Marketing malpractice and the future of marketing

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ABSTRACT

This paper reviews the state of marketing after fifty years of theory and practice. It examines the role of practitioners, consultants and academics and concludes that marketing has been largely relegated to the relatively minor role of promotion and has been sidelined as a contributor to corporate strategy-making. The paper then proposes a future agenda for marketing. It proposes a robust model of marketing theory and practice designed to put marketing firmly back at the heart of corporate strategy-making.

The purpose of this paper is to provide a brief review of the state of the marketing domain and to set out an alternative model designed to put marketing back at the heart of organisational strategy-marketing.

It is deliberately written in a 'non double-blind-referred journal' style in the hope that these views will reach a wider audience. It is fully accepted that the art vs. science, phenomenology vs. positivism debate will continue, quite rightly, but this paper is not about such grave matters. It is intended merely to note some reflections after sixteen years as a marketing practitioner and twenty six years as an academic on why, following the white heat of excitement about the orgastic future of marketing in the Wills days of the 1960s, it has today lost its influence in the corporate world, in spite of all our best efforts. So, what has gone wrong and what can be done to bring about a recovery?

A BRIEF REVIEW OF THE STATE OF MARKETING

"Now it is a strange thing, but things that are good to have and days that are good to spend are soon told about and not much to listen to; while things that are uncomfortable, palpitating and even gruesome, may make a good tale and take a deal of telling anyway."

The Hobbit, JRR Tolkien, Harper-Collins Publishers, London, 1995

Perhaps there is some point to all this recent intellectual whingeing about the state of marketing. So, before suggesting a way forward, let us make a very brief review of what we have achieved after over fifty years of marketing. Let us look at the three main constituent parts:- practitioners; consultants; and academics.

PRACTITIONERS

As for practitioners, what better place to start than with famous Tom Peters' 'In Search of Excellence', (1982). According to Richard Pascale (1990), of Peters' original forty three excellent companies, only six were still excellent only eight years later.

Table 1 shows clearly that many of Britain's best performing companies during the decade up to 1990 subsequently collapsed.

Table 2 shows a real company, (disguised here) which apparently has performed extremely well over a five year period. Table 3, however shows clearly that its performance is extremely poor when set in context.

Table 1: Britain's top Companies (Management Today)

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

1. Where a company has been top for more than 1 year, the next best company chosen in the subsequent year e.g. Poly Peck was related top 1983, '84 and '85
2. Pre-tax profit as percent of investment capital
3. Note: This table is similar to a P&L with one important exception – **depreciation**, a standard item in any P&L has been replaced has been replaced by **capital expenditure**, which does not appear in P&Ls. In the long-term, Capex levels determine depreciation costs. Capex as a percentage of sales in an investment ration is often ignored by marketers, and it has been included in this table to emphasize its importance.

From Professor Peter Doyle, Warwick University

Table 2: Inter Tech's Five Year Performance

Performance (£million)	Base Year	1	2	3	4	5
Sales Revenue	£254	£293	£318	£387	£431	£454
– Cost of goods sold	135	152	167	201	224	236
Gross Contribution	£119	£141	£151	£186	£207	£218
– Manufacturing overhead	48	58	63	82	90	95
– Marketing & Sales	18	23	24	26	27	28
– Research & Development	22	23	23	25	24	24
Net Profit	£16	£22	£26	£37	£50	£55
Return on Sales (%)	6.3%	7.5%	8.2%	9.6%	11,6%	12.1%
Assets	£141	£162	£167	£194	£205	£206
Assets (% of sales)	56%	55%	53%	50%	48%	45%
Return on Assets (%)	11.3%	13.5%	15.6%	19.1%	24.4%	26.7%

Source: The Marketing process Company

Table 3: Why Market Growth Rates are Important. InterTech's 5 Year Market-Based performance

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

Source: The Marketing process Company

Table 4: Quality of Profits

%	Virtuous plc (%)	Dissembler plc (%)
Sales Revenue	100	100
Cost Goods Sold	43	61
Profit Margin	57	39
Advertising R&D Capital Investment	11 5 7	3 – 2
Investment Ratio	23	5
Operating Expenses	20	20
Operating Profit	14	14
Key Trends	• Past 5 revenue growth 10% pa • Heavy advertising investment in new/improved products • Premium priced products, new plant, so low cost of goods sold	• Flat revenue, declining volume • No recent product innovation, little advertising • Discontinued pricing, so high cost of goods sold

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

From Hugh Davidson's 'Even More Offensive Marketing', Butterworth-Heinemann, Oxford, 1998

Table 4 (Davidson, 1998) also shows that one apparently high performing company is really poor when the kind of non-reportable items shown in the table are taken into account.

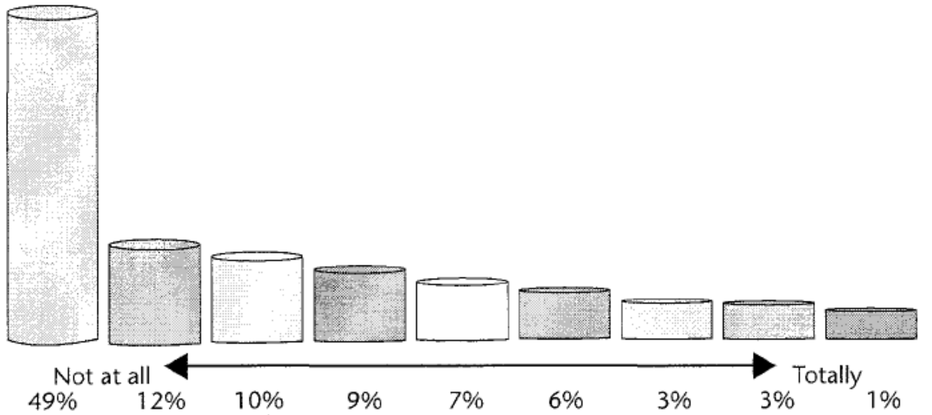
Table 5 shows the retention rate of a real company by segment, whilst Table 6 (from a Cranfield database of leading European Companies using an anonymous Audience Response System) shows that, almost ten years since the famous Reicheld and Sasser (1990) article, very few companies measure customer retention by segment.

Table 5: Measurement of Segment Profitability

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

Source: Cranfield Database: Payne, A. 1999

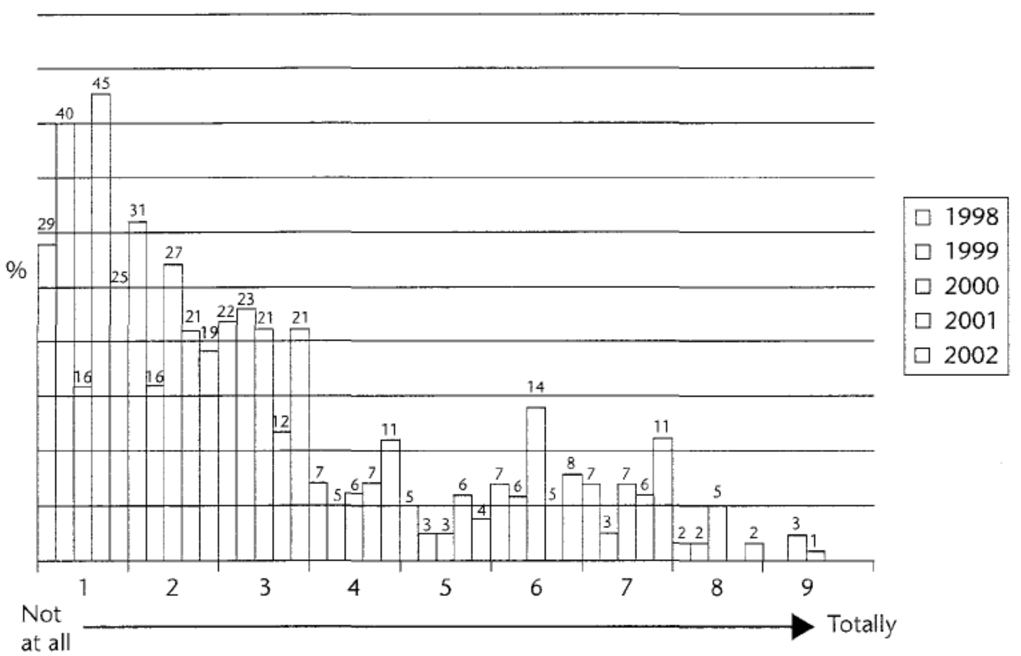
Table 6: We Measure Customer Retention by Market Segment



