

To market, to market

Why marketing

In an article in the NBR recently, IoD CEO, Nicki Crauford, said a board should focus on four goals: growth, risk, liquidity and profitability. The four are interrelated, but the last three are consequences of the first: of growth, or the lack of it. Risk, liquidity and profitability must all be carefully managed, but only growth drives a business forward and achieves long-term shareholder wealth.

So it is interesting that so much space is devoted — in this magazine and others — to risk. And that so many company directors, given their professional backgrounds, will be more confident discussing risk, liquidity and profitability, than growth. Mergers and acquisitions aside, achieving growth involves getting more people to buy more of the company's products or services, more often, for more money. In other words, it involves marketing.

Unfortunately, marketing is a word that has lost its meaning. Commonly, people think of marketing as advertising and promotion: the activities of the 'marketing' department. But marketing is — or at least it should be — a strategic activity. Part of, as IoD fellow Wayne Norrie puts it, "using floodlights to help you anticipate what lies 500 metres ahead." Strategic marketing is the development of growth strategies for a business from the perspective of the customer.

By that definition, then, company directors — regardless of their own particular expertise — ought to know something about marketing. They should be able to contribute to strategic conversations about growth and they should be to evaluate the marketing strategies presented by management. As Dr Peter Sealey, Coca-Cola's first global marketing director said, 'Marketing is the last area of discretionary spending in corporations today and this cannot continue.'

The purpose of this article, therefore, is to give directors who are not from marketing backgrounds some ways of thinking about marketing and to equip

them to ask better questions about proposals to grow the businesses that they are governing.

Making what customers want

The first principle is that marketing is not selling. Selling is finding a buyer for what you make, whereas marketing is understanding what customers want to buy and making that.

Question number one for company directors, therefore, is “are we a customer-centred organisation, or are we product centred. Are we marketing or selling?”

Attraction versus retention

Put a group of executives in a room and ask them to develop a marketing plan. Conceivably, someone will draw two circles on the board, label one ‘customers’ and the other ‘non customers’. There will then be great debate about how to encourage the people who are not customers to become customers. Attracting new customers may be a legitimate objective, but retaining the customers the company already has is invariably a more profitable place to start. In his book ‘The Loyalty Effect’, Frederick Reichheld discussed the value of existing customers: there is no acquisition cost, the cost to serve is lower, they are more likely to pay a price premium and they refer new clients.

The second marketing question for a director, then, is ‘before we start investing in attracting new customers, what are we doing to protect and grow the customer relationships we already have?’

Segmentation

Never cross a river that is — on average — four feet deep. That is the advice from Nicholas Taleb in his wonderful book, *The Black Swan*. His point is that

relying on averages is dangerous: when you are crossing a river the *variability* in depth will be much significant for you than the *average* depth. His warning applies equally to how we think about customers.

Most businesses understand that the pareto principle (20% of customers represent 80% of turnover) almost always applies. Somehow, however, knowing this doesn't necessarily prevent them from under-servicing their largest customers. Worse, the sheer weight of numbers in their 'long tail' sometimes leads them to design their business processes to suit their low value customers and not necessarily their best customers.

But monetary value is just a manifestation of customer variability. In developing growth strategies, companies should study the market more deeply. This involves going beyond the sales data, beyond knowing how customers fit into our world. It requires understanding how we fit into theirs.

And so the next question for company directors is "what are the customer segments we have, or aspire to have, and what do we know about their different characteristics, needs and expectations?"

Market research

In the movie, *Beaches*, Bette Midler's character pauses for breath and then says, 'but enough about me, let's talk about you. What do you think of me?' It is a lovely quote that neatly sums up much of the market research that companies commission, and waste their money on, every year.

Ostensibly to better understand the different characteristics, needs and expectations of their customers, their questions are not really about the customers at all, but rather about the customers' response to the company's products and services. 'We make it in blue. Do you like it in blue? Would you prefer another colour?' The problem with such research is it might tell you what customers think, but it often doesn't tell you what they might *do*. As Sony

founder Akio Morita said, 'We don't ask customers what they want. They don't know. Instead, we apply our brainpower to what they need, and will want, and make sure we're there... ready.'

