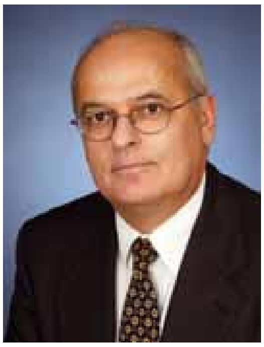
THE MARKETING CHALLENGE

A Discussion on the Effectiveness of Marketing



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About the Author

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Both in Germany and world-wide, the consumer goods industry is repeatedly moving like a roller coaster. Sometimes, the discount trade seems to become the dominating sales form. In other phases, the brand experiences a renaissance previously considered almost impossible. Marketing must respond to all these challenges with the right measures or, in an optimal case, even control actively.

The articles compiled in this paper aim to initiate a discussion on the effectiveness of marketing in the consumer goods sector.

Every chapter is independent and reflects its own focus. The texts have been developed over the last two to three years as a result of discussions with managers from the branded goods industry. They have already been published individually in media such as “Frankfurter Allgemeine Zeitung” or the magazine “Markenartikel”, and are summarised once again in this document. This creates a synopsis of the current and imminent challenges in the marketing function of the consumer goods industry.

The article “Marketing Relaunch” outlines the area of conflict between the brand and the development of a discounter, resulting in challenges for marketing. It becomes evident that the marketing sword has blunted.

The “Revitalising the Brand” section focuses on the perspective of the brand besides the private brand.

“The Challenge of Growth” describes ways to achieve sustained organic growth in saturated markets, using project examples.

“Quo Vadis Marketing” deals with the practices of marketing budgeting and budget allocation. It provides a perspective on the basis of a stronger analytical foundation.

Finally, the article on the “Pricing and Terms System” describes a central area of conflict at the interface between the branded goods industry and trade. It discusses conditions for developing the pricing and terms system towards a strategic tool of customer management.

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CONTENT

I

MARKETING RELAUNCH

Required reforms – Marketing statements

Marketing “relaunch“: manufacturers and trade urgently need reforms

Unlike finance or supply chain management, marketing has basically stopped developing its practices and methods in the last 15 years. This is at least what Johann C. Lindenberg, CEO of Unilever and President of the Brand Association, said on the occasion of a trade congress in Berlin in autumn 2004. His remarks are certain to trigger a discussion on innovation, focusing on the question what needs to be changed to make the primacy of marketing again palpable.

In a cross-functional sense, marketing should include the exploration of consumer needs, the research and development of new products or recipes, the positioning of brands via product management and involved service providers, and the operational handling of sales processes by the key account management and sales.

But what exactly can we improve to increase the power of marketing?

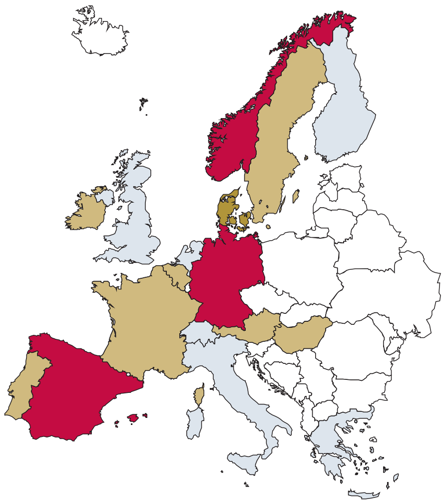
The Misunderstood

The impression is that marketing managers respond to the establishment of discounters on the one hand and the acceptance of the private brands on the other with incomprehension, often accompanied by a reproach. It is virtually impossible what is becoming apparent on the market. The consumer does not seem to understand marketing any more and is no longer prepared to pay a premium markup for brands. The manufacturers' response can be judged as “defiant”: “Brands – nothing else!” No differentiating message is conveyed or added value emphasised here. An action that does not manage to work out the differentiating benefit dimensions for the consumer is questionable as such. In individual cases, it can be stated that the quality differences or intangible values of a brand are not widely accepted by the consumers. If this is the case, then the consumers will not be willing to pay more money in comparison (cf. figure 01, page 8).

Figure 1: The discounters' market share will further increase

Discounters' market share
< 5%
6-10%
11-20%
21-30%
31-45%

Discounters' market share: examples	
UK	6%
France	12%
Sweden	15%
Austria	16%
Belgium	16%
Denmark	25%
Spain	31%
Germany	35%
Norway	40%



Average in Western European core countries: 22%

Europe-wide: 17,1%

Expected market share in Western Europe in 3-5 years: 30-35%

Source: Nielsen, GfK, 2003; % of total grocery Market, food & non food; *based on countries given in examples

Brands – a Success Story

Yet, successful brands fortunately still exist – no question: those dominating the market either emotionally or due to their service scope. However, this also applies to the trade. Brands of distribution lines have had a brand profile for some time; Aldi, Tesco, and WalMart are impressive examples. If the market continues to develop in the same direction, these brands of format will dominate the manufacturer brands in the purchase decision process, at least those which are not clearly differentiated in the market. The format brand becomes the actual quality promise for the consumer.

The triumphal march of the discounters and the private brands' growth causes a volume pressure for the brands. However, this dying will affect not only the low-profile brands or those brands that are not significant for the market of the positions 3 or worse. Market leaders have long since stopped developing as one would expect given their position. In addition, saturated markets tend to squeeze out brands. The consumer is no longer able to perceive and distinguish the differentiating product features of a variety of partly exchangeable and newly introduced products, which is also caused by a flood of information, e.g. excessive advertising and new communication channels.

The Myth of Innovation

There are many examples of sustained innovation – we are all able to describe them from our perspective. But there are also a variety of examples where product innovations have disappeared from the market just as silently as they found their place in the market shelves, without leaving any traces in the consumers' memory or heart. And this flop rate is high: based on a "madakom" study conducted in the German food retail sector in 2001, it amounts to an average of 64.5% across all categories, comprising almost 21,000 articles.

Marketing Needs to Be "Reformed"

The marketing activities of the brand manufacturers that have accompanied or even nurtured the growth over the last decades, appear to have an ever less convincing and sustained effect.

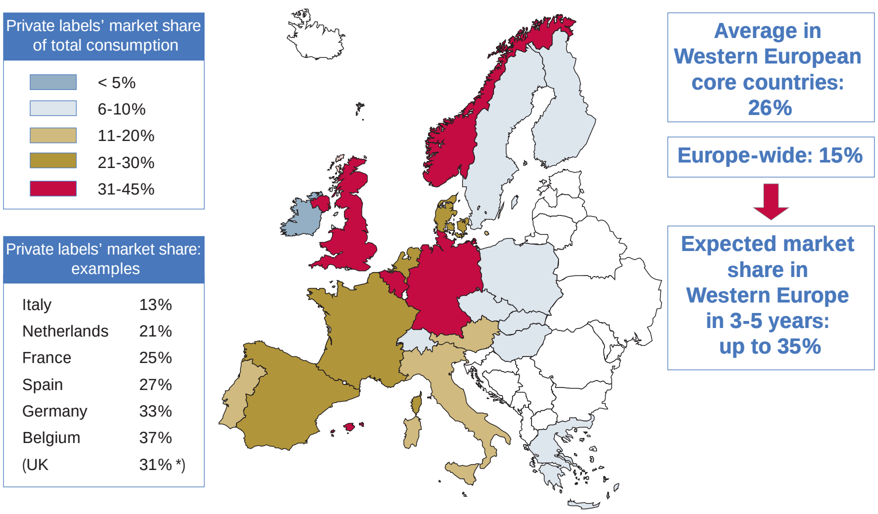
However, before blaming the marketing in the consumer products industry, the conditions of marketing need to be briefly highlighted. Marketing must increasingly prove itself in global markets. This is aggravated by the fact that customer communication is more and more interrupted by an unprecedented flood of information. Furthermore, consumers also have to be aware of new brands, which were not available at all in their "share of mind" only some years ago. These include brands in the telecommunications, software, tourism, and travel industry, or the film and music industry. The decision patterns of consumers can no longer be explained or predicted with one single reason: luxury consumption, buying at Aldi and other discounters, and also consumption denial can be observed at the same time. Finally, the trade industry's sales channels have almost achieved monopolistic power structures.

