MARKETING AT THE CROSSROADS

A function in need of change

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Marketing is at a crossroads. For over 50 years it was solidly in place as a core business function. More recently, however, it has been losing its coveted position. To regain its influence on key business decisions, marketing needs to fundamentally change.

It is no secret that marketing departments are under tremendous pressure to demonstrate their added value, their impact on business results, and even their efficiency expressed by return on investment. Faced with constant pressure on quarterly earnings, CEOs and their CFOs are justifiably questioning the value of ever more costly advertising which often dwells on irrelevant points of differentiation; of promotions that are often just a euphemism for price cutting; and of large marketing departments which, far from being an asset, are perceived to be millstones around the company’s profitability. In many organizations, this has led to marketers losing their seats in the boardroom where big decisions are made.

The biggest shift in today’s marketing world is not the much-discussed declining effectiveness of television advertising. Rather, it is changes in how consumers choose products - increasingly ignoring push marketing, and preferring instead to use the internet, blogs and online communities to research products.

**Trends reshaping markets and their dynamics**

Five major trends are fundamentally changing the dynamics of the markets and if the marketing function is to remain relevant to business strategy, and be a significant contributor to results, it needs to find answers to address these tectonic shifts.

1. **The changing consumer**

   Today’s consumers are more difficult to decipher, and discovering un-met needs as an anchor for marketing’s contribution to business growth is more difficult than ever. Evidence shows that contrary to what marketers were traditionally taught, consumers are not always the best sources for new product or service ideas. Hence traditional market research methodologies, such as focus groups and consumer surveys, are not of much help in generating deep consumer insights.

2. **Commoditization**

   The ready availability of information that has led to a new generation of discriminating and well-informed customers, in addition to the emergence of fast-
moving and aggressive competition, have ensured that many once-premium products and services are no longer differentiated enough to justify higher prices. This process of commoditization has impacted a wide array of sectors from consumer goods to industrial services, from pharmaceuticals to engineered products.

3. Consolidation

Markets are consolidating as fewer customers account for a growing share of a supplier’s business. In consumer goods this process has led to the emergence of powerful retail chains as gatekeepers in the value chain. Selling to the ultimate consumers is not enough anymore; the trade has its say, its demands and its strategies. Likewise, key account management has become a driver of customer relationship and sales in the industrial sector too.

4. Power shift

Following on from the previous trend, the power over the consumer has shifted away from brand owners to mega retailers such as Wal-Mart, Carrefour and Tesco. The growth of private labels has been a major factor in boosting retailers’ power vis-à-vis their branded goods suppliers. Similarly, big industrial customers have far greater bargaining power than was the case earlier. The power shift has put new pressure on traditional brand owners and suppliers of once-differentiated products to maintain their ability to extract a fair return on their sales.

5. Margin erosion

The above inter-related trends mean that the net margins for manufacturers are under pressure, a trend that has sparked a number of practices among profit squeezed manufacturers. Included among these are supply chain realignment, outsourcing, delocalization, and greater attention to operating costs including those of marketing programs.

Need for change

The marketing function is not keeping pace with these changing dynamics. Yet, to survive, marketing needs to find a new model for its contribution to business results. Marketing’s mix’s 4Ps (product, price, place and promotion) were built on a transactional model and do not address the new business reality where customer relationship management (say, vis-
à-vis retailers) has far greater impact on results than mass communication to consumers. The recent focus on key account processes is a reflection of the changing times in which gaining or losing a single customer has a major impact on turnover and profitability. Traditional marketing is ill-equipped to deal with the complex set of issues arising out of marketing to a handful of powerful, price sensitive customers.

**Embracing innovations in marketing**

There are no simple answers to marketing’s predicaments, but marketers more than ever need to show that they are comfortable with change and that they are leading it, rather than becoming a victim of it. To do this, marketing must embrace innovation as an integral part of its function by putting forward novel ideas across a whole spectrum of business activities.

Such innovation may encompass revolutionary branding, pricing or distribution ideas. The “Intel Inside” brand campaign, for example, was an innovation in branding a product that consumers never see or touch. Another example is that of easyJet, which used an innovative variable pricing strategy to optimize its yield and removed intermediaries (travel agents) by offering a completely web-based reservation system, passing on the price benefits to consumers. Nespresso, the portion coffee business, made its way to becoming Nestlé’s fastest-growing and most profitable business by employing an innovation in distribution strategy.

Other companies have been able to create a value focus around their offerings by creating products that did not try to fulfill their consumers’ known needs. When 3M created Post-it Notes, people had neither heard of nor felt the need for a “repositionable” note and no one outside of a small team in 3M believed there was a market for it. Over time and with growing usage, Post-it Notes have become one of 3M’s most successful products ever.

**Marketing lessons**

While breaking loose from old ways is hard, it is essential that marketing survives as a value-adding, results-impacting business activity. Some of the things that need to be achieved in order for the function to regain its rightful status are the following:
1. **Add a fifth P (for “pioneering”) to marketing mix**

   The marketing function needs to play a pioneering role not only in product innovation but also in all related functions of market research, segmentation, distribution, pricing and communication. Marketing has become too reactive to what consumers say they need. It is time for it to take the lead with innovative ideas not yet articulated by consumers.

2. **Venture out**

   Marketing has been too risk averse for its own good. Marketers should feel comfortable with the uncertainty that comes with innovation. These risks should be well measured in advance and considered as part and parcel of being ahead of competition and a leader for innovative offerings.

3. **Adopt new ways of gathering consumer insights**

   Marketers should understand that traditional research has limits in identifying unmet and unarticulated needs. Alternative tools including consumer immersion (spend a day in the lives of consumers); listening in at service and call centers; observations at the point of purchase; and feedback from sales reps and store staff must supplement conventional methods.

4. **Trust your intuition**

   A marketer’s intuition which stems from in-depth knowledge of a product category and its customers can carry more business value than conventional research. Taking one’s experienced intuition seriously could well lead to new and potentially fruitful directions. On the other hand, dismissing a marketer’s deep intuitive knowledge about the business in favor of consumer research statistics (the way marketing has been taught in the old school) is ignoring a potentially valuable source of ideas for innovation in marketing.

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