

# Key Elements of World Class Marketing

by

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## Agenda

- To assess the state of marketing
- To outline the challenges facing all global organisations.
- To show how world class companies are dealing with these challenges.
- To outline ten world class processes for strategic marketing
- To demonstrate how to evaluate the financial impact of marketing.

## In search of excellence (Peters)

- 43** “excellent” companies
- 14** “excellent” companies 5 years later
- 6** “excellent” companies 8 years later

(Richard Tanner Pascale  
*“Managing on the Edge:  
 how successful companies  
 use conflict to stay ahead”*  
 1990, Viking, London)

## Britain’s top companies (Management Today)

Year	Company <sup>1</sup>	Market Value (£m)	ROI <sup>2</sup>	Subsequent performance <sup>3</sup>
1979	MFI	57	50	Collapsed
1980	Lasmo	134	97	Still profitable
1981	Bejam	79	34	Acquired
1982	Racal	940	36	Still profitable
1983	Polly Peck	128	79	Collapsed
1984	Atlantic Computers	151	36	Collapsed
1985	BSR	197	32	Still profitable
1986	Jaguar	819	60	Acquired
1987	Amstrad	987	89	Still profitable
1988	Body Shop	225	89	Still profitable
1989	Blue Arrow	653	135	Collapsed

1. Where a company has been top for more than 1 year, the next best company has been chosen in the subsequent year e.g., Poly Peck was related top 1983, '84 and '85
2. Pre-tax profit as a percent of investment capital

From Professor Peter Doyle, Warwick University

## Inter Tech's 5 year performance

Performance (£million)	Base Year	1	2	3	4	5
Sales Revenue	£254	£293	£318	£387	£431	£454
- Cost of goods sold	135	152	167	201	224	236
Gross Contribution	£119	£141	£151	£186	£207	£218
- Manufacturing overhead	48	58	63	82	90	95
- Marketing & Sales	18	23	24	26	27	28
- Research & Development	22	23	23	25	24	24
Net Profit	£16	£22	£26	£37	£50	£55
Return on Sales (%)	6.3%	7.5%	8.2%	9.6%	11.6%	12.1%
Assets	£141	£162	£167	£194	£205	£206
Assets (% of sales)	56%	55%	53%	50%	48%	45%
Return on Assets (%)	11.3%	13.5%	15.6%	19.1%	24.4%	26.7%

## Why Market Growth Rates Are Important

### InterTech's 5 Year Market-Based Performance

Performance (£million)	Base Year	1	2	3	4	5
Market Growth	18.3%	23.4%	17.6%	34.4%	24.0%	17.9%
InterTech Sales Growth (%)	12.8%	17.4%	11.2%	27.1%	16.5%	10.9%
Market Share(%)	20.3%	19.1%	18.4%	17.1%	16.3%	14.9%
Customer Retention (%)	88.2%	87.1%	85.0%	82.2%	80.9%	80.0%
New Customers (%)	11.7%	12.9%	14.9%	24.1%	22.5%	29.2%
% Dissatisfied Customers	13.6%	14.3%	16.1%	17.3%	18.9%	19.6%
Relative Product Quality	+10%	+8%	+5%	+3%	+1%	0%
Relative Service Quality	+0%	+0%	-20%	-3%	-5%	-8%
Relative New Product Sales	+8%	+8%	+7%	+5%	+1%	-4%

### Quality of profits

%	Virtuous plc (%)	Dissembler plc (%)
Sales Revenue	100	100
Cost of Goods Sold	43	61
Profit Margin	57	39
Advertising	11	3
R&D	5	-
Capital Investment	7	2
Investment Ratio	23	5
Operating Expenses	20	20
Operating Profit	14	14
Key Trends →	<ul style="list-style-type: none"> <li>Past 5 year revenue growth 10% pa</li> <li>Heavy advertising investment in new/improved products</li> <li>Premium priced products, new plant, so low cost of goods sold</li> </ul>	<ul style="list-style-type: none"> <li>Flat revenue, declining volume</li> <li>No recent product innovation, little advertising</li> <li>Discounted pricing, so high cost of goods sold</li> </ul>

**Note:** This table is similar to a P&L with one important exception - **depreciation**, a standard item in any P&L has been replaced by **capital expenditure**, which does not appear in P&Ls. In the long-term, Capex levels determine depreciation costs. Capex as a percentage of sales in an investment ratio often ignored by marketers, and it has been included in this table to emphasize its importance.

