

# Samenvatting Marketing Strategy

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## → Part 1, Principles of Value Creation (H1-H4)

### Hoofdstuk 1: Marketing and Shareholder value

Marketing: proc. to *maximise returns to shareh.* by *developing relationships* with customers and creating a comp. adv.  
Maximizing Shareholder Value (SV) → focus on identifying **growth opportunities** and building **compet. advantage**

#### Managing in the 21<sup>st</sup> century

Environmental change op *macro* (alle markten beïnvloed) en *micro* (customer, competitor and suppliers).  
Drie fasen: *agricultural* era, *industrial* era en *information* age.

Four fundam. *strategische* en *organisatorische aspecten* waar management op moet *reageren* (Information age):

- **Globalisation of markets:** protecting home industries/markets from competition doesn't work, effic. down.
- **Changing industrial structures:** manufacturing to developing countries, mensen spenderen meer aan service.
- **The information revolution:** interne value chain, bargaining power, from mass to one-to-one customized.
- **Rising customer expectations:** higher quality, competitive prices, better and faster service.

*Strategy* = business overall plan for deploying resources to create a competitive advantage in its markets

*Organisation* = capabilities a firm poses. and how its staff are led, coordinated/motiv. to implem. the strategy.

*Strategic* and *organisational* Implications in a *changing environment*:

- **Participation strategy:** which markets? future attractiveness, competitive potential.
- **Marketing strategy:** customer, product mix, pricing strategies, promotion and distribution strategies
- **Operations strategy:** traditional model → direct business model (IT zorgt voor virtual integration)
- **Global strategy:** B-B customers operate around world so you will have to do that too.
- **Organisational imperatives:** employees different, (internal) supply chain, delayering, focus → SV

Implications of a *changing environment* for *strategy* and *organisation* to achieve long term growth and profits:

- **Strategy must fit environment**
- **Succesfull strategies erode**
- **Effectiveness is more important than efficiency**
- **Speed and decisiveness**
- **Organisational adaptation**

#### Measuring success: SV

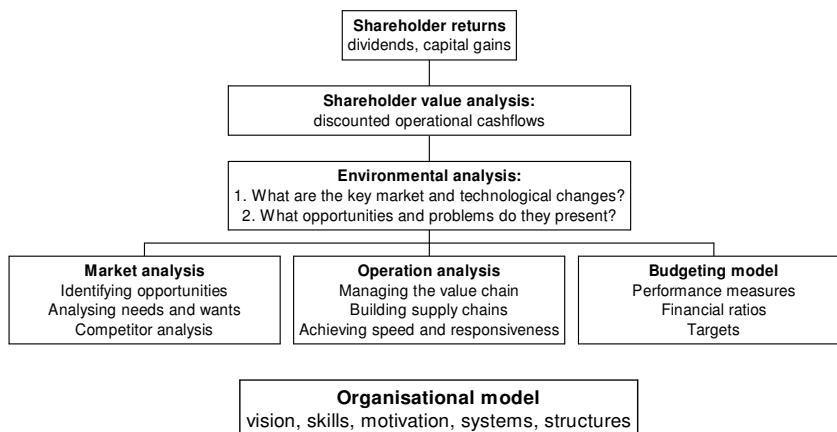
Companies grouped in *four categories* (McKinsey, Strat. vulner. map): x-as size, y-as performance.

Limited control through performance, Complete control, Vulnerable, Limited control through size.

Heart of SVA: economic value is created only when business earns ROI > CoC.

SVA Key inputs (= marketing variables): future sales volume, prices, costs, investments and CoC.

