them to charge a market premium and to rapidly enter new markets that to the conventional eye, would appear saturated. The company now generates over $7 billion from its 600,000 cars and has made many millionaires out of its people on the way. Previous leaders Hertz and Avis now need to try even harder. (see Figure 4)

*Genetics: focus and differentiation, culture and service*

3 GOOGLE

'Googol' is the mathematical term for a 1 followed by 100 zeros. In 1995 Larry Page and Sergey Brin created in their Stanford University bedroom what within five years would be dealing with 100 million internet searches every day, and make them multi-billionaires in less than a decade. Indeed its recent Nasdaq flotation was not without controversy, when Google claimed it should not be treated like a 'normal' company.

With over 80 million users, searching through 8 billion web pages, Google is now the world's leading search engine. It is known entirely through word of mouth, and its revenues are driven by enabling advertisers to target online users in highly sophisticated and efficient ways. It stays true to its '10 things' philosophy, ranging from 'focus on the user and all else will follow' and 'fast is better than slow', to 'you can be serious without a suit' and 'great just isn't good enough'. (see Figure 5)

*Genetics: technology and vision, simplicity and leadership*

4 IKEA
Ingvar Kamprad set out from his Elmtaryd farm in the village of Agunnaryd – hence the letters forming IKEA – with a mission to 'create a better everyday life for the many people'[sic]. Since 1943 the company has focused on democratising design by offering a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them. Its flat-pack approach gives it supply-chain efficiency and speed, even if it infuriates some consumers. Its 230 stores are typically in urban, isolated areas targeting young homeowners, and creating a distinctive experience (not least through its restaurants at the heart of the stores). With global roll-out, and strong loyalty, its success is likely to continue as long as it can convince people to discard the old and refurnish their lives.

Genetics: product and cost, design and experience.

5 JETBLUE

The revolutionary airline brought style to a price-discounting market, offering spacious leather seats each equipped with 36 channels of live satellite television, while most of its competitors crumbled around it. Launched by David Needleman, JetBlue now serves 30 carefully selected US and Caribbean destinations with a fleet of 68 new, environmentally friendly Airbus A320 aircraft. The airline succeeds competitively and financially by combining innovative, high-quality service with low fares to build a loyal following. Needleman followed his previous successes with Morris Air, which he sold to Southwest, and Open Skies, a simple yet powerful reservation system sold to Hewlett Packard. In 1999 he secured $130 million capital funding, rejected the thinking that no-frills was the only future, and judged that the time was right to bring 'humanity back to air travel'.

Genetics: innovation and timing, pricing and automation.

6 JONES SODA

'Run with the little guy, create some change,' urged Peter van Stolk as he launched his Canadian drinks company back in 1996. His drinks were irreverent – turkey and gravy soda was a top seller – and his distribution channels were different – placing his flame-design coolers in skate shops, tattoo parlours and music stores. Jones enhanced its cool credentials with the endorsement of leading BMX and MTV personalities, and a passion to do things differently. The company also embraced technology, enabling consumers to mix their own drinks and, most innovatively, to upload their personal photos at myjones.com, which then became the labels on the bottles. A nationwide craze ensued as folks searched through stores for the bottle with their picture on it. Jones Soda has created a cult following with consumers, staff and shareholders – a cult that soon intends to hit the UK.

Genetics: alternative and irreverent, personal and personality.

7 PANERA BREAD

Panera is the bread shop from St Louis that has driven an American obsession for speciality breads, and now has 700 bakery-cafes in 25 US states, with the highest level of retail brand loyalty in America. 'We are bakers of bread. We are a simple pleasure. We are a life story at dinner. We are a weekly morning ritual. We are the kindest gesture of neighbours.' The bakeries specialise in all-natural ingredients to bake the finest breads, showcasing the artisans and craft of bread-making, and becoming the centre of the local community. The story began in 1981 with the Au Bon Pain Co. which acquired a St Louis chain of 20 bakeries in 1993. Since changing its name to Panera in 1999 the share price has grown 13-fold, created over $1 billion of shareholder value and been named one of Business Week's 'Hot Growth Companies'. (see Figure 6)

Genetics: quality and range, network and community.

Ten challenges for a marketing genius

Leadership

Bring an outside-in mindset to business, driving focused decision-making and inspiring more enlightened action.
Strategy
Consider a broader context, focusing on the best few existing and emerging markets, and how to be positioned in them.

Brand
Define your brands by the benefits they offer customers rather than the functional description of your business or solution.

Customers
Engage more deeply with the right customers, observing and collaborating to discover emerging and unarticulated needs and wants.

Innovation
Reframe opportunities in ways that create new spaces in which to innovate products and business models, and their market applications.

Channels
Invert channels so that they become the trusted partners of customers, working together, creating solutions based on intimate knowledge.

Pricing
Actively manage perceived value, changing the frame of reference so that a premium price structure still offers ‘value for money’.

Communications
Build dialogue with customers on their terms, in their time and place, rather than product-push, mass-market campaigns.

Relationships
Build loyalty between rather than with customers, through forming branded communities of people who want to come together.

Performance
Invest in markets, brands and innovations that create a virtuous circle of more value for customers and shareholders, short and long term.

8 SKY
Sky has changed our viewing habits, and our social behaviours too. With more than 17 million viewers in 7 million UK households, Sky now offers an unprecedented choice of movies, news, entertainment and sport. Not only that, but it has also been smart in signing up the content that is most in demand – not least Premier League football – in order to entice terrestrial viewers, and charge a premium for it. Now that it reaches 30% of homes, the focus has moved from land-grab to profitable delivery. Sky+ has brought personal choice and recording in a way that TiVo failed, while the licensing of its own channels – such as Sky News and Sky Sports – to cable and digital networks has extended its reach. James Murdoch now has the challenge of sustaining the relentless growth demanded by his father.
Genetics: vision and innovation, content and pricing.

9 SONY

'Sony' is derived from 'sonus' meaning sound and 'sonny boy', by which the Japanese mean a young person with a free spirit. Sony is therefore 'a group of young people who have the energy and passion toward unlimited creation'. This could define Sony, and its target customers. Indeed there are few companies that have achieved such success through steady, organic growth with a devotion to technological innovation, and a Zen-like ability to shrug off defeats. While there have been many successes, from the Walkman to the PlayStation, there has been failure too, including losing the battle for video and DVD format supremacy. However, the focus on sleek, attractive design that wins over customers, often at a 20–30% price premium, has served Sony well. As technologies converge, the focus is also about creating solutions rather than products – the Sony experience – and in staying one step ahead of the consumer.

Genetics: innovation and design, leadership and passion.

10 ZARA

In 1963, Amancio Ortega started out as a small lingerie business, producing low-priced imitations of upmarket fashion. However, Ortega thought consumers could regard clothes as a perishable commodity, like food and drinks, rather than something to be stored over years. Ortega pursued his vision of 'ready-baked' clothes, to create a global fashion phenomenon, translating the latest ideas from the catwalk and trends on the street into new ranges faster than anyone else. Zara's 'sense and respond' approach, enables it to occupy the leading edge of the fashion cycle, when demand and prices are highest and, coupled with its highly efficient supply chain, margins are greatest. With over 600 stores in 50 countries, Zara positions its brand differently by market – in Spain it is at the cheaper end of the market, while in the US and Mexico it competes with luxury stores.

Genetics: insight and design, speed and efficiency.

The Genius of Marketing

Most significantly of all, marketers are the people who can most naturally achieve this new balance – to connect customers and business, to embrace creativity and analysis, to see the future and act on it today. They have the natural 'outside-in' perspective and talents to lead the business.

Marketers should be the most important, influential and inspiring professionals within the business community. Yet for too long, their capabilities have been organisationally isolated, focused on marketing as a function with tactical deliverables, making a marginal contribution. Businesses cannot survive in today's markets like this.

Businesses need marketers and marketing more than ever, to step up to the challenges of market complexity and intense competition, to be the creative and commercial driving force, and to embrace customers and innovation across the whole organisation. Marketing is the engine of growth and value creation.

Marketing must drive strategic direction and aligned delivery, both a stronger function and an essential mindset for business. However, this requires marketers willing to change, to step up to the challenge. While there are good examples of those who are already there, others must become more strategic, innovative and commercial. There has never been a more exciting time for marketing, or to be a marketer.

It's time for marketing to take centre stage.

NOTES & EXHIBITS
FIGURE 4: LARRY PAGE AND SERGEY BRIN, CO-FOUNDERS AND PRESIDENTS OF GOOGLE.

