Innovation!
One cannot be forever innovating.
I want to create classics.
Coco Chanel
PILLARS OF SUSTAINABLE BUSINESS

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

- Who will we serve in the future? Translated into a marketing vernacular: What are the customer segments that the company will target?
- What will we offer in the future? Translated into marketing terms: What is the customer value proposition that the company aims to offer to the selected customer segments?
• How will we accomplish this? Translated into a marketing vocabulary: What is the business model that will enable the customer value proposition for the selected segments?

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

Figure 5.1 · Pilars of Business Development
This model clearly demonstrates the dominant modes for business development. Reality is never that simple, of course. Market creation may involve market hunting (e.g., broadening the customer base to new segments). Market hunting in turn often involves modifications to the customer value proposition (e.g., a low-cost alternative to conquer price-sensitive pockets in the market place); some market farming may also be intermeshed with the whole process (e.g., to allow the creation of a total solution). Thus:

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

In the three sections which follow, we will investigate the key challenges that await marketers in crafting sustainable business: (1) market making, (2) market hunting, and (3) market farming.

**MARKET MAKING**

**The Search for Classics**

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

Following the commodity magnet analysis in Chapter 4, management must balance incremental projects and breakthrough projects. Our experience suggests a healthy company invests 30% of its innovation budget on radical breakthrough projects and 70% on incremental projects. Strategic innovation projects are the insurance premium for the future. A company needs incremental innovations to guarantee today’s positive cash flow (business exploita-
It needs radical innovations to guarantee the cash flow of the future (business exploration). Michelin is developing a revolutionary new tyre, the *Tweel*, but realises that a tyre-without-air will meet with many technical problems and human prejudices. Incremental improvements are therefore necessary. Too strong a focus on radical improvement at the cost of incremental innovations wrecks havoc on a business.³

There is always the worry, however, that product or service innovation – and the way it is executed – do not deliver truly sustainable advantage. Marketers frantically search for quick-fix wins that help them to achieve the next quarterly goals. Even in non high-tech industries, marketers feverishly look for possible product extensions. A director of a Dutch bank confided in us, ‘We have more than 22,000 products. Even the bad ones we string along for years.’ Numerous small adjustments may realise extra revenues in the short term but in fact reduce the value of the brand. We can restate Gresham’s law⁴ for a business environment: ‘Incremental innovations drive out strategic innovations.’ The diversity in many electronics stores signals the awful marketing reality behind this statement. Nowadays, there are so many models on the market that a new oxymoron appeared: uniform diversity.⁵ With the exception of Bang & Olufsen, Bose and Apple, no design leaves a lasting impression. TBC – the acronym for ‘Time-Based Competition’ – is (perhaps not inappropriately) also the acronym of a disease. Time-based competition is not about being fast *per se*, but about being *on time* to market.

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

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

- **Budget:** While incremental innovations are financed by the business units, strategic innovations very often require a corporate budget. One marketing director at the Philips Corporation observed: ‘We have three managers and four year plans.’⁶ Business managers, who aim to maximise short term results, are not likely to invest in capital-intensive projects that do not generate returns in the immediate future.

- **Management:** Heavyweight projects require heavyweight team leaders.⁷ Lightweight people create heavyweight problems in such contexts. Given the many uncertainties surrounding strategic innovation projects (e.g., market, compe-
• **Evaluation**: The criteria for assessing project success depend on the type of innovation project. While market success and on-time-to-market are critically important for incremental innovations, learning is an important additional outcome variable for strategic innovations.

• **Deletion**: Marketers must not only consider the products to add but also the products to delete from the portfolio. Often, this is an area which arouses tension between marketing managers (who want to rationalise the assortment) and sales managers (who want to maximise the assortment).

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**Figure 5.2 - The new Product Portfolio Feeds the Product Portfolio**
On Optimism

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

A mistake made by many marketers when targeting new markets is to be overly optimistic about the condition of the market. Markets are not inherently attractive or unattractive. The central question is whether the company can build a competitive advantage in that market and thereby capitalise on the opportunities offered. A growth market is not necessarily of interest to your company and a mature market is not necessarily uninteresting. The CEO of Egemin, a Belgian company in the material handling and business automation industry, concluded that for product-market combinations with a single unknown (a new market or a new product, but not both) 20 out of 25 initiatives were successful during the period 1983-1998. Of 400 so-called ‘brilliant’ ideas (new products for new markets) only three were successful in that same period.

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

Even when growth is realistic – and not the result of a mere numerical extrapolation – winning is not that easy. Among the hallmarks of emerging markets are high degrees of technological and strategic uncertainty, complex international legislation and restrictive local protection. Entering such markets may involve high initial costs, thus hindering flexible adjustments. The company must educate customers about the value and use of the new technologies and services. Where are the killer applications that will signify the breakthrough of the UMTS standard? Telecom operators all over the world spent €109 billion on UMTS licenses. The Economist defined it as ‘probably the biggest gamble ever on
the introduction of a new technology’.13

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

Most of us date the beginning of the car industry with the arrival of the Model T in 1909. [...] The fact is that an enormous number of carmakers were operating in the United States before the Model T was introduced. Indeed, more than one thousand firms populated the industry at one time or another! Fourteen firms entered the fledgling U.S. market between 1885 and 1898; nineteen entered in 1899, thirty-seven in 1900, twenty-seven in 1901, and then an average of about forty-eight new firms entered per year from 1902 until 1910. Thereafter, the surge subsided: from 1911 until 1921, an average of eleven new automobile producers started up per year. [...] Even more remarkable than the population of producers is the enormous variety in cars they produced.14

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

**Who Claims the Customer?**

Much ink has been spilled to describe (or to doubt) the existence of ‘first mover’ advantages. There are undoubtedly benefits associated with companies that are first-to-market. Empirically, there is evidence that the first-to-market holds a market share advantage.15 However, it is not necessarily the best product that wins the market contest. Apple created an industry (Apple iii), redesigned the industry (Macintosh) and keeps on redesigning it (iMac, MacBookAir). Apple already offered user-friendliness which other pcs have only recently started to rival. How can it be that Apple’s customers continue to be delighted with its products, while its market share continues to be so low?