The influencing factors become ever more complex: the task of generating growth needs to be fulfilled not only against competition, but also against the ever scarcer attention potentials of consumers. It therefore appears logical to acquire market share and, consequently, also "share of mind".

This is the reason why the most sustainable growth leaps have resulted from company and brand acquisitions. Higher speed in expanding international presence or consolidating brand portfolios nurtures exogenous growth. However, companies not always succeed in integrating the historically grown brand competence after an acquisition. As for innovation power, the concern is that the new whole will be less that the sum of its parts. Companies that systematically round off and expand the brand portfolio over years via acquisitions develop an integration competence which does not necessarily entail innovation competence. Especially in case of integrations, the focus in on speed, tapping synergies, and "milking" the new brands. As a consequence, the development of "new" brands is inevitably less than optimal. Marketing in the operational control, in turn, focuses on maintaining the portfolio and differentiating the brands.

New packaging and package sizes or line extensions create product variety. These variants require attention, and tie up and fragment resources and marketing and promotion budgets. And as long as the revenue situation permits it, the experimenting field is funded with the complexity costs. Yet, especially in times of declining, recessive markets, the once learned formula for success fails. The market does not absorb new product variants. Necessary placing in the markets is painfully and expensively bought. The low-volume product variants are unable to compensate for the shrinkage process of the high-volume brands.

Figure 2: The market share of private labels exceeds 20%



Source: Nielsen, PLMA (Private label manufactures association), 2003; *based on countries given in examples

“Reinventing” Marketing

Which developments might marketing have missed in terms of the initial statement compared to supply chain management or finance? Where are the levers of an evolutionary or even revolutionary development? The following five development directions are likely to characterise marketing:

1. Increased focus on the management of the brand portfolio.

A focues is required in a world of excessive supply or products and information. Brands representing a value and growth driver in the portfolio will also have to absorb and concentrate the brand budgets. A pure allocation of the marketing budget based on revenue shares will take a back seat and be replaced by the net present value to be earned by the brands. Investment, ‘milking’, and disinvestment strategies will increasingly characterise portfolio management. This – at first sight – asset-dominated view will open the sight for decisions necessary. Facets of these decisions include e.g. relocating the marketing budgets to the innovation processes in order to better differentiate the brand profiles from a product side as well. A key challenge is to strengthen trade marketing in a holistic sense to be able to design the power centre “trade”. As a consequence, the role of consumer advertisement will then have to be re-dimensioned.

2. Dovetailing the Brand World.

As an implication of the ever stronger brand world of the trade, the channel world needs to be better dovetailed with the world of the manufacturer brands. A brand which is not sufficiently positioned and aligned with the customer-specific and channel-specific conditions and does not support the profile of the format brand will increasingly struggle to establish itself.

The discussion on the discounters makes this fact evident. With a European average market share of almost 20 percent – in Germany even exceeding 35% - no brand manufacturer can afford to ignore the discount channel. Often, decisions on discount-specific assortment concepts have to be made: e.g. a discount-specific brand or packaging size (e.g. Haribo), or specific, also limited product combinations (e.g. Knorr), or seasonal offers can be specifications of discount channel concepts.

Given the fact that many trade customers have both, full-assortment stores, such as hypermarkets, and discounters in their portfolio, a premature decision in favour of one or the other direction may soon become a matter of existence for individual manufacturers. On the one side, the implications of a decision to clearly align the brand portfolio with “premium“, value-for-money positioning” or “cost-dominated and volume-oriented private labels” are not always transparent. On the other side, the productive and logistical capacities are not aligned quickly enough – or at least not without painful steps – with “only” one of the stated strategies in case of short-term success pressure.

3. Considering the Process Requirements of Trade in the Operational Marketing Work.

The positioning of the sales line, the resulting consumer approach at the point of sale, placement drafts, and price recommendations within the category need to be considered as well as the even more important logistical and administrative requirements of the trade which need to be established in the manufacturers’ marketing world.

If we understand this list as a first, but by no means complete requirements catalogue for the co-operation with the trade customers, then we will receive a “we long since fulfil these requirements” as an answer – depending on which function owner we talk to. If you talk to the head of marketing in a narrower sense, you will at best raise a shrug of the shoulders. The world of operational trade that causes the daily issues with the customers seems to be outside the reach of marketing. The reasons can basically be ascribed to fragmented responsibilities: the responsibilities – structured in functional sub-processes – of brand management and enhancement, customer management and negotiations or yearly talks, on-site outlet support, trade marketing, order processing, and finally the physical handling of logistics are usually broken down into separate responsibilities, typically of product management, key account management, category management, field force, order acceptance, and logistics. This type of division of labour has certainly some advantages and often represents a compromise, which is sacrificed to the critical parameter “customer alignment” vs. “functional competence”.

However, in many companies the functional division of work has long since been identified as a problem. As “process-based bridge” to the trade customers, category management has here been set beside the key account and product management. This step also helped to solve more efficiently the operational tasks of trade marketing, such as shelf placement, trade promotion, and point-of-sale communication. And it is especially thanks to this success – and not only due to the increased manpower – that category management appears to compete with the “product management” concept also in its problem-solving competence towards the customer. The growing international orientation of the trade customers in expected central purchasing negotiations “forces” the industry to focus more on customers in addition to brands.

4. Strategic Marketing Tasks are Isolated from Routine Activities of Operational Marketing Development.

The operational and “administrative tasks” of brand management are to be brought together in highly specialised process teams. Along the lines of finance, Capgemini calls the process teams “Brand Service Centres” (BSC). Among others, the idea is to unleash creativity potentials among the marketing managers. Developing the strategy and adapting the brand positioning to the format types has to become the key task. As a consequence, the future marketing job will be more project-oriented than it is today. “Cross-functional teams” will be working on defined projects and will constantly change based on the project and its status. Hence, the size of the “marketing competence centre” will also be reoriented, basically becoming more focused and better qualified. The competence centre(s) can be established regardless of the country structures. This basically also applies to the bundling and establishment of administrative and routine tasks in marketing. They can provide their services on the basis of defined standards for several local markets or even in co-operation with third parties.

5. Rediscovering Information Management in Marketing.

All processes bundled in a BSC ground their service standard on defined and measurable service level agreements. The central element of a BCS is a data model oriented towards the decision types, which provides data relevant for control and decision in real time. Workflow and (picture) archiving systems help to make the marketing workflow, such as marketing planning, agency control, and promotion handling, more efficient. New software such as “Product Lifecycle Management” makes all data, history and change of products, series etc., available in an integrated fashion, thus sustainably facilitating the co-ordination in product management.

Figure 3: The transformation path is company specific

Conclusion

The marketing of the industry needs to undergo innovations and must provide a response to the discounters' march to victory. They need to convince the consumers to pay a "premium mark-up" for the instruments of marketing.