FIGURE 5: RIGHT: ONE OF IKEA'S 230 STORES.
FIGURE 6: BELOW: DISTINCTIVE JONES SODA BOTTLES. BOTTOM: A PANERA BAKERY-CAFE IN ROSEVILLE, MICHIGAN.
Thinking Smarter Inside the Box

Patrick Barwise
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Even great companies lose their way. Consider Procter & Gamble. By the late 1990s, P&G was one of the best known, most successful and most admired companies in the world. Yet in the final years of the last century, following a programme of 'innovation, stretch and change', P&G lost 50% of it value, a staggering $70 billion.

Under the ambitious 'Organisation 2005' programme, the company temporarily lost sight of the basics – investing heavily in their big brands – by diverting resources into a myriad peripheral activities.

For decades P&G had been an exemplary inside-the-box player with a well-earned reputation for continuous product innovation. While much of P&G's innovation was in-house, brands like Pampers were not invented by P&G. The P&G genius was to recognise the market, invest heavily behind the brand and continue to innovate. Its approach had been evolutionary, not revolutionary. (Editor's Note: See Martin Deboo's article describing how P&G is increasingly pursuing innovation more collaboratively.)

Now, it has regained its strengths. Under the current CEO, AG Lafley, it has adopted a low-key, back-to-basics approach. 'Even when you've got a complex business, there's a core, and the core is what generates most of the cash, most of the profits. The trick was to find the few things that were really going to sell, and sell as many of them as you could,' says Lafley.

The point of this story is not that any old company can lose its way. Many do. Nor is it that, with determination, any old company can recover from a diversion. Many cannot. We are not describing just any old company. We are talking about Procter & Gamble, an outstanding company with $55 billion in revenues and more than 100,000 employees in 80 countries. The point is that, however good you are, it is easy to become distracted. Remaining energised to achieve and sustain growth is hard work, requiring continuous attention.

It can be done. Here are six straightforward rules to help companies think smarter inside the box.

RULE 1

Think Category Benefits, Not Unique Brand Benefits

In the late 1980s, a student at London Business School summarised what he had learned with the words 'the Japanese do it better'. Today, the Japanese economy is in a rut, and its exporters have difficulty competing overseas, but the best Japanese companies, such as Toyota, Honda and Canon, are still world leaders, especially in product innovation, manufacturing techniques and quality control. Their continued success is all the more remarkable given the difficult conditions under which they operate: a depressed domestic market, ferocious competition (especially from other Asian companies), a high exchange rate, and the fact that others in those industries have now had more than a quarter of a century to copy their approach.
Perhaps it is time to look again at the books on Japanese management that have been gathering dust since the late 1980s. While Japanese management mainly focused on the manufacturing function, we argue that the approach should be applied to every function in every industry. In particular, there are often opportunities to improve service quality – and every business is at least partly a service business in the minds of its immediate customers.

In addition, Japanese management theories, such as TQM, and especially kaizen, tend to take an internal, engineering-driven focus. As applied by a company such as Toyota the benefits are there for all to see. As consumers, we should all be grateful for the resulting improvements in price performance and reliability we now take for granted in so many products. We believe that this internal process focus needs to be complemented by an external focus on customer needs and especially on those needs that are not well met. Hence, we focus on customer dissatisfaction with the whole category (not just with your brand) to counter complacency and to suggest specific opportunities for improvement.

Compelling examples abound: Shell's discovery that many customers would switch to a petrol station with a clean bathroom; or Virgin Atlantic's launch on the premise that, since consumers find long-haul flights boring, they will appreciate decent movies and an ice cream before landing; or Orange's launch based on a reliable network and proper customer service. So Rule 1 is to focus on what customers like – and especially dislike – about the category, not just about your brand and your competitors' brands.

RULE 2

Think Simplicity Not Sophistication

Shell sees itself as a company that aims to meet the energy needs of society in ways that are economically, socially and environmentally viable, now and in the long term. Most of us, however, think of Shell as a supplier of fuel and lubricants at our local petrol station, and as an oil and gas explorer and producer. We know that Shell is huge and global. We are less aware of its gas and power-marketing business, its chemicals business, or its emerging hydrogen, solar, geothermal and wind energy business.

You may, however, be quite surprised to learn that Shell is also one of the world's largest single-branded retailers. Its global network services some 25 million customers a day in more than 56,000 service stations. (see Figure 1)

Pat O'Driscoll was certainly surprised to learn those statistics. The well-kept secret of Shell's retailing scale did, however, explain why a headhunter working on behalf of the company's global retailing business was calling her. O'Driscoll's retailing credentials could hardly have been better. She had spent her managerial career at Tesco, Safeway, and Marks & Spencer. O'Driscoll was sufficiently intrigued by the challenge described by Shell that she joined in 1997. After an initial 18 months working with the team developing the global retail strategy, she was assigned to oversee the $30 billion European retail operation – and its 14,000 petrol stations – to implement some of the proposals and methods that she and the team had developed.

The initiative was challenging because the company had to introduce so many front-line employees to the new approach. The change involved many difficult steps, including closing almost half the existing outlets and coping with the inevitable short-term dip in employee morale. Employee scepticism changed, however, when the initiative started producing results. (see Figure 2)

Transparency, simplicity and consistency were key. For example, in the past, regional managers were hammered on costs, yet many stations were supposed to be open 24/7, despite seeing virtually no customers for six to eight hours. Local managers were empowered to do what made sense, as long as they excelled on the basics. Morale shot up.

Understanding its customers' priorities and ensuring that they were consistently satisfied on the basic attributes enabled Shell to become their preferred refuelling option. The initial performance improvement of 20% increase in like-for-like sales in Shell's major European markets settled down at about 10%. Return on capital, which had been zero prior to the initiative, soon reached double digits and exceeded targets.

RULE 3
Question the Addiction to Novelty and Change

The alarm bells went off when, a few years ago, a senior executive (let's call him 'Jim') at a major consumer-goods company congratulated one of us on our counterintuitive thinking. Having spent the day explaining how customer value orientation works to enhance business performance, we were surprised by his reaction.

Jim's business, it turned out, was the cash cow of his organisation. In his five years in charge, he had consistently delivered on-target earnings. His market share was high and stable, and customer satisfaction ratings were so high that other business unit heads had ceased to benchmark against him. Colleagues, however, suggested that the business's success was attributable not to Jim's management but rather to the colossal brand he had inherited. They would regularly ask, 'What has Jim done with the business? Where are his radical innovations? Doesn't he realise that if he continues with the old model, the competition will overtake him?'

Jim believed the managers had increasingly become thrill-seekers who had lost sight of the fundamental economies of risk. Executives from all disciplines multitasked, coordinated, visioned and strategised. Simply taking care of the business had somehow become passé. With no meaningful acceptance of the downside inherent in risk, Jim argued, the trend-conscious executive was addicted to novelty.

Between exploring web opportunities, sizing up the next acquisition, restructuring the balance sheet, partnering, venturing and outsourcing what they once thought was their core activity, managers had taken their eyes off the ball. They had been encouraged to do so and were often rewarded irrespective of outcome. They were excited. They were lost in their exploration of the new futures they would fashion. Who could blame them? They had, after all, been endlessly encouraged to think creatively, out of the box. They had repeatedly been urged to break the rules.

All this made Jim feel like a dinosaur. What excited him was creating value for his customers, one at a time. Although the revenues of Jim's division exceeded $2 billion, he knew all of his major customers (large retailers), their businesses and their issues. His knowledge of consumer trends, and his ability to understand how and why they evolved as they did were legendary.

He was intimately involved in product development and, with his team, had created an operations and fulfilment capability that was the envy of the industry. He was, simply, a profit-and-loss man, a complete business manager. He knew how to build and nourish a mature business, getting everyone enthused about creating customer value. 'Simple blocking and tackling' is how he put it to us. What is counterintuitive about that?

Is it not about time managers spent more effort thinking about the basics of their businesses, more effort thinking about real customers? Is it not about time they saw that we – the customers – are easy to please? We simply expect companies to deliver on their promises. Too many managers have spent so much time outside the box now that they have forgotten how good it can really be when they strive to be simply better.

RULE 4

Think Opportunities, Not Threats

Business success is elusive. When you find it, you should enjoy it. The other side of the addiction to novelty and change is the quite different trap of inaction due to complacency and of paralysis due to excessive caution.

Complacency born of security makes no sense at all. Demographic evolution changes your customer base over time. Technological innovations open up new possibilities. Consumer preferences evolve. Moreover, categories themselves evolve. Of course, existing and new competitors are out to steal your lunch. All these forces, and more, will impact every business.

