

What Is Right and Wrong

In their new book, *The New Marketing Mission: How Process, Metrics and Technology Can Unleash Growth*, Hunter Hastings, Gordon Wade and Sat Duggal set forth the challenges and opportunities of marketing in the 21st century. Following is an excerpt from chapter one of the book, which is published by the Association of National Advertisers.

Marketing can solve the biggest challenge that CEOs face: driving and sustaining real top-line revenue growth. But to do so requires the commitment of the CEO and the management team to turn marketing into a powerful business-building tool. How? By demanding the same systematization in marketing as in the other business processes in the corporation. Systematization enables the measurement of return on investment (ROI) in business processes. This, in turn, enables corporations to focus investments in projects that increase ROI and shareholder value.

The Role of Marketing

Taken in its historical perspective, on a broad societal level, marketing has been the engine for improving the quality of life. Through constant innovation and development of products, distribution, and communications systems, the quality of life for the average person in the Western world — where modern marketing has been in effect for the past 60 years — has improved dramatically. No one in today's middle class would want to trade places with the richest people at the turn of the twentieth century, who did not have the benefits of modern hygiene, transportation, technology, communications, and health care that we take for granted.

Taken in the context of the modern global corporation, marketing has the potential to become a driving force for leveraging capital appreciation. Unfortunately, the marketing function as practiced today has not lived up to its promise.

Marketing must be transformed to meet its responsibilities to the shareholder. Understanding two fundamental truths can transform marketing.

1. The single-most important strategic objective for any corporation is to build brand equity. The easiest way to understand the significance of brand equity is to recognize that brand loyalty is a function of higher brand equity. The two correlate. The cultivation of the loyalty of customers is the most important and easily measured objective for which you can hold your marketing people accountable. More consistent revenue growth, better profit margins, longer profit lifecycles, and a greater likelihood of successful innovations to continue generations of long-term growth are sure to follow.

2. Technology has evolved to where it can be useful to support marketing processes in a way that would have been inconceivable just 10 years ago. It is now easier to integrate the best practices of the best companies in America onto the desktop of every marketer, in every operating division, in every corner of the globe.

Our objective is to show you how this can be done, and to illustrate how the best global companies are implementing this now.

What's the Opportunity?

The opportunity on which we focus is growth. Specifically, we believe that an end-to-end marketing process can create predictable revenue growth streams over a multiple-year horizon for companies large and small, B2C and B2B.

We refer to real revenue growth: more customers, buying more of your products and services (and allocating them a greater share of their requirements), and often paying higher prices, as you find ever greater levels of value to deliver to them.

→ How can marketing create shareholder value?

→ What's the relationship between brand equity and financial returns?

→ How can increasing brand loyalty lead to increased profitability?

→ What is the role of process, metrics and technology?

with Marketing?

Typically, the processes we advocate can generate higher levels of gross margin. You can achieve this goal through the same process of identifying higher levels of customer value, and by changing the marketing mix of offerings to the consumer, removing or de-emphasizing the lower-margin, lower-value delivery items and adding higher-margin, higher-value delivery items.

While our processes do not directly deliver shareholder value, there is typically a very high correlation between the independent variable of consistent delivery of real revenue growth and increasing gross margins, and the dependent variable of shareholder value. A lot of other factors can intervene and have an effect on that dependent variable, including how well the corporation utilizes its assets, the state of its borrowing, and a range of financial and governance issues that affect Wall Street sentiment. But overall,

EMM Group helps companies transform marketing and drive growth. Our goal is to dramatically increase shareholder value by building strong brands. We are the creator of and world leader in enterprise marketing management.

We believe that the existing ad hoc marketing approach needs to be re-engineered. Marketers need to demonstrate an ROI on marketing investments. To do it they need stronger processes, new metrics, and better technology.

EMM Group has analyzed and re-constructed the marketing process the way Six Sigma has transformed other functions within the organization.