Marketing also needs to create the organisational conditions for portfolio management. Operational and routine activities must be isolated from the strategic, value/ asset-increasing development work of marketing. Process-based competence centres generate the differentiating prerequisites towards the customers. Each marketing investment must be reflected by the net present value of the company. It may ultimately be expected that parts of the administration-oriented activities are centralised and, later on, provided in co-operation with partners – a development long since in the offing in the fields of finance and supply chain management. However, since the general conditions of the markets need to be taken into specific consideration, there is always only one individual way to make marketing more innovative. This transformation path must be (re-)defined individually by each company.

II

Revitalising the Brand

Strategic considerations

Yes, the brand is still alive, no doubt about it – but ailing. This weakening has to do with an unprecedented march to victory of the discounters and the resulting increases in market share of the private brands. For a large number of categories, brands are able to account for only 50 percent or even less of the volume market share. And this development is not only due to the tough economic situation.

Interdependencies

The high number of unemployed leads to a risk provisioning and, hence, an increased savings rate. In addition, it also nurtures a price-sensitive and price-comparing purchasing behaviour among the consumers. Saying that consumers are just close-fisted would not really explain the a lot more complex behavioural patterns. Nowadays, consumers are far better informed; they are aware of price differences and that it pays off to spend some time in comparing prices. Search engines on the Internet such as “shopping.net” facilitate price comparisons and bargain buying. The trade’s and industry’s promotion policy confirms and encourages bargain buying week by week. For many consumers, it is quite smart to buy at both Aldi and Käfer (the German deli store). The company Käfer, in turn, discovers the attractiveness of the discount business model, providing its customers with the possibility to buy delicatessen in bulk within a discount model. Specific trends of individual categories, generally declining markets, and the demographic developments aggravate the challenges for the brands’ struggle for survival.

Challenges

A key challenge for the brand is the price gap to the private brands. If this difference can no longer be explained with an innovation and quality gap, the brand’s sales volume gets under pressure. This impressive effect can be observed in the beer segment, where the price for a beer crate of “Oettinger” is Euro 4.99. In the promotion e.g. at the “real,-” megastores, two crates cost only Euro 7.80. The price distance to the premium brands amounts to over seven Euro. Since beer is brewed in accordance with the German beer purity requirement in Germany, no cost-relevant quality differences can occur. Brewers argument that there are differences in taste and emotional consumption experience possibly created by advertising and sponsoring. Yet, it remains to be explained to the consumer that the sticker on a formula-one racing car causes a part of the price difference. From a customer’s view, a price difference of 14 Euro (average price of premium beer crate being 12 Euro) might be explained with emotional arguments. Also other segments have responded to this challenge, reducing the price gaps to the private labels, as it has been the case with some brands of Procter & Gamble.

It should also be considered that it is very difficult for some product categories to present a value add compared to the private labels. Peas, rice, milk, or tuna, to state some examples, do not allow for the price gap towards the private brands to become that large. As a matter of fact, they either taste good, or they don't. And if the private brand is just a good or even better, then it will squeeze the premium brand out.

The interchangeability of products is as much a problem as the replaceability of advertising. The advertising scenes – tasty meals and happy families without stressful cooking; pretty, young people in an erotic setting – are exchangeable, their "entertainment" value urges the viewer to zap rather than stay on the same channel.

The accessibility of the consumers is also becoming an ever more important factor of competition. If we consider that, for example, Aldi and Lidl spent Euro 196 million and Euro 255 million respectively for advertising between January and October 2004, it becomes clear that smaller B and C manufacturer brands are no longer able to take hold in this competition for attention.

Sins of the Past

How could it happen that marketing, the central domain of the branded goods industry, does no longer offer the usual recipe for success?

The criticism unquestionably focuses on the lack of innovation. There is no lack of new products; but these "innovations" do not really offer new aspects. At best, they are just modifications or variants of existing products. A high flop rate and aggressive listing requirements of the trade are highly probableconsequences. In addition, relevant tests confirm the exchangeability of the industry's products.

Even more aggravating, some markets are stagnating or in decline, as it is the case for coffee or beer. The pressure to achieve the volume targets in spite of these conditions leads to "pipeline filling" in the trade sector and – against all "lip services" – to the use of relevant allowances for advertising costs, which often "persuade" the trade sector to exceed the stockage at year end.

The internationalisation of the markets and the objective to supply several countries and regions at lowest possible production costs cause a product standardisation in some categories. As a consequence of this size and synergy orientation, the product offering becomes insufficiently differentiated. The challenge here is to "perceive the global world as one marketplace and, at the same time, consider the national identities and likings", explains Martin Sorrell, WPP.

Furthermore, the co-operation with the advertising and creative agencies should be revised. Delegating the concepts of the emotional differentiation to the agencies is possibly efficient, but by no means effective. In addition, the short time product managers stay with individual brands, as it is often the case in large food corporations, nurtures this development.

Perspectives

The brand has its perspectives, which become clearer the more it differentiates from competition. Yet, if we take a closer look at individual brands, we can see that new products increasingly struggle to maintain their competitive advantage in the long run. Product copies from competitors and private brands can usually be found in the shelves already after a few weeks. The copying speed of the discounters is the crux of the matter. Especially in the face of the polarisation of markets, an emotional differentiation still appears to be important, since it cannot be copied; yet it is not enough.

As a consequence, the focus returns to the production and development expertise to set up market entry barriers. For example, the CEO of Lindt & Sprüngli states: "We set up a pretty high entry barrier in the premium segment" and "we are twice as expensive because our raw material is more expensive and production more complex".

Doubtlessly, entry barriers can also be built with classic communication tools. However, they more and more reach their limits, as it is becoming more difficult to access the target groups due to the variety of media. It is getting more important to reach the consumers while they consume. Therefore, the classic forms of consumer approaching with its problems of spreading losses are complemented by communication or – even better – identification offerings directly geared to well-defined target groups, as it can rudimentally be seen e.g. in event marketing.

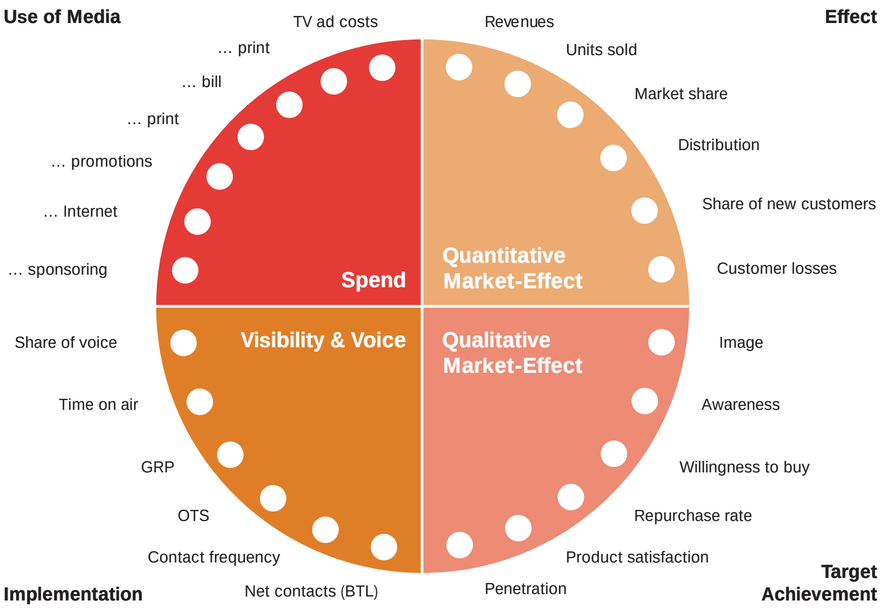
Unambiguousness positioning should be accompanied by a clear corporate culture. Given the economic pressure of capacity utilisation, the parallel offering of brand and private brand under one company roof is understandable, but is – not only in terms of culture – contradictory to the relevant management systems of marketing brands and private brands at the same time. If in the brand business the management system focuses on innovation and market introduction processes, brand management, trade marketing, and key account management, then the private brand business reduces itself to processing a tender and producing the relevant order amount. Both businesses should be managed separately and be able to bear their own infrastructure.