Inaction due to insecurity can be even worse than inaction due to complacency. When, over the years, customer response confirms that you have found a great way to execute and that your offer is valued highly, there is an understandable fear of rocking the boat. Opportunities to evolve, by, for example, adopting a new
technology, come along.

The pressure not to adopt them stems from the fear that doing so will probably cannibalise your existing business. We suggest that what distinguishes those companies that take the risk and adopt the new technology is that they have a superior understanding of what customers really want. Take Gillette – now itself part of P&G.

Gillette first created (in 1903) and then dominated the mass market for disposable safety razor blades. In 1962 its position appeared unassailable, with a remarkable 72% market share. Yet, within just one year, it had lost almost a third of this to the small British company Wilkinson Sword, whose new stainless-steel blade lasted three times longer than Gillette's carbon-steel blade.

Gillette had been aware of the new stainless-steel technology for some time and had even licensed some of it to Wilkinson Sword. But Gillette had been reluctant to adopt the new technology. Why? Because doing so would have rendered obsolete much of Gillette's manufacturing capacity for carbon-steel blades. Wilkinson might have taken over the whole market if it had had enough capital.

But ultimately, as researchers Gerard Tellis and Peter Golder note, 'The Wilkinson experience galvanised Gillette to innovate even at the cost of cannibalising its own established products.' Tellis and Golder are referring to Gillette's Trac II twinheads razor (1972), Atra pivoting-head razor (1977), GoodNews twin-blade razor (1978) – a response to a serious threat by Bic disposable razors – and Sensor, a razor with twin blades that move independently (1989).

Now, years after the Wilkinson threat, innovation is 'almost an obsession' at Gillette. Gillette's perspective on what it takes to win is rather telling. The key, it says, is to 'provide benefits people think are worth paying for' – generic category benefits such as a quicker, closer, more comfortable shave. Gillette brands are supported by a corporate-wide understanding of customers' most basic category requirements and, therefore, of what R&D should focus on.

Whether potential changes are caused by new technology, government intervention, a changing customer base, or whatever, think of them as opportunities, not threats.

**RULE 5**

**For Creative Advertising, Forget Rule 3**

If your essential proposition is to meet basic category needs better than the competition, you may have a problem making yourself heard. The solution is to adopt a distinctive approach to persuasion. Gillette, rather than concentrating on leaving your competitors behind, decided to focus its efforts on persuading sceptical customers that it had addressed their core needs and had created a business system to provide those needs better than its competitors. This is where you or the creative people at your ad agency really do need to think outside the box.

The car maker Daewoo did this to great effect. As part of its strategy, it needed to persuade UK motorists that, because Daewoo sold direct rather than through dealers, they would experience a hassle-free buying process, peace of mind and courteous after-sales service. When Daewoo tested its concept, it felt the full force of market cynicism. Car buyers had heard it all before.

In addition, Daewoo had to make itself heard in a very heavily advertising market. With a combined market share of 51%, the three largest manufacturers each spent anything from £25 million to £50 million annually advertising on network TV, in the national press and on billboards. Daewoo's launch budget was £10 million. It used humour throughout its campaign along with reinforcing its simple message: we're on your side. Indicative of its approach is the competition it ran offering viewers a chance to become one of 200 guinea pigs – drivers who would be given a free Daewoo for an extended year-long test drive.

The ad opens with a close-up of a man telling the viewer about Daewoo's offer. On his mentioning guinea pigs, 200 of the little creatures appear. He gives up, leaving the voice-over to restate the message and invite the viewer to participate. The offer, together with its advertising execution, captured the market's attention: 200,000 people called the toll-free number to be a guinea pig, totally swamping Daewoo's phone lines.
RULE 6

Think Immersion, Not Submersion

Immersing yourself in the realities of your marketplace is not just a way to find and prioritise opportunities. It is also key to energising your organisation and keeping it focused on what really matters. Our advice? Insist that the whole company, not just the top management and the sales and marketing people, gets regularly immersed in the market. The more you do that, the more successful you will be in creating a customer-focused mindset. There is no substitute for direct market access from the top to the bottom of your organisation.

Is it unusual for senior executives to be out of touch? No. Simple economics argues in favour of specialisation. But distance and specialisation carry hidden costs, reinforced by the fact that people tell the boss what they think he or she wants to hear, so problems get buried rather than discussed and addressed. Shareholders may sympathise with the idea that top management should focus on the 'grown-up' tasks: corporate strategy, resource allocation, investor relations, corporate communications and running the overall business. Managers today work long hours at a relentless pace. It is hard not to drown in the workload.

But senior managers are well paid and get plenty of support at work and at home, so they do not have to spend time on the mundanities of day-to-day living such as doing the laundry. Do executive vice presidents at any car company actually shop around for their own cars? Do senior bankers have to go through what the rest of us have to in order to get a mortgage?

In the name of efficiency, senior executives generally outsource most of what they regard as distractions to support staff at work and at home. But some of these distractions are, in fact, the stuff of opportunity. They are sources of the unpleasant and unreasonable frustrations consumers experience every day: the broadband connection that gets disconnected by mistake; the franchised car dealer that keeps you waiting half an hour to get your car back after servicing; the beautifully packaged toy that breaks into pieces when the birthday child unwraps it.

What to Do Next: Go to Your Calendar

- How many whole days in the next four weeks are dedicated to interacting with buyers (those that make decisions to acquire your product or service) and with users or consumers (those who use it)?
- Now clear your schedule. In the next month, make it a priority to visit customers on their own turf – big and small, near and far, new and old, and especially dissatisfied and lapsed customers.
- Focus on observing and talking to customers where and when they buy and use your brands and your competitors' brands.
- As you struggle to find space in your calendar, remember Rule 6: it is immersion in the customer experience, not submersion in your other workload that matters.
- Although administration, resource allocation, and high-level strategy are important, take them in moderation.

Bite the bullet. You may be surprised by the impact.

NOTES & EXHIBITS
FIGURE 1: A SHELL PETROL STATION IN DUBLIN, IRELAND. SHELL DRAMATICALLY IMPROVED THE SUCCESS OF ITS RETAIL SITES BY UNDERSTANDING AND MEETING ITS CUSTOMERS' PRIORITIES.

FIGURE 2: THE LATEST GILLETTE SENSOR RAZOR. GILLETTE IS A COMPANY THAT HAS LEARNED TO INNOVATE CONTINUOUSLY.
See, Feel, Think, Do: The Power of Instinct in Business

Shaun Smith
International speaker and consultant

Andy Milligan
Leading brand consultant

The greatest businessmen throughout history understood – almost instinctively – what people would value and why, and then delivered it as simply and as easily as possible. But over the years, as markets have evolved and people's have become more sophisticated and more emotional, we have begun to see business not as a simple process, but a complex one.

Business has become so important that we have sought to eliminate its risk by schooling ourselves in its best practices, developing rigorous analytical tools that will give us 'models for success'. Executives do not even have to bother talking to customers any more. That activity is outsourced to specialist research firms and management consultancies, each with their own tools and processes for extracting the same information from the same customers, leading to the same strategies and, therefore, mediocrity.

Marketing as a function has become ever more compartmentalised and the term is now used to describe (often derisively) the processes that are adopted rather than the outcomes achieved. Yet we know that the best businesses are those that are instinctively in touch with their customers, take a holistic view of the brand and regard everything they do as marketing. As Jeff Bezos says, 'It has always seemed to me that your brand is formed primarily, not by what your company says about itself, but by what the company does.'

Over the last two years we have observed the behaviour of many different companies and researched the stories behind many of the ideas that we are now excited by and familiar with. We have also had the opportunity to talk to many leaders and idea creators in business – from restaurateurs, retailers, product designers to public transport workers and many more – to learn from them what has inspired them to do what they have done.

From this emerged a simple idea and an even simpler model: 'See, feel, think, do'.

SEE: EXPERIENCE IT FOR YOURSELF

It is late; the store shut its doors to customers many hours ago. Footsteps ring out as a solitary figure walks the aisles between silent racks of clothing and waiting displays. That figure is Philip Green, chairman of Arcadia Group, one of the United Kingdom's most successful retailers.

Green learnt his trade many years ago running under-performing clothing stores and turning them into cash-generating machines, before selling them on again. But he is no venture capitalist, merely concerned with juggling numbers and generating profit regardless of how it is achieved. Philip Green is first and foremost a retailer; and he understands the dynamics of the business intimately.

That is why he sometimes visits his stores late at night. Without distractions, his senses tuned, he can truly
experience the store as only a seasoned retailer can. That display is too confusing; that sign is hidden; customers would find it difficult to find that product; why is that litter not cleared? Obviously, he visits stores during the day as well, to meet customers and staff and see what they are experiencing. It is this hands-on approach that has led Philip Green to become the fourth richest man in the United Kingdom and the Arcadia Group to be the most successful private retailing group in Britain. In the 22 months since Green bought the group, operating profits have nearly tripled to £326 million.

