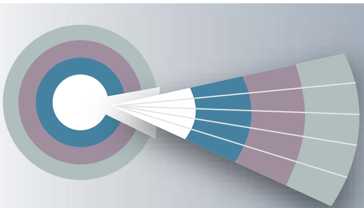
MARKETING: investment advisor to the business



The Performance Manager Series

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INTRODUCTION

The new business book, ***The Performance Manager***, can help you turn the growing information-intensity of your job from a challenge to a competitive advantage. Its thesis is simple—rather than sifting through all the data your organization may produce, if you pay attention to certain sweet spots, you will make better decisions, create better goals, and set better plans about issues that truly drive your company. We're pleased to offer you this chapter for **Marketing** drawn from the book.

The Performance Manager, *Proven Strategies for Turning Information into Higher Business Performance* looks at the partnership between decision-makers and the people who provide the information that drives better decisions. It offers suggestions for 42 decisions areas, or information sweet spots, taking into account your need to not only understand data, but also plan and monitor your performance. These decision areas are organized by the eight major functions of a company: Marketing, Finance, Customer Service, Sales, Product Development, Operations, Human Resources, Information Technology, plus an over-arching section for Executive Management. You will find five of these decision areas in this paper.

Each chapter introduces key challenges and opportunities companies face in the specific function. ***The Performance Manager*** then dives into each decision area, illustrating the core content of the corresponding information sweet spot. These are organized into two types of measures: goals and metrics, and a hierarchical set of dimensions that allow you to look at the information from a variety of vantage points.

Each decision area then offers advice on who beyond the specific function would benefit from seeing the information (e.g., Marketing should see Sales pipeline targets) to make better performance a truly cross-organizational exercise. We hope you see the value in this white paper and investigate other functional areas and their decision areas, or take our offer for the whole book, ***The Performance Manager***.

We acknowledge and thank the great thinkers at Business Intelligence International, PMSI, and the staff and customers of Cognos, an IBM company, who offered their insights to make this publication possible.

Investment Advisor to the Business

Successful investing is anticipating the anticipations of others.
John Maynard Keynes

These are the facts every Marketing professional understands:

- There are more and more competitors in your market
- Your competitors are constantly changing their business models and value propositions
- Your customers can access massive amounts of information, making them aware of their options, tough bargainers, and fickle
- At the same time, consumers' appetite for products and services continues to change and grow

Your competition and customers will continue to increase in sophistication. Marketing must do so as well if it is to serve the company and help it compete and win. This means its role must evolve.

Marketing must become an *investment advisor* to the business. As that investment advisor, Marketing must define:

- The overall investment strategy—what is sold, where, and to whom
- The strategic path for maximizing return on the company's assets (ROA)
- The cost justification for the operational path required to get there (i.e., support of return on investment (ROI) numbers for scarce marketing dollars)

Marketing must be present in the boardroom, offering business analysis coupled with financial analysis. It must connect the dots among strategic objectives, operational execution, and financial criteria. It can provide the necessary alignment between strategy, operations, and finance.

Marketing must overcome three important barriers to provide this alignment and become an investment advisor. Each barrier underscores the need for information sweet spots, greater accountability, and more integrated decision-making.

Barrier 1: ***Defining the "size of prize" has become more complex***

In the days of homogeneous mass markets, companies assessed value based on market share of major product lines, counting on economies of scale in marketing spending and healthy margins to deliver profits. Ten years ago, the challenge evolved from mass markets to defining and improving customer profitability. Companies began to include customer information in their data. Many companies have successfully developed this information sweet spot and now can group customers into meaningful segments.

Today, this trend is evolving as customer requirements and characteristics are divided into smaller and smaller micro-segments, which requires organizations to become responsive to the needs of more and more customer categories.

Size of prize marketing requires the company to do two things well. First, it must pool customers into meaningful micro-segments that are cost-effective to target, acquire, and retain. Second, it must determine the profitability potential of these micro-segments in order to set company priorities. These profit pools allow Marketing to recommend the best investment at product/brand/segment levels. This is of particular relevance when considering different channel strategies: the more detailed the understanding and mapping of micro-segment profits, the more the marketing and sales propositions can be refined.

Barrier 2: ***Lack of integrated and enhanced information***

Without appropriate context (*where, who, when*), Marketing can't define or analyze a micro-segment. Without perspective (comparisons), Marketing can't define market share or track trends at this more detailed level.