"Return-on-marketing" considerations are likely to establish themselves also in marketing. Qualitative reasoning and tracking of brand awareness targets alone will not be enough to justify marketing investments amounting to several millions of Euro. Although no panacea exists here, some guidelines can nonetheless be formulated:

- The allocation of the marketing budget is potential-oriented; future potential owners are to be involved.
- Focus activities are to be aligned with brand profiles that map the purchase decision logic.
- The allocation of spendings should be oriented towards the purchase decision funnel brand awareness, brand image, willingness to buy, purchase, and repurchase.
- A shift to below-the-line activities can lead to an efficiency increase.
- Transparency and the continuous mapping of cause/ effect relationships are basic conditions to better measure the marketing initiatives in terms of their economic impact. To realise this objective, a balanced scorecard may serve as management system (cf. figure 04).

Trade plays a key role in the positioning of the brand. When it comes to marketing and pricing of brands, conflicts regularly arise at the interface to the trade. At this point, the trade repeatedly states that the price gap to the private brands is too large. As an example, Dr. Körber from Metro AG asserts: "The branded goods providers must become more aggressive on prices, the price difference to own brands is too large"". Johann C. Lindenberg, President of the Brand Association, replies: "The price is the most trivial element among the entire activities of the consumer goods industry, and this of all elements is the centrepiece of all thinking and doing".

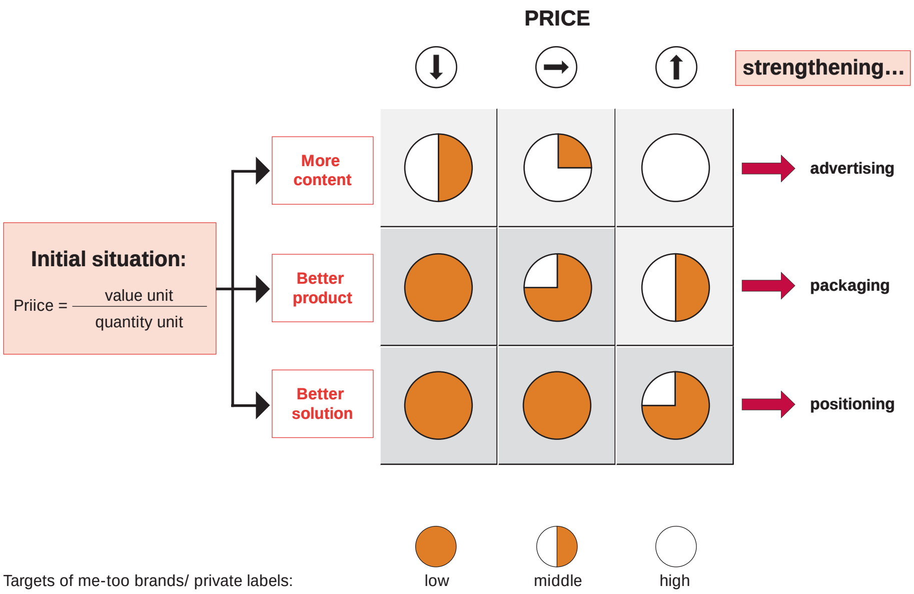
Figure 4: Transparency over causes and effects of KPIs are critical
Comprehensive "controlling" of marketing spend with a balanced scorecard



>> Repeatedly representatives of the branded goods industry reproach that the trade industry destroys values via an excessively aggressive price policy. But why is pricing time and again in the focus of the trade industry's action? It first needs to be said that oligopolistic markets such as the trade business tend to compete via pricing. In Germany, this tendency is further strengthened by overcapacities. Moreover, the other parameters of the trade competition are not so differentiating as to allow retailers to distinguish themselves from their competitors in the long run. As an example, format branding is still in its infancy. The assortments are widely interchangeable, also due to the desired ubiquity of brands. And real, differentiating premium private brands are still being developed. Furthermore, the service competition cannot be funded at the present price level. Here, labour costs will be a limiting factor, especially in hypermarkets. <<

In the foreseeable future, it is unlikely that the decision makers in the trade sector will stop focusing on the price policy. The reasons for this are the lack of differentiation possibilities in trade beyond pricing. In addition, it must be admitted that the "idea" of increasing prices at falling relevant market volumes can only work out if added value is offered. And the industry must realise that they cannot do without an innovation-driven pricing. A price increase, also compared to the price points of the private brands, can only be established if the perceived product quality is improved accordingly (cf. figure 05).

Figure 5: There is no alternative for an innovation-driven pricing
General conditions such as trends, developments of categories to be considered certainly need to be taken into accoun



Ultimately, even the branded good suppliers should reclaim their old values: The brand should be authentic, innovative, provide value for money, have a trust-building effect, be known and, hence, ready for the POS.


III

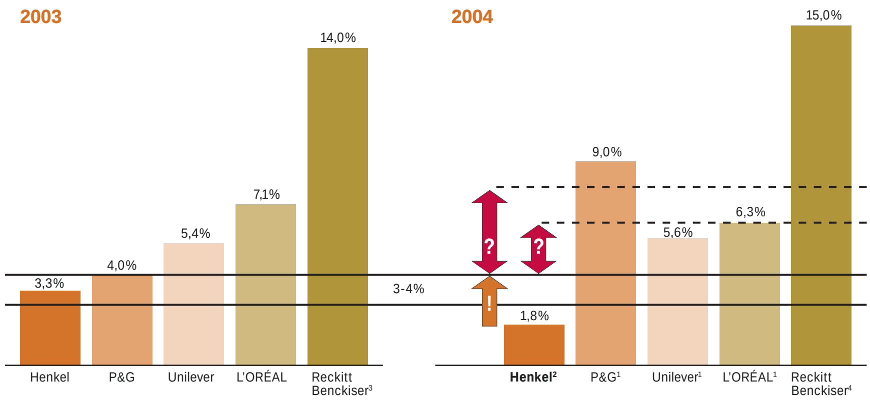
The challenge of growth

In Germany, it is increasingly difficult to believe in growth. Therefore, companies especially perceive internationalisation as an opportunity for organic growth. This particularly applies to companies with historic roots in Germany. Some of these companies are faced with the challenge of making up for revenue drops in the country of origin – in most cases, volume countries – by increasing revenues in other countries.

If we take a closer look, we will realise that there is sufficient growth potential despite the present ecomonic difficulties in Europe, e.g. for fast-selling consumer goods. With 450 million inhabitants (EU 25) and an arbitrarily assumed market penetration of 10 Euro per inhabitant, plausible growth rates can be derived for the majority of companies also in Europe. Beiersdorf, for example, states in its 2003 annual report that NIVEA as the biggest brand for skin and body care still has a large growth potential. It refers to a 2003 NIVEA revenue per capita of Euro 4.33 in Europe, Euro 2.35 in Australia, or Euro 0.55 in the US. From this perspective, an "envious" glance towards China and India is hence absolute unnecessary.

Especially for the next five years, organic growth is now expected to become the top target of the responsible managers in many companies.