The answer is related to the ‘winner-takes-all’ nature of many high-tech and information industries. Such industries have very high initial development costs and require a habituation period for the customer. For instance, once a customer has learned the routine of a software application (e.g., PowerPoint for presentations; Adobe Photoshop for photo editing; SPSS for statistical analysis), a ‘groove-in’ effect takes place. Customers are reluctant to switch to another
application, since this involves the learning of new routines. Network externalities also become increasingly important. A product such as PowerPoint or a Blu-Ray player increases in usefulness if more people start using it. This is one of the reasons why IBM released many of its patents. This gesture is a well-considered experiment in business egocentricity, the aim being to become a dominant party in a highly integrated market.16

In winner-takes-all markets, the strong get stronger and the weak get weaker. Many high-tech environments host three kinds of players: a gorilla (market leader), a few chimpanzees (seconds in command) – and numerous monkeys.17 The gorilla often commands a market share of more than 50%, while reaping over 70% of the industry profits. The monkeys get the peanuts: few (if any) economies of scale, high investments and low sales result in poor financial results. A market goal of 10% market share in a winner-takes-all market can be dangerous. If the company does not win a substantial market share, it runs the risk of losing everything. Nokia still remains the market leader in the market for mobile telephones, with a market share of over 30%. Motorola and Samsung are pretty successful as chimpanzees go, but their market share is about half. The other manufacturers divide the rest of the market. Their earnings are commensurate.18

The Pressure is On

Price pressure has always existed. David Aaker has wryly observed that only one participant out of the many thousands who have attended his brand seminars ever raised his hand to question if their industry was one that was not characterised by harsh price-competition. That person was the director of the Panama Canal!19

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

Market making is not limited to the high end of the market. It may involve opening up the low price end of the market as well. Southwest Airlines, Walmart and Aldi have built business empires on the basis of a straightforward, low-price value proposition. Marketers must identify the price corridor of the mass market.20 How does this translate to customer value? The perceived customer value added is the difference between the perceived total value of an offering to the customer and the perceived total costs to the customer, including
acquisition costs (Figure 5.3). One can increase this value by increasing total value, reducing costs, or a combination of both. The price a customer pays for a certain offering reflects the value of the product, the customer process and the image advantages of the offering for the customer.

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

The proclamation by Ryanair’s Michael O’Leary that they are ‘the best well-known brand at the lowest price’ offers an excellent target for the competition. But do not be taken in. Just like Wal-Mart, Ryanair does not always have the lowest prices. Successful price competitors use everyday low prices for a limited number of products to create a lowest price impression. As Aldi shows, however, it is also possible to develop a genuinely sustainable pricing advantage. Carrefour underestimated the strength of this hard discounter, and even its home advantage on the French market did not help much in the battle against Aldi and Lidl. It is intriguing to see that the second largest retailer in the world –
who should be able to develop substantial economies of scale – needs to develop
guerilla strategies to fight off the German hard discounters. However, even a
colossus like Wal-Mart did not succeed in gaining a foothold in the tough Ger-
man market.

An often employed strategy by industry incumbents facing low price compe-
tition is the deployment of a fighter brand. Several airlines such as KLM, USAir-
ways, Delta Airlines, United Airlines and Qantas, acquired or created a low cost
carrier to fight their price leading competitors. It is not difficult to have a low
price temporarily; realising a sustainable low price over a longer period is anoth-
er matter. A no frills ‘company within a company’ is seldom compatible with
the culture and image of the parent company.24 Marketers must not forget that
every fibre in the business model of a successful price fighter is drenched with
a no-compromise ambition for the highest efficiency possible. Aldi achieves its
low prices through a ruthless approach, as witnessed, for example, by its limita-
tion to 600 unbranded goods, its hard-boiled negotiations with suppliers, its
bare buildings in bare neighborhoods (with its less affluent customers living
right around the corner) and its versatile cashiers, whom they select for their
speed and cleaning capacities. A simple detail underlines this maniacal search
for efficiency. Until 1992, there were no phones in the Dutch Aldi branches. It
added to costs, and there was no use for it anyhow (or so the reasoning went).
In case of an emergency, such as a fire, the Aldi employees were expected to ask
the neighbours to call the emergency services!25

MARKET HUNTING

SALES STRATEGY

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

The sales force is typically the most empowered organization in a company. Usually working
alone and unsupervised, salespeople are entrusted with a company’s most important asset – its
customers. The most important connection the customer has with a company could be the
salesperson; for many customers, the salesperson is the company. [...] A sales force is a powerful
force. There is not a single sales force anywhere that could not seriously hurt its company’s per-
formance. Likewise, there is not a sales force anywhere that could not significantly improve its
company’s position. (emphasis in original)26
Selling is a business function that has undergone tremendous changes. In the presence of new technologies and changing market contexts, the traditional seven steps of selling (prospecting, pre-approach, approach, presentation, overcoming objections, close, follow-up) have evolved from a transactional approach to a relational approach.\textsuperscript{27} In view of the costs of a salesperson, the sales process design has become a major challenge for many organisations.\textsuperscript{28} With costs soaring to more than €200 per sales call (for a regional prospect or customer), management is understandably keen to optimise revenue from sales.