As an investment advisor, Marketing must merge three core information sources: customer (operational), market (external), and financial. To gain the full value of large volumes of customer data—electronic point-of-sale (EPOS), click-stream data, and feeds from CRM and ERP sources—the information must be structured thoughtfully and integrated cleanly. Marketing's judgments and assessments must be supported by the capability to categorize, group, describe, associate, and otherwise enrich the raw data.

Companies need easy, fast, and seamless access to typical market information such as product category trends, product share, channels, and competitor performance. They also need financial information from the general ledger and planning sources to allocate cost and revenue potential in order to place a value on each profit pool.

Barrier 3: ***Number-crunching versus creativity***

Companies create marketing strategies to win customer segments and the associated "prize". Marketing's work now really begins, and it must justify the marketing tactics it proposes, set proper budgets, and demonstrate the strengths and limits of those tactics. Drilling down into greater detail and designing tactics around this information will help satisfy Finance's requirements. In the past, such detailed design has not been the marketing norm, but it is what is required to generate the ROI that Finance wants to see.

However, the right information is not always easy to get. And some departments contend that good ideas are constrained by such financial metrics, stifling the creativity that is the best side of Marketing.

Marketing's traditional creativity should not abandon finding the "big idea", but must expand to include formulating specific actions with a much clearer understanding of *who*, *why*, and *size of prize*. This is not a loss of creativity, simply a means to structure it within a more functional framework.

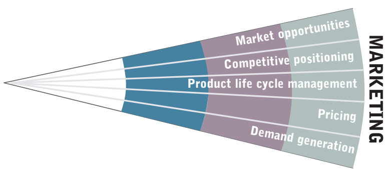
A Guidance and Early Detection System

As investment advisor, Marketing guides strategic and operational activity, which focuses on the potential of specific markets and how the organization can meet these markets' needs. In this role, Marketing can also be an early detection system for how changes in the market lead to changes in products and services, selling strategies, or even more far-ranging operational elements of the business.

Many marketing metrics are important indicators for a company scorecard. Sudden drops in response rates for traditionally successful marketing efforts could mean competitor pressure, market shifts, and/or revenue trouble down the road. Good marketing departments see the big picture. They notice and interpret trends that are not readily apparent on the front line and provide the business context for what is being sold, or not, and the associated value proposition.

Marketing has the responsibility for defining, understanding, and leading five core areas of the company's decision-making:

- **Market opportunities** ➔ What is the profit opportunity?
- **Competitive positioning** ➔ What are the competitive risks to achieving it?
- **Product life cycle management** ➔ What is our value proposition?
- **Pricing** ➔ What is it worth?
- **Demand generation** ➔ How do we reach and communicate value to customers?



Marketing Opportunities

Making decisions about marketing opportunities is a balancing act between targeting the possibility and managing the probability, while recognizing the absence of certainty. This decision area is fundamentally strategic and concerned with the longer term. It manages the upfront investment and prioritizes the most promising profit pools while dealing with a time lag in results.

Understanding the profit potential in opportunities requires a detailed assessment of pricing, cost to serve, distribution requirements, product quality, resources, employees, and more. The most obvious market opportunities have already been identified, whether by you or the competition. You are looking for the hidden gems buried in the data missed by others. These are the micro-targets that need to be identified, analyzed, and understood.

GOALS	METRICS	DIMENSIONS
Company Share (%)	Market Growth ($)	Fiscal Month Year Quarter Month
Market Growth Rate (%)	Market Profit ($)	Industries SIC 2-Digit SIC 4-Digit
Market Revenue ($)	Market Unit Volume (#)	Marketing Areas Region Area
	Profit ($)	Marketing Segment Market Segment Micro-Segment
	Sales ($)	Product Brand Product Line Brand
	Unit Volume Sales (#)	Sales Organization Sales Region Sales Territory Org. Code

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Product Development				
	Executives			•
	Analysts		•	
Sales				
	Executives			•
	Managers		•	
	Analysts		•	
Finance				
	Executives			•
	Analysts		•	

Competitive Positioning

Effective competitive positioning means truly understanding what you offer as products and/or services to the segments you target, and how they compare with those of other suppliers. As an investment advisor, Marketing must clearly define the business and competitive proposition: *In which market segments are you competing, and with what products and services?*

Marketing must define and invest in specific information sweet spots that give it insight into how its customer selection criteria compare to those of its competitors. Marketing must understand the customer-relevant differentiators in its offerings and the life span of those differentiators based on, for example, how difficult they are to copy. It also needs to understand the pricing implications of this information.