Source: Marketing Value Added Cranfield Conference, April 2002

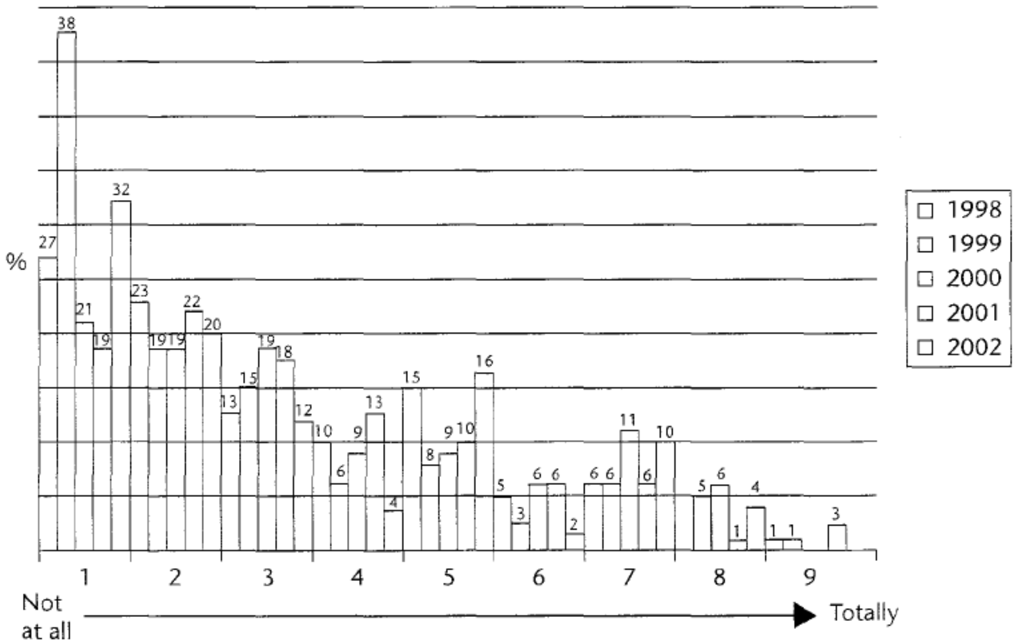
Tables 7 and 8 (also from a Cranfield database of over 500 leading European companies over a five year period) show clearly that few organisations measures market or customer profitability, in spite of the fact that it always has been the cost of dealing with customers after the 'product' leaves the 'factory' that determines profitability.

Table 7: To what extent do you allocate attributable costs (interface costs) to individual accounts (not marmalading costs across the whole customer base)?



Source: Cranfield Key Account Management Research Club, 2002

Table 8: How well do you know the real profitability of the top ten accounts?



Source: Cranfield Key Account Management Research Club, 2002

Table 9 indicates what marketing information the financial community needs to make sensible investment decisions. It also shows very clearly that very little of this is reported in annual accounts.

Table 9: External Investor Marketing Disclosure

INFORMATION NEEDED

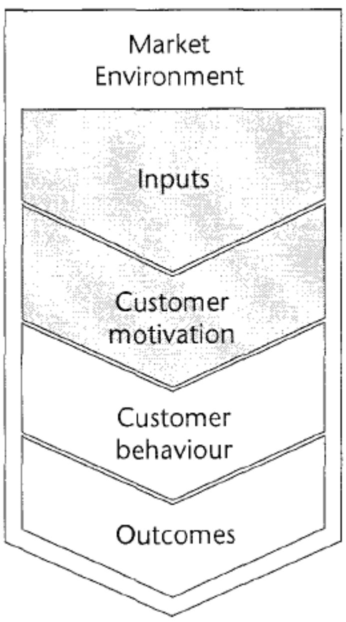
- Market value (86%)
- Key competitors (85%)

- Marketing investment (71%)
- New product stats (68%)

- Brand awareness (62%)
- Customer satisfaction (60%)

- Distribution coverage (68%)
- Price elasticity (72%)

- Markets share (91%)



DISCLOSED

- Market size/trend (8%)

- Marketing investment (10%)
- Innovation (10%)
- Efficiency (6%)

- Brand preference (16%)

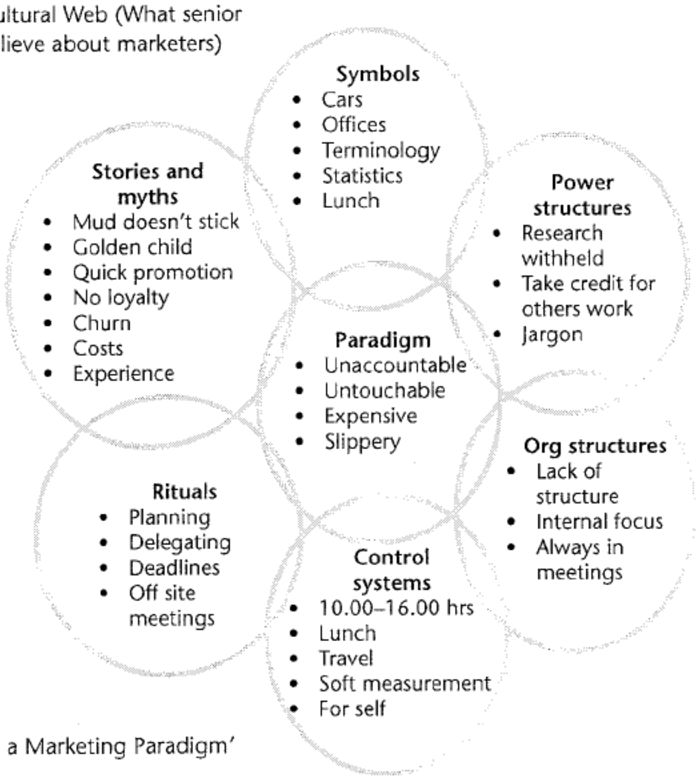
- Customer loyalty (18%)

- Relative loyalty (16%)
- Trade distribution (72%)

Source: Brand Finance 1999

Source: Professor Hugh Davidson (Cranfield visiting professor)

Table 10: The Cultural Web (What senior non marketers believe about marketers)



Source: 'Defining a Marketing Paradigm' (Baker, S. 2000)

Table 11: Outline of Previous Research

Study	Country	Focus	Outline of results
Buzzell and Wiersema (1981)	USA	SP	Limited use of formal planning methods
McColl-Kennedy *et al.* (1989)	Australia	MP	Awareness and usage of methods – low
Greenley (1985)	UK	MP	Only 24% use portfolio analysis; half use PLC analysis
Haspelagh (1982)	USA	SP	Only 45% use portfolio analysis regularly
Hopkins (1981)	USA	MP	A quarter use portfolio analysis, only 13% use PLC analysis
Hooley *et al.* (1984)	UK	MP	Half use SWOT analysis, one-third use PLC, only a few use portfolio, PIMS, perceptual mappling and conjoint analysis
Reid and Hinkley (1989)	UK/Hong Kong	SP	Little awareness of portfolio and PLC analysis, and PIMS
Ross and Silverplatt (1987)	USA	SP	Half use portfolio analysis regularly, and a quarter use PIMS regularly
Verhage and Waarts (1988)	Netherlands	MP	15% use portfolio analysis, 27% use PLC with 62% using SWOT
Wittink and Cattin (1989)	USA	MP	Limited use of conjoint analysis by MR consultants
Wood and Laforge (1986)	USA	SP	Portfolio analysis used by 67% of sample

Source: Greenley (1994)

MP, marketing planning; SP, strategic planning

Johnson and Bailey (1992) developed the Cultural Web as a method for measuring corporate culture. Table 10 is from yet another Cranfield database which, using the cultural web methodology, captures the attitudes of senior non-marketing managers to marketing practitioners. A cursory glace at the central paradigm, which reveals marketing practitioners as 'unaccountable, untouchable, expense and slippery', leaves us in little doubt about the current status of marketing practice.

