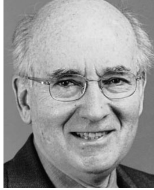
21ST CENTURY MARKETING

1

Contributors



Philip Kotler is distinguished professor of international marketing at the J.L. Kellogg Graduate School of Management, Northwestern University.

Gregory S. Carpenter is associate professor of marketing at the J.L. Kellogg Graduate School of Management, Northwestern University. His research focuses on competitive marketing strategy, with an emphasis on the role of consumer learning and decision making in creating competitive advantage.

Leonard Lodish is Samuel R. Harrell Professor and professor of marketing at the Wharton School of the University of Pennsylvania. His research interests include marketing decision support systems, marketing experimentation and marketing resource allocation.

Philip M. Parker is professor of marketing at INSEAD. His research interests include marketing strategy, international management, pricing, new product diffusion, and forecasting.

Sean Meehan is professor of marketing and strategy at the International Institute for Management Development (IMD), Lausanne, Switzerland.

Patrick Barwise is professor of management and marketing at London Business School, where he is also director of the Centre for Marketing and chairman of the Future Media Research Programme.

Tim Ambler is a senior fellow at London Business School, where he teaches global marketing and doing business in China. His research interests include measuring marketing performance, how advertising works and relationship marketing.

Flora Kokkinaki is a research fellow at London Business School, where she works on the marketing metrics research program. Her research interests include the measurement of marketing effectiveness, consumer behavior and consumer involvement, economic psychology and social cognition.

Contents

Where do we go from here? 5
Philip Kotler, J.L. Kellogg Graduate School of Management, Northwestern University
A look ahead to marketing in the year 2005

Changing the rules of the marketing game 7
Gregory S. Carpenter, J.L. Kellogg Graduate School of Management, Northwestern University
Adopting a marketing strategy that influences customers' learning processes

When do commercials boost sales? 12
Leonard Lodish, the Wharton School of the University of Pennsylvania
Factors that influence successful television advertising

Choosing where to go global: how to prioritize markets 17
Philip Parker, INSEAD
Discussion of key factors influencing choice of foreign markets

Do you value customer value? 23
Sean Meehan, IMD
Patrick Barwise, London Business School
What does a company need to be market orientated?

How does marketing measure up? 27
Tim Ambler, London Business School
Flora Kokkinaki, London Business School
A look at measures used to assess the marketing function

Introduction

The business environment is changing rapidly – owing especially to electronic commerce and globalization – and the challenge for companies is to ensure that their marketing strategies and marketing skills keep pace. This introductory module looks at some of the areas in which successful marketers of the next century will need to excel: the ability to anticipate or even shape consumers' preferences, instead of merely reacting to them; measurement of the effectiveness of advertising and marketing; prioritization of overseas markets to enter; and, generally, consistent delivery of superior customer value.

Where do we go from here?

by Philip Kotler

I am pleased to write an introduction to this fine tapestry of articles featuring many new strands of thought about the present and future character of marketing. I continue to believe that marketing, correctly interpreted and practiced, is the key to company adaptability and profitability. Markets are changing at an accelerating rate. Industry boundaries are blurring. Companies more than ever need quick and reliable intelligence about their customers, competitors, distributors and products. More companies are recognizing the prescient wisdom in Peter Drucker's observation that "the customer is the business."

Here I will add my thoughts about where marketing is headed in the new millennium. I will do this by "looking back into the future."

It is the year 2005. Here are the major developments in the evolving market place/market space:

- There has been substantial disintermediation of wholesalers and retailers owing to electronic commerce. Virtually all products are now available without going to a shop. The customer can access pictures of any product on the Internet, read the specification, shop among online vendors for the best prices and terms, and click order and payment over the Internet.
- Expensively printed catalogs have disappeared. Business-to-business purchasing over the Internet has increased even faster than online customer buying. Business purchasing agents shop for routine items on the Internet, either advertising their needs and waiting for bidders or simply surfing in their "bookmarked" web sites.
- Shop-based retailers find shop traffic highly diminished. In response, more entrepreneurial retailers are building entertainment and theatre into their shops. Many bookshops, food shops and clothes shops now include coffee bars and feature lecturers and performances. Essentially these shops are marketing an "experience" rather than a product assortment.
- Most companies have built proprietary customer databases containing rich information on individual customer preferences and requirements. They use this information to "mass customize" their offerings to individuals.

  An increasing number of companies present online product platforms on which customers design products to suit their own specifications. Many automobile, computer, domestic appliance and food companies invite customers to visit their web page and design the market offering (product, service, system, program) by filling in choices on a form. The modified product is then displayed on the screen.
- Businesses are doing a better job of retaining customers through finding imaginative ways to exceed customer expectations. As a result, competitors find it increasingly difficult to acquire new customers and most companies are spending time figuring out how to sell more products and services to their existing customers.

  Companies are focusing on building customer share rather than market share. Many have thought up new ways to increase cross-selling and up-selling.

Companies are gaining segment and customer insight from their datawarehouses by applying newer and more effective datamining techniques.

- Companies have finally managed to persuade their accounting departments to generate real numbers on profitability by individual customer, product and channel and are now focusing their attention on these. They are formulating reward packages and incentives for their more profitable customers.
- Companies have switched from a transaction perspective to a customer loyalty-building perspective. Many have moved to customer lifetime-supply thinking, whereby they offer to deliver a regularly consumed product (for example, coffee) on a regular basis at a lower price per unit. They can afford to make less profit on each sale because of the long-term purchase contract.
- Most companies now outsource over 60 per cent of their activities and requirements. A few outsource 100 per cent, making them virtual companies owning very few assets and therefore earning extraordinary rates of return.

  Outsourcing companies are enjoying a boom. In the case of equipment manufacturers, most prefer to work with single supply partners who design and supply overall systems (such as the braking system, the seating system and so on in a car) in partnership with the branded manufacturer. Most companies today are networked companies, relying heavily on alliances.
- Many field salespeople are franchisees rather than company employees. The company equips them with the latest sales automation tools, enabling them to develop individualized multimedia presentations and customized market offerings and contracts.

  Most buyers prefer to meet salespeople on their computer screen rather than in their office. More and more personal selling is occurring over electronic media where the buyer and seller see each other on their computer screens in real time. Salespeople are traveling less and airlines are shrinking. The most effective salespeople are well-informed, trustworthy, likeable and good at listening.
- Mass TV advertising has greatly diminished as a result of 500 viewing channels. There are far fewer printed newspapers and magazines. On the other hand, marketers can now reach their target markets more effectively by advertising through specialized online magazines and newsgroups.
- Companies are unable to sustain competitive advantages (beyond patents, copyrights, superior locations, proprietary information and so on). Competitors are quick to copy any advantage through benchmarking, reverse engineering and leapfrogging. Companies believe that their only sustainable advantage lies in an ability to learn faster and change faster.

Back in the present, the key to competitive success is to keep your marketing changing as fast as your marketplace. The most successful companies are already marketing their products as if we lived in 2005. *Mastering Marketing* will tell you more about them and the techniques that give them competitive advantage.

Summary

The successful company is one whose marketing can keep ahead of the fast-changing global marketplace. So what will the discipline look like in the future? In this introduction to the series, **Philip Kotler** forecasts the trends that will be shaping marketing by the year 2005.

Changing the rules of the marketing game

by Gregory S. Carpenter

Driven by intense competition and increasingly sophisticated customers, organizations are rushing to "get close to their customers," to become "market driven." Industrial giants such as General Electric, consumer goods leaders such as Unilever and rapidly growing smaller organizations such as 3Com are initiating or resuming a dialog with customers, scrutinizing market research, drawing on new ideas to improve products, building stronger customer relationships and reorganizing to speed products to market. They are, in the classic definition of the marketing concept, seeking to "give customers what they want."

Though the benefits to customers have been enormous, this rush to embrace the marketing concept has produced some unanticipated consequences. In many cases competitors are speaking to the same customers, analyzing similar if not identical market research data, drawing new managers and new ideas from the same sources and benchmarking the same companies. As a result they are approaching markets with the same perspective and producing products that, while offering high value, are competitively indistinguishable.

This lack of differentiation presents an important challenge to the marketing concept. As a result, the concept itself is evolving. The current view of marketing is that it is about "giving customers what they want." Companies should learn what buyers want and devise efficient ways to deliver it. Marketing is essentially about discovery. The core assumption is that buyers know what they want.

The evolving marketing concept challenges this view. Increasingly, strategies are being created on the assumption that, at least initially, buyers do not know what they want but instead *learn* what they want. Under the conventional view of customers, how they perceive, value and select brands are the essential "rules of the game." Every competitor must play by these rules. On the other hand, if buyers learn what they want, then brand perceptions and preferences are outcomes of the learning process. The rules of the game, in other words, evolve as buyers learn. That evolution depends, in part, on what companies teach buyers. For example, Motorola, Nokia and Ericsson are shaping buyer perceptions of cellular phones, the features customers value and how buyers choose a cell phone. Brand strategies play a central role in defining the rules of the game. The emerging concept suggests that marketing is part learning – gaining an understanding of what buyers know now and of the process of buyer learning – and part teaching – playing a role in the buyer learning process. It is about being market driven *and* "market driving."