Figure 6: Competitive environment: values for organic growth Personal Care area[1]
In percent of revenues



[1] Source: Morgan Stanley Research, 2004
[2] Source: 2004 annual report
[3] Basis approx. EUR 645 million Health & Personal Care
[4] Value for Health & Personal Care: 15%; compared to Home Care 12%; Source IXIS Securities 2005

Many business reports underline this. For example, in the body care and cosmetics segment, Unilever realised a growth of 5.6 percent, L'Oréal 6.3 percent, Procter & Gamble 9 percent, and Reckitt Benckiser even 15 percent in the business year 2004. In contrast, Henkel achieved "only" 1.8 percent growth in 2004.

Thus, companies aiming at a growth rate of 4 percent in Germany – which in individual cases is quite ambitious – must face up to these growth benchmarks.

Growth Levers

Unfortunately, there is no panacea for growth, as individual company situations are too different. However, companies hold growth potentials which need to be worked out individually. The idea generation focuses on the brand and/or the brand and country portfolio. Central strategic conditions such as the technology perspective, the developments of the sales channels, the allocation of the marketing budgets and, of course, the capabilities of the competitors are also to be considered as possible growth drivers.

In general, it can be stated that the growth-driving factors need to be orchestrated specifically for a brand. The following figure 07 provides an outline of possible growth drivers.

In one case, this may mean that new sales channels such as pharmacies are opened up; or "blockbusters" – brands with a revenue exceeding Euro 1 billion – are rolled out to other sales regions; or a brand such as Mr. Proper are repositioned as umbrella product range, to name but a few examples. The leeway is mainly defined by the relevant competitors. Central benchmarks are especially the marketing and research & development spend. In this comparison (cf. figure 08, page 25), standard directions such as niches or globalisation strategies are already set.

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Figure 7: Brand scan with growth drivers; schematic overview
Example

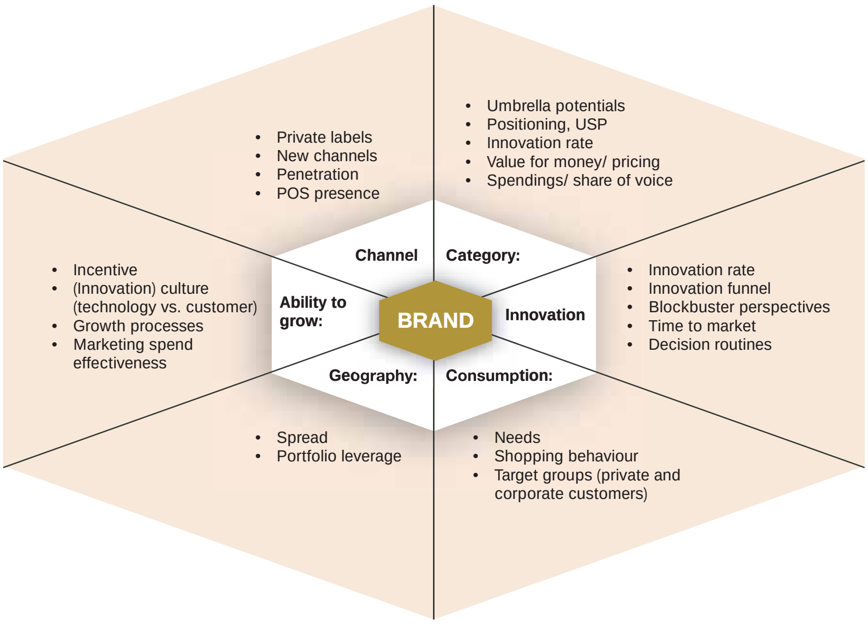
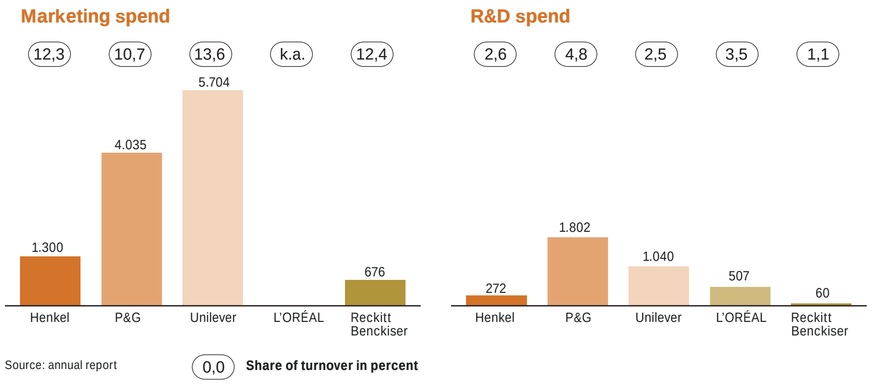


Figure 8: Competitive environment: comparative analysis of marketing spend and R&D spend in 2004 (in EUR million)

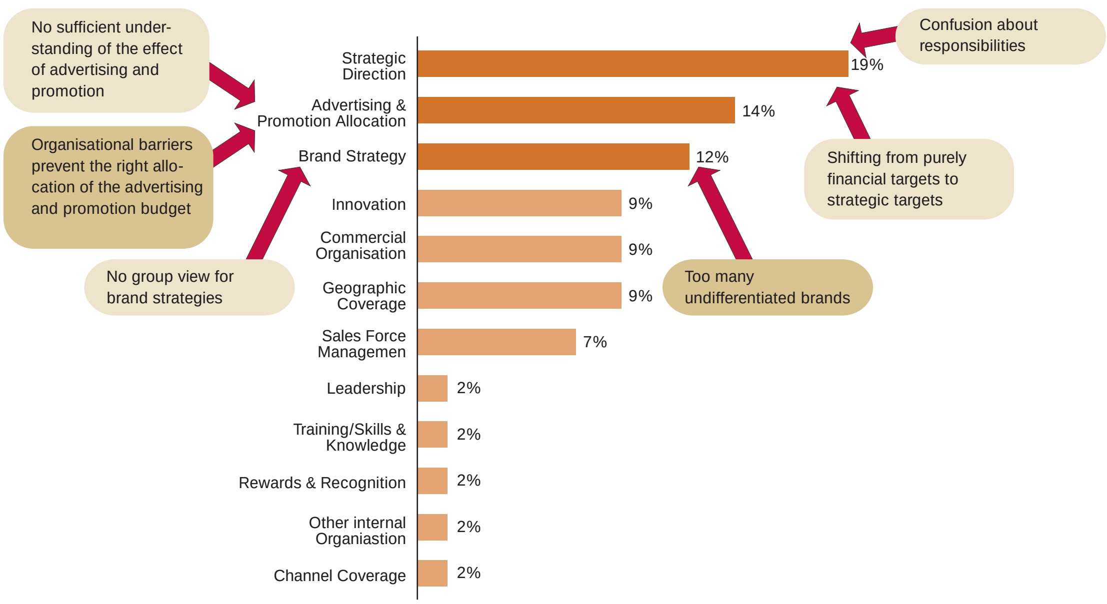


Success Factors

However, the internal capability of a company organisation to grow is critical for success. This also includes the ability to clearly tackle internal growth barriers. Often, it is the assumed core competences – those of the beaten track – that obstruct the view on growth opportunities. Figure 09 describes a relevant case.

The interesting thing about this example is that exactly these assumed strengths of a branded goods company were identified as growth hurdles by an extended management circle. The range of barriers went from insufficient differentiation among brands to an unclear group strategy, confusion about responsibilities, and potentials in the use of communication and promotion budgets.