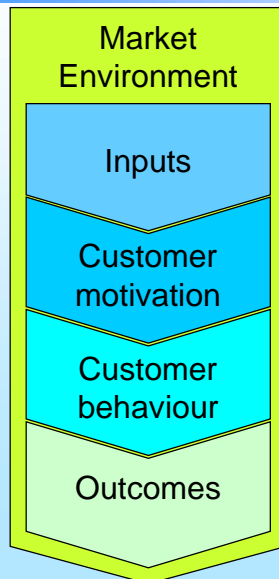
The make-up of 14% Operating Profits		
Factor	Virtuous plc (%)	Dissembler plc (%)
Profit on existing products over 3 years old	21	15
Losses on products recently launched or in development	(7)	(1)
Total operating profits	14	14

From Hugh Davidson's "Even More Offensive Marketing" 1998

### Measurement of segment profitability

	Total Market	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Segment 6
Percentage of market represented by segment	100.0	14.8	9.5	27.1	18.8	18.8	11.0
Percentage of all profits in total market produced by segment	100.0	7.1	4.9	14.7	21.8	28.5	23.0
Ratio of profit produced by segment to weight of segment in total population	1.00	0.48	0.52	0.54	1.16	1.52	2.09
Defection rate	23%	20%	17%	15%	28%	30%	35%

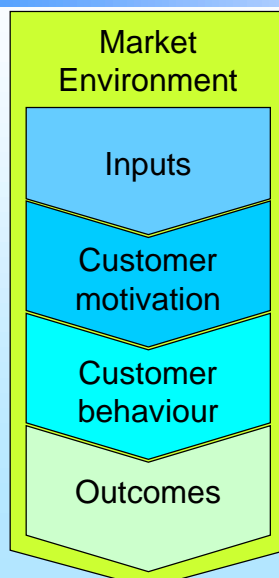
## Needs of investment analysts



- Market value (86%)
- Key competitors (85%)
- Marketing investment (71%)
- New product stats (68%)
- Brand awareness (62%)
- Customer satisfaction index (60%)
- Distribution coverage (68%)
- Price elasticity (72%)
- Economic Value Added (75%)
- Market share (91%)

Source:  
Brand  
Finance  
1999

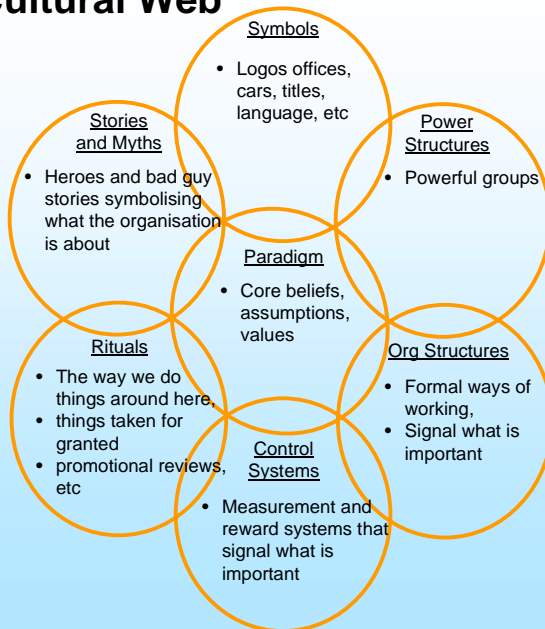
## State of the art - what company reports disclose



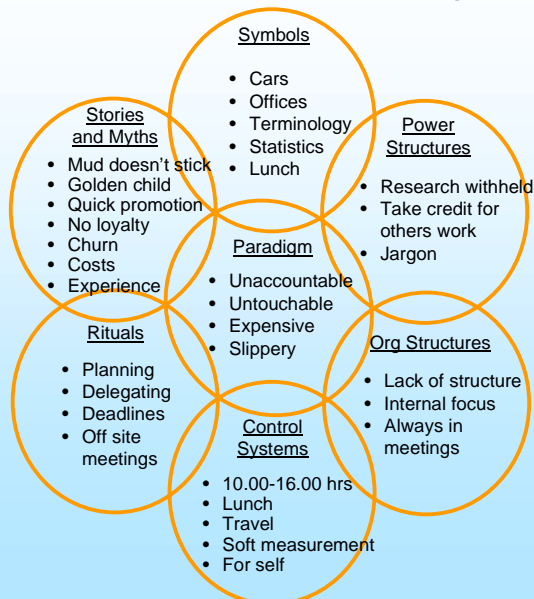
- Market size/trend (8%)
- Marketing investment (10%)
- Innovation (10%)
- Efficiency (6%)
- Brand preference etc (16%)
- Customer loyalty etc (18%)
- Relative market perf (16%)
- Trade distribution (8%)

Source:  
Professor  
Hugh  
Davidson,  
(Cranfield  
visiting  
professor)

## The Cultural Web



## The Cultural Web (What senior non marketers believe about marketers)



**The purpose of strategic marketing is the creation of sustainable competitive advantage.**

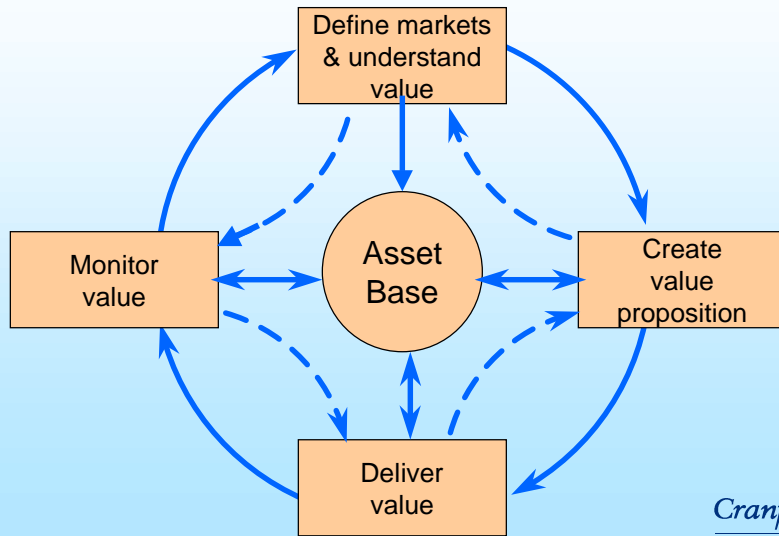
## Definition of marketing

Marketing is a process for:

- defining markets
- quantifying the needs of the customer groups (segments) within these markets
- putting together the value propositions to meet these needs, communicating these value propositions to all those people in the organisation responsible for delivering them and getting their buy-in to their role
- playing an appropriate part in delivering these value propositions (usually only communications)
- monitoring the value actually delivered.

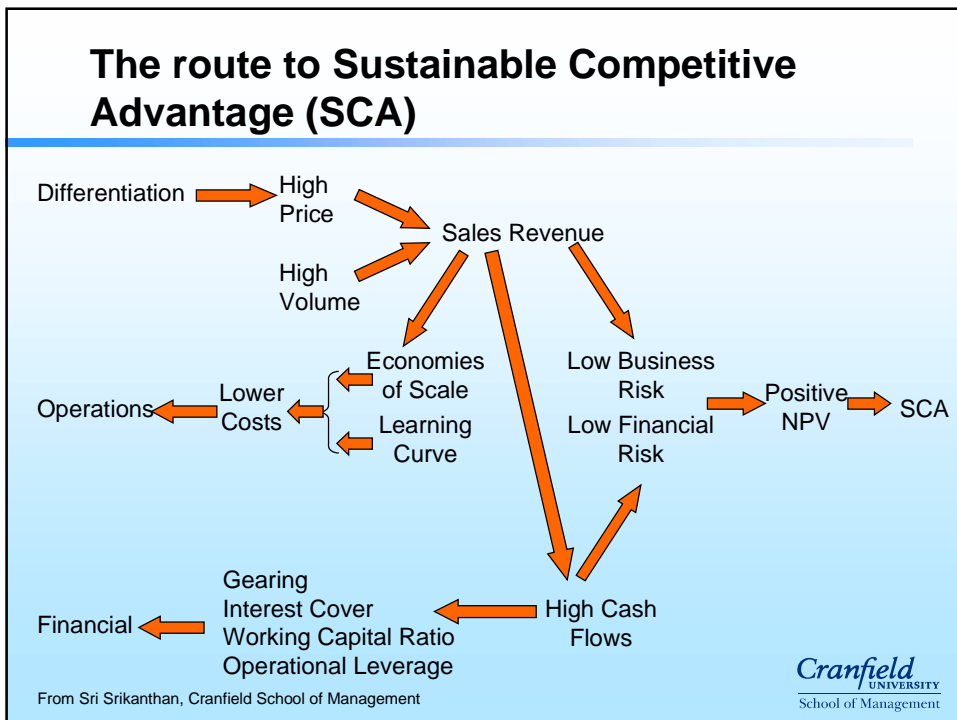
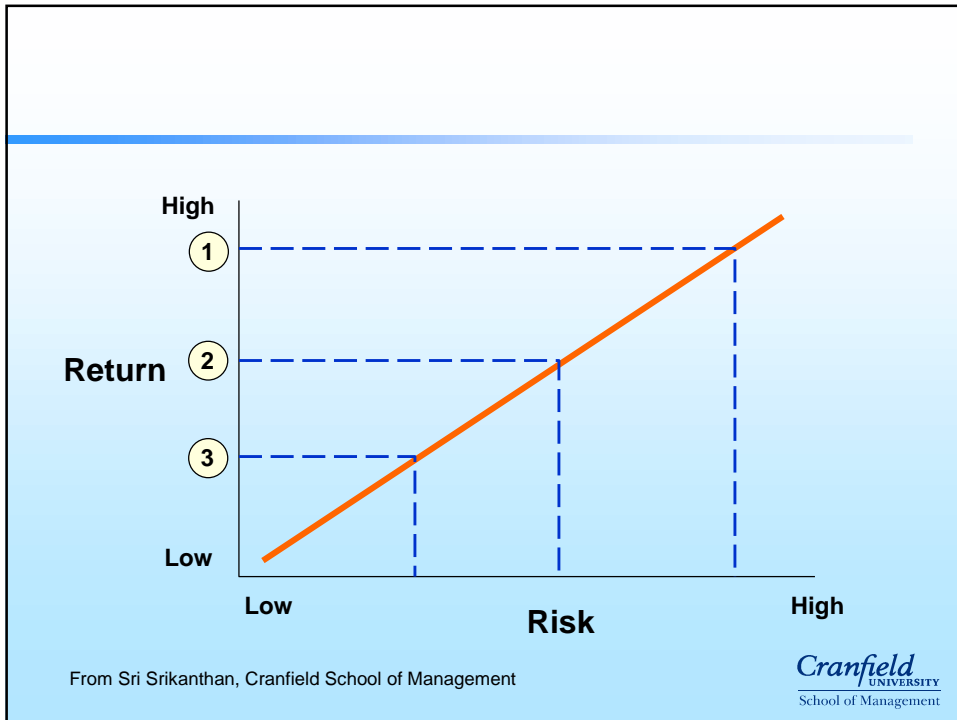
For this process to be effective, organisations need to be consumer/customer-driven