#### Shareholder returns and the Theory of business



## Hoofdstuk 2: The Shareholder Value approach

### Value based marketing consists of three elements

1. **Beliefs:** objectives of marketing (=H1)
2. **Principles:** for choosing marketing strat. and making marketing decis. that are consistent with beliefs (=H2)
3. **Processes:** to ensure marketing develops, selects and implem. a strategy that's consist. with 1 and 2 (H3-H4)

### Principles of valuation (discounting cash flows)

Shareholder value = Enterprise value – Debt

Enterprise value = PV of cash flow from operations during forecast period + Continuing value + other investments

### Drivers of Value in a Business

#### Financial value drivers

- **Level of cashflow:** determ. by strategy's ability to achieve growth, good O.M. and investment required.
  - Sales growth: Additional cashflow = Sales growth – Added (cost + investment)
  - Operating Margin: NOPAT (improve: higher prices (better = innovation), cost decreases, volume growth)
  - Working capital (fixed) Investment:
    - Treshold margin = minimum pre-tax operating profit margin on additional sales to maintain SV.
    - Treshold margin = (Incr. Inv. rate)(CoC) / (1+CoC)(1-tax)
- **Timing:** faster prod. dev., accelerate mark. penetration, create network effects, alliances, lev. brand assets
- **Duration:** depends on sustain. of differ. advantage and the option it creates to enter new markets in future.
- **Risk:** reduce volatility → increase customer satisfaction, loyalty and retention.

#### Marketing value drivers

- **Market selection:** today's/tomorrow's business, options for growth (to seed tomorrow's business)
- **Target Market Segmentation:** *What customers* does the business want to serve?
- **Customer loyalty:** they should generate long-term value and must be *strategic, significant, profitable and loyal*
- **Differential advantage** (based on customer type)
  - Product leadership (state of the art)
  - Operational excellence (low price/convenience)
  - Brand superiority (brand conformity)
  - Customer intimacy (tailor made/customised service) , ← fastest growing segment
- **Marketing Mix:** Operational usage, Products, People, Price, Promotion, Place.
- **Strong brands**

#### Organisational value drivers

- **7-s model:** Strategy, Structure, Skill, Shared values, Staf, Style, Systems → essential for long term perform.
- **Core capabilities:** set of skills and expertise that enable a business to deliver exceptional value to customer.
- **Internal networks:** employees no longer communicate through formal hierarchy.
- **External networks:** no vertical integration, competition is between networks not individual companies.
- **Leadership**
- **Motivation**

Twee methoden voor valuation: *cash flow discounting* and *economic profit (EVA)*.

### EVA:

- measures value created in a company in a single period of time (historic and current).
- deducts a charge for all capital employed in the business (comp. accounting: just the interest on debt)
- $EVA = NOPAT - \text{Cap. Charge} = NOPAT - (\text{Capital empl.} \times \text{CoC}) = (\text{ROE} - r) \times \text{Cap. Empl.}$  (ROE-r = return spread)
- Looking at a single year is dangerous → difference from yr to yr is better.

Marketing applications of SV: portfolio analysis, eval. repos. strat., valuing brands, eval. advert. effect., acquisitions.

### Limitations of SV analysis

- Forecasting cashflows: bias through manager, unpredictable events
- CoC: unit's risk premium difficult to estimate
- Estimates of terminal value: different methods to estimate produce different results
- The baseline: difficult to measure realistically, industry matures
- Options for growth: high valuation possible if managers think future is good, high growth expected.
- Stock market expectations: communicate long-term strategies effectively to investors.

## Hoofdstuk 3: The Marketing Value driver

### Creating customer value → creates shareholder value

- **Meeting customer needs** (focus on solving their problems):
  - Diff. between cons. and B-B markets: separate strat., # of cust., prof. of buying proc. (B-B rational)
  - Underst. the dec. making unit, 7 roles: initiators, users, influ., deciders, appr., buyers and gatekeepers.
  - Communicate te appropriate message to each of the important influencers.
  - Wants: *existing* (solutions exists), *latent* (not compl. satisfied), *incipient* (unknown till its there)
- **The market led organisation:** underst. customer (listen) → develop products/services to meet want → create SV

### Building the differential advantage (1. to maintain Preference (marketing), 2. to maintain Earnings > CoC (financial)):

- **Differential adv** = perc. diff. in value that leads target cust. to prefer one company's offer to those of others.
- **Market pos. strat** = choice of target cust. def. where firm comp., choice of value proposition def how it comp.
- **Strategies that offer more:** product leadership, service leadership, customer intimacy, brand leadership
- **Lower total cost:** operational excellence, guaranteed consistent low prices.