Most chairmen or CEOs rely on hard data like market research and profit-and-loss accounts to run their business. Green understands that these are vital yet insufficient. They are merely lagging indicators, and therefore fail to give him the insight and early warning that seeing a store firsthand provides. Only direct observation reveals the difference between a store that is well run and one that is not, long before this shows up on the bottom line. That is why Green is famous for being engaged with every aspect of the business, from buying to store locations to merchandising. Experiencing reality yourself is very different from seeing the world through the insulating screen of data.

As Gordon Ramsay, the Michelin award-winning chef and successful entrepreneur, said in a recent speech at the European Customer Management Conference, 'Customers don't tell you that you are no longer their favourite restaurant. So it is vital to be hands-on and engaged because if you are not you'll find out five or six months down the line when the numbers fall.'

Ramsay's approach, like Philip Green's, is about seeing for yourself. It is the antidote to two-inch-thick research reports, two-by-two grids and too-smart young MBAs.

FEEL: EMPATHISING WITH YOUR CUSTOMERS

'It was just awful,' said Tim Waterstone, the founder of Waterstones bookstore chain. He was talking about the state of book retailing in the mid-1980s, when stores would stock only best sellers and closed at midday on Saturdays. Tim has loved books all his life. He took great pleasure in browsing in bookshops, but quickly realised that their limited stock, restricted opening hours and unhelpful staff marred his enjoyment. He also realised that this presented an opportunity. 'I reckoned that if I felt that way there must be several million out there like me.'

The answer was the first Waterstone's bookshop, which opened in Old Brompton Road in London in 1982. By 2003 the company had grown to become the United Kingdom's leading specialist bookseller, with 200 high-street locations across the UK, Ireland and Europe. Waterstone's flagship store in Piccadilly is now the biggest bookshop in Europe, comprising five floors of books, coffee bars and even a restaurant.

Later, when recalling how he came to create the very successful Daisy and Tom department stores, Tim said, 'I became cross with Mothercare [the children's retailer]. They had lost their vision.' In fact, when shopping with his own small children and finding that he was forced to drag them from one store to another to obtain what they needed, he became so angry that he decided to create his own brand of children's department stores specialising in clothing, toys and accessories. Daisy and Tom was started in 1997, and today there are five stores turning over £15 million. Tim has just acquired the Early Learning Centre chain, which will add 200 stores and £170 million turnover to his business.

Tim Waterstone is not alone. Many of the leading entrepreneurs today started their businesses because they were fed up with what was on offer. Sinclair Beecham and Julian Metcalfe started Pret A Manger when they despaired of the poor quality of sandwiches on offer near their offices in the City of London. Peter Boizot founded Pizza Express in 1965 because he was 'fed up that [he] couldn't get a decent pizza in London'.

THE GEEK SQUAD: THE MODEL IN ACTION

The Geek Squad is a US-based company that provides technical support for customers with computer or technology problems. It employs 10,000 'Special Agents' working out of 50 Geek Squad locations and in 700-plus Best Buy stores across the United States and Canada. (see Figure 1)
It was while Robert Stephens was studying computer science at the University of Minnesota in the early 1990s that he landed a job fixing computers. He began to notice the mergers and consolidations taking place between computer companies; he saw that the products were getting more powerful and more complex with email, internet connections and new software all conspiring to make it more difficult for average users to configure them themselves. He observed that there was little technical support for these customers, and what support was available was often inconsistent and unreliable with generally poor levels of service. Robert saw an opportunity: to create a firm that would provide technical support and be differentiated through the service it offered.

Feel

When a computer crashes the customer is anxious, angry but, most of all, concerned to get it back up again quickly. Stephens soon realised that the keys to success were rapid response and adaptability. Customers did not expect technical support firms to be either of these, and so by building a business around these factors he could be successful. He also realised that customers took it for granted that their computer was going to be fixed eventually, but it was the overall experience that left them fuming. So he needed to create a new kind of experience to win in the market. The big idea came when he was waiting for a computer to boot up one day. What could he do to fill that awkward time and reduce the level of customer anxiety? And in a flash the answer came: why not get the customer laughing? And so the idea of the Geek Squad was born, and their motto, 'We'll save your ass.'

Think

The idea came in part from the 1960s television show Dragnet. Why not have a mobile squad of support people who could fix customers' technical problems quickly but with style and humour? Stephens didn't do any research other than observing and listening to customers, but he just knew that the idea would be successful. So in April 1994 the Geek Squad was born with US$200. (see Figure 2)

Four or five months after starting, Stephens hired his first employee – closely followed by his first 'Special Agent'. When a customer calls they will get a rapid and totally reliable response from a Special Agent who arrives driving a 'Geekmobile' emblazoned with the Geek Squad insignia. The Special Agent will be wearing a uniform straight out of Mission Control and NASA in the 1960s: white short-sleeve shirt, black clip-on tie, black trousers with white socks and, of course, heavy black-framed spectacles. How else would a geek dress?

Do

Stephens was starting on a shoestring but was determined not to bring in investors who would try to dilute his concept. So he started slow and found innovative ways to save costs, buying up vintage cars, for example, because of their unique look. He didn't need to market because 'If you provide great service your competitors become your biggest source of business because they are so bad.' Advertising? Easy, just make it company policy that Special Agents must drive their cars exactly two miles slower than the speed limit. That way most cars will pass them and see the Geek Squad branding but not get irritated by being held up. Stephens reckons that ten times more drivers will see his cars than if he simply keeps up with the traffic flow.

Now the firm has grown Stephens does invest in some marketing, and has a 'Minister of Propaganda'. We asked him how he has managed to preserve the culture. He told us his job is to 'influence and inspire – I am not motivated by position or power, I just care about what we do and how we do it.'(see Figure 3)

Ho Kwon Ping founded the Banyan Tree Hotels and Resorts because as a developer he reckoned he could make a better job of managing the hotel himself.

THINK: THERE'S NO SUCH THING AS A STUPID IDEA

Vodafone is the world's largest cellular phone network operator and the dominant player in many of the markets in which it operates. The Vodafone brand is recognised around the world, and yet Vodafone, along with most of its competitors, does not evoke much public affection. The network operators are generally thought to be expensive, bureaucratic in their dealings with customers, and lacking any kind of empathy. That may be about to change.
Vodafone has been under pressure from aggressive price cutting in the market. Each operator seeks to offer better discounts and a lower tariff than the others, and new entrants like the easyGroup are coming into the market with heavily price-driven promotions. But as Tim Yates, chief marketing officer at Vodafone UK, told us:

'The focus in the industry has been on the rational elements of pricing. The belief has been that if you reduce your prices you change people's behaviour in your favour. In fact we believe that mobile phone usage is much more of an emotional event, and that to change customer behaviour you first have to change the customers' attitude.'

Vodafone's premium position and core expertise in 'understanding mobility' led it to engage with customers to really understand their attitudes to using their mobile phone.

What Vodafone found was that customers didn't understand the tariff they were on, considered calls to be expensive, and thought that they were speaking on their phone for longer than they actually were. In fact Julian Bessey (senior product manager) and his team found that the average call length was only two minutes.

As a result of these perceptions, customers make two-thirds of their calls over land lines and only one-third on their mobiles, reserving their longer conversations with friends and family for the evenings and weekends, when they can call from their home phone. The Vodafone team realised that in order to change customer behaviour while staying true to the vision of enabling mobility, a new approach was required. Simple price cutting would not be sufficient.

The breakthrough came when the team really tried to empathise with customers and decided actually to observe how they were using the phones. How were they feeling? What would it take for them to use their mobile phone for longer calls? What constrained them? They observed customers making calls, and as they listened to customer conversations, they realised that customers were constantly thinking, 'How much is this call costing me?' As a result customers would say, 'I'll make this brief because I'm speaking from my mobile.'

The team decided to try a test promotion whereby customers would be offered free calls at weekends to encourage them to use their phone for all their calls. The results were astounding. Not only did customers take up the offer, but their value increased by over 10% per month due to higher usage during the week as well.

In May 2005 Vodafone launched its 'Stop the Clock' initiative. This allows customers to speak for up to 60 minutes but pay for only three, at evenings and weekends when longer calls were generally made on a fixed-line phone. The idea was to liberate customers from the pressure of needing to minimise their mobile phone usage, and encourage them to use their phone to achieve more from life. As the advert says, 'Sometimes life's more than a three-minute conversation.' In an industry noted for its small print and exclusions, Stop the Clock aimed to present a big idea uncluttered with conditions.