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

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

In making market hunting plans, it is wise to explicitly address the issue of sales capacity. In a company we were once working with, sales growth from new customers for the following year was budgeted at €2.3 million. A quick calculation revealed the true challenges. Being in the business of equipment sales, the company’s accounting records over the past two years suggested that the average new customer bought €116,000 worth of equipment. In view of inflation, a figure of €120,000 was used in the subsequent calculations. This implied that 19 new customers were needed to realise the market hunting goals. A check with the sales staff and the sales manager revealed that the average salesperson conducted one sales visit per day. Converting a lead into a success required an average of seven sales calls. It also took an average of two sales calls to deem a prospect a non-hit. In view of their limited market share and brand appeal in the market, they were successful with approximately 1 out of 9 leads. The mathematics are simple:
• The expected number of sales calls needed to acquire one new customer is 23 \((1^{7} + (8 \times 2))\);
• The approximate number of sales calls needed to accomplish the objective is 437 \((19 \times 23)\);
• Assuming 220 working days per year, the company needs two full time sales persons to achieve the market hunting goals \((437 / 220)\).

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

**Go-to-Market Strategy: Divide and Conquer**

‘Customers buy more when you meet them where they want to do business. Otherwise they will buy less.’ This is Friedman and Furey’s matter-of-fact conclusion.\(^{29}\) A successful go-to-market strategy sets its sights on the customer. It is the task of the marketer to describe the way-to-market architecture, relate it to the customer’s activities and determine the final go-to-market strategy.\(^{30}\) This may involve the use of distributors to bring the company’s offer to the market place. Distributors fulfil multiple roles in exchange for the margin they receive: they stimulate demand, keep stock, deliver goods, provide after-sales service, etc.. A successful distributor accomplishes a very difficult task: getting the right assortment at the right place at the lowest cost to the right buyer. We have decided to include the go-to-market map of an industrial SME (Figure 5.4).

While simple, it summarises the go-to-market strategy of many such firms. In this example, the company distinguishes between its key accounts and the customers who it services through resellers. While this go-to-market map is conveniently straightforward, it nonetheless revealed major issues for the company concerned:

• The criteria for handing on calls from the company call centre to either the internal sales force or the external resellers were subjective rather than objective;
• Cold sales calls are very expensive. The analysis showed that the sales representatives, already being over-stretched, were too heavily engaged in lead
chapter 5 · a concept of the future

Optimizing and exploiting a channel structure is not accomplished overnight. The company must adapt the channel structure to its offering, integrate the channel design into its business model, anticipate and deal with channel conflict, and finally balance market coverage and channel control. The globalization of markets complicates matters still further. The R&D manager of an international food ingredients company, with multiple subsidiaries in Europe and North America, was highly critical about its efforts for Pan-European marketing: ‘Our only true Pan-European products are American products.’ Differences between countries not only have a major impact on product customization but also on channel strategy. For instance, the mode of retailing differs

Figure 5.4 · Go-to-Market Map
substantially across Europe (Figure 5.5). This has major implications for both manufacturers and retailers. The dominant Western mode of retailing (hypermarts, supermarkets, discounters) is in its infancy in much of Central and Eastern Europe. In Russia, for instance, 35% of the total market value of fast moving consumer goods is sold through small grocery shops, and a further 25% through street vendors and open markets.

In addition, there is the real danger of value migration towards the channels. In an optimal setting, the internal, external and interactive marketing efforts of a company match harmoniously. Channel partnering creates important opportunities. However, it also involves three risks (Figure 5.6):

- **Risk of inconsistency**: The customer expects a consistent offering. ‘Three is company, two is none,’ according to Oscar Wilde. When suppliers join forces, it becomes more difficult to offer a consistent value proposition to the end customer;
- **Risk of competence leakage**: the interactions between the personnel of the company and the personnel of the channel partner may result in the leakage of competences (e.g., factual knowledge about key customers, procedural knowledge about business routines);
- **Risk of appropriability loss**: A critical question in any go-to-market strategy is the issue of end customer ownership: does the manufacturer or the distributor own the end customer? The distribution channel is consistently receiving more space and power in the value chain.32 One of the results of the slugfests between manufacturers and retailers for mindspace and shelfspace has been the many private labels launched by retail companies.33 Manufacturers, in response, seek to arm themselves. For instance, it is said that the conditions negotiated by Wal-Mart with its suppliers form one of the key reasons for the acquisition of Gillette by Procter & Gamble.

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*Figure 5.5 - Value Market Shares of Selected Retail Channels for Fast Moving Consumer Goods (2005)*
(Source of data: GfK)
Online Channels: Check the Assumptions

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

Figure 5.6 · Value Creation and Value Migration in Commercial Partnerships
The transaction cost argument. The optimistic view states that online channels enable companies to acquire products and services more efficiently. Focal arguments include the reduction of search costs in procurement, the elimination of unnecessary business processes through process re-engineering, and the sharing of information that leads to a reduction of purchase cycle times and inventories. The realistic view states that the interaction between buyer and seller often involves a vague trial-and-error process. For instance, in industrial markets, it is through personal interaction that the buyer discovers his true needs and specifications. Similarly, these personal interactions help the supplier to discover what competences are required in order to make the order-winning customer value proposition.

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

The disintermediation argument. The optimistic view on this argument states that online channels enable the supplier to bypass intermediaries and reach the end customer directly. The realistic view states – as we observed earlier – that it is not easy to efficiently distribute products and services so that they are available on time, at the right place and in the right volume. The axiom is simple: you can eliminate the middle-man, but not the middle-man’s functions. In addition, channel conflict may emerge during the transition phase, while the company must also develop strategically different businesses upstream and downstream in the supply chain. Moreover, these developments limit strategic flexibility and accumulate risks in the event of market turbulence.