Turning briefly to the body of marketing knowledge that has been taught for over fifty years, Greenley's summary of research into the extent to which it is used (see Table 11) reveals a depressing picture, whilst Table 12 shows the author's observations on the weaknesses of over two hundred marketing plans formally reviewed over a ten year period.

Based on formal critiques of strategic marketing plans from the SBUs of multinational, industrial and serve businesses, McDonald, M., Cranfield Database, May 1996.

Table 12: Key Areas for Improvements in Strategic Marketing Plans

• Market overviews contain substantially more information than is necessary, with no hint of the implications for marketing activity.
• Key segments are rarely identified. 'Segments' are often sectors or products, rather than groups of customers with similar needs.
• The competitive situation is not well analysed and plans appear to assume no activity or reaction by competitors.
• SWOT analyses rarely pin down convincingly the value that is required by segments. They are frequently too general to lead to any actionable prepositions.
• Our own distinctive competences are rarely isolated and built on.
• SWOTs are rarely summarised clearly and logically in a portfolio which provides a categorisation of the relative potential of each and our relative strengths in each.
• Marketing objectives are frequently confused with marketing strategies and do not follow logically from the portfolio summary.
• The resource implications of effecting the marketing plans are not always clear.

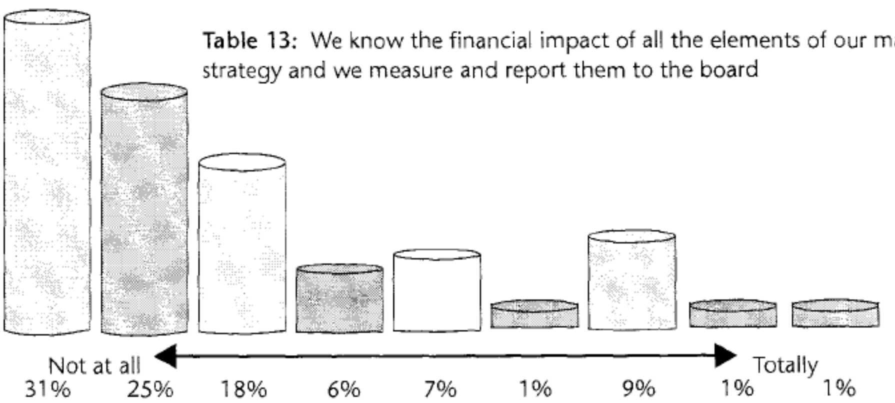
Finally, and also from a Cranfield database, Table 13 reveals a depressing honesty amongst senior marketing practitioners about their lack of knowledge about the financial impact of marketing expenditure.

In short, notwithstanding that the above represents a somewhat random and biased selection of examples of the state of practitioner marketing, most readers will in their heart of hearts recognise that they are not far from the truth.

CONSULTANTS

Turning secondly to consultants, which includes the likes of advertising agencies, they appear to have fared little better. The author has painstakingly listed over

Table 13: We know the financial impact of all the elements of our marketing strategy and we measure and report them to the board



Source: Cranfield Marketing Value Added Research Club, April 2002 three hundred consultant initiatives developed during the past thirty years, a small selection of which are listed in Table 14.

Table 14: Initiatives (300)

- In search of excellence
- Marketing warfare
- One minute manager
- MBWA
- Skunk works
- 7 Ss
- Etc.

During the past ten years, many companies have sought a remedy for their declining fortunes by retreating into faddism, hungrily adopting one fad after another as they were peddled by eager consultants. In most cases these initiatives have failed, as organisations have treated them as a quick-fix bolt-on without addressing their underlying problems. The International Standards Organisation's ISO 9000 quality initiative, for example, very laudable when used sensibly, has, in the main, only been a guarantee that organisations can produce rubbish perfectly and consistently. We use the word 'rubbish' judiciously, because there is little point in producing perfectly something that people do not buy.

Another fad has been business process re-engineering (BPR). This has been an outstanding success in those companies which have used it to redesign their processes to create value for customers. But in those organisations which have not grasped the nettle of customer satisfaction, it has achieved merely cosmetic productivity improvements (Edwards, 1997). Yet another has been balanced scorecards. This too, for CEOs who understand the need to balance the requirements of all the stakeholders in a company delivering customer value, has been very successful. It is a strategy used with great success by BAA, for example, for managing its complex web of stakeholder relationships. But for those CEOs who do not understand the importance of being market driven, it has proved to be just another fad.

Of course all of these initiatives are fabulous and do work, but only when they are seen in the context of providing superior customer value as a means of providing superior shareholder value. Alas, even in those organisations committed to 'relationship' and 'one-to-one' marketing, too often customers remain the Cinderellas. As Harvard Business School's Susan Fournier has pointed out (1998), rapid development of relationship techniques in the USA has been accompanied by growing customer dissatisfaction. The much vaulted relationship that companies were so eager to forge with their customers involved not so much delighting them as abusing them, suggested Founier.

The problem is that companies have become so internally focused they have got carried away with supply-side issues and taken their eye off the customer ball. Until organisations make a serious effort to lift their heads above the parapet and understand their markets and their customers better, all the great initiatives referred to above will amount to expensive, time-consuming mistakes. Most boards are spending too much of their valuable time on internal operational efficiency (doing things right) at the expense of external operational effectiveness (doing the right things).

In conclusion, whilst consultants have not surprisingly fared somewhat better than the marketing practitioner community, they could hardly be adjudged to have had a big impact on practice.

ACADEMICS

Finally, of course, there is the academic community. Table 15 lists a small selection of quotations from well-known academics. Most damming of all is the last one. At the Academy of Marketing Debate in the summer of 2000, the author carefully prepared his debate-winning proposal that the academic marketing community was out of touch with marketing practice. One of the facts gathered concerned the number of papers in marketing academic

Table 15: Academics

• "Much research is directed at technical refinement, which produces low risk, quick win publications that are largely irrelevant or incomprehensible to practitioners. The voice of academics is becoming weaker" (Hugh Wilmott of MBS)
• Robin Wensley said that marketing academics have had little impact. "A much wider understanding of the nature of the competitive market place is required, given that it is such a central phenomenon"
• Of ten issues, (confirmed by 3 – academic papers and the MSI), only 4% were addressed in the top, 5 star rated academic journals

Source: McDonald, M. Academy of Marketing Debate, University of Derby, 2000

communities which addressed the top fourteen issues of concern to practitioners (Wensley 2000) in the two top, five-star rated academic journals. Four per cent was the derisory number! One wonders whether there is a grain of truth in the assertion that academics are being increasingly forced by the RAE to write for a narrow, esoteric audience in media which are of little relevance to the real world.

Whilst such journals clearly have relevance to academics and whilst their role is fully appreciated, the influence and prestige afforded to them by the RAE is out of all proportion to the problems facing the global marketing community and only succeeds in diverting the abundant genius in our academic community into a cul-de-sac. Furthermore, the style of such pieces is also becoming increasingly dense and impenetrable. The author's spoof piece in Table 16 is a somewhat lighthearted parody of what senior academics face when reviewing certain papers for double blind refereed journals.