Consumer learning

At the root of much consumer learning are goals that motivate it. All individuals and organizations have goals that they seek to achieve. An individual goal might be "to look younger"; a corporate goal might be "to be number one in the industry." Individuals and organizations turn to brands to achieve those goals. Many of the brands or product categories we turn to are obvious. To provide transportation we

look for an automobile and to protect ourselves from the elements we buy clothing. Over time, the goals associated with product categories and brands grow from a simple set of functionally orientated goals to a more elaborate set of functionally and emotionally orientated goals.

The recent popularity of sport-utility vehicles is illustrative. These provide their owners with valuable functionality: transportation that is safe and reliable in most weather. But they also satisfy other less obvious, though quite important, goals. For the frazzled, often anonymous, suburbanite, a sport-utility vehicle can provide a sense of independence, distinctiveness and ruggedness. Buyers have learned that these goals, although not naturally linked to the family car, can be achieved by owning a sport-utility vehicle.

Through a similar process, links are learned between brands and customer goals. The goals associated with brands differ from brand to brand in the same category. Among sport-utility brands, Mercedes-Benz provides safety and prestige, Range Rover enables its owners to portray themselves as refined individuals who are sensitive to tradition and Lexus provides peace of mind and a more modern, smart self-image. These links between brands and goals are created and nurtured over time. Some are built inadvertently. The popularity of Harley-Davidson motorcycles with motorcycle clubs has enabled Harley-Davidson to link its brand with buyers' desire to portray a rough, rebellious image. However created, these brand–goal links are a fundamental result of consumer learning.

The concept of brand–goal links has important competitive implications. The conventional view is that the customer compares brands along only one dimension, making comparisons across brands simple. In more formal economic terms, the customer seeks a single goal-utility.

The emerging view is that buyers seek many different goals and that within the same category some brands can be linked with multiple goals in unique combination. Volvo has successfully linked both "be a responsible parent" and "add excitement to my life" to the Volvo brand through its new V70 station wagons, which combine a high-performance engine, suitable for racing, with a family car, blurring the traditional distinction between "sports car" and "family car." By successfully linking these goals – along with the "safety" so long associated with the brand – Volvo has defined the brand as delivering value that no other can. Brand–goal links such as these, built through strategy and learned by consumers, make the similar incomparable.

Brand perceptions

Initially, of course, we have no perceptions of any brands. All brands are at some point novel to us. All the brand perceptions we have are learned. They have a number of important properties.

First, perceptions of brands in the same category are not necessarily equal. We may have a richer, more complex set of associations for "Coca-Cola" or "Jaguar" than we do for "Cott" or "Mitsubishi." A richer set of associations can increase the ease with which we recall a brand, affect our feelings towards it (increasing trust or confidence, for example) and affect our price sensitivity. It is hard to justify a price premium for a brand about which we know little.

Second, even brands with the same associations can be perceived differently because the vividness of those associations differs. Both Levis and Lee jeans are "American," "rugged," associated with the American West and similarly designed

and priced. Yet perceptions of Levis are likely to be more powerful and more vivid. These differences are the result of brand strategy. We are certainly not born with richer perceptions of Levis or Coca-Cola.

The process of acquiring brand perceptions has important implications for the marketing concept and for the nature of competition. If consumers know what they want, then they establish the perceptual dimensions along which they perceive brands and all brands are subject to them. To be sure, Mercedes and Lexus can be perceived differently along those dimensions and one can be perceived as superior to the other. But both Mercedes and Lexus are evaluated along the same dimensions. The objective of strategy in that case is to discover and respond to the established perceptual criteria.

On the other hand, if buyer perceptions are learned and if that learning depends on the strategies of brands, then marketing has a completely different objective: to influence the evolution of perceptions in a way that competitors cannot effectively imitate. The aim is to create vast inequalities – in the richness of perception – between a brand and its competitors.

Brand preferences

In every category, our knowledge of how products satisfy different goals is learned. To see this, consider a market over its life. Initially, buyers have no idea how to value product attributes and thus no way to evaluate alternative brands. Buyers may sample a number of brands, liking some more than others. This experience triggers the process of consumer inference: "what are the characteristics of the ones I like and the ones I don't like?"

Obvious differences in brand or attributes are assumed to be the "cause" of these differences. You may conclude that you have a preference for a brand or some combination of attributes. If you prefer Starbucks coffee to other brands, you might judge that you do so because of the darker roast and particular blend of beans. In reality, of course, the source of a satisfactory outcome can never be precisely determined. Many consumption experiences are largely or even entirely ambiguous (for example motor oil, batteries and many professional services).

Nevertheless, buyers form a naive "theory" relating brand features to satisfaction, which is reinforced by advertising and repeat purchase. In the process, preferences are formed and evolve, based on the interaction of buyer experience and brand strategy. This suggests that what customers want depends on what customers have experienced. Brand strategy plays a defining role in this evolution and can have enduring consequences. Consider the case of Vaseline petroleum jelly. Introduced in 1880, Vaseline was advertised as a healing agent of unsurpassed purity. Competitors at the time offered healing agents based on black coal tar derivatives. Sampling Vaseline, a translucent, highly pure gel, buyers learned that its attributes produced an effective wound preparation and, generalizing from this observation, inferred that the effectiveness of petroleum jelly lies in its translucence and purity. Subsequent trials and advertising confirmed this conjecture, leading to translucence being favored over opacity in the petroleum jelly market. That preference structure prevails today, over 100 years later.

Decision making

Buyers learn how to choose brands. The conventional view is that buyers consider all the alternatives, evaluate their differences – making the necessary trade-offs – and ultimately choose the brand that maximizes self-interest. Implicitly or

explicitly, this model of consumer decision making is the foundation for much current thought about marketing. For example, many market research methods are built on it. It implies that buyers use only one decision strategy – maximize self-interest by considering all the alternatives along all the dimensions on every occasion.

In fact, people make decisions in many ways, responding to the situation and the need. We draw on a repertoire of decision rules. In purchasing a battery we use a very different decision process than we would in buying jeans or selecting a car. In selecting a battery, use is very uninformative, so we might consider only brands we have tried, ignoring lower-priced alternatives as too risky. In the case of jeans, we might compare all brands to Levis, not to one another. In choosing a car, we might consider only brands that meet some minimum level along certain dimensions (for example, quality, safety, fuel economy) and then select among those brands along another dimension (styling, price).

The decision rules buyers learn depend on the strategies brands pursue. If all brands deliver value with respect to the same goals (for example, video recorders) and comparisons between brands are easy, buyers may simply exhaustively compare alternatives. In more complex situations, buyers may resort to strategies to simplify matters. For example, in a market with many brands, each with a complex goal structure (for example, shampoo), comparisons are difficult. Buyers may use simpler decision rules – buy the one on special offer or the one recommended by a friend.

Competitive advantage

Consumer learning has profound implications for the nature of competition and competitive advantage. If buyers *learn* what they want, competition is less a race to meet consumer needs than a battle over how perceptions, preferences and decision making will evolve in a market. It is a battle over the rules of the game. Below are two cases that illustrate this.

Pioneering advantage

In many markets, the pioneer (first entrant) outsells the others in its category, in some cases for decades. Brands such as Wrigley's chewing gum, Gerber baby food and Kleenex tissues have retained the largest shares of their markets despite numerous competitive entries.

The traditional view of the marketing concept suggests that pioneers have higher shares because they have pre-empted the "best position" in the market, leaving less attractive positions for later entrants. A consumer-learning view offers a fundamentally different account. Under this view, prior to the pioneer's entry the category is ill-defined. Buyers do not know what goals to attach to brands, how to perceive differences between them, the value of those differences or the best strategy for choosing among alternatives. The rules of the game are yet to be defined.

The pioneer plays a defining role in the market. It builds the first set of brand–goal links, defining the basis of value for the category, and it begins the process of establishing brand perceptions. As a result, the pioneer is often strongly associated, even synonymous, with the category (think of Kleenex or Xerox). Such brands come to mind more quickly and reliably than other brands. Perceptions of the pioneer are often more vivid than those of later entrants, making the pioneer

the "standard." As such, it is often the brand buyers sample first or most often. All brands are compared to it and all suffer by comparison.

Attacking such a brand is a daunting proposition. A later entrant may position itself near the pioneer because that is what consumers request. It will then invariably be compared to the pioneer, but without the rich, vivid perceptions that the pioneer evokes, the competitor will be overshadowed. On the other hand, if a later entrant positions itself away from the pioneer, it will suffer because, although more differentiated, it is now less ideal. It will also evoke less vivid, weaker perceptions and have less influence in the decision process.

Pioneering advantage arises from not simply playing the game first and thus better; it arises from defining the game that later entrants must play. The challenge for later entrants, therefore, is not to play better than the pioneer but to change the nature of the game, just as Gillette is doing through technological innovations in shaving and Starbucks is doing through strategic innovation in the US coffee market.

