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Marketing: Challenging The Sacred Cows for Greater Value and Profit

About the Author

Phil Allen runs the Marketing Excellence Practice, MarketAbility, serving a broad base of clients in the industrial, chemicals and energy and construction sectors in all aspects of improving business profitability through applied practical marketing and customer value management. He counts more than 30 years of practical experience in marketing and sales. MarketAbility operates both at global and local levels around the world to:

Add value to client's business with marketing excellence and customer value management in strategy, process and culture

Deliver improved business performance through tailored customer-driven strategy development and implementation services to global clients in business-to-business markets

Impart advanced marketing and customer value skills to client through applied interactive workshops

Measure marketing effectiveness with CVM Diagnostic

With Dr. Nicholas de Bonis and Eric Balinski, Phil is co-author of the book

"Value-Based Marketing for Bottom-Line Success: 5 Steps to Creating Customer Value".

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In a recent profile of MarketAbility on EuroNews, Juan Senior, International Business Writer, praised MarketAbility for its unique and practical approach to business value creation.

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Marketing: Challenging The Sacred Cows for Greater Value and Profit

In my last article for C&I I challenged the perception of marketing in the chemicals industry. In this article, I'd like to lay down a challenge to marketers in the chemicals and plastics industry to be more creative in their marketing, to challenge some of the traditional marketing thinking and models and to advance their own thinking beyond the conventional marketing dogma in order to create more value for their customers and to capture more profits for their employers.

It is a very well-known wisdom that "knowledge is power" and the famous and successful businessman and shipping magnate, Aristotle Onassis, acknowledged this in his own way: "The secret of business.....is to know something nobody else knows".

We are all aware of products, but the secret of successful marketing lies beyond the products. Marketing is NOT about products, marketing is about **CUSTOMERS**. Marketing is about understanding the needs of customers and the benefits they seek and the value they attach to receiving those benefits. The customer is willing to pay a certain price for the benefit received.

1. What Market are you in?

The starting point for being a better marketer is to figure out what market you are actually in. There is not a market for polyethylene or epoxy resins or polyurethane foams, there are markets for better preserved food products (a VALUE of polyethylene in packaging), for durable and resistant coatings to protect surfaces (a VALUE of epoxy resins in coatings), for lasting comfort for car drivers (a VALUE of polyurethane foams in car seats) - these are the benefits the customers are seeking, so that is the market you are in. If you are able to define your market according to the needs of your customers, rather than according to the products you produce and try to sell, you are on the road to becoming a value-based marketer.

2. What is the stage of market evolution?

One of the first marketing concepts that we learn as marketers – the product life cycle curve – is one of the most poorly understood and misused marketing tools. A misunderstanding and misuse that leads to bad marketing decisions. The product life cycle curve is inevitable, but for marketing decisions it is too high-level. The value-based marketer needs to look at the product-market life cycle and the customer value life cycle. This simple example shows the product-market life cycles identified and managed by Du Pont in the development and evolution of the product life cycle for nylon.

Nylon first appeared as a synthetic fabric used in parachutes. Later it became a popular material for ladies stockings before becoming ubiquitous in shirts and blouses. Further developments made nylon an important component in tyres and more recently in engineering components for motor vehicles. The nylon product life cycle has evolved over the last 60 years showing the classic shape of the product life cycle model known to many marketers. BUT, the key point here is that each time Du Pont discovered and developed a new application for nylon, they sustained the growth of the product life cycle for nylon, but actually began a NEW product-market life cycle curve for nylon in the new application, which meant re-starting the marketing strategy and mix. This insight and understanding is crucial, because of the impact it has on marketing strategy and marketing mix decisions.

