The Marketing Mix-Up - 3

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This is the third article in this series. In the first article, we examined the mix-up in strategic marketing. In the second article, we examined the mix up in operational marketing. In both these articles, we examined the current concepts, theories and models used [or misused].

The major reasons for the mix up was the lack of understanding of the concepts, application of the models without giving due consideration to the practical aspects, not following up after implementation, poor leadership and most of all a lack of concern for the value sought by the customer.

In this article, we will endeavour to identify, understand and categorise the value sought by the customers and how companies have responded. The thinking in this article is based on the 'Value discipline' approach to business adopted by 80 world leaders in various industries based on the highly acclaimed book 'Discipline of Market Leaders' by Michael Treacy & Fred Wiersema.

Sensei has guided many companies to use this new approach named 'Customer Value Driven Strategic Marketing'.

The value discipline approach to business is based on the argument that different types of customers seek different kinds of value. The following discussion will help us to start thinking of the need for companies to select and commit to one value discipline.

The first value discipline

Have you ever wondered why a pack of Kellogs is more expensive than Casio calculating machines? Is corn so much more expensive than silicon? Why are Swatch watches more accurate than Rolex watches but sells at a lesser price? Have Rolex moved from the watch business to the Jewellery business where they make Jewellery, which tells you the time as an optional extra.

In the case of Casio and Swatch, the two companies continued to focus on product innovation and constantly made their products technologically more superior to add better value to customers. In these examples, these companies offer faster, more efficient, more valuable data management and more accurate time-related services respectively.

In the 3rd floor of a company head quarters the marketing team was preparing an elaborate communications campaign for a new camcorder to be launched. While in the 7th,8th,9th & 12th floor of the same company, four innovation teams were competing with each other to design a better camcorder to make obsolete the yet to be launched camcorder. The company's annual revenue growth was 29% over the period 1995 to 1999 when the competitors were growing only at 14%. There annual ROE outpaced all other competitors.

One would say what a waste of money. We haven't even received a payback for the new camcorder yet to be launched. What a waste of money and effort? But their argument is that if they did not improve their own product, someone else will. The company referred to is Sony. Companies such as 3M, Gillette, Nike, Apple and Intel, take the same approach.

All these brands, Casio, Swatch, Sony, 3M, Gillette, Nike, Apple, Intel and many others have organised their companies to constantly improve their products to provide more value to their customer. Most of the time the customers may not have even be aware of such needs until the company introduced the products. But these companies thrive on this approach by surprising customers with products that gives value that may not have even be imagined by their customers.

The second value discipline

Why do we find it difficult to keep our bags intact in some airlines when Fed-ex delivers 3 million packages a-day error free? Doesn't the airline care anymore? Why does it take such a long time to check into some hotels when renting a Budget rent-a-car takes just a few minutes? Is the hotel worried that the customer will steel the room?

In the case of Fed-Ex and Budget the two companies continued to focus on finding faster and error free methods of servicing the customer. They did not constantly add new improved products as in the case of brands adopting the first value discipline. They constantly improved the efficiency of the existing products thereby providing the customer better value. In these two examples Fed-Ex and Budget provides value to customers through faster, error free delivery and faster renting of cars respectively.

During the Gulf war in 1991 the price of gasoline in the United States was increased by US$ 0.10. But one company maintained their prices unchanged and as a result had a 20% growth in sales without profits being affected. They did not sell at a lost, but they did this as they had lower cost supply of oil due to the investments made in oil wells and refineries in the Northern Alaskan Slopes. They did not go for new products, but they focused their energies on alternate oil sources.

One would say, why invest in alternate sources when they are making money on existing sources. But if they did not do this they too would have had to raise prices like the others. The results speak! The ROE of this company was 20% over the last 5 years.

The company referred to is Atlantic Richfield Corporation [ARCO]. Companies such as McDonalds, Coke, AT & T card [now divested by AT & T] and Wal-Mart focus on this value discipline. They offer speed and efficiency and due to the resultant high volumes, they offer better prices too.