Product differentiation

Consumer learning occurs in mature markets as well. Product differentiation is one excellent example. The classic view of product differentiation is that it is about discovery: finding a relevant, widely valued but unmet dimension. This approach implicitly assumes that buyers value some aspects of a product that have simply been ignored. Once all valuable attributes have been discovered, further differentiation is impossible.

A consumer-learning perspective suggests, in contrast, that differentiation can be successful even if no "undiscovered" dimension of preference exists. Differentiation is possible so long as a new dimension exists that buyers can learn is valuable. The differentiating attribute need not be relevant, valuable and meaningful to buyers. It can be irrelevant. This strategy – "meaningless differentiation" – is widespread. For example, Alberto Culver differentiated its Natural Silk shampoo by adding silk. It advertises that it "puts silk in a bottle." A spokesman for Alberto Culver later told the magazine *Brand Week*, however, that silk does "nothing for hair."

How can an irrelevant attribute become a meaningful basis for differentiation? First, a brand with it is distinctive and attracts attention. Facing the shampoo shelves, the consumer's eye might be caught by Alberto Culver Natural Silk's claim to contain real silk. That moment of attention might produce an inference that the product must be valuable. Using the shampoo successfully might lead to the same conclusion. Buyers may even come to believe that the silk causes the shampoo to work well. Second, an irrelevant attribute simplifies brand choice. For example, when choosing among three very similar brands of shampoo, consumers have an incentive to infer that the irrelevant attribute is valuable; by doing so, they can dismiss the two brands without it, leaving an unambiguous choice.

Conclusion

Throughout the evolution of the marketing concept, the basic notion that competitive advantage can be created by giving customers what they want has remained unchanged. All that has changed is the way in which customers are satisfied.

Today, organizations are gaining a deeper understanding of customers. They are

learning about the goals they hope to achieve in their lives and then creating powerful links between those goals and their brands. Good companies are giving customers what they ask for. But great companies are creating markets, even ones that customers have never envisaged, shaping their evolution and producing in the process competitive advantage unattainable a generation ago.

Summary

As more organizations shift to being customer-orientated, more are discovering that they face similarly orientated competitors. The result is a lack of differentiation rather than the anticipated competitiveness. Here **Gregory Carpenter** argues that the marketing concept needs to evolve in response to this. Instead of taking "what the customer wants" as a given, companies must recognize that consumers' product preferences and perceptions are learned. The aim of marketing strategy then becomes to drive the market – to influence the customer's learning process to the company's advantage. If the aim of the game is to keep the customer satisfied, then the role of marketing strategy is continually to redefine the rules of the game.

When do commercials boost sales?

by Leonard Lodish

Retailing tycoon John Wanamaker once said, "I know that half of my advertising doesn't work. The problem is, I don't know which half." The statement is also attributed to Lord Lever but regardless of the source, it is, if anything, an understatement. Global companies spend billions of dollars on television advertising, always in the hope that their money will produce greater sales. Much of their money is wasted. The problem advertisers have has remained the same since long before the invention of television: what is the best way to determine the effectiveness of advertising expenditures?

Advertising is typically the largest expenditure in consumer products companies' marketing budgets. It is also the first to be cut when revenues or profits fall short. Cuts are frequently made with only the weakest information on the effectiveness of each aspect of the company's overall advertising plan. A thorough evaluation will be likely to show that some of the current advertising is simply ineffective, while other advertisements are moderately helpful and still others are very helpful. It is paradoxical that, notwithstanding the enormous sums companies pour into advertising, almost all other aspects of the marketing mix are regularly measured with considerable rigor, precision and confidence. One reason for this is simply that it is difficult to measure both the short- and long-term impact of advertising. This is particularly true of television advertising.

Are there any rules?

Many companies accept as given certain television advertising "rules." Many of these are of questionable veracity. For example, most companies believe that the following are beyond dispute:

- In order to increase market share, television advertising share of voice must be larger than current market share.
- At least three exposures per person are required to make a significant impact.
- More television advertising is better than less.
- Television advertising takes a long time to work.

These rules should not necessarily be accepted at face value. Powerful methods for evaluating advertising efficacy do exist and they show that these and other "certainties" need to be examined carefully in each unique situation. In the late 1980s and early 1990s, I and some colleagues tested some common perceptions about television advertising for consumer packaged goods. We performed an independent analysis of Information Resources' historical Behaviorscan database.

Behaviorscan is a household purchasing panel that comprizes around 3,000 demographically representative households from each of six geographically dispersed markets. Each household's supermarket purchases are recorded via scanners so that purchasing behavior can be precisely measured. Households receive all of their television transmissions via cable and advertising can be directed to or removed from individual households on a targeted basis. This has allowed the execution of numerous carefully controlled advertising experiments to test advertising variables.

We found that some factors boost sales, while many do not. For example, increasing advertising expenditure relative to the competition does not necessarily result in higher sales. This is not to say that television advertising cannot be effective. We found that effective advertisements produced considerable volume effects: a mean increase of 18 per cent in sales. Their impact emerged surprisingly fast, typically within six months, and often lasted for more than two years. But many of the long-held rules of thumb about television advertising are false, which suggests that it must be tested constantly to determine precisely what works.

We examined four different factors that tend to affect advertising: general brand and category conditions in the marketplace; the business strategies/objectives underlying the advertising; media usage (when and where commercials were shown); and copy-related measures. Our analysis was structured to allow us to isolate those factors that had an incremental impact on sales from all other factors. For example, our copy tests consisted of two groups of households that were exposed to adverts with different copy and equal weight, while our weight tests consisted of two cells with the same copy but different weight. ("Weight" in this context refers to the number and frequency of showings.) We analyzed new products separately from established products since each requires a different advertising strategy.

The fundamental question for us was why some advertising treatments affect sales and others do not. We examined changes in sales volume and in percentage of market share. We looked at particular brands that used television advertising over a one-year period, with sales measured each week. Our sample included frequently purchased, relatively low-priced consumer packaged goods.

Our findings are outlined below:

- It was easier for less well-established and smaller brands than for well-established brands to effect a change with increased weight. Among established products, less entrenched brands were more responsive.
- Standard flighted media plans (in which advertising is cycled "on" for some weeks and then "off") were relatively unlikely to increase sales. Changes in the media plan, with big increases rather than periodic flights may be more effective. Our work suggests that as category size and overall category purchase occasions increase, a new player will have more opportunities to capture sales. Advertising will then be more likely to influence switching behavior.
- Concentration of advertising appears to offer advantages over dispersion; this is particularly compelling for new products. It is important for sellers to advertise their products heavily early on to stimulate consumers to try them.
- Effects tended to be stronger when the advertising message was intended to change attitudes rather than reinforce them and also when the copy strategy had recently been changed. It is important to keep the message fresh in the minds of buyers. Our research suggests that the benefits of constant change are more likely to outweigh the risks. To justify television advertising, copy should change frequently and regularly. There is considerable danger in maintaining the status quo: it is how companies lull customers into boredom and complacency. This is critical for larger and more established brands.
- Brands in growing categories or in categories with more purchase opportunities are more likely to be able to improve sales through increased television advertising weight.
- In the case of established brands, we did not find a strong link between standard measures of television commercial recall and persuasion, and the sales impact of the copy in market. Our data suggest that it is more productive to test advertising in the market than to rely on pre-test measures of advertising recall or persuasion, or both.

New brands or line extensions tended to be more responsive to alternative television advertising plans than established products. Our data support the importance of introductory weight and prime time for new products: higher boosts in prime television advertising are correlated with larger increases in sales of new products.

Frito-Lay's experience

Frito-Lay, the US snack food manufacturer, put our findings to the test in its advertising for a single product category. The company wanted to develop guidelines for managing its television advertising and setting priorities for campaigns. Frito-Lay's experiments, carried out in the mid to late 1990s, used Behaviorscan to test the effectiveness of television advertising across brands. The basic design was an "ad/no-ad" split test in which each brand's advertising was tested in at least two markets over 12 months. Media plans for each brand were those previously approved by management during the annual planning cycle and were not modified during the year.

Households were assigned to "ad" or "no-ad" conditions by using a methodology that matched households according to a variety of purchasing characteristics, including category and brand penetration and purchasing rate. Once pairs were identified in each market, one member of each pair was assigned randomly to "ad" conditions and the other was assigned to "no-ad" conditions. For "no-ad" house-

holds, the brand's advertisements were replaced with public service advertisements. Cable, radio and outdoor advertising were not manipulated as part of the experiment. These forms of advertising, however, represented only a small portion of the marketing mix. Promotional activities were also not manipulated.

After four years of testing, the company found that 57 per cent of its commercials resulted in significant volume increases in the advertising households compared to the no-advertising households. Commercials were categorized as either "new" or "base": "new" if their content included a significant innovation such as a line extension, new brand or feature; "base" if they focused on existing brand attributes of an established brand. Eighty-eight per cent of the "new" advertisements drove significant volume increases.