### Building relationships with customers (1. understand needs, 2. create diff. adv., 3. use 1 and 2 to get cust. relation)

- **The economics of customer loyalty:** important for long-term growth and profit margins
  - Loyalty and growth: defection rate (omgekeerde = retention rate)
  - Loyalty and O.M.: aqisuit. cost, base profit, revenue growth, operating costs, referrals, price premium
  - Together: growth plus margin effects on shareholder value: CLV = NPV of lifetime of customer
- **Customer satisfaction:** terrorists, bad-mouth comp. ← zone of indifference → Apostles, unpaid salespeople
- **The trust relationship:** commitment of both sides to make cooperation work.

### Implementing relationship marketing

- **Defining the value proposition:**
  1. core capabilities: skills, assets and partnership relationships with customers and suppliers
  2. oport. in the market: research size of key cust. segm., their growth, amount of competition, avg OM.
- **Selecting customers:** strategic importance, customer significance, customer profitability, loyalty coefficient.
- **Customizing the value proposition:** add value by customising the solution
  - Moving up the value ladder (value = improving the customers performance or experience)
    - From product that meets req. → high quality product → quality product with excellent service → deliver EVC → Customer innov. (price and competition decrease, added value increases).
    - *Business markets:* Econ. value to customer: help increase sales, profitability, reduce costs.
    - *Consumer markets:* Emot. value to customer: greater social, personal or psych. satisfaction.
    - Different *core competencies* for products and solutions:
      - Products: be an expert on own value chain, skills in sourcing, producing delivering
      - Solutions: be skilled in the customers business
  - From market share to customer share: focus on bigger share of large customer:
    - Advantages: Already qualified, low risk, suppl. underst. needs, more willing to consider proposals.
- **Developing and consolidating relationships** (partnership are build between indiv. managers, not companies)
  - The decisionmaking unit again: purchase dept = transactions oriented , no relation
  - Team based marketing: multilevel communications, cross-funct. teams → boost cust. performance
  - Consolidating trust partnerships: Ability to solve cust. problems, underst. each other's business.

### Organisational Requirements

- **Assessing resources:** tangible, intangible (reputational, proprietary technology, strategic assets), human
  - Marketing resources: marketing expertise, brands, customer relationships, partnerships.
- **Organisational capabilities:** the firm's capacity to exploit a particular marketing opportunity.
  - Value chain → firm is a collection of activ. to design, produce, market, deliver and support its products
    - primary activities: inbound log., operations, outbound log., marketing and sales, service
    - support activities: firm infrastr., HRM, technology development, procurement.
- **Integrating capabilities:** processes and teams:
  - Integrate value chain activities → processes
  - No way for bureaucracy/functional organisation → self-managing teams, cross-functional teams.
- **Networks:** augmenting competencies: outsource non-core activ. to a network of suppliers, distr. and partners

### The Customer Focussed Organisation

Right side up organisation, small autonomous profit resp. business units, frontline staff bovenaan  
Changing the role of top management: shape culture of organisation, knowledge lies in front-line.

## Hoofdstuk 4: The Growth Imperative

### Marketing growth and shareholder value

- Why growth → increasing NPV of future cash flow, growth influences 4 SV drivers positively.
- SV: 4 drivers: level of cashflow, timing of cash flow, sustainability of cash flow and cash flow risk
- Cost reductions through: Economies of experience, scale and scope