The net impact of this sad neglect by the academic and practitioner communities is that marketing as a function has been increasingly relegated away from the core strategy-making engine of organisations to become a sales support department, in charge of T-shirts and promotion (as evidenced by the cultural web shown in Table 10).

FROM TACTICS TO STRATEGY

So, what can be done to begin to recover from the sorry state the marketing community finds itself in?

Firstly, we have to work hard to recapture

Table 16

In undertaking an in-depth perusal of the evolutionary interaction of this acronymic organisational communication, the dual orientation for the analysis paradoxically required an unashamed repositioning of the eclectic conceptual framework amongst the multi-disciplinary body of illuminative speculation in predominantly scholarly bureaucratisation. Yet, coincidentally, its empirical complexity had to remain relevant to the esoteric realities of postmodern professorial integrative antecedent development trends at appropriately conceptualised and operationally-implemented metal levels. Consequently, it was necessary to review the independently formulated psychometric traditions and to employ confidently the articulately-present phenomenological methodologies currently available for polysyllabic paradigm exploration. Unfortunately, the ensuing generalised multifaceted model for evaluation (in its specific systems dimension, naturally) had unexpectedly and unexplainably exploded – though not exhaustively. They major administrative atomistic components, suitably enumerated, are now, unfortunately, somewhat hindering the Assessor's understanding process. However, tabulation analysis of the topography implicitly indicates that comprehensive evaluation of the interdenominational micro data has finally exhausted the course. Assessor and any further critical, unbiased, postmodernistical review will just have to wait until he has had a few strong gin tonics! I call this style '*anorexia doctoratitis*' – an excessive desire to be more and more impressive verbally, leading to mental emaciation and, eventually, death.

Source: McDonald, M. Open University Business School, Critique of a new MBA Module on Postmodern Marketing, 2001.

the high ground – the strategy domain. This, however, means reaching some kind of consensus about what marketing is. Enormous damage is done to our cause when the President of The Chartered Institute of Marketing declares: "Marketing isn't a function. It is an attitude of mind" (Thompson, D. 2001). There will be many amongst us who wonder how an attitude of mind can be measured, researched, developed, protected, examined, etc., all of these being the avowed purpose of the professional body. Add to this the hundreds of different definitions of marketing to be found in books and papers on marketing and the confusion is complete. A selection of thirty such definitions are to be found in McDonald 2002, most of which involve doing things to customers.

Let us be unequivocal about marketing. Just like finance, or HR, or IT, it is a function, but described in terms of what it actually entails, as shown in Table 17. This is shown diagrammatically in Figure 1.

Table 17: Definition of Marketing

Marketing is a process for: • defining markets • quantifying the needs of the customer groups (segments) within these markets • putting together the value propositions to meet these needs; communicating these value propositions to all those people in the organisation responsible for delivering and getting their buy-in to their role • playing an appropriate part in delivering these value propositions (usually only communications) • monitoring the value actually delivered. For this process to be effective, organisations need to be consumer/customer-driven

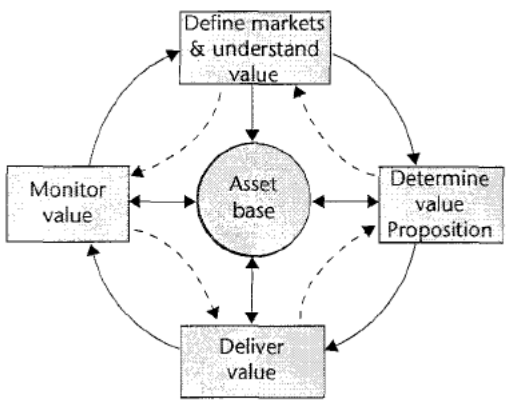
Source: McDonald, M.Marketing Plans: how to prepare them, how to use them, Butterworth

Before expanding on each box, it will be seen that boxes 1 and 2 are clearly about strategy determination, whilst boxes 3 and 4 are about tactical implementation and measurement. It is these latter two that have come to represent marketing as a function, which is still principally seen as sales support and promotion. The author recently drove through a new housing estate, where a neon sign above an up-market prefab blasted out the following words: *"The marketing Suite"*, loosely translated as: *"This is where you come to get sold to"*. And when government bodies, charities and the like say *"we need some promotion"*.

The options, then, are clear. Firstly, let us all stop this pretence at strategy and concentrate on where the marketing community actually is, which is sales support. Or let us take marketing centre stage, with a major impact on corporate strategy development.

There is more than enough evidence (see, for example, Jenkins 1997) that one of the fundamental determinants of corporate success – i.e. correct market definition, market segmentation and positioning is poorly understood in the corporate world at large. So, let us begin by looking in a little more detail at each of the boxes in Figure 1.

Figure 1: Map of the Marketing Domain



This process is clearly cyclical, in that monitoring the value delivered will update the organisation's understanding of the value that is required by its customers. The cycle may be predominantly an annual one, with a marketing plan documenting the output from the "understanding value" and "develop value proposition" processes, but equally changes throughout the year may involve fast iterations around the cycle to respond to particular opportunities or problems.

We have used the term 'Determine value proposition', to make plain that we are here referring to the decision-making process of deciding what the offering to the customer is to be – what value the customer will receive, and what value (typically the purchase price and on-going revenues) the organisation will receive in return. The process of delivering this value, such as by making and delivering a physical product or by delivering a service, is covered by 'Deliver value proposition'.

Thus, it can be seen that the first two boxes are concerned with strategic planning processes (in other words, developing market strategies), whilst the third and fourth boxes are concerned with the actual delivery in the market of what was planned and then measuring the effect. Throughout, we use the word 'proposition' to indicate the nature of the offer from the organisation to the market.

It is well know that not all of the value proposition delivering processes will be under the control of the marketing department, whose role varies considerably between organisations. The marketing department should be responsible for and central to the first two processes, 'Understand value' and 'Determine value proposition', although even these need to involve numerous functions, albeit co-ordinated by specialist marketing personnel. The 'Deliver value' process is the role of the whole company, including for example product development, manufacturing, purchasing, sales promotion, direct mail, distribution, sales and customer service.

The various choices made during this marketing process are constrained and informed not just by the outside world, but also by the organisation's asset base. Whereas an efficient new factory with much spare capacity might underpin a growth strategy in a particular market, a factory running at full capacity would cause more reflection on whether price should be used to control demand, unless the potential demand warranted further capital investment. As well as physical assets, choices may be influenced by financial, human resources, brand and information technology assets, to name just a few.

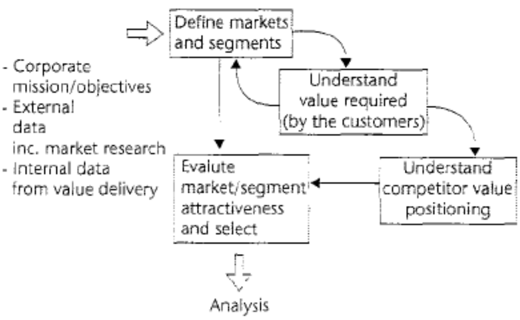
DEFINE MARKETS AND UNDERSTAND VALUE

Inputs to this process will commonly include:

- The corporate mission and objectives, which will determine which markets are of interest;
- External data such as market research;
- Internal data which flows from on-going operations.

The process involves four major sub-processes, shown in Figure 2.

Figure 2: Define markets and understand value



First, it is necessary to define the markets the organisation is in, or wishes to be in, and how these divide into segments of customers with similar needs. The choice of markets will be influenced by the corporate objectives as well as the asset base. Information will be collected about the markets, such as the market's size and growth, with estimates for the future.