The company found a big difference between the results obtained by larger brands and those obtained by smaller brands. Among larger brands, only 27 per cent showed significant volume increases as a result of the advertising, whereas the figure was almost 90 per cent for the smaller brands. Simply put, it is harder to turn a large ship around than a smaller; capturing attention for a product that is well known is always problematic, even with advertising that is original, clever and fresh. Frito-Lay discovered that if an advertisement had a positive effect, it was virtually always noticeable within the first six months; indeed, in all but one case, the effect was noticeable within the first three months. The company's other major finding was that the average volume increase with effective advertisements was a healthy 15 per cent.

For Frito-Lay, innovation and brand size are critical in differentiating effective and ineffective advertising. The company also learned the importance of testing "small" versus "big" brands without anything new in the message to determine which advertisements work. On average, only 13 per cent of "big" brand television advertising resulted in increased sales. But if that 13 per cent results in an average increase of 15 per cent in gross revenues and an increase in overall margins, it may well be worth the cost. For example, if we spend $9m on new advertising that increases our sales 15 per cent from $300m, revenues will increase by $45m. If our incremental gross margin is 40 per cent, we would generate $18m and net, after the advertising expenditures, $9m. Testing several campaigns to find the most effective one might be troublesome but would be worth $9m in gross profit.

One of the many lessons from Frito-Lay's experience is that once we have determined which advertisement is most effective, there is likely to be a bonus in the form of long-term impact. In a follow-on study, we found that if advertising works in the short term, it will have a long-term impact that approximately doubles the short-term impact. On the other hand, if television advertising does not work in the short term, it will not work in the long term. The only way to know whether it is working is to test constantly. Considering that an effective testing system costs a few hundred thousand dollars, while advertisements can cost millions, the weight is clearly in favor of building testing into television advertising strategies.

Frito-Lay gleaned three principles from its research:

- Advertise against some form of "news" for lesser brands.
- Advertising for larger brands is not likely to drive sales if it contains no "news."
- Advertising effects occur quickly and tend to last if they occur at all. Managers might want to rotate advertising support for key brands on the basis of the availability of news and according to brand performance in the previous year.

Test and test again

One important caveat is that the data from our initial study explain less than half of the sales changes associated with television advertising weight changes. But if managers are aware of this uncertainty, they can manage it. We found that 61 per cent of advertising was not responsive to weight changes. It would make sense to run tests to find out if the current campaign is working. If it is not, it is much easier to determine that changes need to be made. The manager should always be estimating the incremental effects of the current campaign in the real world.

The prudent manager should select certain "lead markets" for experimentation in which television advertising is reduced or eliminated. If there is no sales reduction in the lower-weight experimental market after six to twelve months, then the manager can feel confident about reducing the weight throughout the entire advertising market.

Testing can also benefit sales forces, which often point to their companies' large advertising budgets when trying to persuade retailers that consumer demand will justify more shelf space for their products. Quantitative test results can be used to win over doubting retailers.

There are many aspects of advertising's effectiveness with respect to sales that seem to be unique to a particular brand, competitive situation, copy strategy or media strategy. The key to success is constant testing. If you approach all of your advertising by questioning all assumptions, you will be that much more confident of how well it is working. Not all advertising will be effective but you may be able to modify Wanamaker's grumble and say, "I know that half of my advertising doesn't work, but at least I now know which half."

Summary

Billions of dollars are wasted every year on ineffective television advertising. Yet few companies monitor their advertising strategies with the precision with which they monitor other parts of the marketing mix. In this article, **Leonard Lodish** describes the results of research into the factors that make for successful television advertising. In many cases, sales of smaller, less well-established brands are more responsive to advertising than larger brands. But when advertising for large brands works, the rewards – in terms of increased sales and long-term impact – are considerable. Companies should therefore constantly test the effectiveness of their commercials in the market to gain the confidence that the benefits will outweigh the costs.

Suggested further reading

Lodish, L., Abraham, M., Kalmensen, S., Livelsberger, J., Lubetkin, B., Richardson, B. and Stevens, M. (1995) "How TV advertising works: a meta analysis of 389 real-world split-cable TV advertising experiments," *Journal of Marketing Research*, November.

Lodish, L. and Riskey, D. (1997) "Making ads profitable," *Marketing Research*, winter.

Choosing where to go global: how to prioritize markets

by Philip M. Parker

Imagine that your company is sitting on top of $3bn in cash and the board is asking you to invest it wisely. Your home market is near maturity. You can either put the money into a bank account or you can leverage your company's knowledge base and expand your core business into higher growth areas. This was the scenario for a European telecommunications company. Its choice? Go international, and quickly. But with over 230 countries to choose from, it became important to find a rational selection process that would be supported by the board.

The problem of national market selection is not unique to this company. Several factors have accelerated globalization: deregulation, the spread of democracy, information ubiquity, privatizations, the globalization of the value chain, improvements in infrastructure and the reduction of nationalistic entry barriers.

There are typically three phases involved in global strategic planning. First, the global environment is scanned and specific countries are prioritized. This phase not only considers the market potential for a country today but also its long-run latent demand, from which future sales will be generated. The second phase is typically more operational and involves detailed within-country analyses. The third phase involves designing optimal entry plans and monitoring approaches that can be rationalized on a regional or global basis. This article assists managers in the first phase.

Probably the most efficient way of prioritizing markets is to consider all countries on at least two key dimensions, which themselves are composites of multiple factors. Composite approaches have long been used by strategic planners. The biggest challenge in this approach is to choose the factors that are most relevant to international planners. The two measures of greatest relevance are "latent demand" and "market accessibility." Countries with high latent demand and high relative accessibility (that is, that are comparatively easy for your company to enter) are given highest priority. There is a continuum from high-priority countries to those that have low latent demand and low accessibility.

Figure 1 shows two different scenarios. In the left-hand graph, the company is driven by market potential whereas the right-hand graph represents a company that is driven by costs or an aversion to difficult markets. This article treats the reader as coming from a "generic company" – that is, neither a market-driven nor a cost-driven company. Planners must therefore augment it with their own company-specific factors that might change the priorities (for example, a Canadian company may judge Canada to be more accessible than a German company).

The globalization process

In order to understand latent demand, it is important to characterize the globalization process correctly. As shown in Figure 2 demand is often revealed in the aggregate by a global sales figure. This aggregate curve masks, however, two underlying and fundamentally different processes. The first is a country-by-country

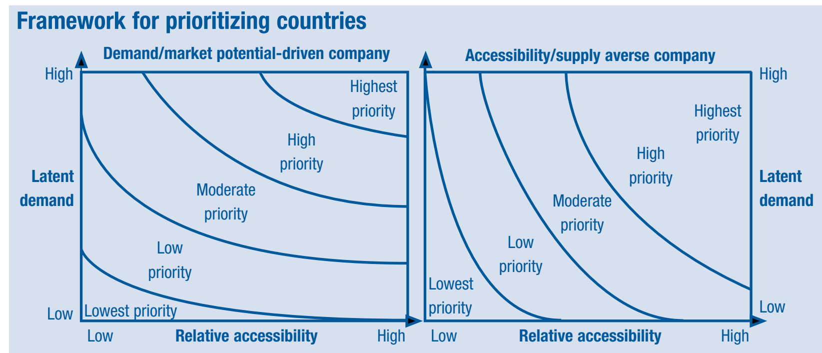


Figure 1

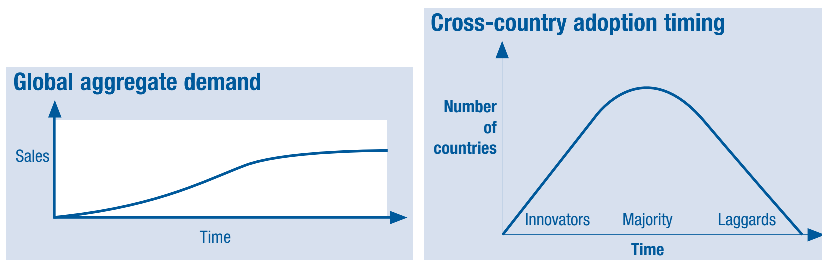


Figure 2

Figure 3

adoption process ("breadth of adoption"). The second process involves the within-country sales pattern after adoption ("depth of adoption"). The breadth process, shown in Figure 3, consists of the cumulative sequential adoption of a product or service across the world's countries. A few countries are the "innovators," followed by the "early adopters." The last countries to show any sales are the "laggards." Some countries may never adopt a product at all (snowmobiles in Jamaica).

Figure 4 shows the distinction between a "global product" and a "non-global product." The breadth process indicates where demand is likely to show up soonest. Across a number of products and services large, wealthy countries are generally innovators or early adopters and smaller, poor countries are laggards. For many

How a telco made its choice

At the beginning of this article, we met a European telecommunications company with $3bn to invest. So what did it decide to do? In its first cut, the company prioritized markets while subconsciously using the "per head" measure to indicate maturity. Licence hunters were dispatched to all corners of the earth: Vietnam, Ghana, Ireland, Hong Kong, Nepal, India, Hungary.