### Pathways to growth

- **The Growth Ladder:** conceptualizing company's growth opportunities
  - **Increase customer retention rate** → ensuring key customers have confidence/trust in company
    - Customer selection and prioritisation: CLV, strategic fit
    - Customize the value proposition: listen to cust., databases → mass customis. → one-to-one company
    - Enhance the value proposition: updating products/services and quality of relationship
    - Monitor customer satisfaction and loyalty: reliability, responsiveness, assurance, empathy, tangibles.
    - Follow up on complaints and defections: otherwise "terrorists", quick/generous response needed.
    - Build customer partnerships: dedicated account manager.
  - **Grow share of customer:** selling more to current customers → IT needed to communicate individually
  - **Gain new customers:** 4-P's and Ansoff matrix (Current/New Markets versus Current/New Products)
  - **Develop new products and services:** invent. vs innov. → benefit, unique, timely, sustainable, marketable
    - Business strategy: ambition to innovate
    - Idea generation: source is customers and technical research
    - Idea screening: filtering out those that are not needed
    - Concept Development: develop as positioning concept to assess their marketability
    - Business analysis: investment will increase now
    - Brand development: commercialisation and marketing mix to communicate it's value
    - Market testing: test in a sample of shops
    - Commercialisation: major cost and investments in manufacturing and marketing
  - **Enter new markets:** synergies from current know how, emergence of new growth markets, product life cycle
  - **New distribution channels:** innovation in channels through IT and Internet
  - **International growth:**
    - Which market: market attractiveness, competitive advantage and country risks
    - How to enter the market: low-cost, limited commitments ↔ high cost, high goal approaches
    - How to develop the market: how much tailoring to local conditions
    - What type of organisation: reflect commitment to international operations
  - **Acquisition and alliances**
    - Strategic analysis, search and screen, strategy development, valuation analysis, negotiation
    - Valuing an acquisition: cost savings, investment savings, taxes and CoC, sales growth
  - **Growing outside current industry barriers**
    - Vertical int., diversification, creating new businesses, lever. relationship, exploiting industry convergence

### Developing a growth strategy

- **Understanding growth strategy:** today's business, tomorrow's business, options for growth
- **How can management implement a growth strategy:**
  - **Creating the mindset:** sorting out the core, switching to growth
  - **Setting strategy:** assess res. and cap., search for growth opp. that exploit resource+cap, develop resource base
  - **Making it happen:** pilot, test market, making a small acquisition
  - **Building momentum:** put together a difficult-to-imitate bundle of critical capabilities to sustain comp. adv.
  - **Fast implementation:** successful businesses are quickly copied, move fast establish critical mass
    - patents and copyrights, Scarce resources, higher prices, reputation, standards, experience
  - **Organising for growth (mature businesses are different than new businesses):**
    - Organisation: autonomous cross-functional team
    - Managing talent: support and sponsorship of a senior executive
    - Systems and performance measurement: planning makes less sense, experimental projects
    - Autonomy and integration: breaking big companies in small business units, shared services
    - Inspiring the organisation: set ambitious goals, create a sense of meaning → pride feeling of empl.

## → Part 2, Principles of Value Creation (H5-H6)

### Hoofdstuk 5: Strategic position assesment

#### Overview:

- **Maximising shareholder value:** process that chooses the best (highest value) from strategic options
- **Three stages:** strategic position assesment → strategic marketing plan → implementation
- **Takes place at two levels:** corporate and business unit.
- **Each will be assigned five strategic objectives:** Divest, Harvest, Maintain, Growth, Enter

#### Assessing the current position

- **Weaknesses of financial measures:** company overall, operating units
- **Strategic value drivers:** identifying value drivers, target levels of performance, measuring performance
- **The balanced scorecard** (goals/measures, central is vision and strategy):
  - Financial perspective: RoC employed, OM, EVA, Cash flow, Sales growth
  - Customer perspective: Market share, brand image/awaren., cust. satisf., retent., acqui., rank by key acc.
  - Internal bus. persp.: % of sale of new prod., manu. cost+cycle time, invent. man, Q-ind., Techn. cap.
  - Innovation and learning perspective: Prod. dev., purchasing, manuf, technology, Marketing and sales.
- **Exploring the portfolio:** usually only one in five of products, customers or businesses is really profitable

#### Explaining the current position

- **Market attractiveness:** where average competitor consistently earns a return above its cost of capital → >SV
  - Size of the market: big markets offers more opportunities to grow
  - Market growth: Growth markets are non-zero-sum (don't take customers from competitor)
  - Competitive structure of the market (*five forces Porter*):
    - Intensity of direct competition: markets → excess prod. cap., standard products, many comp., low growth
    - Buyer power: Price sensitivity, negotiating power
    - Threat of new entry
    - Threat from substitutes
    - Power of suppliers
  - The cyclicity of the market: from high profitability to high losses over the years
  - Risk factors: affects discount rate in DCF