All these companies Fed-Ex, Budget, ARCO, McDonalds, Wal-Mart, Coke and AT & T have organised their companies to provide the value of speed, efficiency and lower prices to the customers. Customers are constantly surprised by these companies who improve their speed, efficiency and prices all the time.

The third value discipline

Why does some credit card company's keep calling their existing customers to obtain a credit card when Amazon.com personally welcomes you when you log on to their site, gives you the status of the books you had ordered and recommends books of your taste based on past orders. Does the credit card company think think one card is not enough?

How does Ventia Inn in California remember you favourite coffee and newspaper even 3 years later when some other hotels wants you to re-fill the registration card even if it is your 10th visit for the year. Does these other hotels feel that harassing customers helps buy loyalty?

In the above examples both Amazon.com and Venitia Inn has developed their databases in a manner, they would know the exact needs of their customers. This enabled them to tailor make products to suit the individual requirements of their customers. They may not innovate products for the mass market, but they did innovate products tailor made to individual needs.

A salesman of a home supplies store calls a customer who had purchased an attic fan to check if everything was in order. When he finds that the customer is happy he asks if there is anything else in the house which needs attention. The customer mentions there is a problem with the dimmer switch. The salesman makes an appointment to go and fix it. The sales value was $ 6.71. Profit of this transaction was zero given the cost of the salesman's time.

One would argue, 'should the salesman have been empowered to do this job?' There is virtually no profit on the job. But the result of this would be a loyal customer who would buy many more products for many more years, an advocate who would recommend you to other more customers and a friend who would provide constant feed back for the improvement of the company. What is the result of this approach? This company had an annual sales growth of 37% over the last 5 years. Their ROE was 26%, twice that of the competitors!

The company referred to is Home Depot Store in the United States. Companies such as Airborne Express, Dell, Yellow freight, and the Ritz Carlton follows this value discipline.

All these companies, Amazon.com, Lands End, Home Depot Store, Airborne Express, Dell computers, Yellow freight and Ritz Carlton follow the same value discipline. They organize them self with empowered people and systems which would enable them to tailor make solutions for the specific needs of the customers.

<u>What's the difference that makes a difference?</u>

Very interesting! May be enlightening! Let’s examine what the difference that makes a difference in these companies. All of them excel in specialize areas but not in every area. Swatch does not make expensive watches. Fed Ex does not have a passenger airline. Home depot store does not sell computers. All these companies organise them self to deliver the selected value discipline.

Airborne express would not have been able to compete with Fed-Ex if they tried to deliver the same value. Fed- Ex had a guaranteed delivery by 10.30 a.m. the next day, any packages dropped off at in any Fed Ex office before 6.00 p.m. the previous day. Airborne selected their customers and tailor made solutions.

Xerox wanted their spare part deliveries to reach their customers between 8.00 a.m. 9.30 a.m. and airborne tailor made a solution by having an IT link with Xerox. When Xerox receives a spare parts order, Fed-Ex knows at the same time and they would prepare the courier documents and would turn up at the Xerox warehouse for collection of the package. They have systems where Xerox can track the locations of the trucks and even inform their customers when the Fed-Ex delivery vehicle is in the customers drive way.

This approach enabled Airborne Express to become the fastest growing courier company with revenue growth of 20% per year in the past 10 years. They captured the top end of the courier market and obtained a 16% market share in the first 10 years of operation. They provided a solution to customers to enable Just-in-time operations.

Conclusion

In this article we identified three broad categories of value sought by customers of a same industry. The first value discipline is 'product leadership’. These companies would focus on product innovations to keep adding value to their customers. The second value discipline is 'operational excellence'. These companies keep improving speed, efficiency and prices for their customers. The third value discipline is 'Customer Intimacy'. These companies tailor make solutions to solve the customers’ problems.

In the next articles to come we will examine what types of operating models are needed to deliver each type of value. Thereafter we will share a practical approach to preparing strategic and operational marketing plans. Meanwhile you could put your thinking caps on and start thinking which approach is your company adopting and if it is not clear, which value discipline will enable you to be most competitive in the market place.