Once each market or segment has been defined, it is necessary to understand what value the customers within the segment want or need. This value is most simply thought of as the benefits gained from the product or service, but it can also encompass the value to the customer of surrounding services such as maintenance or information. This step also encompasses what the customer is prepared to give in exchange, in terms of price and other criteria, such as lifetime running cost or convenience of purchase. One way of expressing customer value requirements is via a critical success factor analysis which might list such criteria as product specification, quality or reliability, the quality and range of services, price and the ease of purchase, and which might also include weights to illustrate their relative importance to the customer in the buying decision. This step of 'Understand value required' also includes predicting the value which will be required in the future.

In performing this step, it may emerge that subsets of the customers within a market have very different requirements. In this case, the market may need to be further segmented to represent these subsets. Hence there is an important feedback loop from this step to the 'Define markets' step.

'Understand competitor value positioning' refers to the process of establishing how well the organisation and its competitors currently deliver the value that the customers seek. To illustrate in terms of critical success factors, this process would correspond to scoring the organisation and its competitors on each of the customers' success factors. Again it involves looking into the future to predict how competitors might improve, clearly a factor in planning how the organisation is to respond. SWOT analysis is one tool used here.

From these three processes, the relative attractiveness of the different markets or segments can be evaluated. One tool of relevance here is Porter's five forces model, showing the forces which shape industry competition and hence the attractiveness of a given market.

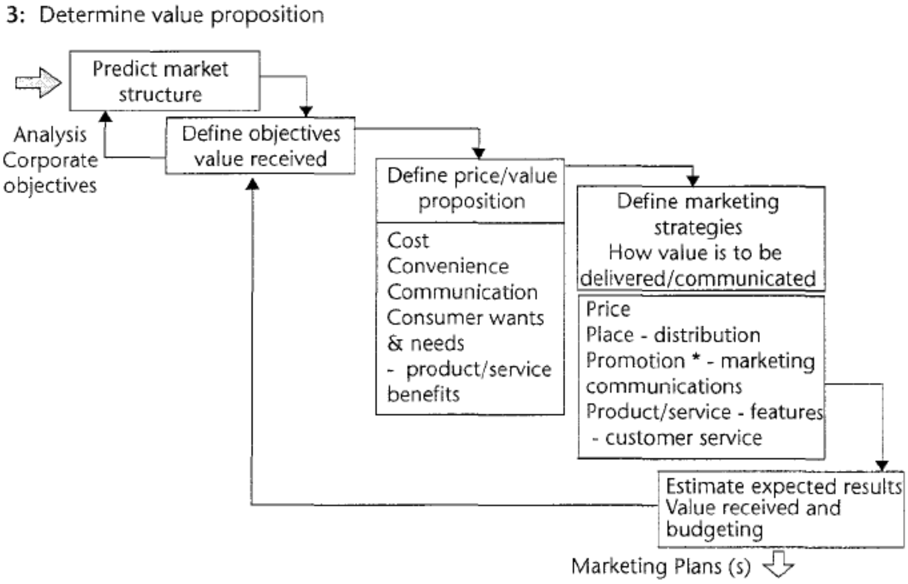
The output will be some form of analysis, such as a 'marketing audit'. One way of summing up much of the key information is a portfolio matrix such as a Boston Matrix or Directional Policy Matrix. Such a matrix provides a sensible basis for prioritisation amongst the many possible product/market combinations which the organisation could address.

While this stage can be aided by IT tools, these are far from sufficient on their own.

Determine value proposition

The definition of the value proposition to the customer contains five sub-processes,

Figure 3: Determine value proposition



shown in Figure 3 (more commonly referred to as strategic marketing planning).

The key input to this process is the prioritisation of target markets, based on an analysis of customer needs and the relative attractiveness of different customer segments, which was produced by the previous process.

Before we can begin to plan our value proposition for each market, though, there is an important sub-process which is normally missing from planning methodologies: "Predict industry structure". This deals with the vital issue of how the industry structure might change, irrespective of any actions which we might take, as a result of channel innovations. Clearly if we are to be bypassed by our suppliers, or if our customers are likely to wish to buy via an e-hub rather than directly from us, we need to know about it.

The next two sub-processes define the core of the value proposition to the customer. Whilst they can occur in either order, organisations typically start by defining the value they hope to receive from the segment: 'Define objectives'. This involves defining marketing objectives in terms, for example, of market share, volume, value or contribution by segment.

The other half of the equation is defining the value to be delivered to the customer in return. This price/value proposition can be thought of using the four 'C's: 'Cost', 'Convenience', 'Communications' and 'Consumer wants and needs' (Lauterborn, 1990). These translate the four 'P's of marketing from what the organisation does to what the customer cares about. For example, the customer is concerned with convenience' of purchase, which influences how the organisation will 'place' the product through distribution channels. Similarly, instead of 'product', we have 'consumer wants and needs' which are met by the product. The customer is interested in the total 'cost' to them, not necessarily just the up-front 'price'. And finally, 'promotion' translates into the two-way 'communications' in which customers declare their requirements and learn about the organisation's offerings.

The fourth sub-process may involve iterations with the third one since, in defining the marketing strategies – how the value is to be delivered and communicated – it may be necessary to reconsider what that value can actually be. We have listed the four major aspects of this process using the four 'P's. While separate plans, or plan sections, may be produced for each of these, the decisions are closely intertwined: for example, the choice of distribution channel will impact what communications are feasible, what surrounding services can be delivered, and what price can be charged.

Some reformulations of the four 'P's include others such as 'Provision of customer service', 'People'; and 'Processes'. We include customer service within 'Product/service', as it is often difficult to separate the core product or service from surrounding services, but clearly every aspect for the customer interaction needs to be planned for. 'People' and 'Processes' represent dimensions that certainly need to be planned, but we view them as arising from the consideration of the customer-focused four 'P's, by asking what changes to people or processes are necessary in order to achieve the desired product offering, price, place or promotions.

Once these issues have been resolved, an estimate of the expected results of marketing strategies can be made, in terms of the costs to the organisation and the impact of the price/vale proposition on sales. This final step closes the loop from the original setting of objectives, as it may be that iteration is required if it is considered that the strategies that have been defined are not sufficient to meet the financial objectives.

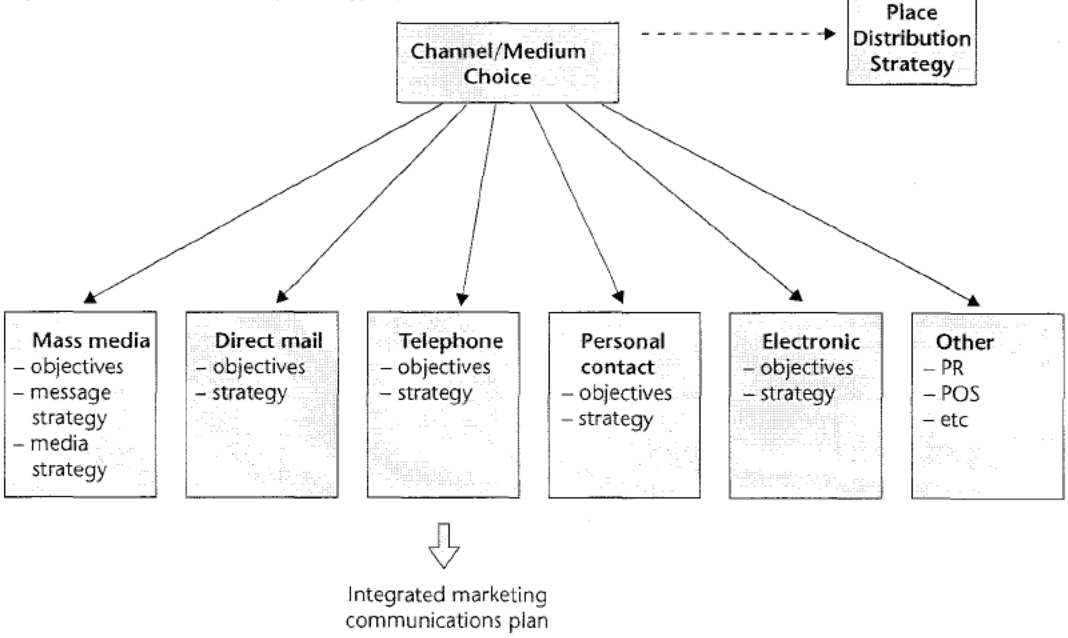
The output from the 'Determine value proposition' process is typically a strategic marketing plan, or plans, covering a period of at least three years. In some cases, specific plans are produced for aspects of the four 'P's, such as pricing plan, an distribution plan, a customer service plan or a promotions plan. However, even no plans are produced, the organisation is implicitly taking decisions on the offer to the customer and how this offer is to be communicated and delivered. The content of these plans has to be communicated to and agreed with all departments or functions responsible for delivering the customer value spelled out in the plans.