Only EMM Group offers a comprehensive system of process, metrics, and proven best practices. We apply powerful software tools. EMM Group's services range from addressing a single process to end-to-end transformation of the marketing function within the enterprise.

the correlation between driving revenue growth and gross margins and the creation of shareholder value is usually high enough to merit a CEO's and a CFO's focus on the processes we propose.

We will demonstrate another correlation, between growth in brand equity and growth in shareholder value.

Some of the recent literature about enterprise growth has been concerned with "disruptive technologies" and "new to the world" innovation. Those are interesting phenomena, but they are not what sustain growth in corporations, businesses and brands. And even the doctors of disruption advise executives to meet investor expectations by "making better products that can be sold for more money to attractive, that is, demanding and high-end, customers...and to do so consistently with processes that transform inputs into...greater value."

We focus on sustainable growth in our processes. Global corporations need not completely reengineer their value chains, restructure their companies or revamp their organizations. Companies can transform marketing and make the changes to achieve the "agility" that growth requires.

Brand-building is the Wisest Investment for Sustainable Growth

The established corporation can leverage many assets and strengths for growth but we want to focus on but one type of asset, their brands. Brands are assets that get stronger with time. They represent an historical accumulation of investment in the form of marketing spending, distributing public awareness and visibility, R&D, and the application of knowledge and energy by the people who have worked to support the brand over time. The longer they've been in existence, the better. →

The New Marketing Mission

A message from **Jim Stengel**, Global Marketing Officer, **Procter & Gambler**, and Incoming Chairman, ANA

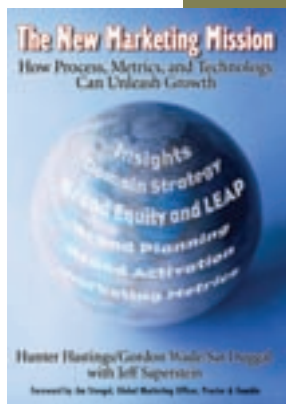
The traditional mass-marketing model is broken and in desperate need of repair. Marketers must take into account that people are consuming media in a dramatically different fashion than 10

years ago. Consumers are rapidly changing and so are the ways in which they interact with marketing. When given the choice, they are withholding permission from marketers who continue to embrace the old "intrude and annoy" harassment marketing approach.

Marketers realize we must change how we present our brands to consumers, but many of us aren't changing fast enough or moving in the right direction. Through our involvement with the ANA, P&G has begun working with other thought leaders to help create a new marketing approach in these rapidly changing times.

The New Marketing Mission captures many of the concepts in which we believe: (1) the mindset that "the Consumer is Boss"; (2) the focus on the marketing process for ensuring plans reflect vital consumer insights; (3) the use of technology to unleash creativity, innovation, and growth in marketing; and (4) the absolute necessity of measuring each component of the marketing demand creation mix.

All of us in the marketing profession need to rethink how we deliver value to our bosses: the consumer and our stakeholders, including for many of us, retailers. *The New Marketing Mission* will help all of us navigate these changing and challenging times.



← For example, consider Budweiser beer. No brand-naming specialist today would consider giving a beer product — which by definition must be fresh and contemporary to appeal to its young (but, of course, legal drinking age) consumers — such a bizarre and old-fashioned sounding name. But the brand has survived attacks by Lite beer, imported beer, stronger beer, better-tasting beer, more humorous beer, private label beer, local beer, craft beer, and many other competitors to the beverage category such as wine coolers, soft drinks, and bottled water. Bud and Bud Light nevertheless

Philip Morris, now Altria) have struggled and, in many cases, failed.

On the business-to-business side, take IBM as an example. The now-retired chairman, Louis H. Gerstner, used biting irony when he turned a scathing phrase, often used by misguided “dot commers” to disparage large corporations, into the title of his book about the turnaround of the IBM corporation: *Who Says Elephants Can't Dance*. Mr. Gerstner is a great simplifier and he made a very short list of the most important elements of his turnaround plan. Two of them were the importance of leveraging the massive historical investment in the IBM brand, and a single-minded focus on customers and their needs. These are the very foundations all marketers should construct for their business development.