Figure 1: Nylon Product Life Cycle and Product-Market Life Cycles

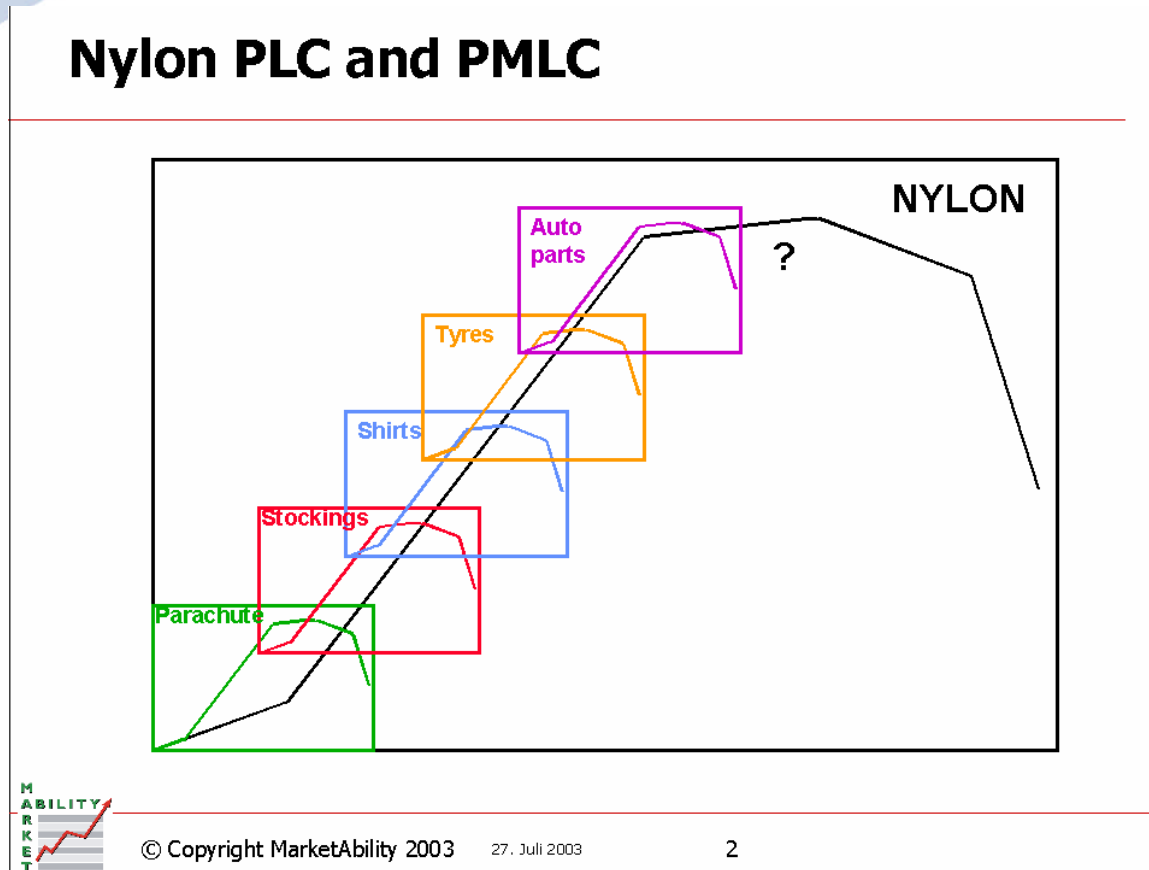
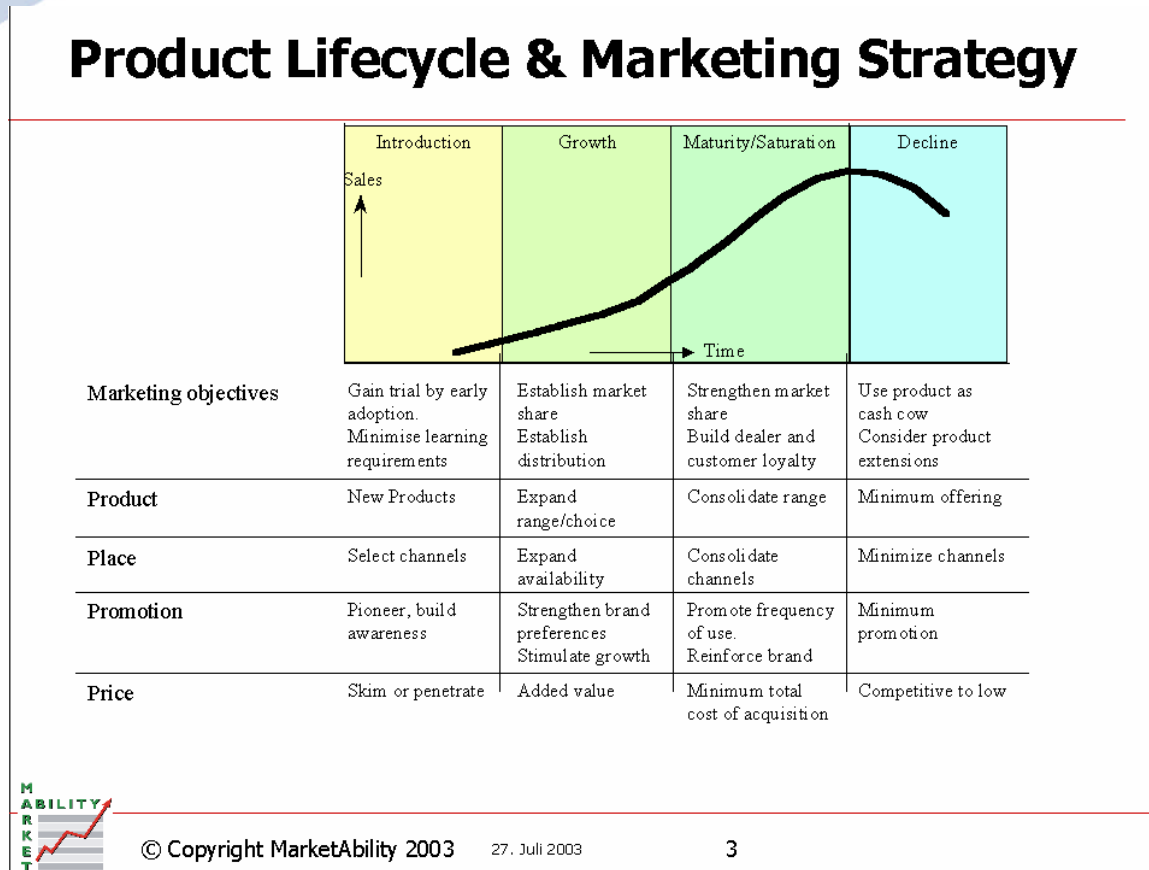


Figure 2: Marketing Mix Changes through the Life Cycle



3. Integrating the Customer Perspective

Value-based marketers need to pay more attention to integrating the customer perspective in their analyses and decision-making.