- Are our price points below or above those of key competitors, and by how much?
- If below, is this sustainable given our cost profile, or is cost a future threat?
- What premium will customers pay for value-added propositions?

GOALS	METRICS	DIMENSIONS

Competitor Growth (%)
Competitor Price Change (%)
Competitor Share (%)
	Competitor Price Change ($)
	Competitor Sales ($)
	Market Growth ($)
	Market Profit ($)
	Market Revenue ($)
	Sales ($)
		Competitor
		  Competitor Type
		  Competitor Company
		Fiscal Month
		  Year
		  Quarter
		  Month
		Industries
		  SIC 2-Digit
		  SIC 4-Digit
		Marketing Areas
		  Region
		  Area
		Marketing Segment
		  Market Segment
		  Micro-Segment
		Product Brand
		  Product Line
		  Brand
		Sales Organization
		  Sales Region
		  Sales Territory
		  Org. Code

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Sales				
	Executives			•
	Managers		•	
	Analysts	•		
	Professionals		•	
Product Development				
	Executives			•
	Analysts		•	

Product Life Cycle Management

Products are born, grow, and die. Marketing organizations must manage the product life cycle and maximize the return at every stage by adapting or retiring unprofitable products and introducing new ones. Life cycles vary significantly between industries and market segments. For example, computer technology evolves over a 12-month cycle; cars have a three- to five-year cycle. This pace of innovation (which is subject to sudden change) sets the context in which management needs to bring “new news” to your markets. New news fuels the marketing machinery, a significant way to excite and capture customer mindshare. It is also tied to financial performance, as product innovation may point to future earnings.

Innovation may mean small or significant changes to existing products as well as the introduction of completely new products. For example, based on its understanding of existing and new segments, Marketing can drive changes in packaging and pricing to target new opportunities. These changes can be achieved in the short term or the long term and are part of Marketing’s role in defining profitability targets and predictions.

Companies have portfolios of products/services, each in its own stage of the product life cycle. The classic practice of defining products/services as stars, cash cows, and dogs forces product review with dimensions of time, profitability, and competitive advantage. Product life cycle management continues the process of competitive positioning and market opportunity definition. Marketing identifies new opportunities, is aware of the competitive landscape, and then looks into what products and services will best do the job.

Marketing should understand what proportion of existing sales comes from new products and compare this percentage with that of competitors. This measure helps the organization judge the impact of investing more or less in innovation. As an investment advisor, Marketing is in a position to counsel the company on how to forecast changes in market share if the company does not introduce new products in a given time period. In-depth analysis allows the company to segment products by their various life cycles and corresponding expectations, so the company can plan new product introductions.

GOALS	METRICS	DIMENSIONS

New Product Growth (%)
New Product Share (%)
Relative New Product Share (%)
	Brand Equity Score (#)
	Market Growth ($)
	Net Price ($)
	New Competitor Product Sales ($)
	New Competitor Product Share (%)
	New Product Growth ($)
	New Product Profit ($)
	New Product Sales ($)
	New Products Developed (#)
	Sales Revenue ($)
		Fiscal Month
		  Year
		  Quarter
		  Month
		Marketing Areas
		  Region
		  Area
		Marketing Segment
		  Market Segment
		  Micro-Segment
		Product SKU
		  Product Line
		  Brand
		  SKU
		Time-in-Market Range
		  Range

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance				
	Executives			•
	Analysts		•	
Marketing				
	Executives	•		
	Analysts	•		
Operations / Production				
	Executives			•
	Analysts		•	
Purchasing				
	Executives			•
	Analysts		•	
Product Development				
	Executives			•
	Analysts		•	
Sales				
	Executives			•
	Analysts		•	

Pricing

Companies once defined their product proposition broadly to cast the widest net possible in homogeneous mass markets. The downside of this practice was that as a product became a general commodity, it became subject to price sensitivity. Smart marketers today see micro-segment markets not as a challenge, but as an opportunity to define smaller, more customized offerings that are less price-sensitive. The more your product proposition is tailored to solve a specific customer's problem, the easier it is to protect your price and margin.

Tailoring the product proposition requires more detailed information. Simple reports from transactional systems can provide enough information to support homogeneous mass-marketing strategies. Targeting micro-segments means modeling price implications and tracking results at many levels.