And so the question for a director, when market research is being proposed or presented, is, "does this give us any real insight into the lives of our customers, that we can use to design better products or services for them, or is it just Bette Midler research, that might lull us into complacency, thinking that what we are doing is what they need?"

The value proposition

The television series *Mad Men*, set on Madison Avenue in the 1960s, recreated a marketing era that many still believe in, or at least pine for: an era when mass media advertising could sell just about anything. Lead character, the agency's creative director, Don Draper, summed up the way things were when he declared, "This is the greatest advertising opportunity since the invention of cereal. We have six identical companies making six identical products. We can say anything we want."

Half a century later, consumers' defences are more resistant to mass media advertising, so that they will no longer simply take your word for it that you can eat (according to an early poster) 'Rush Munro's ice-cream for youthful beauty'. But more than that, they — as post-advertising guru Seth Godin puts it — "have what they need, want very little and are too busy". Advertising can no longer fool all of the people, or even some of the people, all of the time. From a company director's point of view, then, spending more on advertising (on the logic that if brute force isn't working you are obviously not using enough) may not be the right way to achieve growth or profitability.

Products and services that sell are those that solve a problem in people's lives better than any other available solution. As Michael Porter has said, a company doesn't really have a strategy if it performs the same activities as its

competitors, only a little better. The challenge, of course, is breaking out of your paradigm and completely re-thinking what it is you do, or could do, for your customers.

So, here are some questions for a director to ask that might lead to a new understanding of what it is your customers really want:

- What do we *think* we are selling... what is it we charge money for?
- What do we *give away for free* in order to make the sale?
- How do customers *feel* after using what we sell?

Breaking down barriers

With a clear understanding of the different customers we serve and a compelling value proposition for each segment, much of the marketing strategy work would appear to be done. Now can we sponsor the All Blacks, blow up some balloons and make some ads?

Not before the late Professor Richard Buchanan, of Massey University's marketing department, destroys one final paradigm. He argues that marketing doesn't make people buy anything. What it does do is remove the barriers that are *preventing* them from buying. Professor Buchanan turns our traditional view of marketing on its head, arguing that marketing is not something mysterious that happens 'out there', but rather is an activity that involves every individual and every process within the organisation (more about 'brand' in a later article).

Professor Buchanan described four barriers that prevent customers from buying more of our products more often for more money and pointed out that it is our job to remove those barriers... or at least reduce them to a level that customers are willing to step over them. The four barriers are:

Knowledge

Customers are not buying because they are unaware of what we offer, or do not know enough about it.

Solution

Customers are aware of the offer, but it doesn't solve the problem they have. Someone else has a better solution.

Availability

Customers are aware of the offer and are interested in buying it, but it is not available where or when they want to buy, or they just don't like the place at which you buy it.

Transfer

Everything else stacks up, but the price is not right, or making payment is not convenient or transferring ownership is too complicated.

The model in action

Professor Buchanan's barriers model is a tool for making better decisions about the allocation of marketing budgets. Because customers can be defeated by any one of the barriers, each of them has to be considered and appropriate action taken. For example, there is little value in continuing to spend money on advertising (lowering the knowledge barrier) if the distribution strategy is to sell through retailers and the customer would rather buy on-line (bouncing off the 'availability' barrier).

From a director's point of view, the barriers model is useful for testing the company's growth plans and assessing whether there is a coordinated strategy built around a comprehensive understanding of customer behaviour or (as is often the case) whether each department is operating in isolation and

no-one has identified where the best opportunities are for making it easier for customers to buy.

Conclusion

The purpose of this article has been to help company directors ask better questions about the marketing proposals they are presented with, to satisfy themselves that what is being proposed is an investment that will deliver the company's growth objectives. In the end, marketing is the application of the simple paradigm: that the purpose of a business is to find and satisfy a customer.

And so the final question for a director to ask, at the end of every board meeting, is, "How many times today did we talk about customers?"