The market diversification argument. In essence, this argument is used when hypes occur in cyberspace (Amazon; MySpace; Second Life). The optimistic view holds that the Internet provides bricks-and-mortar companies with ample opportunities to diversify and build business elsewhere. Business reality is, however, harsh: diversification remains a risky undertaking and first mover advantages are often elusive: many market races in cyberspace are winner-takes-all contests. In addition, diversification in new market space often over-estimates synergies with the existing business and under-estimates the differences in competences. There is also a tendency of not anticipating the reaction
of the incumbent competition, leading to overall neglect of the bricks-and-mortar business.

**Software for the Mind**

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

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

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

**Market Farming**

**The Business Value of Customers**

A recent American study showed that 10% of hotel guests account for 44% of nights spent. But these customers divide their stays over several hotel chains. Marketers cannot afford to be democratic, as their large customers may in turn behave democratically toward their suppliers.
Relationship management is an important pillar of modern marketing thought. It finds a rich breeding ground in concepts such as one-to-one marketing, e-commerce and customer relationship management. Modern relationship thinking in marketing is less modern than we generally assume. Already in 1925, Strong published in the respected *Journal of Applied Psychology* ideas that still are surprisingly innovative even today:

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

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

In calculating the lifetime value of a customer, four elements must be taken into account (Figure 5.7):

- What is the base business of the product or services which the company sells to the customer;

![Customer Lifetime Value](image)

*Figure 5.7 · Customer Lifetime Value*  
(Adapted from: Stahl, Matzler & Hinterhuber, 2003)
• What is the extended business which a supplier may create by selling other products and services to the same customer (i.e., cross-selling)46;

• Finally, what is the leveraged business which a company may derive from the customer through (1) positive word-of-mouth communications and references made by the customer and (2) new insights which the supplier acquires by doing business with this customer (e.g., a lead customer)? While the former two elements may be easily calculated, the elements of leveraged business are hard if not impossible to calculate – but must nonetheless be pursued. For this reason, one must be careful about accepting at face value any quantification of leveraged business opportunities in a marketing plan.

Moments of Truth

In Chapter 2, we defined customer processes as the communicative and distributive interactions between a company and its customers, as perceived by the customers.47 Important customers should feel that they are important to the supplier.48 It was the personal approach of former Russian President Putin which helped Sochi to win the venue for the 2014 Winter games. His personal address to the International Olympic Committee, in English, helped the Black Sea resort to triumph over South Korea’s Pyeongchang by a margin of four votes. ‘The Putin charisma can explain four votes,’ said ski legend and IOC-member Jean-Claude Killy afterwards.49 Do we truly still believe that ‘participating is more important than winning’?

Personal interactions represent vital moments of truth for suppliers and customers alike.50 If the company fails, they become moments of misery rather than the moments of magic which the marketer so badly needs. When the customer loses an illusion, the supplier loses his bread and butter: competitors will happily reap the reward of the human failings of a company. This raises formidable challenges within the international context. Global account managers, for instance, must match a diversity of customer requests with diverging internal views. Good global account managers must excel in analysis (identifying opportunities), politics (possessing the diplomacy and empathy to convince customers), entrepreneurship (use the freedom to create new business) and co-ordination (the administrative organisation of selling and delivery).51

Selecting and training personnel is therefore an important issue in determining the right customer processes. Staff also need training and incentives for service recovery, i.e., adequately reacting to shortcomings in the service provided.52 Good selection and supervision create a warm welcome for customers. Human resource management is a strategic function:
• A director of the Münich HVB bank once observed, ‘There is nothing wrong with the bank branches themselves. What needs to change is the mentality of the staff. There is no sales attitude. There is a civil service mentality.’\textsuperscript{53} Such a transformation is difficult, but not impossible.

• The Florida Hospital and Disney succeeded in implementing a customer-friendly process in the medical industry.\textsuperscript{54}

**The Song Remains the Same**

An often cited study\textsuperscript{55} by tarp (Technical Assistance Research Program), commissioned by the American Bureau of Consumer Affairs, concluded that half the unsatisfied customers register a complaint with front office personnel. Only between 1 and 5 percent file a complaint at management level. Customer rumors have a preference for bad news. ‘Twice as many people hear about a bad experience than about a good experience.’ The tarp studies show that the costs for winning a new customer – depending on the market – are twice to twenty times higher than keeping an existing customer. 20\% of the complaints stem from personnel, 40\% from unpleasant surprises with the product, the service or the processes, and another 40\% from the customer and from wrong expectations. Customer friendliness is created by good people (your staff) and good customer processes – and there are no short cuts.\textsuperscript{56} Bluntly copying best practices does not deliver a blueprint to improve your own service; instead, it is an excellent recipe to increase interchangeability with your competition. Some recent examples illustrate this:

• Many business-to-business marketers have discovered account management as the ultimate way of building productive relationships with strategic customers. Account management entails a lot more than retraining your current sales representatives to be proactive account managers and putting responsibility for strategic accounts on their shoulders;

• Loyalty programmes offer a different (and so-called) effective and fast customer-oriented solution. American Airlines launched AAdvantage in 1981. Since then many competitors have used the same recipe. But has anyone ever truly benefited from that recipe? We doubt it. In 2002, Air Miles circulated at a value of $500 billion.\textsuperscript{57} Apart from the customer relations which they were able to build as the first mover, even American Airlines is not really different from the rest;