- What product and service bundling opportunities are possible for given market segments and customers?
- Does the product portfolio offer a combined value and convenience advantage that can be priced tactically?
- What impact will an increase/decrease in price have upon volumes (a measure of price elasticity)?
- To what extent should pricing be used as a defensive versus aggressive tool, and what are the relative cost benefits? For example, where a business has only a small market share, does it pay to be aggressive in its competitor's back yard?

Setting prices based on well-thought-out models is one thing, but companies also must monitor how flexible local offices and sales teams need to be. Centralized pricing ensures margin stability, but can be counterproductive in a fast-moving, competitive situation. As a compromise, companies typically offer pricing guidelines and a pricing floor. This lets local sales reps respond to competitive pressures but protects the business from dangerously low price levels. Good marketing systems monitor this data to test the validity of pricing assumptions, as well as to gain early warning of competitor attacks on pricing.

> ***Particularly useful are product-specific analyses—according to customer segment, product group, or packaging type. This allows the company to focus on units that best suit the market whilst at the same time providing the most attractive option to the company in terms of cost.***
>
> Andreas Speck, Head of Information Management, Kotányi GmbH

Well-designed sales incentives can help avoid price erosion, but experience shows that these can also encourage unintended behaviors. Developing sales incentives without implementing a reporting system on those incentives is a recipe for wasting money. The ability to manage pricing guidelines while offering local sales reps the flexibility they require depends on the use of information from business intelligence and planning tools.

GOALS	METRICS	DIMENSIONS
Price Change (%)	Average Price ($)	Billing Customer Industry Group Industry Category Customer Name
Price Segment Growth (%)	Discount ($)	Competitor Competitor Type Competitor Company
Price Segment Share (%)	Discount Spread (%)	Customer Sales Rel. Status Status
	List Price ($)	Fiscal Month Year Quarter Month
	Net Price ($)	Marketing Areas Region Area
	Price Change ($)	Marketing Segment Market Segment Micro-Segment
	Price Elasticity Factor	Product Brand Product Line Brand
	Price Segment Sales ($)	Sales Organization Sales Region Sales Territory Org. Code
	Price Segment Value ($)	
	Sales ($)	
	Unit Volume Sales (#)	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Sales				
	Executives			•
	Analysts		•	
Finance				
	Executives			•
	Analysts		•	
Product Development				
	Executives			•
	Analysts		•	
Operations / Production				
	Executives			•
	Analysts		•	
Customer Schedule				
	Executives			•
	Analysts		•	

Demand Generation

Driving demand is where Marketing rubber hits the road. All of Marketing's strategic thinking and counseling about micro-segments, profit potential, the offer, and competitive pressures comes to life in advertising, promotions, online efforts, public relations, and events.

Marketing manages its tactical performance by analyzing promotions, communications, marketing campaigns, below-the-line support, internal resourcing, response rates, and cost per response. At the same time, Marketing must understand whether or not the company is acquiring the right customers for the ideal future portfolio. This is key to understanding the results of a micro-segment marketing effort.