#### Competitive advantage

- **Cost advantage:** lower total economic costs than the average competitor in industry
- **Differentiation advantage:** able to sustain economic profits that exceed the average competitor in the industry

#### Market attractiveness:

- **Strategic characterisation matrix:** (low, high, y-as) and competitive position (disadvantage, advantage, x-as)

#### Projecting the future of the business

- **Market attractiveness:** how will market profitability and growth changing of the next 5 years
- **Differential advantage:** competitive position (differential position y-as, econ. cost position (x-as))

#### Implications of the Strategic Position Assessment

- Provides information for a valuation of the complete business under its current strategy
- Forces management to consider the options
- Identifies business unit strategic value drivers

#### The value based plan

- **The restructuring framework:**
  1. Establishing the current market value of the company
  2. The value of the company as is
  3. The potential value with internal improvements
  4. The potential value with external improvements
  5. Optimal restructured value

**Strategic objectives:** Divest, Harvest, Maintain, Growth, Enter

## Hoofdstuk 6: Value Based Marketing Strategy

### Why strategic marketing plans?

- **Facilitating the change process**
- **Forcing managers to ask the right questions**
- **Motivation and control**
- **Balancing the tyranny of accountants**

### Corporate level planning

- **Driving organisational change**
  - The strategic planning process
  - Resource allocation process
  - Performance measurement and compensation
  - Creating a sense of purpose
- **Managing the shared value drivers**
  - Shared services
  - Leveraging resources
- **Managing the business portfolio**
  - Invest in strategies that increase shareholder value
  - Encourage managers to look for new growth opportunities
  - Fund value-creating acquisitions and strategic alliances
  - Divest businesses that cannot create value for shareholders

### Business unit planning

- **Strategic objectives:** market attractiveness, competitive position → Strategic Char. Matrix (Harvest, Divest etc.)
- **Strategic focus:** volume, productivity
- **Customer targets:** market segmentation, market positioning
- **Competitor targets:** P/M combinatie, similar/different
- **Core strategy:** changes, differential advantage is not forever
- **The marketing mix:** product, pricing, promotion, place
- **Valuing the strategy:** simulating alternative strategies

### The planning process

- **Take a value focus:** understand the objectives, be customer driven.
- **Developing the plan**
  - Form cross-functional team
  - Brainstorming and hypothesis development
  - Collect data to evaluate hypotheses
  - Analyse data and conduct strategic position assessment
  - Evaluate growth options
  - Develop marketing strategy
  - Implementing the strategy
    1. Defining the organisation's mission
    2. Building on the organisations value
    3. Giving meaning to employees work

## → Part 3, Principles of Value Creation (H7, H9-H10)

### Hoofdstuk 7: Building Brand Equity

#### **The role of intangible assets**

- Technological assets: proprietary technology
- Strategic assets
- Reputational assets
- Human resources
- Organisation and culture

#### **The role of the brand**

- The problem of customer choice
- Brands as beliefs in attributes and experiences

#### **Brands and shareholder value**

- Increasing cash flow
- Accelerating cash flow
- Increasing the continuing value of cash flow
- Reducing the CoC

#### **How to build brands**

- From products to brands
- Developing brand identity
  - The brand communications process
  - The facets of identity

#### **Issues in branding**

- Brand extensions
- Updating brands
- Taking the brand international
- Controlling the brand franchise

#### **Organising the brand portfolio**

- Brand architecture
- Choosing a branding strategy

#### **Valuing the brand**

- The pros and cons of valuation
  - Uses of brand valuation
- Key issues in brand valuation
- Alternative valuation approaches
- DCF valuation

## **Hoofdstuk 9: Value Based communications**

### **Communications and shareholder value**

- **The marketing view:** increasing sales, awareness or shaping the brand.
- **Accountants view:** Communications spending → Incremental Sales → Incremental profits
- **Value based view:** impact on NPV of all future cashflows (contrasts with marketing and acc. view)
- **Balancing the evidence:** identify the dangers of short-run accounting focus