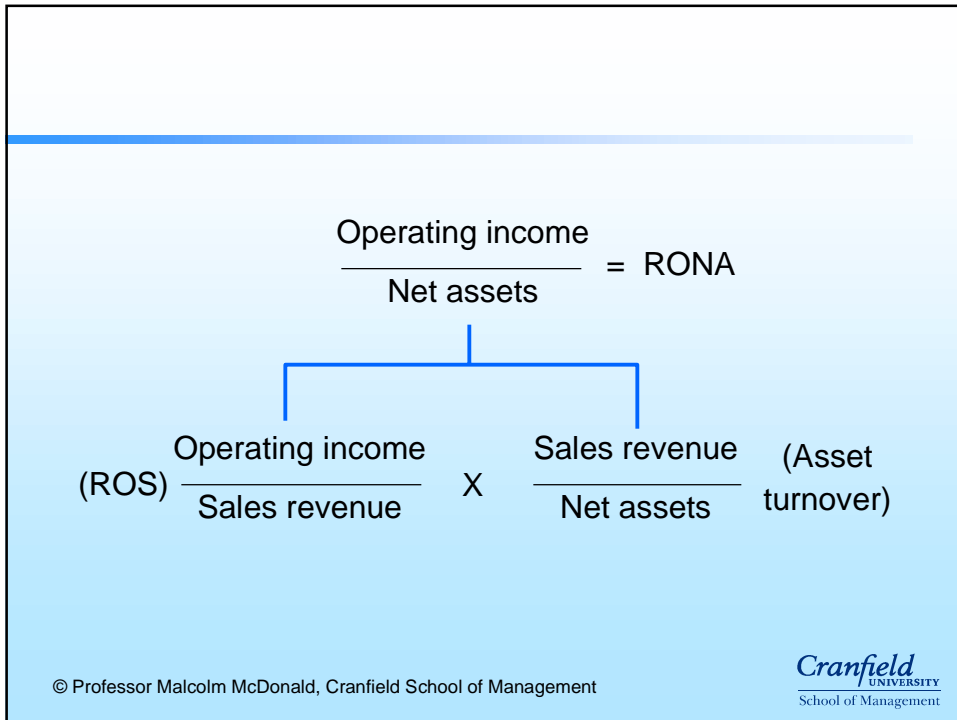
## Map of the marketing domain



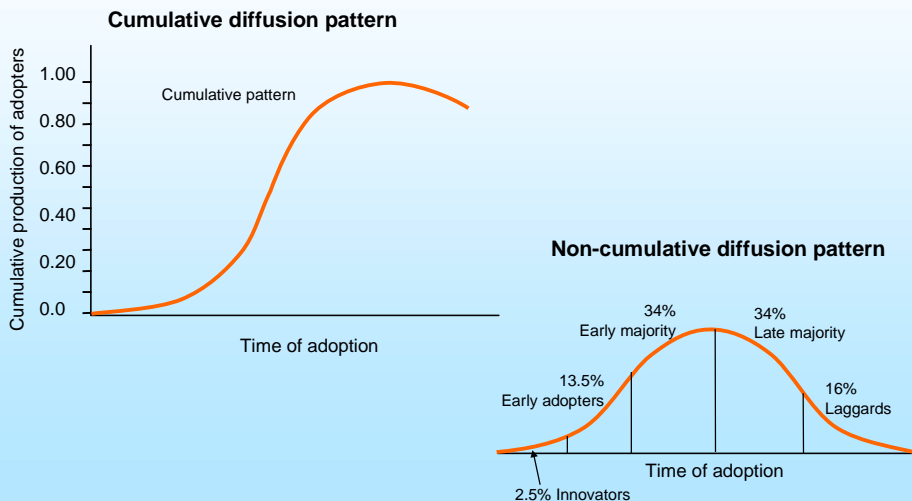
## Financial Risk

		High	Low
Business Risk	High	✘	✔
	Low	✔	✘





## Generalised cumulative and non-cumulative diffusion patterns



## The product / market life cycle and market characteristics

<b>Key Characteristics</b>	Unique	Product Differentiation	Service Differentiation	"Commodity"
<b>Marketing Message</b>	Explain	Competitive	Brand Values	Corporate
<b>Sales</b>	Pioneering	Relative Benefits Distribution Support	Relationship Based	Availability Based
<b>Distribution</b>	Direct Selling	Exclusive Distribution	Mass Distribution	80 : 20
<b>Price</b>	Very High	High	Medium	Low (Consumer Controlled)
<b>Competitive Intensity</b>	None	Few	Many	Many
<b>Costs</b>	Very High	Medium	Medium/Low	Medium/Low
<b>Profit</b>	Medium/High	High	Medium/High	Medium/High Cost
<b>Management Style</b>	Visionary	Strategic	Operational	Cost Management