INTEGRATED MARKETING COMMUNICATIONS

Before considering the delivery of value, we will give some further attention to promotion. Promotion is changing in a number of respects. New channels such as the Internet are emphasizing an already growing trend from mass media such as advertising through addressable media such as direct mail to interactive media such as call centres and the Web. Integrating these channels within a coherent strategy is not an easy task. Writers on the new field of integrated Marketing Communications emphasise that before engaging on detailed planning for each medium – writing sales plans or promotions plans, for example – it is necessary to choose which medium to use for which customer interactions. This is illustrated in Figure 4.

The choice of channel/medium is generally a complex one, involving different media for different communications with the same customer. The organisation will also frequently wish to leave some options in the hands of the customer. For example, a Dell customer may find out about Dell from colleagues or from press advertising; investigate which product to buy, what the price is and what configuration is required using the Web; print our order details and pass them to the purchasing department to place the order via fax; check on the delivery time via telephone; take delivery via a parcel service; and obtain customer service using e-mail. Customers are no longer content to have the medium dictated by the supplier.

Figure 4: Define marketing strategy – promotion



Having chosen the most appropriate medium for given customer contacts with particular segments, the traditional planning by medium can then be conducted. The choice of medium is clearly closely intertwined with the distribution strategy. Distribution channels often have a mix of purposes, providing both a means of conveying a physical product to the customer, and a medium for information exchange. A garage, for example, provides information on the model, an opportunity for a test drive, a location where price negotiations can occur, and a step in the physical delivery of the car to the customer. A clothes shop provides a location where the information exchange of trying on a garment and feeling it can occur, in a way which is difficult to replicate using direct marketing approaches. So the focus of promotion on information exchange is closely linked to the physical issues of distribution. However, considering the two separately can result in new solutions, such as direct banking, Web shopping for CDs (which may need to be sampled but will not need to be felt physically), and complementing the sales force with telemarketing and websites for minor transactions or less important customers in business-to-business markets.

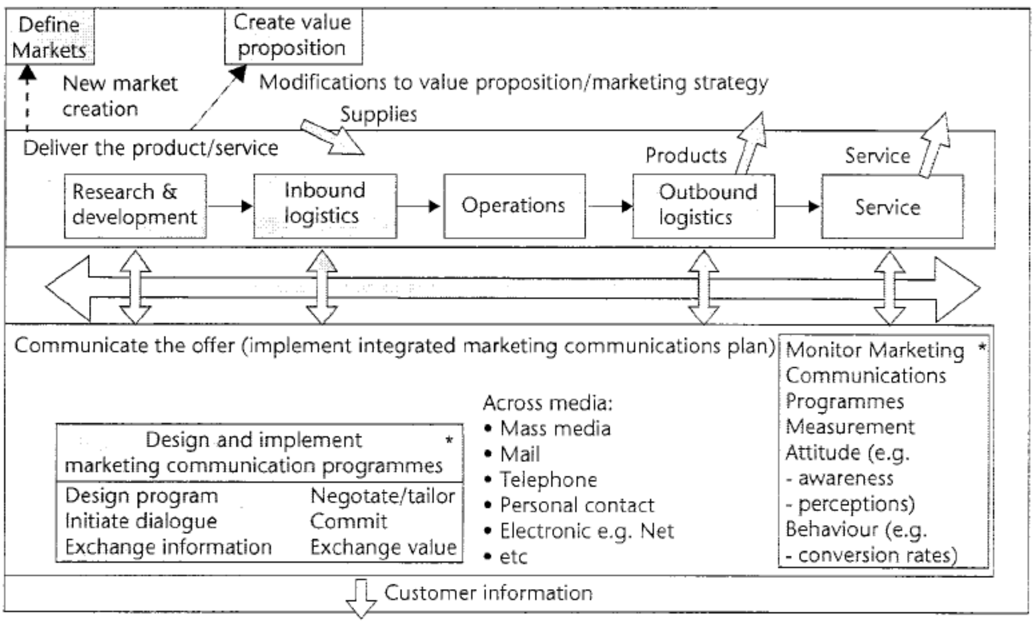
DELIVER VALUE PROPOSITION

The third major process is to deliver the value proposition. This is illustrated in Figure 5. The major input to this process is the strategic marketing plan(s) derived from the previous stage.

This starting-point for our analysis of this process was Porter's value chain (1980). This is reflected in the tasks we have listed within "Deliver the product/service" in the top half of the figure: research and development, leading to inbound logistics, then through operations to outbound logistics and finally to service.

However, we suggest that there are a number of marketing activities which shadow these value chain activities, under the general heading of 'Communicating the offer'. Porter placed 'Marketing' after 'Operations' in the value chain, but in

Figure 5: Delivery value proposition



today's 'Operations' in the value chain, but in today's one-to-one world, these communications can occur in parallel with all the tasks involved in value delivery. One might, for example, check a product with customers at the R&D stage. The product may be tailored by the customer, resulting in different components being bought in, assembled and delivered. And so on.

Communicating the offer is typically managed by designing, implementing and monitoring a number of marketing communications programmes. A communication programme could be, for example, a direct mail campaign; an advertising campaign; a series of sales seminars; an in-store promotion; and so on. We have also stretched the term 'marketing communications programmes' to include management of such media as the sales force, which may be managed in a more continuous way, with annual targets broken down by quarter or month. Whatever the medium, the campaign will be aiming to contribute to one or more of the tasks listed in Figure 5 within the 'Design and implement marketing communication programmes' box. The tasks may have an unfamiliar look: in order to represent the interactive, one-to-one nature of today's marketing, we have renamed the classic steps in the sales process. Figure 6 illustrates traditional views of the sales and purchasing process, with this revised, interaction perspective between the two.

Traditional "push-based" models of marketing, in which after the product is made, prospects are found and persuaded to buy the product, are illustrated on the left. The delivery and service that follow are operational functions with little relationship to marketing. Traditional models of buyer behaviour, illustrated on the right of the figure, assume more rationality on the part of buyers, but underplay the importance of what the buyer says back to the seller. The seller's offer is assumed to be predetermined, rather than developed in conjunction with the buyer.

The stages of the process of communicating value are therefore described as follows:

- "Recognise exchange potential" replaces "category need" or "problem

Figure 6: Re-thinking the sales process

Advertising	**Selling**	**Marketing activity**	**Interaction**	**Decision theory**	**Consumer behaviour**
		Define markets understand value		Problem recognition	Category need
					Awareness
		Create value proposition	*Recognise exchange potential*		Attitude
Brand awareness				Information search	
	Prospecting				Information gathering and judgement
		Initiate dialogue			
Brand attitude • info re benefits • brand image • feelings • peer influence	Provide information	*Exchange information*		Evaluation of alternatives	
		Negotiate/tailor			
	Persuade				
Trial inducement					
	Close sale	*Commit*		Choice/purchase	Purchase process
	Deliver	*Exchange value*			
Reduce cognitive dissonance	Service	*Monitor*		Post-purchase behaviour	Post-purchase experience

recognition". Both sides need to recognise the potential for a mutual exchange of value.