### **Communications and the customers**

- Factors influencing buying behavior
- How marketing communications work
  - Types of buying decision
  - Types of communication model

### **Developing a communications strategy**

- Understanding the market
- Setting communications objectives
- Designing the message
  - Message content
  - Message presentation
- Deciding the communications budget
  - Conventional approaches to budgeting
  - Objective and task method
  - Value based budgeting

### **Allocating across communications channels**

- Advertising
- Sales promotions
- Public relations
- Personal selling
- Direct marketing
- Integrated marketing communications
- Measuring communications effectiveness
  - Pretests
  - Sales effect research
  - Intermediate variables
- Generalisations on communication effects

### **Valuing communications strategies**

- Communications in low-involvement markets
  - Value with the continuing strategy
  - Value under the financial director's plan
  - Value under an alternative strategy



## Hoofdstuk 10: Value based Internet Marketing

### **The growth and development of the Internet**

- **Evolution of the net**
  - Websites (publishing, database, personalised ← most important)
  - Types of e-commerce (B-B, B-C, C-B, C-C)
- **Technology and the reshaping of marketing in historic progress:**
  - Marketing as distribution → selling → brand management → managing individual cust. relationships.

### **Drivers of change in the new economy**

- **Going digital** → Moore's law: every 18 months, computing power doubles while costs stays constant.
  - Resource substitution (atoms to bits), digital env. develops (3D images), digitised marketing proc.
- **Networks and Metcalf's law:** value of any network is proportional to the square of the #users
  - Unbundling products and information: biased info when buying car
  - Unbundling value chains and reshaping industries: focus on core competencies
  - Growth of specialists: specialist can do a better job than the company on its own
  - Disintermediation and Reintermediation
- **Individual customisation:** one message to all cust. → diff. mess. to each segment → one-one interactive mess.

### **Creating value through the web**

- **How the web creates value for customers**
  - Customisation, < prices, > assortment, > convenience, > information, > assurance, entertainment
- **How the web creates value for companies**
  - Improvement based business models: cost savings, enhancing the brand, greater bus. effectiveness
  - Revenue based business models: purchase base ← most imp., provider based (commissions/banners)
  - Mixed models: use both
  - Information for relationship management: databases
  - Superior investment allocation: direct financial pay-off, server information

### **Implications for marketing strategy**

- **From buyer beware to seller beware:** instant choice, comparison shopping, purchasing power, global reach.
- **New market opportunities** (high growth and competitive advantage):
  - Declining market entry barriers, deconstructing value chains, convergence of industries
  - Superior customer value, greater shareholder value
- **New marketing strategies:** Segmentation → Personalisation and from brand propositions → customisation
- **The changing marketing mix:**
  - Product policy: customers want not more but less product, tailored to their requirements
  - Pricing policy: C2C and C2B model have to be accounted for.
  - Communications and promotion: reach (few → all, x-as) and rich (all → one-one, y-as)
  - Distribution: direct model, intermediaries not needed.
- **Speed to Market:** one Internet year is 7 years normally, speed can offer differential advantage.

### **Building net brand value**

- Attracting users: domain names, portals, publicity of word and mouth, banners and buttons, traditional media.
- Engaging interest: increase visit duration
- Customer retention: maintaining ongoing contact
- Learning about preferences: questionnaires, polls, cookies, web chain analysis.
- Customised relationship: personalisation, high value transactions with high-value customer.

### **Valuing web strategies**

- Applying basic principles: losses in early years, growing at very high rates, fate is extremely uncertain.
- Use DCF, extensions → Scenario analysis and options theory (higher stock price volat. → higher option price)

### **Future perspectives**

- Recognize the new context of business: No link of inform. to prod., Reengineer the businessmodel, Customise mark.
- Changing the strategy: Be creative, move fast, take an offensive posture: first mover advantage, critical mass
- Think shareholder value: Use DCF method, Invest in a portf. of real options: is form of innov., Patience is essential.
- Restructuring the organisation: Build networks: no vert. integr. , invest in human capital, make managers respons.