## Challenges

- Market Maturity
- Internationalisation
- Customer power

## Key elements of world class marketing

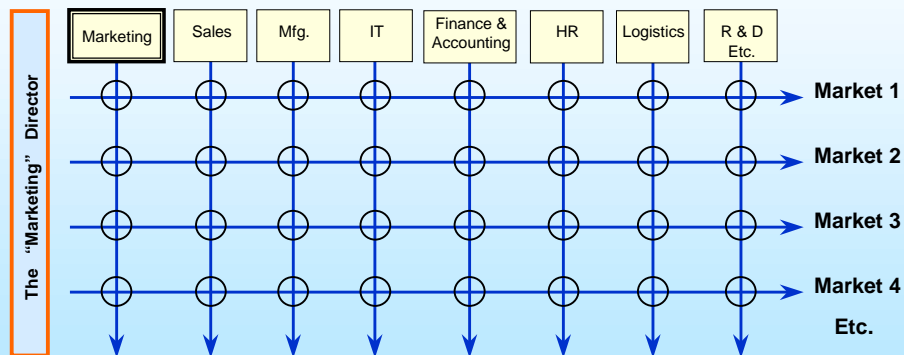
1. Profound understanding of the market-place
2. Creative segmentation and selection
3. Powerful differentiation positioning and branding
4. Effective marketing planning processes
5. Long-term integrated marketing strategies
6. Institutionalised creativity and innovation
7. Total supply chain management
8. Market-driven organisation structures
9. Careful recruitment, training and career management
10. Vigorous line management implementation

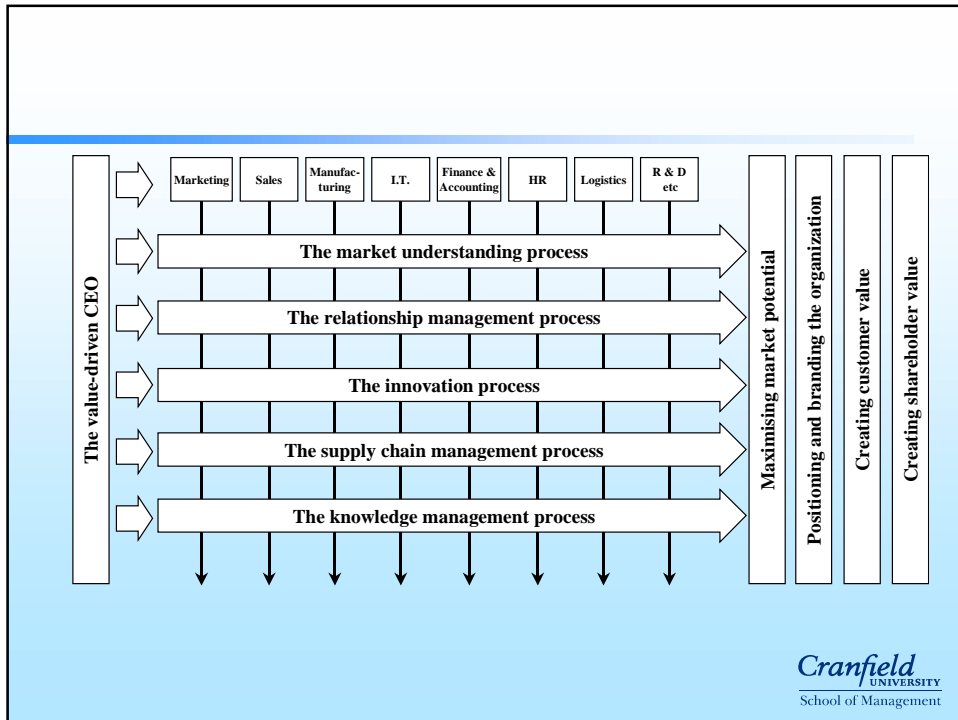
Ten core guidelines for creating  
sustainable competitive advantage

## 1. Understand Customer Orientation

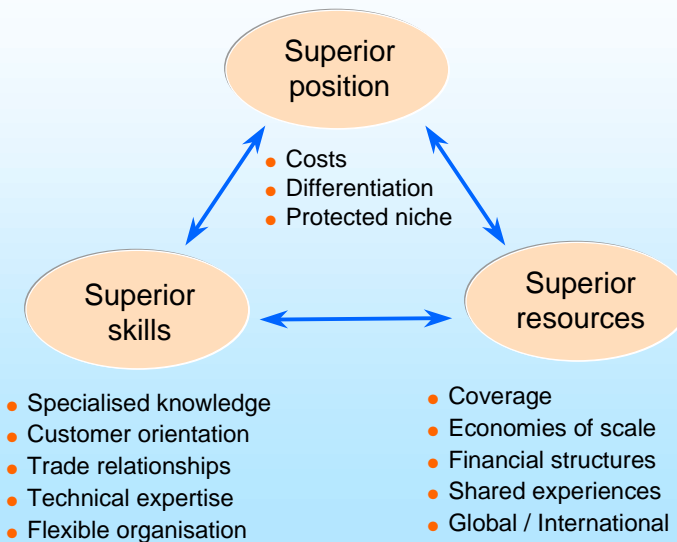
- Develop customer orientation in all functions. Ensure that every function understands that they are there to serve the customer, not their own narrow functional interests.
- This must be driven from the board downwards.
- Where possible, organise in cross-functional teams around customer groups and core processes.
- Make customers the arbiter of quality