Figure 9: Growth barriers (case study)



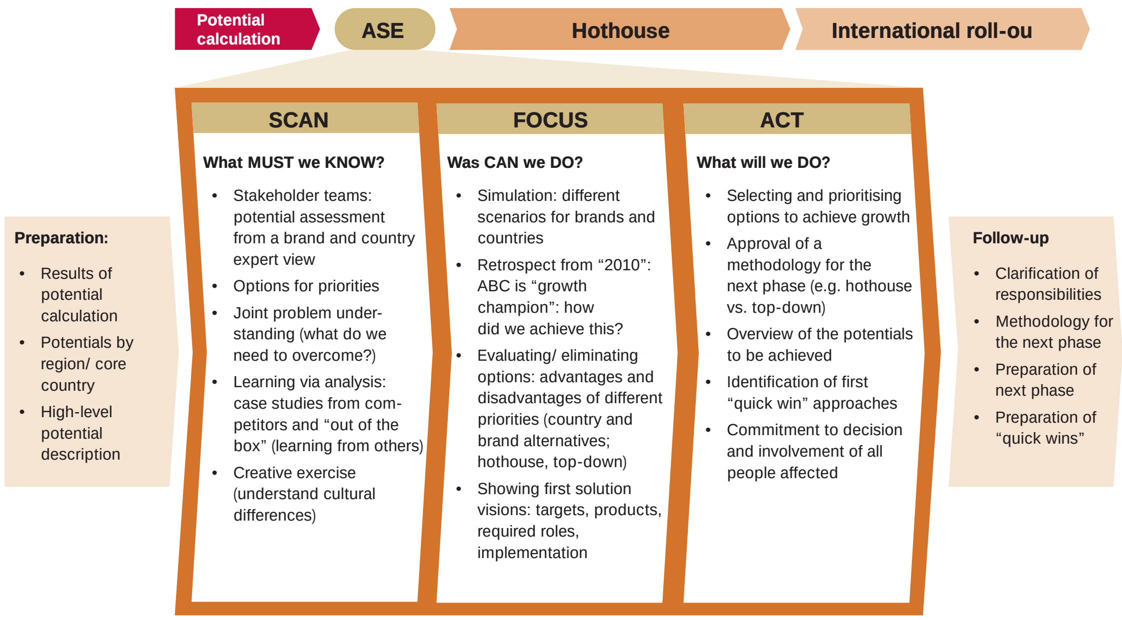
Initiatives that aim at identifying growth potentials should essentially consider the specific political growth hurdles; and especially assume a view that is independent of the current management roles. In contrast, the focus must be on the market differentiation.

Global spirits manufacturer solved this by applying the following “priority rules”: global brands with global management and investment programme; local priority brands with local management and investment programme; and so-called category brands that do not represent future growth and value drivers, yet have a stabilising influence on the category and are able to support international brands. Priorities in terms of the time-based allocation of management capacities and budget allocations applied mainly to the global markets and – tiered – to the local priority brands.

Setting up a Growth Initiative

Although the company and industry situations always need to be considered specifically, a cascaded approach which keeps the complexity of such initiatives manageable has proved itself for growth initiatives. This might be recommendable e.g. for internationally operating companies for the sheer number of countries to be managed: Procter & Gamble operates in 160 countries, Unilever in 150, L'Oréal in 130, and Beiersdorf in 188 countries. In case of this complexity, the first thing to do is to scan the countries in terms of potentials and priorities. Here, a result of this analysis is a rather abstract potential calculation, which may then serve as a basis to define countries and regional focus areas. Based on this prioritisation, an implementation programme is then developed which aligns the internationalisation requirements and measures of local potential tapping.

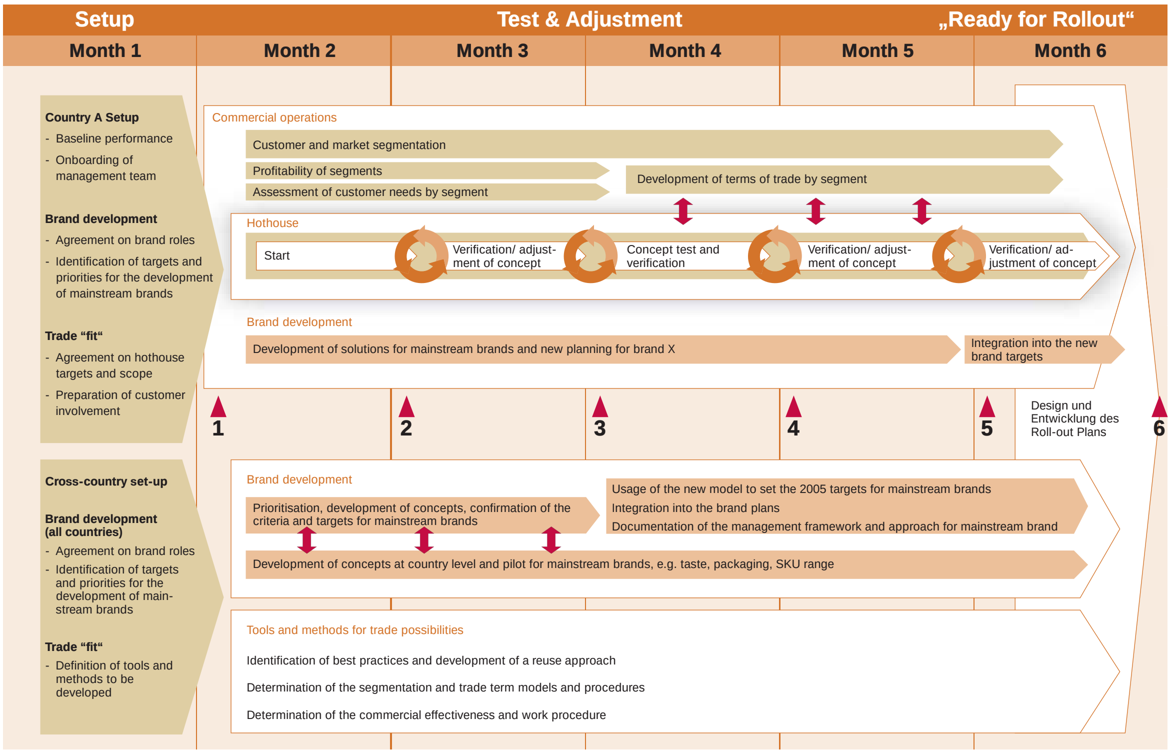
Figure 10: ASE Go for Growth, gathering first ideas



The use of specific methods for the two aligned elements has proved successful. In the countries to be prioritised, the first step is to channel the opinion and power pluralities. It is recommendable to involve all people affected in the opinion forming process. To this end, a very tight event (duration 2-3 days) is conducted to determine the main decisions and prioritisations. The logic of the so-called ASE (Acceleration Solution Environment) is described in the figure below.

Based on the potential assessment and the result of the ASE, the actual implementation programme is started. The important thing about the implementation programme is to dovetail international work programmes with required country programmes. Country programmes start with a proven implementation method (hothousing). Hothousing verifies the already available growth hypotheses in the "live" situation of a country organisation and translates them into strategies. Here, the ease of strategy implementation is tested in day-to-day business conditions. The functional and process owners and – if need be – customers are involved in iteratively developing and improving the design and implementation of the growth strategies. The now developed and tested growth programme is then rolled out. The figure below provides an overview of the case where the hothousing method has been applied.

Figure 11: Hothouse methodology



IV

Quo vadis Marketing

Between instinct and company value add

Marketing is generally understood as the function or – even better – core competency that shapes competition. The development of the company's success is largely shaped by marketing decisions. However, whereas investment decisions are measured strictly against their return in other functional areas, marketing decisions are often based on purely qualitative factors. The context between investments in the brand and their immediate effect on the result is typically judged as hardly provable.

Yet, substantial funds are rightly invested in the development of brands. Ten, thirteen, or even twenty percent of revenues are by no means an exception. But this considerable cost and value creation block is increasingly under management's and shareholders' scrutiny. This is also due to the fact that the productivity and cost reserves are for the most part already fully developed in other functional areas.