Resistance from the board to investments in the farther-flung markets quickly appeared. It turned out that when one controlled for the "target market" (the demand ceiling), both the home market and many neighboring countries were far from maturity, whereas many of the so-called emerging markets were about to "top out." Dividing by population turned out to be an absurd measure of penetration. Furthermore, the company had much higher levels of accessibility to neighboring markets than markets in Asia. Once all this was recognized, the licence-hunting group was disbanded and the company made greater investments in its home region.

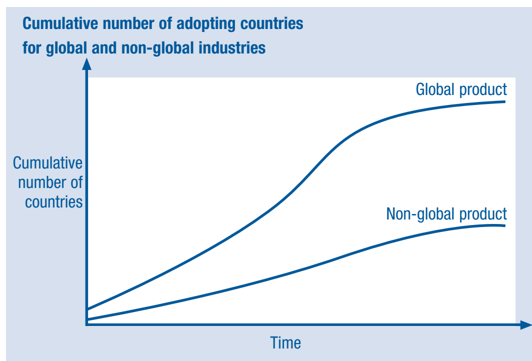


Figure 4

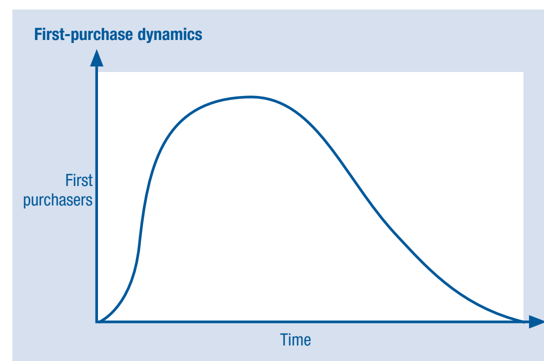


Figure 5

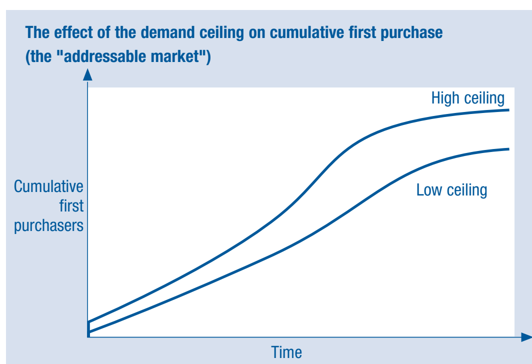


Figure 6

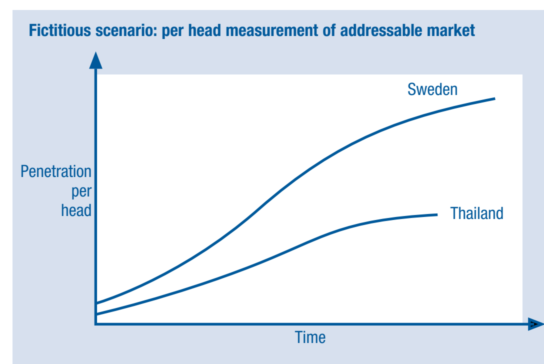


Figure 7

categories, the breadth process began over 100 years ago, while for more recent innovations, it is only now beginning.

Once a country shows initial sales, the second process becomes germane – the depth process. This tells the planner the level of sales within a country after it has adopted a product for the first time. It should be noted that an early-adopting country might have slow take-up, whereas a later country might have fast take-up. There is no general relationship between when a country adopts and how quickly sales take off thereafter.

To elaborate on this aspect of demand, it is best to decompose sales into two components: first purchases and repeat purchases. Figure 5 shows the first-purchase curve. As the product life cycle matures, a growing percentage of the market adopts the product for the first time. If this trial phase proves successful, repeat purchases follow; if not, the product dies.

Long-run demand

Long-run demand depends on two sub-factors. The first is the size of the country or social system. The second, shown in Figure 6, is the demand ceiling – the percentage of that market that is likely to adopt the product in the long run, or over the manager's planning horizon. Figures 7 and 8 make these components salient. Figure 7 shows a classic representation of demand for a fictitious category across Sweden and Thailand. Thailand has shown demand for three years and Sweden

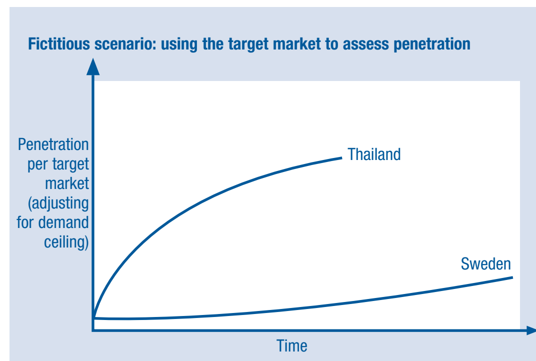


Figure 8

has shown demand for the past five years. Each country has been standardized by characterizing demand as "per head" penetration.

This type of measure is typical for the telecommunications industry, which buys and sells licences while quoting prices on a "per head" basis. This method of comparing demand across countries is often used in the popular business press too; the implication is that markets with high penetration will have lower growth in the future, whereas countries with low penetration will have higher growth.

Using this method, the graph shows Sweden as being more mature than Thailand. A global planner might conclude that the future "hot," high-growth market will be Thailand, whereas Sweden is a mature market, warranting little additional investment. Indeed, we observe in many industries a large shift in resources from "developed" to "under-developed" markets, right? Wrong!

Analyzing and comparing markets in this way can be deceptive. Planners must recognize that not all countries are created equal and that simple measures (such as penetration per head) ignore fundamental national differences. Clearly, not all persons in Thailand will, over the planning horizon, be part of the potential target market. For many categories, we can reasonably exclude young children and subsistence farming families, who are unlikely to have enough disposable income.

What latent demand is not

1 Latent demand is not a forecast of the market's sales level but rather of its long-run strategic potential. In countries where entry has occurred to its fullest and the market is served in a competitive setting, then latent demand will approach the present sales level. For many countries, a number of inefficiencies prevent this level from being realized. North Korea, for example, often has a high latent demand but political and economic policies have thus far prevented it from attaining this potential.

2 Latent demand is also not the sum of companies' sales in a given industry. Latent demand estimates often deviate from national estimates as these do not control for export sales by companies operating in that country. Latent demand reflects local consumption only. For example, if one adds up the sales of all American suppliers, this may exceed the latent demand estimate for the US. Some of these sales consolidate foreign operations, are sales to foreign entities, are exports or are re-exports. Latent demand is a "smoothed" estimate. It does not consider local demand bubbles that might appear from one year to the next due to a large order cycle.

3 Finally, latent demand is not company-specific. Total latent demand is estimated for all companies approaching a given country.

Estimating accessibility

Latent demand is only half the picture. A country may at first sight appear to be attractive due to a high latent demand but it is often less so when one considers how easy it will be to serve that potential. Accessibility will always vary from one company to another for a given country. As a minimum, the following four domains should be considered:

Demography (demand concentration)

Key demographic factors help managers gauge the extent to which a country's demand is concentrated. Demand concentration is the extent to which a country can be easily served as a whole rather than as smaller regions. Proxies for concentration include the number of large cities (having populations over 750,000) and the size of the largest city divided by the total population of the country. China, the US and Germany score low on this ratio and are typically considered to be especially difficult to cover (in terms of distribution and sales). Indeed, this handicap for China is forcing many companies to make market potential estimates by city and to reconsider China not as a country but as a region with many city-state clusters.

Economics (development and openness)

Economic factors tend to counterbalance low demand concentration. Countries with higher income levels tend to have better infrastructure and communications that allow dispersed demand to be served efficiently. Openness is the extent to which a market can be served by foreign companies. Generally, small countries lacking protectionist laws are very open to foreign entry. Larger countries with protectionist tendencies (such as Japan) are less open. Some countries have low explicit barriers yet buyers tend to favor local producers. In this case openness is low.

Culture (heterogeneity)

Culture often hinders marketing and operational entry strategies, especially in countries having heterogeneous cultures. Two proxies are noteworthy: the size of the largest language group and the size of the largest religious group (both relative to total population). In general, the larger these are, the easier it is to access the market.

Political structure (totalitarian, stable, fragmented)

Finally, political constraints can affect access. The fact that a company is American or French, for example, can play a large role in evaluating access into countries such as Iran. Concentration of political power may negatively influence entry, especially in the cases of totalitarian regimes that are less likely to adopt free market solutions. Numbers of political parties and the size of the largest power's representation in government are objective measures of this constraint.

The above factors, among many others specific to the company and industry in question, are then combined into an overall rating. Accessibility can be measured as being "company-specific" or as a generic concept independent of any particular company. Some companies (for example, French companies) can have higher levels of accessibility to certain countries (for example, in French-speaking Africa) due to historical factors. Measures provided for a generic company do not consider any specific advantage or disadvantage with respect to a national market that arises from a company's core competence. A company will always include these advantages in finalizing its estimates.