• Today’s newest toy is called CRM, Customer Relationship Management. The standard recipe is apparently simple. Company A buys a software platform from Siebel and determines its customer profiles based on standard data.
this way, the company expects to out-perform the competition. The problem is that other companies in the same industry have chosen the same recipe. Again, everybody battles with the same weapons. Real CRM means that the company changes perspective and focuses on the customer portfolio rather than on the product portfolio. Your staff is passionate about fulfilling the customer’s expectations and, where possible, exceeding them. The emphasis is not so much on functions as on solutions. Successful CRM requires a total approach in which the software and the resulting database form but one important part.\textsuperscript{58}

A Company Cannot Not Position

A brand cannot become a strong brand without trust. The brand name Aldi stands for ‘cheap’ – and Aldi elaborates on this theme consistently. According to an AC Nielsen study, this German discounter is the best-known trademark in European distribution. And their customers are proud of their supplier and what they do. Some Belgian members of the Aldi customer community even started their own website, independent of Aldi, in 2002. The website appears to be so successful that an international expansion seems only logical.\textsuperscript{59} The loyal customers have become true brand ambassadors.

3M is well known for its innovation. This company, selling with pride more than 50,000 different products – amongst which are the famous brands of Post-It and Scotch tape – did not start out so successfully. After its foundation in 1902, the five founders quickly discovered that the land which they had bought did not contain the natural abrasive they were looking for, namely the mineral corundum. As a consequence, they changed from supplying to the abrasives industry to supplying abrasives – in the first instance, sandpaper.\textsuperscript{60} The rest, as the expression has it, is history. In the course of time, 3M has built an impressive list of innovations. Strictly speaking, the advertisements in which 3M proudly boasts its innovative performance are highly credible. For the insider, however, they contain obsolete information. However, the truth is that 3M has been putting its money where its mouth is for over a hundred years. That is why most people have come to know 3M as an innovative organisation.

A company never competes on the basis of its current activities alone. A company or an organisation such as UNESCO, establishes a certain position in the consciousness of the society in which it is operating through the activities, products, services and brands it produces. An image reflects this cumulative presence and its associated communication in the market.\textsuperscript{61} Advertising gurus put too much emphasis on commercial advertising and ignore the history of an organisation in the development of its reputation.
An image involves more than decisions about products and brand names. What is at stake is the way in which a market sees an organisation, its people and its products. A company writes the software for its customers’ brain through success and failure, through trial and error. Communication theorists Watzlavick, Beavin and Jackson stated:

*One cannot not communicate.*

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

*One cannot not position.*

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

If we look back to the business lunches at the turn of the century, many of the business conversations revolved around the attractive companies listed on the NASDAQ and the NYSE. Three years later, the difference was amazing. A seemingly permanent stream of bad news effected what even Alan Greenspan had looked upon as impossible: a never-ending backwards ride on the rollercoaster of stock prices. Jim Hartman, an American financial advisor, explained: ‘I have no confidence in recommending an individual stock to somebody. It isn’t because of what I know. It’s because of what I don’t know.’ One cannot not position.

Many industrial companies, retailers, consumer services and institutes only have a single brand name: their company name. Such companies have the advantage that they only have to build a single brand. However, the company may be in serious jeopardy if something goes wrong. When they heard about Arthur Anderson’s role in obstructing the Enron court case, every newly appointed partner at Arthur Anderson knew that their rosy future would not be as rosy as they had hoped. The fire in Houston suffocated many employees around the world.
On Switching Costs

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

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

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

While, on the face of it, mature markets do not convincingly appeal to the shrewd business investor, they need not be uninteresting *per se*. They do, however, differ fundamentally from growth markets. The crucial phase is not the phase when the market is saturated but when market growth declines. During the growth phase, optimistic sales estimates may be achieved by keeping pace with market growth. This is very difficult in markets where growth is slowing down. Ambitious growth targets can then only be achieved by expanding market share. Lower prices are a frequently used instrument to conquer such market share (Figure 5.8). However, one must be careful with such generalizations. Much depends on the corporate stakes and ambition. Even when the DVD recorder market was growing rapidly, price levels in some European markets went down dramatically (Figure 5.9). In the UK market, the prices for DVD recorders decreased by 70% between January 2002 and December 2004. In the shrinking market for DVD players, price erosion was equally fierce (prices minus 60%). Price erosion for other consumer electronic applications was milder, whether the market was declining (VCR) or growing (MP3 players – price levels even rose during that period).

A shake-out phase provides a ‘sweat-shop’ experience for industry incumbents. Without ‘sweating out’ redundant inefficiencies, companies cannot enable the heavy price reductions that may be needed. This phase urges the firm to make clear choices with regard to price setting, the complexity of the assortment and the customer portfolio.70

According to strategy guru Michael Porter, it is not possible to differentiate and be efficient at the same time. Some studies support the Porter framework,71

![Figure 5.8 · Product Life-Cycle and Price Evolution](image-url)
some nuance that framework, while others suggest that companies which try to combine low cost and differentiation do not necessarily end up ‘stuck in the middle’. Empirical and anecdotal evidence suggest that companies can exercise both strategies simultaneously without ending up in the cursed stuck in the middle playing field. This is the essential axiom of the Total Quality Movement: quality and efficiency can go together. Furthermore, efficiency and differentiation are not independent alternatives but are related in time. Most companies first differentiate and then aim at internal efficiency. In many industries there is an evolution from product innovation (differentiation) to process innovation (efficiency).