- "Initiate dialogue" replaces "Create awareness" or "Prospecting". The dialogue with an individual customer may be begun by either party. One feature of the Web, for example, is that on many occasions, new customers will approach the supplier rather than vice versa.
- "Exchange information" replaces "Provide information". If we are to serve the customer effectively, tailor our offerings and build a long-term relationship, we need to learn about the customer as much as the customer needs to learn about our products.
- "Negotiate/tailor" replaces "Persuade". Negotiation is a two-way process which may involve us modifying our offer in order better to meet the customer's needs. Persuading the customer instead that the square peg we happen to have in stock will fit their round hole is not likely to lead to a long and profitable relationship.
- "Commit" replaces "Close sale". Both sides need to commit to the transaction, or to a series of transactions forming the next stage in a relationship, a decision with implications for both sides.
- "Exchange value" replaces "Deliver" and "Post-sales service". The "Post-sales service" may be an inherent part of the value being delivered, not simply a cost centre, as it is often still managed.

One-to-one communications and principles of relationship marketing, then, demand a radically different sales process from that traditionally practiced. This point is far from academic, as an example will illustrate. The company in question provides business-to-business financial services. Its marketing managers relayed to us their early experience with a Website which was enabling them to reach new customers considerably more cost-effectively than their traditional sales force. When the Web site was first launched, potential customers were finding the company on the Web, deciding the products were appropriate on the basis of the Web site, and sending an email to ask to buy. So far, so good.

But stuck in a traditional model of the sales process, the company would allocate the "lead" to a salesperson, who would phone up and make an appointment, perhaps three weeks' hence. The customer would by now probably have moved on to another online supplier who could sell the product today, but those that remained were subjected to a sales pitch, complete with glossy materials, which was totally unnecessary, the customer having already decide to buy. Those that were not put off would proceed to be registered as able to buy over the Web, but the company had lost the opportunity to improve its margins by using the sales force more judiciously.

In time, the company realised its mistake, and changed its sales model and reward systems to something close to our

Figure 7

	Initiate dialogue	Exchange information	Negotiation/ tailor	Commit	Exchange value
Offline advertising (TV, press, etc)					
Direct mail					
Sales force/face-to-face contact					
Electronic					
Other (state)					

Figure 8: The Sun worshippers

	Internet	Mobile telephone	iTV	Broadcast TV	Traditional channels
Recognise					
Exchange potential					
Initiate dialogue					
Exchange information					
Negotiate/tailor					
Commit					
Exchange value					
Monitor					

Adapted from the originals and used with the permission of the travel company

'interaction perspective' model. Unlike those prospects which the company proactively identified and contacted, which might indeed need "selling" to, many new Web customers were initiating the dialogue themselves, and simply required the company to respond effectively and rapidly. The sale force were increasingly freed up to concentrate on major clients and on relationship building.

The changing nature of the sales process clearly raises questions for the design of marketing communications, such as: Who initiates the dialogue, and how do we measure the effectiveness of our attempts to do so across multiple channels? How do we monitor the effectiveness not just of what we say to customers but what they say back? And how about the role of marketing communications as part of the value that is being delivered and paid for, not just as part of the sales cost?

The effectiveness of any organisation's channel and communications plan will clearly depend on determining the appropriate medium for the different stages outlined in the centre of figure 6. The principles involved are spelled out in Figure 7.

Two adapted examples follow of an attempt by a major global travel company to understand the information seeking and purchasing processes of different segments. These are given as figures 8 and 9. From these two of seven different segments, it can be seen that the behaviour of each is totally different. Without such segmentation knowledge, an integrated communications plan would be impossible.

The programmes will then need monito-

Figure 9: Alan and Alice Active

	Internet	Mobile telephone	iTV	Broadcast TV	Traditional channels
Recognise					
Exchange potential					
Initiate dialogue					
Exchange information					
Negotiate/tailor					
Commit					
Exchange value					
Monitor					

Adapted from the originals and used with the permission of the travel company

ring. We distinguish the monitoring of the effectiveness of particular programmes, measured in such terms as response rates to a direct mail campaign or awareness and attitudes arising from advertising, from monitoring of the overall value delivered to the customer, which forms the next major process.

Outputs which come from the value chain activities are products and services. An important output from the communication sub-processes is customer information: what the customer's problems or issues are, the particular needs arising from these, what products and services are purchased, what complaints have been made, and so on.

Today, this 'Deliver Value' stage involves IT at every turn – sales force automation, call centres, the Internet and the front-office CRM systems that underpin them.

MONITOR VALUE

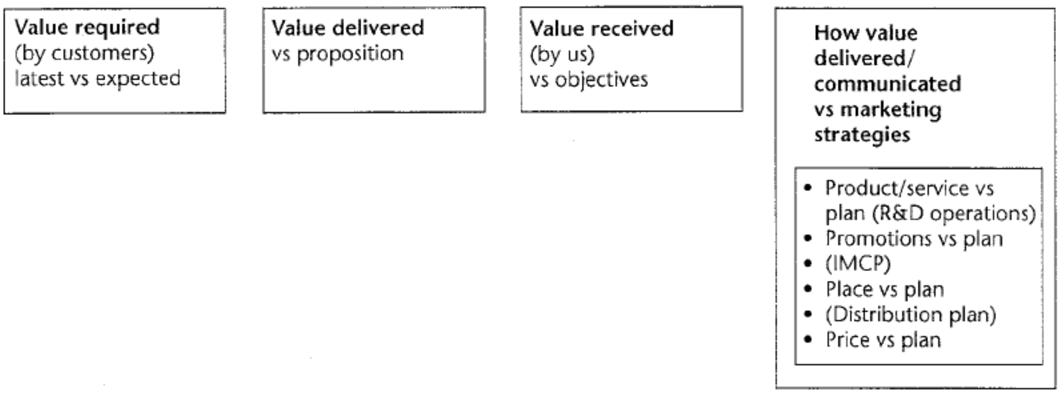
Monitoring the value delivered to the customer, and received from the customer, is the purpose of "Monitor value", illustrated in Figure 10.

There are four main areas where monitoring can occur, corresponding to the main types of information dealt with in the planning processes of 'Understand value' and 'Determine value proposition'.

First, the organisation can monitor whether the value the customers actually require corresponds to the previous analysis of customer requirements carried out as part of 'Understand value'. The information for this may be gained partly from the information gained in the 'Deliver value proposition' process, or it may require special activity such as market research.