## The market understanding process





## 2. Understand the sources of competitive advantage



### 3. Understand the Environment (opportunities and threats)

- (i) Macro environment
  - political/regulatory
  - economic
  - technological
  - societal
- (ii) Market/industry environment
  - market size and potential
  - customer behaviour
  - segmentation
  - suppliers
  - channels
  - industry practices
  - industry profitability

Carry out a formal marketing audit

### 4. Understand competitors

- Direct competitors
  - Potential competitors
  - Substitute products
  - Forward integration by suppliers
  - Backward integration by customers
  - Competitors' profitability
  - Competitors' strengths and weaknesses
- Develop a structured competitor monitoring process.  
Include the results in the marketing audit.

## 5. Understand Market Segmentation

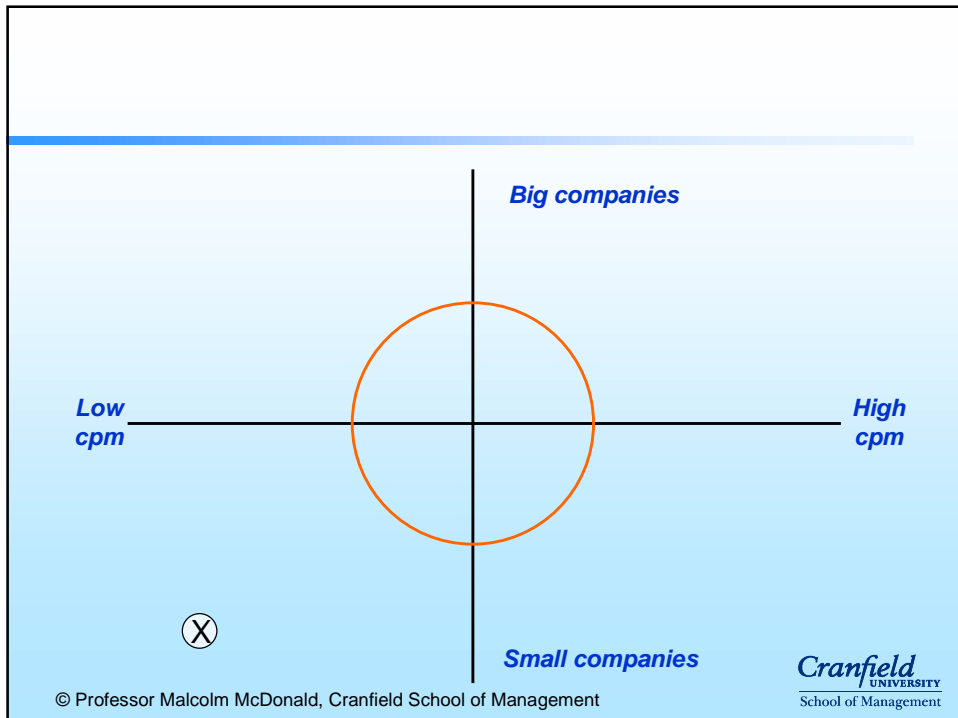
- Not all customers in a broadly-defined market have the same needs.
- Positioning is easy. Market segmentation is difficult. Positioning problems stem from poor segmentation.
- Select a segment and serve it. Do not straddle segments and sit between them.
  1. Understand how your market works (market structure)
  2. List what is bought (including where, when, how applications)
  3. List who buys (demographics, psychographics)
  4. List why they buy (needs, benefits sought)
  5. Search for groups with similar needs

## Market definition and segmentation

### Correct market definition is crucial for:

- Share measurement
- Growth measurement
- The specification of target customers
- The recognition of relevant competitors
- The formulation of marketing strategy

Market	Need (on-line)
Emergency Cash ('Rainy Day')	Cash to cover an undesired and unexpected event often the loss of/damage to property).
Future Event Planning	Schemes to protect and grow money which are for anticipated and unanticipated cash calling events (eg. Car replacement/repairs, education, weddings, funerals, health care)
Asset Purchase	Cash to buy assets they require (eg. Car purchase, house purchase, once-in-a-lifetime holiday).
Welfare Contingency	The ability to maintain a desired standard of living (for self and/or dependants) in times of unplanned cessation of salary.
Retirement Income	The ability to maintain a desired standard of living (for self and/or dependants once the salary cheques have ceased).
Wealth Care and Building	The care and growth of assets (with various risk levels and liquidity levels).
Day-to-Day Money Management	Ability to store and readily access cash for day-to-day requirements.
Personal Financial Protection and Security from Motor Vehicle Incidents	Currently known as car insurance.