Finally, accessibility measures are difficult to predict. Political changes, especially, make accessibility assessments more likely to change than latent demand estimates, which are more strategic.

Both the size of the country/social system and the demand ceiling will vary over time and the demand ceiling will largely vary from one category/industry to another. The most important aspect of determining the demand ceiling is to "match" countries according to category/industry. In doing so, the planner may discover the graph in Figure 8. Thailand, when one excludes subsistence farmers, has nearly saturated its local potential, whereas Sweden (perhaps due to high taxes or poor marketing by a state monopoly) is far from its potential. This same principle exists for both industrial and consumer products and services. The benefit of adjusting for ceiling effects is that for some categories, small countries (for example, Belgium) may prove to have a greater latent potential than larger countries (for example, India) with ostensibly "hot" markets.

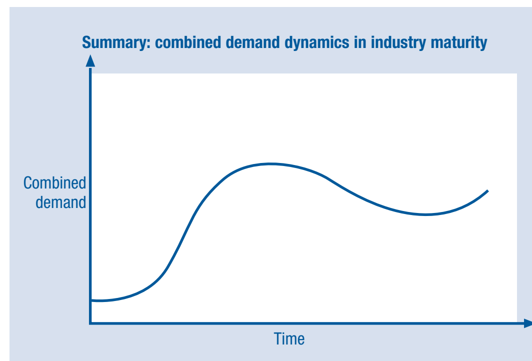


Figure 9

Once the social system and ceilings are defined and projected over the planning horizon, then the planner needs to consider the revenue stream that will result from each buyer. Combining first purchases with the stream of repeat purchases results in the aggregate product life-cycle curve for the industry. In the long run, a country's latent demand for a category or industry approaches a repeat purchase coefficient (which may vary across countries).

Provided that the coefficient is known and that social system size and ceiling have been estimated, long-term sales can be projected. At any moment, latent demand in a market is a product of these three factors; conversely, the repeat purchase coefficient is the average latent consumption rate per target consumer. As the category declines due to external shocks, the coefficient also declines.

The relationship between the factors is shown in Figure 9 and holds in maturity. Each is a function of a number of country factors. The critical question for the global planner is whether the consumption rate is converging over time across countries, or whether it is stationary in equilibrium (maturity), yet different across countries. In the consumer goods business, for example, the question might be whether adult alcohol consumption per head will converge from country to country.

Summary

When a company has the resources to enter foreign markets, how should it choose which ones to go for? According to **Philip Parker**, it must assess them along two key dimensions: latent demand and market accessibility. Latent demand is a function of the size of a country, the percentage of the population that is likely to adopt the product and likely rate of repeat purchasing. When markets are measured in these terms, it becomes clear that relatively "mature" markets in developed countries may have more potential than those in emerging economies – a result at odds with the crude "penetration per head" statistic that is often used to characterize markets. But even where latent demand is high, problems of accessibility – due to adverse demography, low economic development, cultural fragmentation or political constraints – can mean that it is not worth trying to tap it.

Do you value customer value?

by Sean Meehan and Patrick Barwise

"Market orientation" describes an organizational culture where beating the competition through the creation of superior customer value is the paramount objective throughout the business. By "customer value" we mean the customer's perception of the total benefits to be derived from a product or service versus the total perceived costs of acquisition and ownership. Although they usually have better things to think about, customers typically have some implicit preconception about the "right" ratio of benefits to costs. Having compared available alternatives, customers select the one that they think will give them best value. Value is therefore a *relative* concept; it is perceived *relative* to competitor offerings.

In a market-orientated company, the aim of providing superior customer value dominates all thinking about what its business is and which markets to serve with which products or services. It provides the rationale underpinning acquisitions and major capital investments. It drives thinking about which people to hire and how to deploy, reward and promote them.

In practice this level of absolute commitment to customers is rare; it is not to be confused with the vague mantra of "customer love" chanted with monotonous regularity in annual reports, at conferences and employee meetings. Neither is market orientation to be confused with "market*ing* orientation," which describes increased power vested in the marketing department. The marketing department is often seen as the natural champion of the customer but perception of it as an "owner" of organizational values can provoke resentment and downright opposition from other functions.

Marketing departments can play a pivotal role in making sense of marketplace dynamics and communicating them to the rest of the organization. But this does not elevate marketing to a role superior to other functions. The dominant organizational design in market-orientated businesses increasingly involves matrices dominated by customer value creation processes staffed by *multi*functional teams and supported by *all* the traditional functions.

Market sensing

A company's ability to create customer value depends first of all on its market sensing capabilities. These are its ability to understand customers' current and emerging needs and wants, competitors' capabilities, offerings and strategies, and the technological, social and demographic trends that are shaping the future market and competitive landscape. Organizations are increasingly using three main tools to improve understanding of how customers perceive value:

Market research and analysis

Esomar, the European Society for Opinion and Marketing Research, has estimated that between 1990 and 1996 company expenditure on externally commissioned market research worldwide virtually doubled to reach £7bn annually. Internal analysis of customer data (for example, from purchase records and loyalty programs) has grown even faster.

Daewoo and the art of customer focus

Daewoo entered the UK car market in spring 1995 with minimal brand recognition, a technically unimpressive product and an unfashionable country of origin (Korea). With around 40 marques the market was crowded. Less than half of these had market shares of over one per cent. Ford, Vauxhall and Rover accounted for half of all new cars sold. Good dealers were tied into exclusive relationships with established manufacturers. And many companies have a "Buy UK" or "Buy European" policy for their fleet purchases, which account for about half of all car purchases.

At the time of Daewoo's entry, no new entrant to the UK car market had broken through the elusive one per cent market share threshold since relevant data had been gathered (from the mid 1970s). Yet Daewoo did exactly that in less than a year. We believe it did so by achieving its aim of being the most customer-focused car company in the UK.

Daewoo's market sensing revealed that its best target market would be drivers primarily interested in a car's ability to get from A to B reliably and cheaply. Surveys had shown that most motorists found showrooms intimidating and salespeople pushy and believed that they were treated even worse after the sale. Further, Daewoo's research found that in its target segment, 84 per cent of motorists believed that the treatment they got from the salesman was at least as important as how they felt about the car itself.

Daewoo accordingly developed a customer value proposition with four linked pillars:

- **Direct dealing**: to save dealer commissions and to enable the company to be generous with the specifications offered.
- **Absence of hassle**: Daewoo designed its dealer network to be like a high street chain, with interactive terminals offering product information and a free café and crêche; sales people were on a fixed salary and no haggling was allowed on price.
- **Peace of mind**: the price included a three-year comprehensive warranty, three years full Automobile Association cover, three years free servicing, a six-year anti-corrosion warranty and a 30-day money-back guarantee.
- **Courtesy**: Daewoo offered free collection and delivery as well as a courtesy car during servicing.

Daewoo's competitors had been unwilling or unable to rethink the way that they did business in the face of clear dissatisfaction in the market. This created a market niche that Daewoo was able to exploit with its new customer value proposition. Subsequent product launches have enabled Daewoo to maintain its distinctive positioning while upgrading technically.

Senior executive customer contact programs

For senior executives to get out of their offices and meet customers directly has long been perceived as best practice among large companies in the business-to-business sector. Now it is also common to find top managers of consumer goods and services companies spending time with end-users and hearing about their own and their competitors' performance. The best programs bring senior executives from all functions into contact with both major customers and end-users in a formal business setting, not socially.

Competitor monitoring

We group competitor monitoring into three levels of increasing sophistication: tracking and profiling, interpreting and predicting.

Tracking and profiling competitors is not unusual; for example, it is often part of the marketing director's quarterly or annual report. Even basic descriptive data focusing on size, scope, changes in product line, big wins and so on can reveal trends and patterns if summarized intelligently.

Interpretation involves managers in explicit consideration of what has happened and why. Companies often move to this second-order analysis when they are unexpectedly beaten over a critical order or faced with an attractive new product or process innovation. They then move on from what the competitor is doing to

broader analysis. For example, they encourage those in the market to monitor and feed back evidence of unexpected or idiosyncratic competitor activity. They dissect competitors' advertising activity (both creative and media choices) to deduce the underlying strategy. Like armies at war, companies use aerial photography and public planning documents to gather details of their main competitor's plant; they monitor traffic movement to provide insight into factory shift patterns; their scientists map the competitor's product formulations. Together with more readily available secondary data, this helps the company better understand the competitor's business model, capabilities and even its "game plan."

Prediction is the aim of the most sophisticated practitioners. At US consultancy Advanced Competitive Strategies, for example, cross-functional teams from client companies role-play competitors and, aided by computerized models of the market, simulate the likely actions and reactions of the key players. These "war colleges" heighten managers' market sensitivity, forcing them to make explicit and justify their assumptions about competitors' competencies, resources and intent.