In this context, the budget amount and its allocation are generally questioned. Depending on the company, this may happen in several steps:

- Requesting transparency – "where does the money go"?
- Which effects do these measures achieve?
- How to the measures and reached effects reflect in the company result?
- And finally, which forecasting capability concerning the company result is associated with the individual measures?

Offering Transparency and Proving Effect

One basic requirement is to achieve transparency of the budgets used for the individual marketing measures. This approach is unquestionably already given for most companies because of the mapping in the transaction systems. In contrast, the allocation of the service elements to the booked spend types is not self-evident. As an example, these may be the service elements of agency contracts or event and promotion agencies. One lever for more transparency is doubtlessly to (at least) finalise negotiations with the agency services via purchasing. To this end, the services are broken down to their service elements and questioned in their calculation basis.

The budget discussion itself and the associated targets are as old as marketing. It needs to be stated that the same procedure takes place in many companies year by year: in budget rounds, brand strategies are simply reduced to adjustments of the available funds compared to the previous year. However, a general revision of the budget approach in terms of “zero-based” hardly takes place.

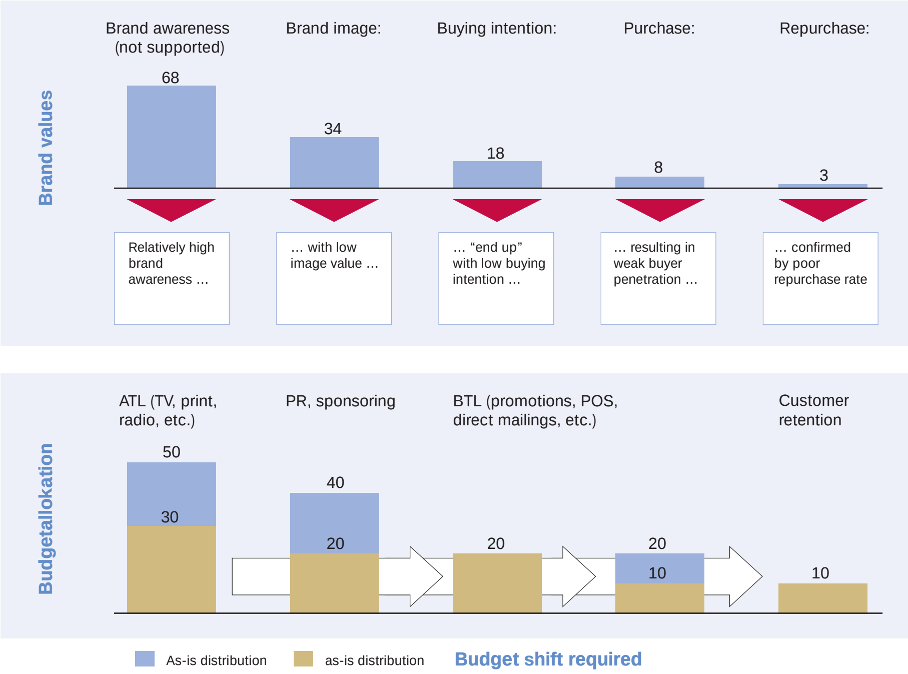
In reality, 80 percent of the negotiated budget is for example released, leaving the remaining 20 percent up to a management decision on the basis of the profit expectations thoughout the year. In this formalised, subsequent release process – surprisingly enough – the criteria to be met are far more frequently based on quantitative result requirements than is the case for the actual basic budget. Some examples are the additional potential to be developed, the sales amount, and the related contribution margin expectations.

Leveraging Advertising Budgets

A general review of the advertising and promotion investments in the various countries in the face of the respective market position, market growth, and competitive situation can sustianably improve the position and potential exploitation by reallocating the marketing budget. In some cases, this intervention in the local competencies may deteriorate the country situation, yet is sensible in an overall context. The next step towards more efficiency of the marketing investments is to understand the effect of the communication funnel (cf. image 12): how can measures and their budget allocation be rearranged in accordance with their impact contribution?

Most probably, the use of budget parts is not well-founded. Or it has been derived insufficiently from overriding targets. Sometimes, these budget allocations can be ascribed to preferences of one acting person. As an example, it became evident in a consulting project that more than half of the client’s sponsoring activities had to be classified as mere patronage. In addition, there were many fragmented engagements divided into 20 different types of sports. Result contributions on the target categories “brand awareness”, “brand activation”, “image transfer”, or “brand update” could not be determined. In this case, stopping or reducing these measures does not have any negative effect in the market.

Figure 12: Brand channel



The classic brand development is still widely based on 30-second commercials. However, it will have to respond to an ever more fragmented and digitalised media landscape including TV, newspapers, magazines, Internet, mobile phone, video game, and iPod. Orchestrating this digital media environment in terms of the relevant target groups must be based on processes, which are configured as a learning system. Identifying and describing the target groups will be increasingly challenging. The case-based selection of the right method, such as the psycho-demographic segmentation, the Sinus-Milieu approach, or the benefit segmentations based on multivariate, statistic procedures, will more and more determine success.

However, the performance and result effects achieved along the steps of the purchase decision process in the brand channel are of key importance. Effects and transfer rates across the purchase decision steps of the communication mix can show sustainable potentials: Is the desired target effect achieved? Where do possibilities exist to increase effectiveness and, ultimately, the sales volume by shifting e.g. from “above the line” to “below the line”?

At this point, one usually runs into a controversial discussion on methods. Impact mechanisms of marketing measures are complex, sometimes depend on each other, yield results only with delay, and only have an indirect influence on the revenues and their components such as prices and amounts. And still, we need to look for arguments that provide prospects for and indications of an improvement.

System Instead of Instinct

To avoid inefficiencies in marketing and make facts-based decisions of investment in sales channels and brand, setting up a marketing controlling system is recommendable. This system may for example be based on a balanced scorecard. When developing such as system, a pragmatic approach should be applied. First, we need to create transparency; a budget tracking system can be a good start. In a second step, target and effect dimensions need to be linked to the budget usage and defined performance indicators tracked. In a fully-fledged version, we will finally have a decision-supporting system. This would provide the conditions to explain associated and exchange relations between the individual marketing measures and the impact on the company success.

In the future, such a marketing controlling system can make a substantial contribution to confront the marketing investments with their result contributions. Despite the many objections, answers are required for rather evident questions about the evaluation of marketing investments: Which (additional) potentials are tapped? Which result contributions are to be expected? Which capital return will be achieved? And finally, which contribution does the marketing investment make to develop the company value?

For an investment decision, at least approximate answers should be given. The required allocation and distribution algorithms are just basic business knowledge. They will certainly be used by the companies as in the product calculation for the approximate allocation and distribution of overhead costs. The setup of a marketing controlling only represents the first step towards a learning organisation. It will be important to perceive the even deeper penetration of the marketing organisation and, hence, also its cost structure as an advantage rather than an additional administrative barrier.

Conclusion

Peter Drucker: “The purpose of a company is to create a customer. ... The only profit center is the customer. ...The business has two – and only two – basic functions: marketing and innovation. Marketing and innovation produce results: all the rest are costs.“


V

Price and terms system

The Misjudged Strategic Tool

Year by year, the branded goods industry follows the same ritual. The trade industry asks for better terms and the branded goods industry tries to fend off these requests. And before starting yearly negotiations, cross-talk starts: headlines such as “Edeka comrades ask for extra bonus of 1-2 percent” are typical. Yet, it is also clear that these demands are not backed by an actual service in return, except some headlines such as “Anniversary” or “Wedding”. Far from it: this ritual destroys opportunities, which include the management of the business relationship on the basis of a value-creating pricing and terms policy.