## Personalising segments



## Global Tech

Koala Bears	Uses an extended warranty to give them cover. Won't do anything themselves, prefer to curl-up and wait for someone to come and fix it. Small offices (in small and big companies). <i>28% of market</i>
Teddy Bears	Lots of account management and love required from a single preferred supplier. Will pay a premium for training and attention. If multi-site, will require supplier to effectively cover these sites. (Protect me). Larger companies <i>17% of market</i>
Polar Bears	Like Teddy Bears except colder! Will shop around for cheapest service supplier, whoever that may be. Full 3rd-party approach. Train me but don't expect to be paid. Will review annually (seriously). If multi-site will require supplier to effectively cover these sites. Larger companies <i>29% of market</i>
Yogi Bears	A 'wise' Teddy or Polar bear working long hours. Will use trained staff to fix if possible. Needs skilled product specialist at end of phone, not a bookings clerk. Wants different service levels to match the criticality of the product to their business process. Large and small companies <i>11% of market</i>
Grizzly Bears	Trash them! Cheaper to replace than maintain. Besides, they're so reliable that they are probably obsolete when they bust. Expensive items will be fixed on a pay-as-when basis - if worth it. Won't pay for training. Not small companies <i>6% of market</i>
Andropov Big Bears	My business is totally dependent on your products. I know more about your products than you do! You will do as you are told. You will be here now! I will pay for the extra cover but you will .....! Not small or very large companies. <i>9% of market</i>

The Sunseekers



**Background**

- Live in Braintree in Essex; the family comprises Mum and Dad and three children, the oldest of which is just about to start her GCSEs
- Holidays are an important part of their lives: they book early and enjoy the ritual of preparing for their departure
- Mrs Sunseeker and her daughter always book a programme of sunbed sessions in the month leading up to their holiday

**Holidays**

- Have holidayed in The Med for years, even when the kids were quite young
- They always get a package deal to the same tried and trusted resort and tend not to stray too far from the beach or hotel pool
- Now that their children are a bit older, they want to spread their wings and are planning to holiday in Florida next year



The Sunseekers

	Internet	Mobile telephone	iTV	Broadcast TV	Traditional channels
Thinking					
↓					
↓					
Booking					
↓					
↓					
Admin					
↓					
↓					
Holiday					



Luke & Lisa Lively



**Background**

- Live in Luton; childhood sweethearts, Luke and Lisa have been seeing each other seriously for three years
- They were planning to buy a house together but put their plans on hold to ensure that they could take a holiday this summer
- Luke DJs part-time in a local nightclub and would happily leave his job as a mobile phone salesman to pursue a DJ-ing career in a European beach resort

**Holidays**

- Feel like The Med doesn't have anything else to offer them and are keen to travel further afield: Lisa likes the sound of Tunisia
- Tend to book a holiday on the basis of the facilities available, and are always keen to get involved in watersports and other beach activities
- Wouldn't dream of holidaying anywhere that doesn't have thriving nightlife



Luke & Lisa Lively

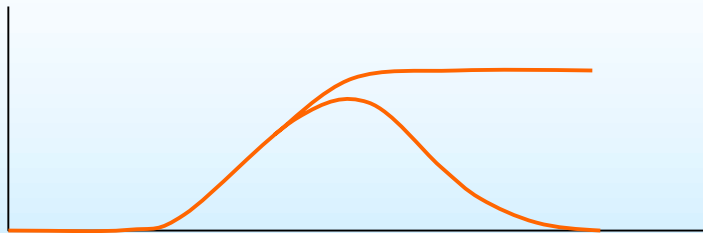
	Internet	Mobile telephone	iTV	Broadcast TV	Traditional channels
Thinking					
↓					
Booking					
↓					
Admin					
↓					
Holiday					



## 6. Understand Your Own Strengths and Weaknesses

- Carry out a formal audit of your own product/market position in each segment in which you compete, particularly of your ability to:-
  - conceive/design
  - buy
  - produce
  - distribute
  - market
  - service
  - finance
  - manage
- These must all be organised to provide superior customer value
- Include the results in the marketing audit
- Look for market opportunities where you can utilise your strengths

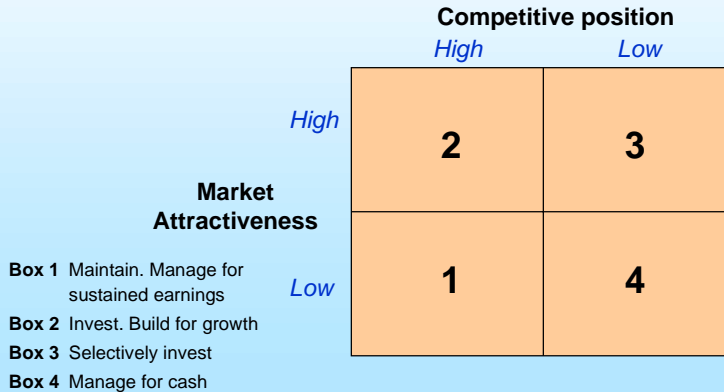
## 7. Understand the dynamics of product/ market evolution (product life cycle analysis)



- The biological analogy of birth, growth, maturity and decline is apt. Corporate behaviour - particularly in respect of the marketing mix, must evolve with the market
- Share building in mature markets is difficult and often results in lower prices.
- Those with lower costs have an advantage at this stage.
- Life cycles will be different between segments

## 8. Understand your portfolio (of products and markets)

You cannot be all things to all people. A deep understanding of portfolio analysis will enable you to set appropriate objectives and allocate resources effectively. Portfolio logic arrays competitive position against market attractiveness in a matrix form.