Enhancing performance

Without good market sensing, a company cannot be market-orientated. But market sensing alone is not enough. Under the auspices of the Marketing Science Institute in Cambridge, Massachusetts, a growing body of research suggests that a more informed and more widely shared mental model of the marketplace simply provides the *potential* for customer value creation and superior business performance. It is important, therefore, to distinguish truly market-orientated companies from those that establish market-sensing processes only because they are fashionable or perceived as best practice.

George Day, professor of marketing at the Wharton School, identifies four "interwoven dimensions" that facilitate market focus: values, market sensing and customer linking, strategic thinking processes and aligned structures and systems (*see* Figure 1). Collectively these provide the basis for customer value creation.

Management's value system has a powerful effect on the ability of the other three dimensions to create superior customer value. The hallmarks of a market-orientated value system are flexibility, risk tolerance, entrepreneurship and the adoption of an external frame of reference. Our investigations in over 400 UK companies show that companies with such a value system tend to enjoy better competitive performance because they embrace customer value creation as the motivation for *everything* they do. Our studies show that market

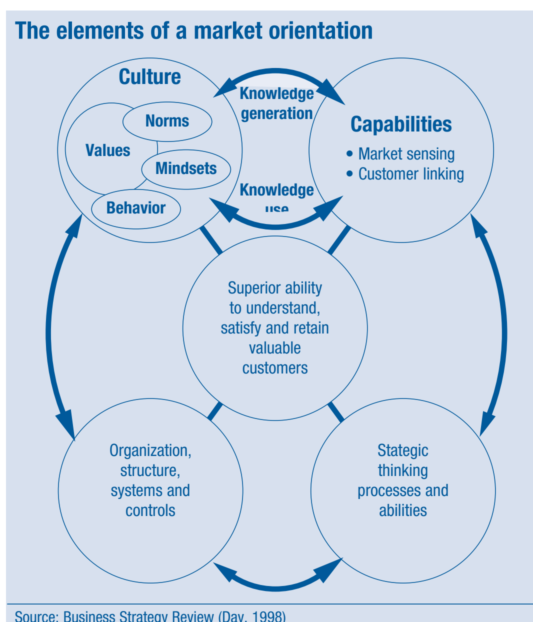


Figure 1

sensing activities are one of the most important levers for translating the value system into competitive advantage.

Another capability described by Day is customer linking. In the case of business-to-business services, most leading consulting firms identify key client service personnel to work in integrated client/customer teams. Among "capital goods" companies, best practice is to install hardware (at low or no cost to the customer) on customer sites and earn a return from its successful operation. The aim is to reduce systems costs and share with the customer the new value created.

The strategic thinking processes of a market-orientated company are distinguished by external orientation, accurate market knowledge enriched by customer contact experience and a passionate desire to beat the competition. The CEO takes an active role and involves many constituencies within the company. Moreover, the "process" is continuous and dynamic – not an annual event. Sceptics may claim that being market orientated simply means giving the customer more for less but the truth is more complex. Market-orientated businesses know which customers value their offerings and which do not. The latter are value destroyers for the business – and for other customers. Market-orientated businesses often need to prune their customer base to rid themselves of these value destroyers.

Challenges for managers

What is the engine driving your business?

Do you really believe that the ultimate driver of success is your ability to create superior customer value? If not, what is? Take out a flip chart and map the business process. Share your assumptions about what really matters with your colleagues. Work on the dissidents and don't worry too much about the other guidelines until this is resolved.

Do you understand the dynamics shaping your customers' perception of the relative importance of specific benefits and costs?

Make full use of market sensing and customer linking mechanisms to improve continuously your understanding of the marketplace. This will help you challenge the current thinking in your organization. In particular, make your assumptions about customers and competitors explicit. This will bring out differences in understanding that need to be resolved if you are to maximize your capability for delivering value. Consider:

- whether you are leveraging every contact you, your staff and your suppliers have with both customers and competitors as a learning opportunity
- how you use this resource. Do you channel these data and continuously update your view of the marketplace? Do you share this widely?

Will you rejuvenate your business system to serve your market better?

Success breeds imitation and erosion of advantage. The usual response is to tweak your business model, for example by using essentially the same architecture to achieve marginally faster response times, fewer rejects or higher labour productivity. This may be insufficient. You may need to seek breakthroughs beyond continuous improvement – to demand of yourself the standards it would take to enter the market today.

Are you prepared to lead by example?

You cannot conjure up or manufacture a company's culture but you can champion

values and beliefs. For example, Sir Colin (now Lord) Marshall's drum-beating on the theme of "customer first" had a remarkable impact on British Airways just after its privatization.

Summary

Market orientation lies at the heart of marketing and business success. A market-orientated company is motivated in all its activities by the aim of creating customer value. To achieve this, say **Sean Meehan** and **Patrick Barwise**, a company must be able to do two things. First, it needs to sense what is happening in the market. The most popular tools for this are market research, contact between executives and customers and close monitoring of competitors. But second, a company must have an organizational culture that embraces flexibility and entrepreneurship if it is to convert this knowledge into enhanced performance.

How does marketing measure up?

by Tim Ambler and Flora Kokkinaki

Marketing professionals are not highly rated by their UK colleagues. In fact, according to research by Chris Radford of Synesis, other departments regard marketing as only half as good as themselves in terms of strategic thinking, creative problem solving and doing things well. But how do people arrive at such conclusions – how do they measure marketing? The present authors recently undertook research into current practice in assessing marketing effectiveness. We surveyed 531 senior marketers and finance officers using a questionnaire based on information gathered in 44 earlier interviews. So are these managers satisfied with the way the effectiveness of marketing is measured? The survey shows that marketers are slightly on the negative side (a mean of 3.97 on a 7-point scale) whereas their finance colleagues are slightly more satisfied (mean 4.28), probably because financial measures still dominate.

This article looks at some of the factors behind these ratings, in particular: the improvements that people would like to see in current measurement practice; the measures that are currently used; benchmarking; and the definition of the "marketing asset" ("brand equity").

Improvements sought

Our interviews with senior marketers and finance executives from the same companies did not show the significant divisions of opinion the cynical might have expected. In fact, the reverse was true. Both marketers and accountants welcomed one another's skills and saw themselves as sharing difficulties. The improvements both wanted were (in order of frequency of mention): more details about campaign, launch and promotions performance; faster and more regular data; predictiveness

and modeling; more financial data (mostly from finance respondents); better customer information. The main difference was that accountants favored financial, internal performance measures, while marketers wanted non-financial, market measures, such as customer satisfaction. Marketing performance is assessed against plenty of measures but they are excessively weighted to internal financial figures.

In their book *Marketing Accountability: Improving Business Performance* (1997), Robert Shaw, visiting professor at Cranfield Business School, and fellow author Laura Mazur suggest that non-marketing executives' dissatisfaction with marketing arises because marketers often see measurement as a support role and accordingly outsource it to the finance department, which is left to do the job as best it can.

Yet marketers are right to put the achievement of results before the measurement of them. Making the runs matters more than adding them up. Even so, they are responsible for ensuring that marketing performance is properly evaluated. Unless they organize evaluations in line with their own marketing philosophy, they can expect to be judged less favorably by those using other criteria. Furthermore, their credibility – and the credibility of marketing as a whole – will be eroded. Marketers need to be clearer about what exactly they are trying to achieve, and to improve their presentation of the goals they reach.

Current measures

How marketing is perceived affects how it should be measured. So far, we have presented marketing as it is mostly seen by the respondents to our survey: a separate department within the company. In fact marketing is perceived in two distinct ways. "Marketing" includes both the broad sense of a company's efforts to succeed in the marketplace ("pan-company marketing") and the narrower sense of what a marketing department does. Most respondents were unable to distinguish overall business from specifically marketing objectives.

During the interviews, respondents were asked: "What measures does your firm use to track marketing, in the broad sense we are using here, performance?" The responses fell into the eight categories in the first column of Table 1, which shows the total number of measures reported in the interviews. The last two columns divide the totals by the number of respondents to provide comparability. We used these categories to develop the survey questionnaire, although we excluded

Key measures for assessing marketing performance
Based on total number of measures mentioned

	Marketers (26 interviewed)	Finance (18 interviewed)	Marketers (mean)	Finance (mean)
Financial	71	48	2.70	2.67
Consumer/end-user	50	17	1.90	0.94
Campaign effectiveness	17	3	0.65	0.17
Competitor (share)	19	13	0.73	0.72
Direct trade customer	9	2	0.37	0.11
Product performance and logistics	9	6	0.37	0.33
Employee attitudes	2	1	0.08	0.04
Econometric models	2	–	0.08	–
	179	90	6.88	4.98

Source: LBS

Table 1

Mean importance of measures for senior management
(7-point scale)

Measure	Mean importance
Financial	6.51
Direct trade customer	5.53
Consumer intermediate	5.42
Competitor	5.42
Consumer behaviour	5.38
Innovation	5.04

531 senior marketers and finance officers were asked to rate the importance that senior management attaches to different measures of marketing effectiveness
Source: LBS

Table 2

econometric models, which are a methodology rather than a measure as such. We also ruled out employee attitudes and internal measures such as production line performance, which lie on the border between marketing and general business performance.