Second, the value delivered can be

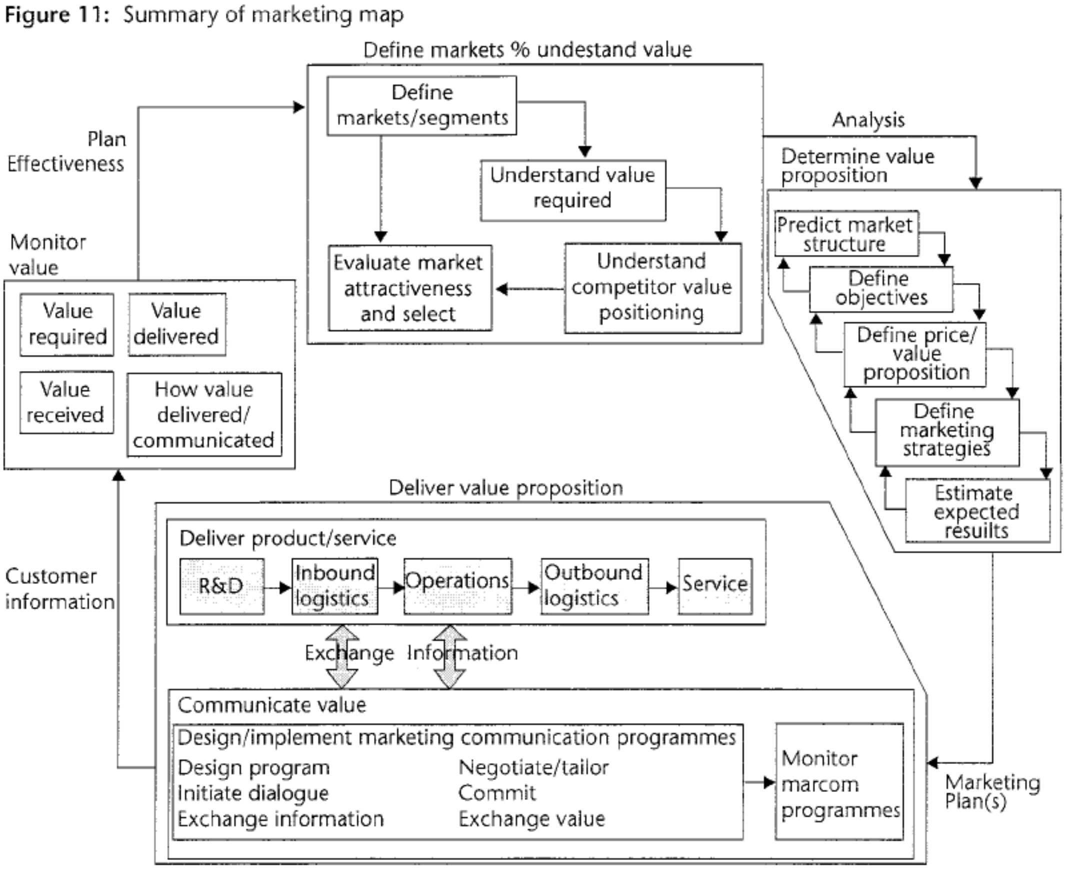
Figure 10: Monitor value



monitored against the value proposition which was defined during the 'Determine value proposition' process. As all aspects of value are as measured by the customer's perception, this will again involve asking the customer by some means.

The organization will also wish to monitor the value it receives against the marketing objectives defined during 'Develop value proposition'. This is the area that most organisations are best at, through monthly analysis of sales by product, channel and so on (though analysis by segment or customer is often poorer than analysis by product,

Figure 11: Summary of marketing map



with customer profitability or lifetime value generally difficult to obtain). But as the financial results are a result of customer satisfaction, monitoring the value delivered to the customer is equally important, and for many organisations, one of the simplest ways of improving performance.

Finally, the overall effectiveness of the marketing strategies by which the value was delivered may be evaluated.

Figure 11 shows a consolidated summary of the marketing process.

MARKETING'S ROLE IN VALUE CREATION

There is, however, one final, but crucial piece of the jigsaw to put in place. Table 18 states clearly that marketing can and should have a central role to play in creating sustainable competitive advantage

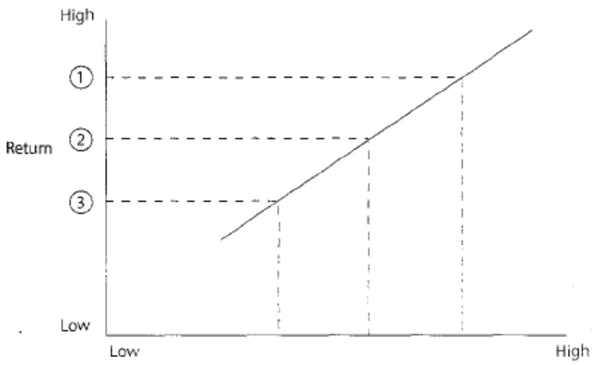
Table 18: The purpose of strategic marketing planning

The overall purpose of strategic marketing and its principal focus is the identification and creation of sustainable competitive advantage

Source: Professor Malcom McDonald, Cranfield School of Management

Figure 12 shows a typical array from any stock exchange of the relationship between risk and return, the dia

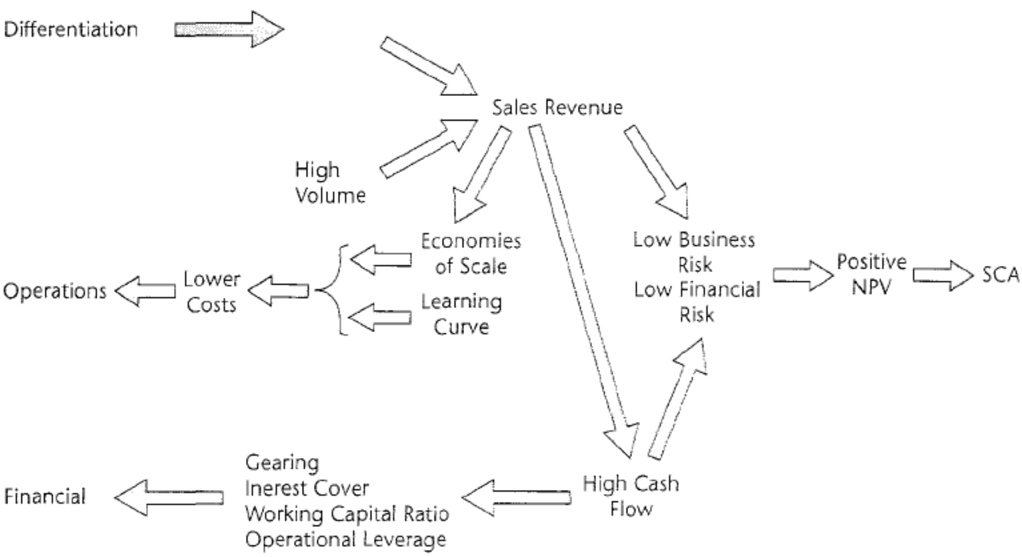
Figure 12: Financial Risk and Return



Adapted from Sri Srikanthan, Cranfield School of Management

Any firm on the line will normally be making industry average returns for its shareholders – in other words, making returns equal to the weighted average of capital (WACC). Firms making consistent returns greater than the WACC are creating shareholder wealth, known generally as Shareholder

Figure 13: The route to sustainable competitive advantage (SCA)



Professor Malcom McDonald, Cranfield School of Management

Value Added, Economic Value Added, positive net present value, super profits, sustainable competitive advantage and so on. Figure 13 shows diagrammatically how sustainable competitive advantage can be achieved.

As Doyle has pointed out (2000), modern finance is based on four principles:

- cash flow (the basis of value)
- the true value of money
- the opportunity cost of capital (other investments of a similar risk)
- the concept of net present value (the sum of the net cash flows discounted by the opportunity cost of capital)

Also, he pointed out that, whilst accountants do not measure intangible assets, the discrepancy between market and book values shows that investors do. Hence, expenditures to develop marketing assets make sense if the sum of the discounted cash flow they generate is positive.

A little thought will indicate that every single corporate activity, whether it be R&D, IT, purchasing or logistics, is ultimately reflected in the relative value put on a firm's offer by its customers. The marketing function, as defined in Figure 1, (but particularly the strategic roles outlined in boxes 1 and 2) is central to this, as every one of the four, (or five, six or seven Ps) can only be improved by the whole organisation focussing its attention on its customers.

CONCLUSION

In conclusion, we must find a way of escaping from the increasing proclivity of the academic community to creep further and further into the more esoteric groves of academe, talking about increasingly narrow issues in an increasingly impenetrable language to an increasingly narrow audience. We must address issues which are of concern to the real world and which are central to business success. We can, in doing this, be academic and rigorous, but we must then learn to translate our findings into actionable propositions.

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