## 9. Set Clear Strategic Priorities and Stick to Them

- Focus your best resources on the best opportunities for achieving continuous growth in sales and profits.
- This means having a written strategic marketing plan for 3 years containing:
  - a mission statement
  - a financial summary
  - a market overview
  - a SWOT on key segments
  - a portfolio summary
  - assumptions
  - marketing objectives and strategies
  - a budget
- This strategic plan can then be converted into a detailed one year plan.
- To do this, an agreed marketing planning process will be necessary.
- Focus on key performance indicators with an unrelenting discipline.

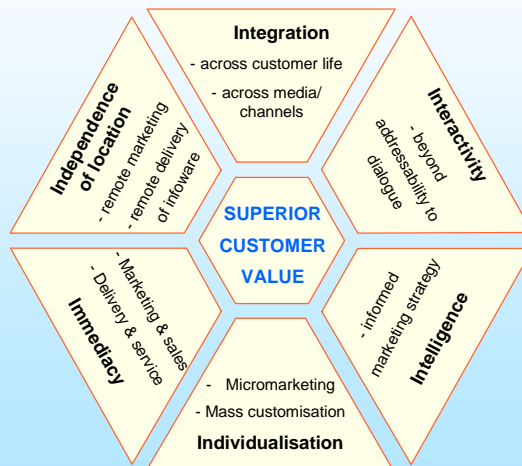
## 10. Be Professional

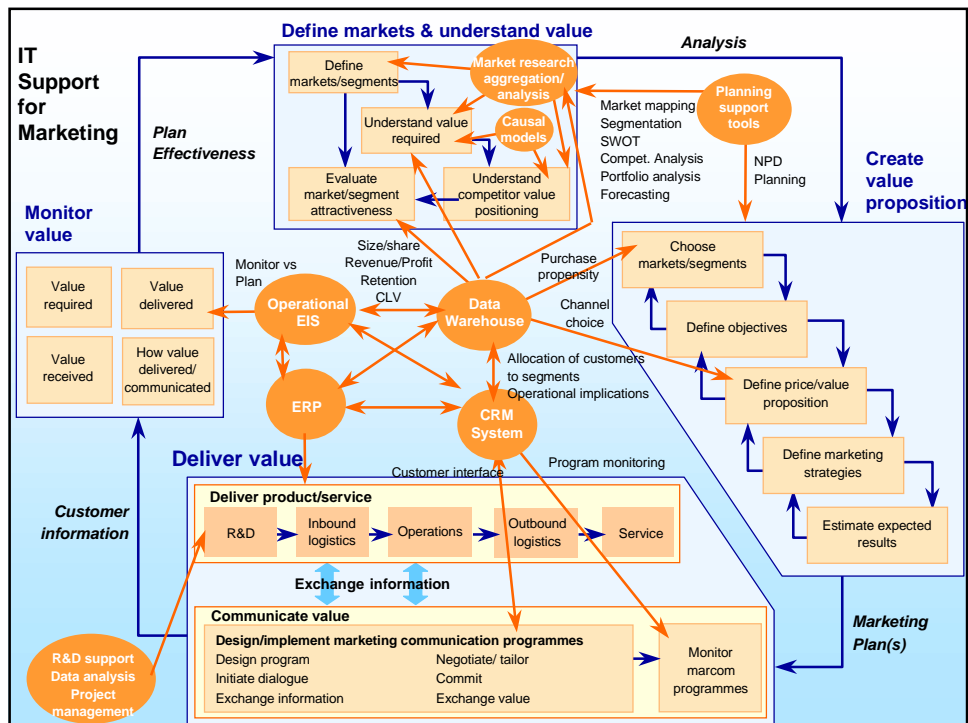
Particularly in marketing, it is essential to have professional marketing skills, which implies formal training in the underlying concepts, tools and techniques of marketing.

In particular, the following are core:

- market research
- gap analysis
- market segmentation/positioning
- product life cycle analysis
- portfolio management
- data base management
- the 'four Ps'
  - product management
  - pricing
  - place (customer service, channel management)
  - promotion (selling, sales force management, advertising, sales promotion, etc.)

## The e-marketing mix





## Thought Starters

- Can you list your key target markets (in order of priority)?
- Can you describe (quantitatively and qualitatively) the value each of your key target markets requires?
- In each of these key target markets, can you describe how your organisation creates better value than your competitors?
- Do the relevant senior people in your organisation understand and support the three points above?
- Does your strategic plan spell out how your organisation is going to create superior profits (sustainable competitive advantage)?
- Are all the relevant functions in your company organised in a way that supports delivering the value customers require?