When the idea was trialled with customers they asked, 'What's the catch?' The answer was, 'There isn't one', and so that is what Vodafone also put into its advertisements.

The Stop the Clock story illustrates the importance of being able to see, feel and then think. The initiative required a very complex business case to be made, that was estimated to have been likely to have an impact on revenues of millions of pounds if Tim and his team had done their sums wrong. Now those are the sort of figures that would make anyone stop to think.

Amazon thinks. Apple thinks different. When IBM was founded more than 100 years ago, its corporate mantra was: think. Perhaps that is why IBM tops the league table for new patents issued and has done for many years.

DO: MAKE IT SO

According to Sahar Hashemi, co-founder of Coffee Republic, the high-street coffee chain: 'The thing that separates entrepreneurs is really very simple. While others dream, entrepreneurs see a good idea through to fruition. Whereas for most people an idea is cast aside after a couple of investigatory phone calls and perhaps a few discouraging comments from the so-called experts, entrepreneurs don't quit, even when all they have to
go on is gut instinct. They keep working hard to realise their dreams. The entrepreneurial mind thinks like this: “I don't have any experience, or special skills, I don't have the money. I have no idea how I'm going to do it. But I'm still going to do it.”

One organisation that has proved itself brilliant at execution is Tesco. It has moved from fourth place in the UK market to becoming market leader and achieving a £2 billion profit for the financial year ending April 2005. Tim Mason, Tesco's director of corporate marketing, puts this down to 'doing'. He says, 'We're quite good at strategic planning but what we're actually really good at is doing things – doing things for customers. We don't talk about it, we do it. Most businesses have plans. Some business plans are better than ours. Where most businesses fall down is that they don't implement their plans.'

Like the property market's mantra 'location, location, location', the entrepreneurial individual, company or corporation's mantra is: 'execution, execution, execution'. And for large, bureaucratic companies this is the hardest part of all. But that's another story.

**IS IT ONLY ENTREPRENEURS WHO CAN DO THIS?**

Too many people assume that it is only the high-profile businessman or the maverick entrepreneur, free of the shackles of corporate policies and procedures, who can truly follow their instinct in business. This is a myth, and a lazy one that lets those of us who work in a big corporation off the hook. We have heard stories from all kinds of businesses: from people who lead companies, to people who lead departments within companies, to people who are employed at the coalface. The stories show how anyone, be it a stewardess on an airline, a product manager in a large global telco firm or the CEO of a multimillion business can use their instinct to change their customers' experience for the better.

**CHANGE IS NEEDED AT THE TOP**

The average tenure for chief executive officers in the United Kingdom has fallen to a mere four and a half years and for large corporations it is just 18 months. The fact is that there is now a revolving door at the top of most large firms where CEOs come and go, usually with a big payoff despite their poor performance. It's no surprise that employees have become ever more cynical. Short-term thinking, analysis and research have replaced vision, leadership and passion in many large businesses today. In short, we believe that in their attempt to minimise risk companies have swung the pendulum too far towards hard data, analysis and hiring smart young MBAs. We think the time is right to swing it back towards, instinct, passion and hiring people who fit the brand DNA. See, feel, think, do is not a new idea but it is a powerful one.

**NOTES & EXHIBITS**

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**FIGURE 1**

![Geek Squad Logo](image-url)
The marketing director's first 100 days

Jonathan Turner
Oxford Strategic Marketing

For any executive, the first 100 days (F100D) of a new role are fraught with anxiety. 'How bad are things really? What are the real expectations of me? Will I find what I expected to find? Will I fit the culture? Do I actually have what it takes to do the job? Can I establish a consensus to make the changes required?'

So much is par for the course. But for marketing directors, these superficial stresses of a new job mask substantive tensions, reflecting the changing role of marketing, the ways in which it supports the organisation, and what it takes to lead this complex function.

For a new marketing director, the usual tensions of the first 100 days are magnified. The fact that marketing directors last only an average of 22 months in the role is both a cause and an effect of the unique characteristics of marketing and marketers.

In this article, I will try to address the following five questions.

1. Why is F100D so hard for marketers?
2. What tensions does F100D create?
3. How can marketers resolve these tensions?
4. How should marketers plan for F100D before the job starts?
5. What should marketers do in F100D?

For any marketer wanting to make a big impact, success means balancing and connecting three tasks: the focusing of the marketing function; the development of its resources; and the successful attainment of key business objectives. This three-ball juggling act requires conscious mastery of the tensions and overlaps between the three challenges.

Based on depth interviews with 25 senior marketers, and quantitative interviews with another 50, Oxford Strategic Marketing has developed a universal F100D roadmap to increase marketers’ chances of success.

1 WHY ARE THE FIRST 100 DAYS SO HARD FOR MARKETERS?

All executives need to find the right balance between achieving short-term outcomes, and setting and embedding a long-term vision. However, the F100D challenge is particularly acute for marketing directors, for several reasons.

Marketing Budget Allocation is by No Means Automatic
- There is rarely a linear causality between marketing inputs and business outcomes.

- There is minimal operational dependency upon the marketing budget, and marketing is thus often deemed to be 'discretionary spend'.

- Marketing often makes as great a contribution to long-term equity as it does to short-term sales, and thus cutting marketing budgets will always bring short-term gain.

**The Marketing Function is Increasingly Diffuse**

- Many organisations now strive for marketing 'orientation', rather than a powerful department per se.

- As marketing has spread as an ethos, so the 'seven or more' Ps overseen by marketing are increasingly co-owned by other functions.

- Marketing often exerts influence, rather than control, over critical elements of the user experience, and has increasingly become a collaborative rather than a controlling function.

**The Role of the Function is Unique to Each Corporation**

- The corporate prominence accorded to the function varies dramatically, depending upon its role within the corporation as a genuine growth champion, a service provider, or something in between.

- The spread of activities undertaken by marketers is increasingly vast, and each marketer has a unique portfolio across need assessment, product or service-design, through to promotions, channel management and even corporate social responsibility.

- Traditional distinctions between fmcg and B2B are no longer clear, as a focus on customer experience and the growing importance of corporate branding impact both segments.

**The Reputation of the Function Remains Poor**

- Marketing as a profession retains an image of poor accountability and low levels of rigour.

- The proliferation of marketing professionals has outstripped the capacity of the industry to train them within its traditional structures. New, more bespoke training approaches have only recently emerged to augment them.

- The showy elements of marketing (e.g. advertising awards) continue to dominate public perception above the graft of what OxfordSM calls 'hard marketing'.

**The Personality of Marketers May Conflict with Fellow Board Members**

- Marketers tend to be more extrovert and intuitive than fellow directors. They may, in consequence, be poor listeners, leading to miscommunication, and susceptible to allegations of lax standards.

- Marketers tend towards inductive, rather than deductive, reasoning, founding strategy upon beliefs and inferences, rather than facts and observations.

- The desire to make stepwise changes within the business promise may conflict with operational realities for customers – actually destroying value.

Taken together, these factors mean that marketing job definitions are harder to get to grips with; expectations are more difficult to manage; and relationships are both more critical to build, and harder to cement, than for other functions.
2 WHAT TENSIONS DO THESE CONFLICTS CREATE?

As Marketing Society chief executive Hugh Burkitt has commented: 'In theory, marketing directors have the opportunity to make themselves accountable for marketing strategy, marketing tactics, customer insight and marketing capabilities. But based on their own unique skill-sets they must find a balance, among the challenges they find, the resources in place, and the unique cultural environment of the organisation.'

Our marketing directors endorsed this view. Interviewees were clearly concerned to optimise three distinct arenas: evaluating, building and then applying the marketing resources, while simultaneously developing and focusing the role of the marketing function, and trying to assess and also address the particular business situation. Each carries its own tensions.

In thinking about your resources, is the requirement to build on the existing infrastructure, and grow your resources, or are you having to reshape and reconfigure it to increase the effectiveness? The balance between reshaping and building is different in every role, but the building challenge is obviously more common in new media or service environments, and the reshaping is commonly an fmcg challenge.

In understanding the role of the marketing function, are marketers striving to be influencers (more typical in service industries) or controllers (in the archetypal fmcg guise)? Each carries its own implications.

'If you move to fmcg, you really have to understand the manufacturing and operational restrictions of your role,' said one director.

Equally, moving the other way can be just as tough: 'You may not so easily be able to measure your marketing performance in B2B. Adjusting can be difficult,' said another (B2B) director.

The truth, inevitably, is that marketers combine elements of both roles, and a directive/persuasive character is key to success.