GOALS	METRICS	DIMENSIONS

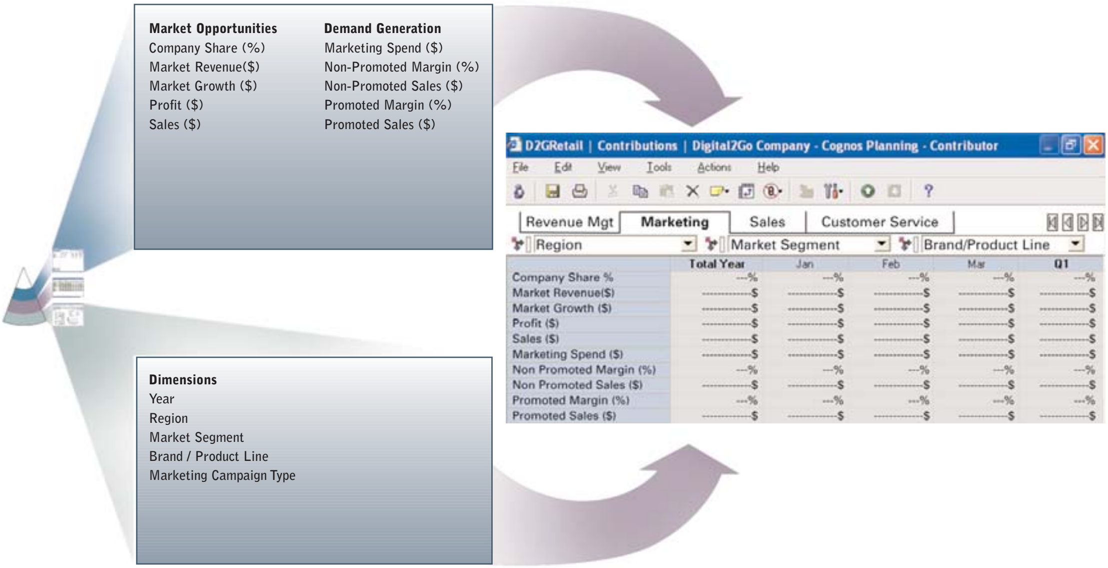
Baseline Sales ($)
Incremental Sales ($)
Promotions ROI (%)
	Brand Equity Score (#)
	Marketing Campaigns (#)
	Marketing Spend ($)
	Marketing Spend/Lead ($)
	Non-Promoted Margin (%)
	Non-Promoted Sales ($)
	Promoted Margin (%)
	Promoted Profit ($)
	Promoted Sales ($)
	Qualified Leads (#)
	Sales on Promotion (%)
		Fiscal Month
		   Year
		   Quarter
		   Month
		Marketing Areas
		   Region
		   Area
		Marketing Method
		   Marketing Method
		Marketing Segment
		   Market Segment
		   Micro-Segment
		Marketing Campaign Projects
		   Marketing Campaign Type
		   Marketing Campaign
		Product Line
		   Product Line
		Sales Organization
		   Sales Region
		   Sales Territory
		   Org. Code
		Weeks on Promotion

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing				
	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Sales				
	Executives			•
	Managers		•	
	Professionals		•	
Customer Service				
	Executives			•
	Analysts		•	
Finance				
	Executives			•
	Analysts		•	

Improving Marketing tactics is not simply about designing more detailed and specific activities; it also means understanding what elements work better than others. Marketing must understand the health and vitality of its various decision areas, including pricing, promotions, packaging changes, and consumer communications. *What provokes a greater response? At what cost?* With a wide variety of options for online, direct response, and traditional advertising, Marketing needs to know which tools work best for which groups.

Understanding and analyzing this information is key to alignment and accountability. Driving demand requires close alignment with Sales, and Marketing tactical teams continually fine-tune their aim and selection of tactical "arrows" until they hit the bull's-eye.

> *Sales managers can implement the plans as agreed with customers, and promotions can be planned at both market and consumer level. Furthermore, there is a much greater understanding of the impact that developments have on the profitability of products.*
>
> Eelco van den Akker, Business Planning Manager, Philips



The Marketing Opportunities and Demand Generation decision areas illustrate how the Marketing function can monitor its performance, allocate resources, and set plans for future financial targets.

ABOUT THE PERFORMANCE MANAGER

The book, ***The Performance Manager***, is authored by:

Roland P. Mosimann *Chief Executive Officer, BI International*
As CEO and co-founder of BI International, Roland has led major client relationships and thought leadership initiatives for the company. Most recently he drove the launch of the Aline™ platform for on-demand Governance, Risk and Compliance. Roland is also a co-author of the Multidimensional Manager and the Multidimensional Organization. He holds an MBA from the Wharton School of the University of Pennsylvania and a B.Sc. (Econ) from the London School of Economics.

Patrick Mosimann *Founding & Joint Managing Director, PMSI Consulting*
As co-founder of PMSI (Practical Management Solutions & Insights), Patrick has led major client engagements and has significant experience across a number of industry sectors. Patrick Mosimann also holds an MBA from the Wharton School of the University of Pennsylvania and a B.Sc. (Econ) from the London School of Economics, University of London.

Meg Dussault *Director of Analyst Relations and Corporate Positioning, Cognos, an IBM company*
Meg started her marketing career 15 years ago, beginning with campaign management for the national telecommunications carrier. She then moved to market development for Internet retail and chip-embedded smart cards before moving to product marketing with Cognos, now an IBM company. She has been with Cognos for 8 years and has worked extensively with executives and decision makers within the Global 3500 to define and prioritize performance management solutions. This work was leveraged to help shape the vision of Cognos performance management solutions and to communicate the message to key influencers.

About Cognos, an IBM company

Cognos, an IBM company, is the world leader in business intelligence and performance management solutions. It provides world-class enterprise planning and BI software and services to help companies plan, understand and manage financial and operational performance. Cognos was acquired by IBM in February 2008. For more information, visit http://www.cognos.com.

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