The search for efficiency limits strategic flexibility and it is questionable whether investments which stimulate lowest costs can be recouped in markets where you need to innovate quickly. Product innovation and cost efficiency seldom go together. Also, the sustainability of cost leadership is often perceived to be limited. ‘If you look for the curve of the lowest cost, be prepared to live like a hamster: run, run, run!’ warns Michael Porter. Why is this so? Firstly, technological innovation may allow competitors to weaken the low cost strategy of the company. Secondly, competences associated with a low cost strategy, such as

![Figure 5.9 · Price Erosion of Consumer Electronics in the UK Market (Source of Data: cfx)](image-url)
efficiently allocating resources, may find their way to other companies through personnel mobility. Lopez has shown this perfectly when transferring from General Motors to Volkswagen. Thirdly, the internationalisation of markets, the advance of international distribution channels and currency fluctuations can significantly erode cost leadership.

Marketers should not only look for efficiency on the supply side. A company prospers as a result of healthy customers. It is not good for a company to give in to the umpteenth request of a price-driven customer. It takes courage, however, to leave customers like GM Europe and Fiat, and focus on premium segments, as Michelin did.\(^76\) Companies must educate their customers about value and price. Price-driven customers will experience that low prices may have a high, hidden price tag: worse logistics, less reliable products or feeble after-sales service. A value chain is as strong as the weakest link. For instance, industrial customers cannot afford to infect a healthy value chain by continuously ‘excelling’ in weaknesses through faulty sourcing.\(^77\)

The current Albert Heijn strategy in The Netherlands raises many questions. This company started a price war to regain the market share it had lost to the discounters. As in other sectors,\(^78\) this price war has decimated profits, reduced investments in innovations and made suppliers nervous. Even the shoppers are fed up with it; they visit less frequently and buy less. Does this misery bring Albert Heijn any joy? We doubt it. Should the fact that the parent company seeks to camouflage revenue details under the heading of Retail The Netherlands be seen as the writing on the wall? Is Ahold – the holding company – turning into A Hold Up? A price war is often as dangerous as a barbeque among the hay stacks.

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

- A 1% sales volume increase will raise operational profits by 3.7%;
- Reducing fixed costs by 1% improves operational profits by 2.7%;
- Lowering variables costs by 1% boosts operational profits by 7.3%;
- A 1% price increase improves operational profits by 11%.\(^79\)

The cost structure of many companies will not be as ‘lean and mean’ as in these global organisations. In fact, in many industrialised nations average after-tax profits are ‘dangerously close to zero’.\(^80\) Consequently, a 1% price increase will
result for many companies in an impressive profit improvement. Alternatively, further price erosion may result in higher turnover and attract more customers, but is very likely to reduce the already slim profits even more. Upon closer inspection, marketers are often amazed to see little or no correlation in a two-dimensional scatter diagram that plots account size versus realised price levels.81

Remember our basic premise: the objective of marketing is not only to create value for the customer, but also value for the company:

Rivalry is especially destructive to profitability if it gravitates solely to price, because price competition transfers profits directly from an industry to its customers.82

There are viable alternatives to a free fall in price. Marketers and sales people must learn to sell value, not price. They must become true value merchants.83 ‘Quality is remembered, long after the price is forgotten’, is the Gucci family slogan. One international industrial distributor decided to track prices more strictly, whilst at the same time training their sales people to adopt a value merchant approach. The marketing director acknowledged that asking the sales people to work on tight margins without educating them and giving them the necessary tools would only increase frustration. ‘We have many good people,’ he said, ‘many of them with twenty years of experience. One year of experience, twenty times over.’ The training fostered dramatic improvements. In the new situation, 56% of unit sales were realised within the targeted price bandwidth (up from 26%); only 27% were below the target price (down from 46%) and 17% were above the target prices (down from 28%). Interestingly, while loss-making price-setting occurred less often, the frequency of compensating ‘rip-off’ prices decreased as well.

A company can also bundle products and services, in order to limit a customer’s understanding of the matter.84 Manufacturers of luxury cars such as Mercedes, BMW or Audi present a model with standard equipment, which they then fill with attractive and expensive options. There is also latent bundling. Companies minimise acquisition costs, but charge heavily for the cost-to-use (e.g., inkjet printers and cartridges). Bundling sounds easy but requires an in-depth integration of the supply chain. In addition, competitors and legislative powers are continuously on the look-out for initiatives that disturb competition. The European Court required Microsoft to ‘unbundle’ its media player from the Windows operating system. Where large companies bundle their products, other players apparently bundle legal forces.
THE RULES OF ENGAGEMENT

Contingency Perspective

It may seem a touch ironic to observe that the manufacturers of the game consoles which many people use to play war games, are more or less at war with themselves. PlayStation 3, the Xbox 360 and the Nintendo Wii are all jockeying for the number one position in the game console market. Sony needs to defend the leading position that it acquired with PlayStation 2. Microsoft needed to deal with the problems that led to the 360 scratching DVDs, and Nintendo’s Wii was in short supply during its introduction.

The customer franchise created with one product does not guarantee that its successor will be equally successful, as the Sony experience shows. Of the new generation of game consoles, the 360 saw the light of day first, allowing it to build up a formidable assortment of games. The Wii, with its motion-sensitive controllers defined gaming for hitherto non-game playing adults, thus creating a new market. At present, the Wii outsells its rivals. PlayStation 3 is struggling hard to keep up.

Figure 5.10 - Rules of Engagement
Which console will lead the new market? Will it be the Wii, with its innovative controllers, allowing for a different gameplay? Or the 360, with its formidable Internet options? Will it be the ps3, with its Blu-Ray drive? All the various consoles have met with their share of misfortune, be it in logistics, manufacturing or introduction. For instance, Sony lowered prices for the ps3, in order to make the price more comparable with their competitors. However, one may question whether the ps3 is a just a game console, as is clearly the case with the 360 and the Wii. Where the latter excel at one function – gaming – the ps3 doubles up as a home cinema system. How clear is its positioning?