In the third arena, the senior marketer must consider the nature of the business situation he/she is facing. Again, there will be a tension between the short-term fix, and the long-term gain.

As one interviewee said: 'It all depends on the mess you inherit. If it's a big mess, you have to make decisions quickly even if you know less. If all is basically well, you are crazy to make big decisions early.'

Into this volatile mix come two further factors: the marketer's own character, and the corporate culture they are entering into. While a director's character (experience, skills, personality and networks) is their greater asset, that asset can only be injected through the membrane of the existing corporate culture – which is much more resilient than any marketer.

The first task, well before the first 100 days, is an honest self-appraisal, and the second is to assess, understand and interpret the corporate culture. 'Anchor yourself to the corporate culture rather than running around trying to appear creative,' said one senior B2B marketer.

3 HOW CAN THESE TENSIONS BE RESOLVED?

For all its peculiarities, the complex F100D juggling challenge is, in many ways, just a special (but more intense) case of any leadership situation. According to the founding father of action-centred leadership, John Adair, successful leadership depends upon juggling three balls: the task, the group and the individuals.

Within the first 100 days, marketing directors should strive to:

- understand each of the three areas (resources, role and situation) in as much detail as they can
- understand the connections and dependencies between the three areas
- understand their own role (and the cultural constraints) in optimising each area
invest their attention in maximising the synergies between the three areas

If 'deep enough' understanding can be established in the first 30 days, so much the better. But in almost all cases, this learning process will take the full 100 days, and must move in lock-step with action-taking.

4 BEFORE THE JOB STARTS: HOW SHOULD MARKETERS PLAN FOR THE FIRST 100 DAYS?

It begins well before the new job starts. From the moment a marketing director secures a new role, a pre-plan should be in place to negotiate operating resources, gain maximum customer insight and start informally assessing the quality of resources and operational effectiveness.

Going in, a new marketing director needs an operating hypothesis of their own 'fit' to the role, and a plan to gain early operational wins and team engagement.

From day one, marketing directors must validate and consciously balance their attention between the transformational and problem-fixing roles they are being handed, and identify key milestones and metrics along the way in terms of resource development, marketing strategy and operational delivery.

The first 100 days is undoubtedly a challenge, but with a clear approach and operational framework in place, it can be a chance to create lasting impact and goodwill across the organisation.

5 WHAT SHOULD MARKETERS DO IN THEIR FIRST 100 DAYS IN THE JOB?

From our quantitative and qualitative research, Oxford SM and Hunter-Miller set out to understand how successful marketing directors address these tensions in reality. We identified common success factors for a successful first 100 days. They are certainly not universally applicable, but they did appear with sufficient frequency to be recommended as valuable suggestions from our experts.

We summarise them in the following eight points.

Hit the Ground Running

The majority of our respondents agreed that the realities of a new job can be different from the initial job description, but this cannot be taken as an excuse for complacency. In the depth interviews, we heard consistent confirmation of the need to pre-plan, and to be ready to go on day one. 'Be consistent from day one. Don't take a honeymoon period,' said Andrew Mullins from News International.

Actions:

Develop a pre-plan. Do your own mystery shopping. Assimilate historic research. Meet colleagues. Learn everything possible about the brand and its customers.

Suppress the Marketing Psyche

In the words of one senior marketer, 'marketers can be vain, shallow and talk bollocks'. Suppressing marketing flamboyance is a must-do for F100D success. 'Don't try and be too clever, ramming marketing theory down other people's throats,' said Chris Harris, of Nokia.

Actions:

Recognise that marketers may be psychologically different from other board directors. Establish your personal fit for the role before you start.

Resist the 'Quick Wins Itch'

Our senior marketers were clear that successful marketers hold their nerve and resist the pressure for a 'rapid
but wrong' solution. A majority of respondents said that too many marketers pursue immediate change, rather than listening and learning. Humility and common sense are required. As Ian Ryder of Unisys said: 'Three months of your activism is not going to save the company.'

**Actions:**

Recognise the need to build a sustainable vision as well as fix problems. Consciously plan the balance of your efforts.

**Build the Role of the Whole Marketing Function**

The form that the function takes will be unique to each organisation but, for most, the ability to represent the value-desires of the customer internally was their core role. It is only in serving the customer better that marketing generates competitive advantage. 'It should not be “marketing” director, it should be “competition” director,' said Nick Fell of Cadbury Schweppes.

**Actions:**

Assess the health and role of the marketing function as an early priority. Your goal is to build a marketing function that's fit for customer purpose.

**Recruit Internal Allies**

With marketing activities increasingly dispersed across the enterprise, collaboration is acknowledged to be critical. A collaborative approach with the sales director was believed to be the single most important relationship. A passive approach will not hold water. 'Take control of how internal people understand what you are doing,' said Chris Thomas, marketing director of IT services provider, Impaq Group.

**Actions:**

Build alliances with those you need, and those who need you. Talk the language of commercial success that is understood by your new company.

**Adapt your Personal Experience to the Corporate Culture**

Whatever our interviewees' previous successes, they were very clear that previous operational successes cannot simply be superimposed onto a new organisation. Tim Seager of Scottish Courage was typical: 'You can't carry a model around. You must focus on what the problem is.'

**Actions:**

Conduct rigorous business analysis to determine the requirements of the marketing function. Don't make assumptions.

**Build your Front Bench Rapidly**

The critical nature of resources is acknowledged. Getting the team right should be the first priority for a new marketing director.

'Find your front bench quickly and then build the support on your back-benches. The quickest route to failure is not having the right resources,' said Andrew Blazye of Shell.

**Actions:**

Assess resources early, and address the shortfalls. Assess your own capabilities as a leader and teacher in plugging the skills gaps you have identified.
Treat your Advisers as Partners

While the internal resource should come first, it makes absolute sense to review your external resources. But this should be done with an aspiration to fully exploit their capabilities and link them to your objectives. It is a mistake to judge on past experience alone. 'Don't itch to change the ad agency. It's rare that the only source of the fault is there,' said one director, who wished to remain unnamed.

Actions:

Make sure you lead and 'own' the strategy development. But be man/ woman-enough to accept whatever help you need to get the job done.
Overcoming ageism: time to be old and bold

John Ward

I listened to a mature marketing consultant on Radio 4 the other day, a man keen to insist he was as fit as anyone half his age, so there. I was in the car at the time, having driven 300 miles in one day and partied (in complete sobriety) until 2 am the night before. I was, however, embarrassed by further late-fifties callers insisting that a man or woman of, say, 57 – which happens to be my age – has the same energy levels and enthusiasm as their working counterparts under 30.

For the vast majority, this is clearly untrue. During my twenties, I would think nothing of eating three meals a day with clients and working 36 hours straight to pitch for business. If I did that today I'd weigh 20 stone within a year and fall asleep long before the client presentation. Once again, our contemporary society makes the mistake of thinking the only way older people can compete with Bright Young Things is by direct comparison of what passes for physical 'performance'.

This is a big mistake: young marketing employers (quite rightly) don't believe it. They're sitting looking at the grey hair and straining waistband. What all practitioners need to grasp is that the very nature of older people will add both value and contrast to the efforts of those under 30. The reasons are many and various; ironically, they're usually quoted as arguments against employing middle-aged marketing staff.

1. OLDER PEOPLE DO THINGS MORE SLOWLY.

We prefer measured to dashed. Very few worthwhile analyses or strategic reappraisals emerge from 'quick thinking' people. The latter produce what I call 'Day One' ideas: Day Five ideas are better.

2. OLDER PEOPLE GET TIRED MORE EASILY.

For the last five years I was in marketing and advertising planning, I took a nap each lunchtime; I was usually still at it when 'the lads' were in the pub at 6.45. Also I went home to a wife and fireside rather than four clubs. This tended to make me fresher in the morning – especially as I hadn't had to get up with the baby twice during the night.

3. OLDER PEOPLE DISTRUST NEW IDEAS.

They do, and often with good reason. But 'distrust' doesn't mean 'reject' – so-called 'Silvers' were among the first to use e-commerce regularly. Equally, more mature observers tend to rise above the hype and ask simple questions like 'So what exactly will it do for me then?' As a source of marketing information and doubt, they are vital to the maintenance of reality. An older person was the first to get excited about the Dyson's marketing opportunity. Another was an early doubter about the size of marketing budgets being applied to 3G in mobile phones.

4. OLDER PEOPLE SPEND A LOT OF TIME DOING NOTHING.

Well, we certainly stare and think a lot.
We certainly read and consider a lot. For the young, this is filed under 'doing nothing', but as any creative person – from Einstein to Dali – would tell you, we all have our best ideas when we are not thinking. Older people have more time to read around the subject: they don't confuse action with progress. A man of 54 invented the Safeway kids campaign. A woman of 51 provided the initial insight about how email would cause the PC market to explode. Bill Gates is 51 this year: does anybody have so well based a vision of where PC/leisure communication is going?