Present Price and Terms Systems are Half-Baked

However, the price and terms systems (PTS) cannot be fully effective due to system weaknesses. As a consequence, they lack in strategy orientation, as they are derived insufficiently from a market and finance view. Furthermore, the PTS offer an insufficient link to the marketing and logistics strategy and a lack of service orientation. Another weakness is represented by the orientation towards interest groups, which becomes manifest e.g. in lack of feasibility, an excessively rigid system, inappropriate steering and incentive functions, or even inconsistent demand for implementing the price and terms system. The same applies to the infrastructure and system orientation, which becomes evident in a lack of integration of parallel PTS and of a common definition of term types. Finally, the process orientation is a weak point, which translates into insufficient transparency and traceability.

As a consequence of these weaknesses, price and terms systems do not meet their steering and incentive function, causing the system and its application to be watered down further. Thus, customers “grow out” of this system, creating excessive prices, or making non-service-based terms spreads to a real threat. Finally, fantasy terms are created, growing to a tangled mass of terms with unmanageable privileges. As a result, customers’ profitability analyses show revenue reductions of 30 percent and more.

Received and Rendered Service as a Basis for a "New" PTS

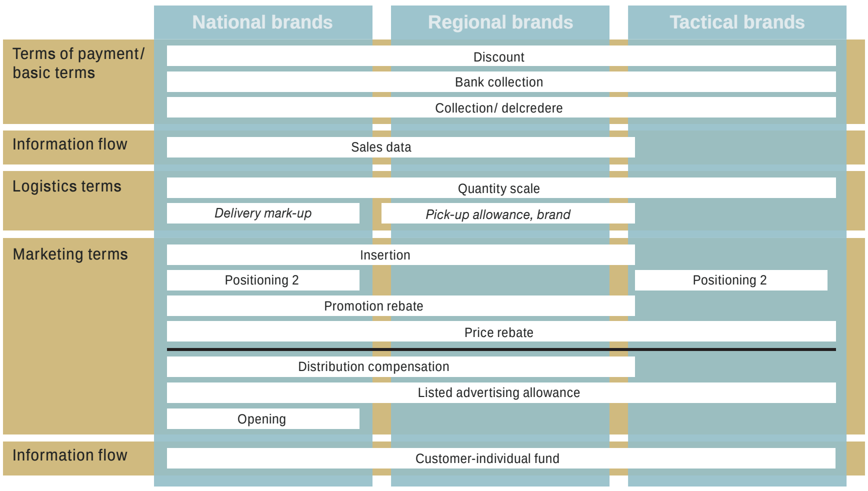
To prevent the terms system from diluting, it should be applied consistently on a "quid pro quo" basis. Here, the service elements are to be derived from the result drivers of the business relationship.

This is comparatively easy for services which relate to invoicing and logistics. In case of invoicing, the elements are the known usances payment period and discount, which can be derived from the tie-up capital and the interests set. This applies at least for a German perspective. Also for the logistics terms, the result drivers are relatively easy to calculate. The design elements typically consider the transport services and possible approaches to reduce distribution costs. In case of non-ex-factory concepts, the customer should be prompted to order larger and sortenreine units. Thus, in some cases it might be sensible to include sortenreine pallets up to full-truck loads in the terms. In case of complex small-volume assortments, this logic does not work, as sortenreine logistics units are rarely ordered due to the type of business.

Terms approaches which reward behaviour with a positive impact on the process quality are more difficult, since they are less easy to determine. In some cases, this may include services that relate to the reduction of idle times during the logistical processing or, for example, to the bank collection procedure. Even the mutual use of EDI or Edifact functionalities or subsets can be included in such service catalogues.

To put the above statements into perspective, it must be highlighted that the determination of the service dimensions, i.e. the header conditions and logistical terms, as arithmetic unit is easy. However, it is more difficult to determine the terms system taking into consideration the relevant customer histories. In order to finally get a target system, it might be necessary to carry out complex simulations in individual cases to understand any positive or negative effects for each customer and brand (SKU) and consider them in the transformation process of establishing the target system. The following figure shows an illustrative summary of the conceptual framework of a modular price and terms system.

Figure 13: Conceptual framework



Value Pricing

The actual challenge when designing a terms system in a service-oriented fashion are the marketing terms. Especially in this field, we have the highest pressure to correspond to the situation. Business and brand strategies, implementation of the volume target, integration of brands or also distribution extensions have an immediate effect on the system and the structure of the marketing terms. The spreads that can be observed especially in this terms block are often the result of changing strategic and tactical priorities.

Typically, the rearrangement of marketing terms has the following objectives:

1. Setup of a terms system that helps implementing the brand strategy at the point of sale (PoS) while taking into consideration the requirements of the trade industry, the ease of implementation, and reflecting the possible sales support effect for the brand portfolio and the category as a whole.
2. Defined services should be confronted with services in return which provide the basis for the joint marketing activities at the PoS.
3. The system should be sufficiently flexible for specific customer requirements despite logical strictness.
4. It should respond to the future growth dynamic.
5. It should be easy to implement.

These objectives are expected to help change the system of marketing as a responsive tool to customer requirements to a budget-oriented control platform. This helps the manufacturing and trade industry to develop activities that add value to both sides.

To allow the marketing terms system to respond to this control requirement, it should have the following characteristics:

- It must comply with the respective brand-specific and category-specific situation.
- The system and its characteristics must be consistently derived from the strategic priorities.
- Marketing activities and their desired effects are controlled via the budgets.

A service catalogue provides the basis. This catalogue should be oriented towards the value creation to be generally achieved at the PoS. It should also be able to provide a target-oriented basis for the usual rituals of the power-based terms requirements.

Figure 14: Dimensions of marketing services

	Possible dimension of marketing service
Brand targets:	• Listing, listing speed, distribution • Process incentives for launch, re-launch (quality) • Price
Channel & POS targets:	• Positioning 1/ 2 • Block positioning, quantity, facing • Opening, closing
Consumer approaching	• Promotion, insertion • Tasting • In-store marketing
Promotion mix:	• Communication only • Communication + price • Communication + positioning 2 • Communication + price + positioning 2 • Price only • Positioning 2 only

The marketing services themselves can be generally divided into four areas: brand targets, channel and PoS targets, consumer approaching, and elements of the promotion mix. The figure below provides an overview of the possible marketing services.

Finally, budgets need to be determined for the marketing services. The methods for this budgeting can have different levels of complexity. In a first step, the promotion budget can then be derived for the promotion services on the basis of the following calculation logic:

Taking into consideration promotion types and their objectives, this method can be further fine-tuned. Together with the tactical measures of brand marketing, a promotion success calculation can thus provide the basis for the budget definition.

Promotion budget = category revenue x category's share of promotion x Ø contribution margin of the category x Ø investment share

Clear Conditions Create Transparency

A value-creating pricing and terms policy can be established when based on accepted principles. These principles include:

Strategy orientation: promoting the defined company, sales, marketing, and logistics strategy

Service orientation: clear definition of services received and rendered

Future orientation: application of topical terms policy

Customer orientation: consideration of customer specifics

Cost orientation: stabilisation of the terms burden without significant risk of sales shortfall

Application orientation: simple, understandable, transparent, acceptable, and traceable.

An optimised, structured, and service-oriented terms system will not generally “revolutionise” the negotiations between the manufacturing and trade industry. However, it makes a central contribution towards objectification and service orientation. This is the only way to make incentives and requirements and their spreads understandable, avoiding emotional privileges.

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