Ries and Trout observed that marketing is war and the competition is the enemy. Leading marketing textbooks have avidly adopted the warfare metaphor, and have discussed offensive, defensive, flanking and guerilla tactics. Unfortunately, as in real warfare, business reality is too complex to be summarised comprehensively in a number of archetypes on a few pages of a learned journal. The situational shortcomings of generic archetypes was nicely illustrated in the Internet browser war between Netscape and Microsoft. Jim Barksdale, Netscape’s CEO, formulated a clear guerilla strategy:

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

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

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

In a marketing context, battles are fought as well. Contingency theory posits that the effectiveness of a strategy depends on the context in which the strategy is implemented. Many contingencies will influence the competitiveness of a strategy. In the sections above, we have dealt with one of the key contingencies, i.e., industry maturity. Rather than describing grand strategic archetypes with limited applicability, we want to present the major guidelines for successful marketing warfare. These guidelines deal primarily with the players in the market arena (Figure 5.10):

- Who is the targeted customer of the marketing strategy?
- Who are the competitors against whom the company will compete?
- Who is the initiating company?
The objective in outlining these rules of engagement is still the same: to help build sustainable business. One of the authors lives ten miles from the historical battlefields of Passchendaele. Today, these battlefields offer pleasant scenery and excellent mountain biking tracks. The only reminders of the infamous Battle of Passchendaele, which took place here, are the numerous cemeteries and memorials which dot the landscape. Also known as the Third Battle of Ypres, it began on July 31, 1917 and ended on 7 November of the same year. During the intervening months, the Allied forces were able to capture a few short miles of mud at a cost of more than 500,000 lives. A historian described this battle as ‘the blindest slaughter of a blind war.’ Central to the drama was the plain ignorance shown by the army command of the conditions on the battlefield. Heavy rains had soaked the entire region, making tanks useless and any human advance close to impossible. A Canadian infantry officer observed that ‘mud is the ally of the defenders and the enemy of the attackers.’ It is a lesson worth remembering in business.

**For Whom? Relevant and Communicable**

Marketing is a battle of perceptions. Customers think in terms of brands and symbols. To paraphrase Descartes, companies brand in order to be. Consequently, competitive market strategy must position itself along dimensions that are communicable to the target audience. Secondly, this strategy must position itself on dimensions that are relevant to the customer. For instance, while ‘green’ engines benefit the environment, many customers still want to drive a powerful car.

Communicating on relevant dimensions requires marketing personnel to adequately understand, segment and target the markets. The quest for mental monopolies is summarised in the first three of Ries and Trout’s famous 22 Immutable Laws of Marketing:

- ‘It is better to be first than it is to be better’ (*law of leadership*). McDonald’s, Disney, CNN: all have shown leadership in their approach to the market;
- ‘If you cannot be first in a category, set up a category that you can be first in’ (*law of category*). Volvo may not be first in the category of luxury cars; but it is definitely first in the category of safe cars;
- ‘It is better to be first in the mind than to be first in the marketplace’ (*law of the mind*). Intel’s brilliant Intel Inside campaign relegated PC manufacturers to second place in the mind of the customer.
Against Whom? Distinctive and Sustainable

A competitive advantage implies that a company must distinguish itself on key customer benefits, as perceived by the customer. And, when all is said and done, this is still a question of warfare:

Ever since World War II, King Customer has reigned supreme in the world of marketing. [...] But today every company is customer-oriented. Knowing what the customer wants isn’t too helpful if a dozen other companies are already serving the same customer’s wants.94

Offering an indistinct customer value proposition will result in a bloody red ocean. ‘Who do you trust?’ was the theme Karl Rove constructed for George W. Bush during the 2004 US presidential elections. In this manner, he successfully positioned Bush at the top of the trustworthiness scale and depositioned John F. Kerry to the bottom of that same scale.

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

- ‘God is always on the side of the big battalions’ (Voltaire). Everything else being equal, the army with the greatest number of troops is expected to win. That is why creativity and momentum are so important in marketing warfare. Size does matter – but so (fortunately) does ingenuity;
- ‘The defensive form of warfare is in itself stronger than the offensive form’ (von Clausewitz). At a theoretical level, it is easier to defend a position than to

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Figure 5.11 · Evolution of BMW M3
conquer new ground. However, more recent thinking adds qualifications to this maxim: ‘[...] while the defence is the stronger form of combat, the offence is the preferred form, for only through the offence can we truly pursue a positive aim. We resort to the defensive when weakness compels.’ Consequently, a proactive attitude is required: a company must show the courage to question its existing routines, attack complacency and renew itself, when needed. Many of the problems that Sony faces with regard to Playstation 3 result from its self-satisfaction with the results obtained by Playstation 1 and Playstation 2. BMW, for instance, always adopts a proactive approach. It proactively upgrades its BMW M3 to the standards required (Figure 5.11).

**By Whom: Feasible and Credible**

The competitive strategy must, of course, be feasible. For example, telecom operators tried to position WAP (Wireless Application Protocol) as ‘Internet for the mobile phone’. The difference between Internet on the computer screen and WAP on the mobile phone screen was detrimental to the chances of success for WAP. In our view, if telecom operators had positioned WAP as a teletext service, it might have succeeded.