5. OLDER PEOPLE LACK THE ENERGY FOR RESOLUTION.

Let's look at resolution. Scott of the Antarctic, Stalingrad, the Alamo, the Charge of the Light Brigade and Arthur Scargill. Almost all resolution is the prelude to hopeless, albeit heroic, failure. New Year's resolutions nearly always fail by mid-January. Now we're older, my friends and I are resolved merely to know when it's the right time to get out. Resolution in the stock market is a very bad idea. Resolution in marketing is an agent for status quo when change is needed. The woman who changed all the rules to Kenco's advantage in the instant coffee market was 55.

6. OLDER PEOPLE HAVE NO AMBITION.

Actually they do, just a different kind. Younger marketing executives are often desperate to establish a track record, and so thus spend their days talking to head-hunters. Older people have another definition of ambition, called 'being fulfilled'. Usually, they're so glad somebody has at last recognised their talent and experience, the last thing they want to do is look elsewhere. The late Rod Meadows (no spring chicken at all) was still churning out a stream of strategic ideas when he could easily have packed it in: largely, I think, because Bates showed faith in him as he entered his twilight years.

7. OLDER PEOPLE ARE OFTEN FINANCIALLY SECURE.

As in, 'They don't need the money so why should they have a job some hungry kid needs?' and 'I won't be able to control and discipline them if they don't need the salary.' I'm not sure I have an adequate answer to this beyond the obvious: if you employ people on the bases of obedience, sentimentality and money-motivation, you're a lousy employer. Alan Sugar, Richard Branson and almost every instinctive marketer I've ever met remain as creative as ever. Most people who are good don't do it 'for the money'.

There's no doubt that old people stuck in a Luddite rut will find it hard to survive in the contemporary office, but youthful energy tempered by older reflection is a powerful weapon. Senior marketers looking for an edge should put the two together wherever possible. Senior job-seekers looking for a chance should stop apologising and start selling.
The Art of Smarter Pricing

Tony Cram
Asbridge Business School

Some of your prices are too low. Some customers would pay more, and there are times and places where you could charge more. Of course none of your customers will tell you this, though they are all too ready and eager to tell you when your prices are too high.

In the meantime, your competitors harangue your customers with promises of lower prices, and besiege you with price wars. On a daily basis, the media challenge profitable businesses and train their audiences to be price-sensitive bargain hunters. All this price pressure is one way: downwards.

There is another way. This article is aimed in the other direction, helping to move your customers and your business upwards. It's all about commanding the right price, and the right price is, more than you would imagine possible, a higher one. This is smarter pricing.

THE IMPACT OF PRICING

Finding the smarter price has greater impact on market success than any other element. The case is long proven – in 1992 a McKinsey survey covered 2,483 companies and calculated that a successful 1% increase in prices improves operating profit by 11.1% – greatly exceeding the impact of a 1% improvement in fixed costs (+2.3%), volume (+3.3%) or even variable costs (+7.8%).

And a 2003 report by McKinsey suggested that 80–90% of poor pricing decisions featured under-pricing.

Finally, Mark Ritson, London Business School's assistant professor of marketing, pithily summarised the situation: 'Pricing is the worst managed of all marketing areas. How prices are decided is often a mixture of voodoo and bingo.'

Smarter pricing takes into account three perspectives: those of the company, the competitors and the customer. Steve Watson, writing in the Ashridge Journal (summer 2003) expressed it lucidly: 'Pricing decisions are made where the key pricing forces meet. This is the interface between the three main players: the buyer, the seller and the competitor.'

Too often, price setting is unbalanced, over-emphasising costs and competitors rather than considering all three forces. Smarter pricing takes into account all three forces and is an iterative process, informed by pricing research, pricing experience and good judgement for the future.

FIVE BEST PRACTICES FOR SMARTER PRICING

Five best practices can be identified that result in smarter pricing. Not always, but often, these smarter prices can be higher than the current figure.

Pricing Research
Customers seem unable to answer honestly the question: 'How much would you pay for this?' David W. Lyon's award-winning article, 'The Price is Right (or is it?)', published in *Marketing Research* (Winter 2002), states the obvious problem with this question. He writes, 'Hearing such a question, many respondents immediately shift into bargaining mode and produce opening offers that aren't even remotely reflective of what their real world behaviour would be.' Customers may hope to encourage price cuts or may simply be unable to admit to intangible reasons for paying more than a minimum. It is unwise to develop a strategy based on reactions to customers leveraging one supplier over another to get the best possible price. (see Figure 1)

**Develop Pricing Strategies to Shape Profitable Customer Behaviour**

In consumer markets, price promotions can damage long-term returns. Customers find it hard to pay regular prices after noting the promotional price. So they await the next promotion. Many B2B companies operate a flexible and responsive policy, lacking strict criteria for discounts. The big danger: customers learn that price resistance is rewarded with higher discounts. Good customers are incentivised to become bad customers! The answer: use smarter pricing to encourage customers to behave profitably.

- **Develop price stairways.** Determine clear price structures with volume and time conditions. If you must offer highly competitive base prices, then link these to tougher conditions. For example, industrial users of electricity can get very low prices if they sign up to interruptible supply contracts. How much better to go up the price stairway and receive secure supply.

- **Be one step ahead.** Falling prices of successive generations of electronic equipment give a perverse incentive to prospective customers to hold back until the price comes down. The Carphone Warehouse – one of the UK's leading retailers of mobile phones – overcomes this with the ultimate price promise. Ninety days after buying a mobile phone, the company's computer compares the price paid and the current price. If the price has fallen, a voucher for the difference will automatically be mailed to the buyer to be redeemed for a phone accessory or put towards a larger transaction. It is a pricing tool to encourage profitable behaviour. There is every reason to go ahead and buy today.

- **Shape patterns of consumption.** A 2002 Harvard Business School study found that the member paying $50 per month to join a health club is more likely to attend regularly (and renew their membership) than the person making a single annual payment of $600. The single payment member feels a need to get value for money and uses the club heavily initially until his drive to get value lessens. By contrast the member paying monthly has a regular reminder on their bank statement to continue working out. And regular users renew (Gourville, J. & Soman, D., 'Pricing and the Psychology of Consumption', *Harvard Business Review*, September 2002).

- **Charge more to segments who gain greater value.** A Lake District village needed a car park extension for visitors stopping by to photograph the view over its nearby lake. Rather than penalising locals and tourists alike, it devised an inverse pricing scale. With payment on exit, the longer you stayed the less you paid. Hence the visitors paid more, reflecting the full value of a photostop.

- **Think creatively.** At the Oriental City Food Court in north London, the cost of a self-service Chinese buffet meal is £15 per head. Uneaten food on your plate is charged at £5 per 200g. So diners take small portions and refill with dishes they enjoy. Good behaviour is supported by the pricing structure.

**Differentiate From Value Players**

Brand leaders expect challenger brands to compete at a price somewhere below their own – it is a conventional strategy. But today, deep discounters and disruptive innovators are opening up price chasms. The value players are on the march. Verdict research published in the *Financial Times* (16 July, 2005) shows that value retailers took 19.7% share of the UK clothing market in 2004 – up 60% from 1999. In Germany, hard discounters count their share of the grocery market at 40%.

However, competitors can fight back. JetBlue – launched in February 2000 in New York – does not offer the lowest air fares on the US market, yet succeeds through a benefit-led advertising message to consumers. It trades on such features as its in-flight comforts, 24 channels of DirecTV and industry-leading punctuality. In
July 2005 JetBlue delivered its 18th consecutive quarter of profit and a 9.1% operating margin.

The answer is neither to cede nor attack on price. Rather it is to identify critical benefits that customers forego with the value player and to build a proposition based on these. Every value player takes away some benefits to fund its price platform. Identify what the customer will miss. Strengthen these benefits and stress their relevance to customers. Fight back on a benefit battlefield.

For some brands, innovation is the differentiating benefit. The special expertise of Vacuumschmelze, a leading global manufacturer of advance magnetic materials, lies in melting and forming tiny components from nickel, cobalt, silicon and boron. Its defence against lower-priced products rests in around 1,000 patents.

Emphasis on trust, reassurance and certainty is another differentiator. In the automotive market, a potential customer could sift through 50 marques, some of which are very competitively priced, but are not household names. There is a short cut: select a known and safe brand. Since 1974, the Volkswagen Golf has been such a brand. On average, 2,100 customers a day bought a Golf between 1974 and 2003, making it the top-selling model across Europe for most years.