Even buyers of the same product can have different value ratios. The designer, developer or builder of an owner-occupied prestige office or shopping development is more focused on the specific desired benefits and is less concerned about the relative costs. Conversely, the designer, developer or builder of a speculative rental scheme is likely to be more of a price buyer. Understanding the customer value-set and addressing those values with a targeted offering is a key to value-based marketing.

Many marketers use the Boston Matrix or the Directional Policy Matrix to select target markets and segments. At MarketAbility, we believe that these models fail to provide the needed customer insight to be meaningful to marketers in their decision processes. The MarketAbility Matrix takes the view of competitive advantage from the customers point of view. This means that criteria of market or segment attractiveness will be applied uniformly to all segments under evaluation, but when it comes to measuring the competitive position in a segment, the customers' view of the performance to suppliers to meet the specific needs which drive their business decisions (by definition different from one segment to another) will form the basis of the analysis. The result will ensure that you only target attractive segments, where your offerings are likely to be preferred by customers.

Customers determine also your strengths and weaknesses. This may sound like an odd statement, but ultimately it is the decision of the customer, whose offering they prefer, based on what they (the customer) perceive to be the strengths and weaknesses of the respective offerings available. Thus at MarketAbility we also insist upon a customer perspective being taken in SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis – something that is rarely done. Most SWOT analyses are still conducted from an internal perspective.

4. There is no such thing as a commodity

Commodities are in the mind. If we think our product is a commodity, if we think the customer perceives no difference, then that is what will most likely happen.

The challenge of the value-based marketer is to continue to have the customer perceive unique value in their offering and it is in seeing the offering as a complete offering and not just as a product, where the value-based marketer succeeds and the traditional marketer fails. In a world where change is happening faster and faster and where the ability to copy new ideas becomes easier, it is a constant challenge to maintain differentiation in the offering.

Physical products often cannot be differentiated for a sustainable period of time and that is why we urge all value-based marketers to see the other dimensions of their offering. An offering consists of three equally important elements and ALL offerings MUST have something of each:

PRODUCT - SERVICE - INTANGIBLE

Very often it is the service (e.g. easier to do business with) and the intangible (e.g. reputation, relationship) elements of an offering that provide the real distinction and differentiation. Even undifferentiated products can be differentiated in this way.

5. Pricing Starts at the Lowest Offer

As I mentioned in my last article, most marketers pay too little attention to the Price "P" of the marketing mix and this is one of the main reasons why they fail to create value for their company. Of the 4 traditional "P's" (Product, Place, Promotion, Price) and the modern 7 "P's" (Product, Place, Promotion, Price, People, Process, Physical Evidence), there is no escaping the fact that price is the ONLY value-creating and value-capturing "P" in the marketing mix.

Ultimately, the benefit of value creation at the customer can only be enjoyed by the supplier, if the supplier is able to secure a good price and a profitable return from the transaction. Every customer value segment has specific elements of its value set which--if fulfilled--will attract a non-price-sensitive response. The key is to identify these elements. This forms the basis of your pricing decision and your price argument/justification. This means you have to justify your price to the customer.

In any market segment and to any customer there is a lowest price offering. In understanding and setting price, start with this offer, as this is the low-point benchmark against which to compare and contrast your offering. Once you've described the lowest price offering, you need to be able to build a logic and an argument to justify the scale of difference in your price compared to that low point. Then determine how the customer benefits from additional elements of your offering and quantify what those elements are worth to the customer. Only if you can convince the customer of the value to them will you gain the higher price. This price must also enable you to deliver your offering and still make a profit.

6. Link Actions to Customer Value

Even the best strategies can still fail, if there is not an effective and efficient implementation. A frequent failing we identify is the lack of any linkage between actions that are being carried out and the creation of customer value. Our action planning template seeks to remedy this by forcing a link between all actions and the customer commitment – the basis of your value creation. The adage is: if it does not create value for your customer and bring profit to the company, WHY DO IT?

If you are not able to find a market, category, product, segment or cycle to dominate, then you have to change the rules, either by changing the business model or re-defining the market:

del: i.e. change the way in which business is conducted in the market (e.g. Dell Computers)

i.e. change the definition of the market you are in (e.g. IBM moving from boxes to services and solutions, ICI Nobel Explosives moving from explosives to right-sized stones)

8. Conclusion: Challenge the Sacred Cows and Change the Way You Market

Traditional marketing models and conventional use of them does not serve the needs of the modern marketer or the modern business. To survive in the competitive and fast-changing world of the 21st century, marketers must challenge the old school and change the way they go to market.