Regarding "campaign effectiveness," we did not concern ourselves with whether the performance assessment period was a quarter, half or full year or whatever length of time the campaign took. Therefore we decided that "campaign effectiveness" muddled the time period with the metrics – the importance managers would assign to it would be likely to increase with the length of the interval under consideration – so it had to be dropped.

We decided to divide consumer/end user measures into two groups: "behavioral," such as purchases, market share and prices paid; and "intermediate" (psychological), such as awareness, attitudes and satisfaction. The resulting groups of measures form the first column of Table 2. The second column shows how frequently senior management uses these measures, according to the marketers and finance officers surveyed.

It appears that companies are preoccupied with financial measures of their marketing performance, relative to customer or competitor measures. This is fine for the assessment of business, but not for the assessment of *marketing* performance, which requires much more attention to customers. Nevertheless, there is growing interest in, and use of, customer measures, notably customer satisfaction. (See, for example, *Marketing News*' special issue on customer satisfaction measurement, October 27, 1997.) More sophisticated firms start there but recognize that satisfaction is not a reliable measure on its own. Instead, a battery of measures is needed.

Benchmarking

Success is always relative rather than absolute. Assessment requires internal and external comparison. Among our initial interviewees, a budgeted plan was overwhelmingly the dominant benchmark. For 12 respondents (27 per cent) beating the plan was "all that matters" and for 29 (66 per cent) it was a "big part." Consistent with that, the plan represents all or most marketing activity (22 per cent and 56 per cent of respondents respectively).

Companies mostly used a combination of systems for creating plans and marketing budgets (*see* Table 3). The most popular methodology was "task-based."

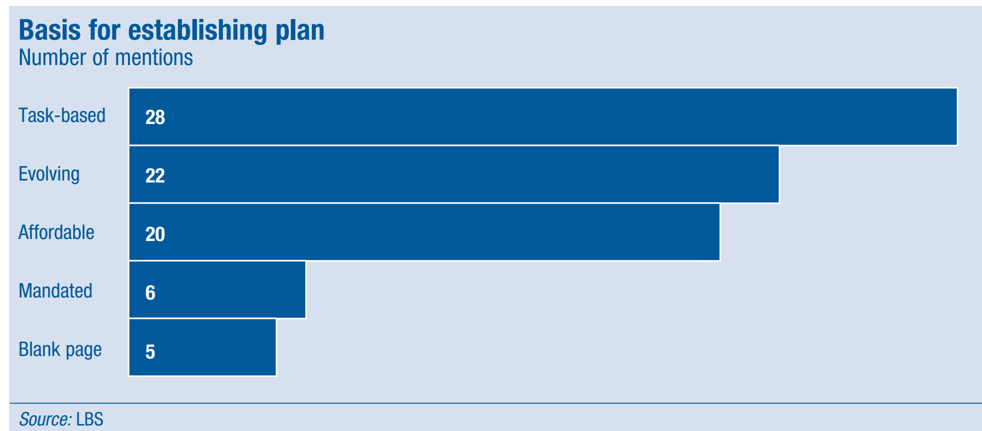


Table 3

Here the marketing activities required to meet objectives are built bottom-up and then costed. There is a general movement away from "evolving" – adapting last year's plan in a Darwinian fashion – towards task-based planning. Senior management usually adjusts the "final" expenditure budget numbers. We do not know the direction of the adjustment but suspect that it is usually downwards in order to improve the immediate profit by reducing marketing investment. "Mandated" refers to a marketing budget determined by contract or third parties. "Blank page" refers to a budget calculated or modeled on a discounted cash flow. This is the theoretical zero-based approach where all items of expenditure have to be financially justified.

The "marketing asset"

There is no agreed definition of the term "brand" in the academic literature. Some authors include the underlying product(s) as part of "the brand," some do not and some switch without warning between these definitions. But it matters greatly to the valuation of a brand such as Smirnoff whether the profit stream should be inclusive or be limited to the incremental profit attributable to the branding over and above the profit that Diageo (the brand owner) makes on the vodka. There is still less agreement over the marketing asset that some companies call "brand equity" and others "reputation," "brand strength," "brand health," or "corporate identity."

The marketing asset is essential for evaluating marketing performance for a very simple reason: marketing activities in one financial period show up on the bottom line in other periods. To account – in the broad sense – for this we have to assess the state of the marketing asset at the beginning and end of each period. We can represent this by saying that marketing performance equals short-term results adjusted by the change in brand equity.

If the intended performance is to increase profits, then "short-term results" means sales less costs. This is why so many companies are seeking to put a financial value on their brands. The performance equation could then be expressed entirely in money terms. However, there are reservations about the use of brand valuation as a proxy for brand equity:

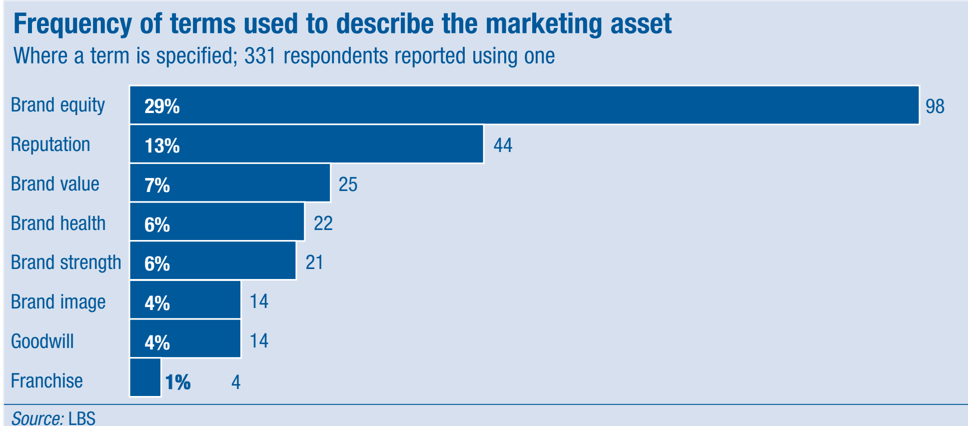


Table 4

- A single number to indicate the health of anything is a poor representation of reality.
- The process of brand valuation leads to robust but not exact measures. They are suitable for purchase, sale and balance sheets but insensitive to month-to-month marketing activities. Furthermore their variability is due more to external factors such as interest rates than to marketing activities.
- Various methods of brand valuation have been developed but all are technically flawed in one or more ways. The most popular involves discounted cash flows. This treats present money values correctly but also takes into *today's* account *tomorrow's* marketing activities.

We conclude that brand valuation is a useful component of brand equity measurement but no more than that. A company should give considerable thought to how many and which measures are necessary to track brand health. These should be sensitive and predictive. In practice, measures are being collected but they are not usually perceived as being part of a brand equity whole. Thirty-eight per cent of the companies in the survey do not use a term to describe their marketing asset. Table 4 shows the most common terms. Percentages have been calculated against the 331 respondents using a term; terms used by less than one per cent of respondents have been excluded and some respondents did not specify their term. As some companies use more than one term, non-users and users sum to more than 100 per cent.

In addition, advertising agencies that have come to recognize the importance of the marketing asset are seeking to differentiate their offerings by inventing new terms. The London consultancy Brandhouse uses “Brand Soul.” Young & Rubicam has registered “BrandAsset” and Leo Burnett has trademarked “Consumer Brand Equity” as the financial value of the consumer part of that asset. Quite apart from the unhelpfulness of seeking ownership of the language, these agencies are adding confusion. The asset is not the same as the valuation of that asset. The agencies' differential advantage is clear but it does not assist marketers' need for shared language, not least with non-specialists. We propose that “brand equity” should become the generic term for the unrealized asset created by marketing and not yet converted into the company's performance as profits.

Conclusion

If marketers are unclear about how marketing performance should be judged, others will apply their own standards. This explains the recent trend towards brand valuation and attempts to measure marketing in purely financial terms. But the faith in money as the language of business undermines confidence in an activity that cannot be measured wholly in such terms. Perhaps techniques will evolve but the evidence today is that they fall short. Brand valuation methodologies, in particular, are flawed both in detail and concept.

However, it is good that brand equity measurement is being addressed. Some marketers will judge internal brand valuation by the amount by which their budgets are increased or not. To misquote Stephen Leacock, the function of a marketing plan is to arrest the intelligence of the finance director long enough to take money off him.

Marketers therefore face a choice: pursue the financial route and fall short or persuade colleagues to use a wider portfolio of measures. This is not a challenge to modern shareholder value and economic value-added methods but an alarm call to marketers to have confidence in best-practice non-financial measures as well – and to "sell" them to their colleagues.

Summary

Like any business function, marketing needs to be measured. So what measures do people use? Research by **Tim Ambler** and **Flora Kokkinaki** indicates that – perhaps unsurprisingly – senior managers prefer financial indicators. If marketers would prefer more stress on indicators such as customer satisfaction, they must be prepared to promote their use.