**Base Prices on 'Purchase Laboratory' Data**

Purchase laboratory data are derived from actual customer behaviours to indicate what the market will bear. For a business-to-business example let us look at DHL, the global air express transportation company. Writing in *Fast Company* (March 2003), Charles Fishman describes the research conducted for DHL by the Texas-based pricing consultancy Zilliant.

Rather than trying to get the price right mathematically, Zilliant will look for the right price. It doesn't raise prices across the board by 5% and watch for customer defection, nor cut prices by 15% and hope for a 20% sales increase. Instead, the software runs numerous experiments, testing slightly changed prices on real customers. Zilliant tests a new price in a controlled way, measuring the response of cells of customers. Tests cover prices for all weights of package across 43 different markets. There are thousands of data points.

Specifically, the software measures customers who called, asked for a price and then did not ship – failed prices. These failed prices indicate the price ceiling. Lower prices calibrate the potential for volume increase. The results showed that DHL – with its strong international reputation – did not need to match lower-priced rivals UPS and Fedex. Hundreds of prices were changed. Some prices were lowered slightly, still maintaining a premium over competitors while gaining volume, revenue and profit.

Be scientific and specific. Where value is being delivered to customers with a strong customer surplus, increase prices boldly. Where the surplus is smaller, increase at a lower rate. Where customer resistance is well-founded, hold prices. Where value to customers has diminished, consider price reductions. Review
segmentation for opportunities to increase margins through higher prices to less price-sensitive groups and to increase volumes from price-sensitive segments by lowering prices, where achievable without encouraging sales leakage between the segments. An across-the-board increase may be the wrong approach. Smart pricing is about capturing value.

It may even be possible to increase what customers pay without a formal price increase, through revisions to discount structure, introducing charges for minimum orders or urgent deliveries, and other techniques.

**Measuring Pricing Effectiveness**

If customers never tell you when they would have paid more, how might you spot opportunities for increasing prices? Conventional measures of pricing effectiveness cannot help. Using measures like volume sales growth and market share gains may result in prices that are too low. Measuring improvement in margin or contribution may risk sales volumes through over-pricing.

Best practice suggests there are five measures to consider.

1. **Failed order rate or the 'look to book' ratio.**

   What proportion of potential customers who ask for a quotation go on to place the order? How many enquirers follow on to make the purchase? If the strike rate is close to 100% or rising rapidly, the price may be too low.

2. **Sound of silence.**

   Customers will complain vociferously if prices are too high. Listen for the sound of silence. Few grumbles about price may suggest that prices are too low.

3. **Switching rate.**

   The third key indicator is the switching rate. What percentage of last year's customers are not buying this year? How many existing customers have switched to other suppliers? If the churn rate of customers is declining, the price may be too low. If sales information by customer is not available, for example at a retailer, it can be possible to research sample groups of customers to establish this information at a macro level.

4. **Market share movement.**

   If share is being gained from comparable competitors, then prices may be too low. An exception is where pricing is being deployed as part of a corporate aim to grow market share. In this instance the consistency of share growth is the indicator.

5. **Fixed costs per unit sold.**

   Eugster, Kakkar and Roegner, writing in *McKinsey Quarterly* (Eugster, C., Kakkar, J. & Roegner, E. 'Bringing discipline to pricing', *McKinsey Quarterly*, 2000, 1), recommend this as a further way of assessing a market. They suggest that a decreasing fixed cost per unit sold is an indicator that prices may be too low. Conversely, an increasing fixed cost per unit sold could warn that prices are too high. In their view, lack of quick pricing or volume swings show that prices are at an optimal rate.

   These are best practices, but it is important to say that success in pricing comes from considering a wide range of factors, and managing them carefully and consistently. It does not come from getting one big thing right.

   You must combine customer insight, competitive context, a clear view of strategic aims and a solid knowledge of tools and techniques.

   You need informed judgement. Not always, but often, this can result in customers paying higher prices.
Most of all, you need confidence in the product's ability to command a premium price justified by the value it provides to the customer. Paying a premium for your product is the greatest accolade a customer can award you. To earn that compliment you must deliver value. When you are confident in the value you are providing you can be sure of your prices: good medicine is never sold at discount.

Think smart.

NOTES & EXHIBITS

FIGURE 1

CUSTOMER-BASED
‘What will the market bear?’

Three approaches to price setting

COMPETITOR-BASED
‘What do competitors charge?’

COST-BASED
‘What margin should we make?’
Media Trends For 2006: Consumers in Charge

David Fletcher
MediaLab at Mediaedge:cia

Even the most fundamental change rarely happens overnight – indeed the biggest changes are often irreversible because they have crept up announced. So every now and again it pays to sit up and give attention to how far the world around us has evolved.

The following are our big six themes.

1 A NIAGARA OF SUPPLY BUT A PINT GLASS OF DEMAND

The total volume of traditional media consumption – viewing, reading, listening – remains broadly constant when measured across the last decade. But against this there has been a veritable explosion of channels across all media – TV being the most notable, with a doubling in the number of BARB reported channels in the last five years alone. The net result is fragmentation: in 1995 there were 225 TV programmes delivering to an audience of over 15 million, in 2004 there were only 10.

The implication: mass media no longer provides de facto scale of audience.

2 CONSUMERS ARE SPENDING FOR RELEVANCE AND CONTROL

Consumer spend is healthy across all categories. Total consumer expenditure on traditional media has grown from 1.9% to 2.1% of total household expenditure between 2000 and 2004. Add mobile phone and internet (ISP) costs and the picture becomes more dramatic still: a rise from 2.8% to 3.7%. This spend has gone on a combination of choice (more money is now spent on pay TV than the licence fee), relevance (higher-value but lower-circulation monthly magazines – the average cover price has increased by 30% in real terms in the last decade) and increasingly control (nearly a million homes now pay extra for Sky+).

The implication: consumers are increasingly available through the communities of interest catalysed and represented by relatively specialist media.

3 INCREASING COMMERCIAL MESSAGES ARE MATCHED BY INCREASED RESISTANCE

Analysis bears out what we all know to be true – that commercial messages are increasing: 48% more leaflets on your doormat than in 2000; 18% more delivered TV; 16% more DM. All this is alongside the increasing use of physical space, from sports grounds to shopping trolleys, to promote brands. To counter this, 8 million homes have signed up to the Telephone Preference Service to block cold-calling – even before BT’s recent campaign advising people of its existence. Eighty per cent of the recorded ads in the million Sky+ homes are claimed to be skipped.

The implication: commercial messages must give something back to the audience; relevance of offer and entertainment value will be prerequisites to receptiveness.
4 DEMOCRATISATION OF MEDIA TECHNOLOGY

The geek may still be alive but technology has moved mainstream: 83% of the population has a mobile phone; internet and digital TV penetration are now over 50%; over a third of homes have broadband, which is growing in both speed and penetration. Perhaps most surprising is the degree of trust that we now place in media technologies that simply did not exist a decade ago. One recent study by the Henley Centre found search engines to be a more 'important' source of information even than personal recommendation. Another study conducted by MEC in the US showed that for many mums the computer is her 'best friend' – a level of relationship few would have predicted even in recent years.

The implication: digitally embracing consumers will need digitally driven communications.

5 MANAGING ENERGY: STREAMLINING AND ELABORATION

Time is a real constraint, but a bigger constraint for most people is their finite resources of energy. Oversupply – in all areas of life – combines with increased on-demand delivery so that consumers can now elect where, when and to what they devote their energy. This means that on some occasions people want a fast, no-frills, 'streamlined' service – text-message bank balances or self-scanned grocery shopping. On other occasions they want a far richer, 'elaborated' experience – a personal shopper, a customised product specification or a much deeper media experience. Media mirrors this: with streamlined, headline-only formats of news or text message updates of *Big Brother* at one end of the scale, through to interactive, searchable archives of magazine content or DVD extras at the other. (see Figure 1)

The implication: consumers will increasingly want a range of depth of communication-tiered messages from the most streamlined brand statement to the most elaborated interactivity.

6 MEDIA MODELS ARE RE-INVENTING

Media businesses are re-inventing as service businesses with content at the core. As they become less reliant on advertising – Sky Bet will be a bigger revenue stream than TV advertising for Sky in 2006 – so they become more open than ever before to a dialogue with commercial partners that goes outside historical formats.

The implication: an unprecedented favourable climate for innovation.

NOTES & EXHIBITS

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**FIGURE 1: AVERAGE WEEKLY HOUSEHOLD SPEND (EXCLUDING INTERNET/MOBILE PHONE)**