As we have mentioned before, a company cannot not position. Existing companies have a heritage which makes business credible and some business incredible. As we have already argued: it is simply not credible for the Volkswagen Company to launch the Phaeton as a vehicle for the rich and happy few. Within the same industrial family, Skoda has long been confronted with the shaky image of Central European cars. Lately, this is less of an issue: many youngsters are not aware of the Iron Curtain era. Consistency is required. Simplicity is difficult, complexity is easy.
BUSINESS ROADMAPPING AUDIT

QUESTIONS FOR THE MARKETER

BUILDING SUSTAINABLE BUSINESS

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

MARKET MAKING

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

MARKET HUNTING

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

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

THE RULES OF ENGAGEMENT

- Do we communicate to our customers on relevant dimensions?
- Do we position ourselves distinctively and sustainably against the competition?
- Is our positioning feasible and credible?
ENDNOTES CHAPTER 5

4. ‘Bad money drives out good money’, formulated in 1858 by British economist Henry Dunning Macleod, and named after Sir Thomas Gresham (1519-1579).
5. Stalk G. Jr. & Webber A.M., ‘Japan's dark side of time’, *Harvard Business Review*, 71, 93 – 102 (July-August 1993). It is ironic that some of the people who more or less invented the concept of ‘Time-Based Competition’ were highly critical about applying this strategy a few years later.
11. Simon H., *Seven e-commerce lessons*. European Business Forum, 2001. Simon was particularly vigorous in his critique. He was also very correct. ‘Don’t believe the numbers on e-business – they’re an overhyped manipulation of the facts as they stand. [...] The Strategis Group has predicted that the number of mobile internet users will reach 17 million by 2005. IDC’s estimates were higher at 40 million, surpassed only by Merrill Lynch’s forecast of a whopping 161 million by that year. The estimates for mobile commerce advertising in 2005 were just as conflicting, with Forrester Research estimating $890 million, Ovum $4.2 billion and the Yankee Group $6.1 billion. Are they just fooling around? The trouble is, journalists publish these numbers, people believe them, and they stick as if written in stone.’
17. Siemens was looking for a buyer for their mobile phones division, as their market share had eroded significantly over the years. In 2005, the handset arm of Siemens was acquired by BenQ.

24 See, for example, Kumar N., ‘Strategies to fight low-cost rivals’, *Harvard Business Review*, 84 (12), 104 – 112 (December 2006).

25 This changed with the introduction of new fire department regulations in The Netherlands.


31 This has recently been referred to as ‘channel stewardship’. Rangan V.K. & Bell M., *Transforming your go-to-market strategy.* Boston (USA), Harvard Business School Press, 2006.

32 The size of some companies is more than one can grasp. Wal-Mart shows revenues of about $312 billion for the fiscal year that ended in January 2006, more than the combined GDP of the 80 countries at the bottom of the world GDP list. This figure represents about 2.4% of the USA’s GDP, making it the 18th largest ‘economy’ in the world, employing 1.7 million people. Europe also boasts some giants. Tesco has revenues amounting to $79 billion, employs 350,000 people and is responsible for 4.3% of British GDP (*Newsweek*, ‘Another giant on the rise’, 25 April 2005).


36 The world has not become less complicated. Research indicates that the average American citizen was exposed to 1,500 commercial messages per day in 1960, as opposed to 5,000 today. The number of brands on the shelves increased from 15,000 in 1991 to 45,000 in 2001. Source: Aufreiter N.A, Elzinga D. & Gordon J.W., ‘Better branding’, *McKinsey Quarterly*, 4, (2003).

37 ‘Why Naomi Klein needs to grow up’, *The Economist*, 7 November 2002. Some people remarked about Naomi Klein that ‘she is all brand and no content’. *The Economist* supports this statement fully – and scathingly: ‘Ms. Klein’s harshest critics must allow that, for an angry adolescent, she writes rather well. It takes journalistic skill of a high order to write page after page of engaging blather, so totally devoid of substance. What a pity she has turned her talents as a writer to a cause that can only harm the people she claims to care most about.’


In Chapter 3, we mentioned the lack of data in many organisations. In order to improve the share-of-customer, a fact-based marketing approach will be needed. Anderson J.C. & Narus J.A., ‘Selectively pursuing more of your customer’s business’, Sloan Management Review, 44 (3), 42 – 49 (Spring 2003).


A Richmond Research study among a panel of 200 marketing professionals showed that only 10% had been a customer for 5 years at the same advertising agency. About half the companies with a turnover of £1 billion and more acknowledged that they did not experience being the most valued customer at their ad agency! (Financial Times, ‘They don’t understand us…’, 9 August 2004).


URL: www.tarpm.com

Many changes concerning customer orientation occur inside the heads of employees. An excellent frame of reference for shaping such change trajectories can still be found in: Kilmann R.H., Beyond the quick fix. Managing five tracks to organizational success. San Francisco (usa), Jossey-Bass, 1984.

According to calculations by The Economist, Air Miles are the most voluminous currency in the world today. The value of unredeemed Air Miles is larger than the cash supply of American dollars and British pounds combined (The Economist, 6 January 2005).

It is ironic that even Siebel needed a refreshment course of its own! In August 2004, Siebel cto J. Michael Lawrie sent fifty top managers on a three-day seminar to bring them ‘up to top speed’, both emotionally and intellectually, and restore contact with customer demand. This introspective mea culpa was highly needed. Since 2000, revenues had halved and stock prices had fallen by 93%.

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69 Porter M.E., 1980, o.c.


88 Cusumano M.A. & Yoffie D.B., o.c., p. 104. It did not help Netscape by ‘mooning the giant’, as Cusumano and Yoffie observe. Netscape executives described, on repeated occasions, the Microsoft operating system as a ‘mundane collection of not entirely debugged device drivers’. (p. 317).