Brands and customers... If August Busch and Lou Gerstner, two of the most successful CEOs of our time, can master these two ideas, why can't all other CEOs?

One plausible reason may be that many CEOs, who ascended the corporate ladder from finance, operations, legal, mergers and acquisitions (M&A), and the corporate suite, do not fully appreciate the very simple equation that building brand equity builds shareholder value.

Here's how the equation works. The equity in brands exists entirely in customers' minds. Brands are the sum of the perceptions, past and present, significant and trivial, that consumers hold based on their experiences with the brand and the messages the brand has communicated, and the interaction between those experiences and communications.

Consumers who hold strong perceptions overwhelmingly favor the brand with more frequent purchase and usage, and greater loyalty (*i.e.*, a higher percentage of their requirements are filled by the brand). These customers require less promotion and price incentive, and are therefore more profitable to the corporation. They recommend the brand to their

friends and become a low-cost and highly persuasive marketing campaign all their own. They are highly receptive to brand expansion into adjacent areas of need, and so make the introduction of new items faster, cheaper, and more profitable.

One of the great advantages of strong brands is their capacity to introduce products and services outside of a narrow category description. That is because they occupy an emotional space called a domain which offers vast opportunities for growth. They can be positioned as leaders in new, innovative, emergent niches that have greater growth and profitability potential. For example, Olay is now a vast array of products, all on a single advertising platform. And the value of that brand has multiplied many times from when it was simply a functional moisturizing cream. The brand itself and the loyalty it engenders is the real corporate asset, but it does not appear on the balance sheet. Instead there's something called “good will,” the difference between what an accountant can touch and what creates value by touching the hearts of consumers.

So, brand equity and its behavioral manifestation brand loyalty leads directly to higher shares, faster growth, valuable distance versus competition, and economies of scale. These benefits translate directly into shareholder value.

A number of academic studies have been completed in support of this simple, powerful relationship between brand equity and shareholder value. One of the well-known studies is from Stern Stewart, the econometricians who popularized the measure called EVA (economic value added) as the single metric with which CEOs could guide their financial strategy. They selected the Young & Rubicam BrandAsset Valuator (BAV) database and methodology as the basis for measuring the consumer franchise of brands, and the EVA methodology for analyzing financial performance. The data yields a correlation score of greater than 0.6 (pretty high in statisti-

Brand power grid

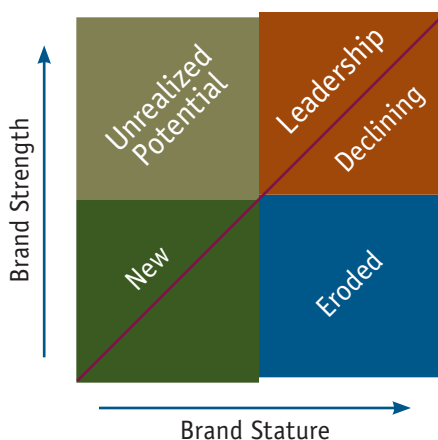


Figure 1 — Using this model, Stern Stewart was able to link consumer franchise to value creation in a systematic, objective way, as shown in Figure 2.

hold a higher share of the U.S. domestic market than they have ever had before (50 percent market share by the fourth quarter, 2003). They are growing their international business, and Anheuser Busch, the brand owner, has been able to deliver consistent growth in revenue and earnings in a market where all other contenders (including larger and very highly accomplished corporations like the former

cal terms) between the two variables. Excerpts from their study included in the BrandEconomics white paper are provided in Figure 2 (right).

BrandAsset Valuator and EVA

The BAV model documents the evolving relationship that a brand has with consumers. The relationship begins with differentiation; followed by the other attributes, relevance, esteem and knowledge. Plotting a brand’s performance on these four dimensions generates a “pillar pattern” that provides a powerful diagnostic of the stage of development of a brand. The height of a pillar is a brand’s percentile rank among all brands in its country.

Differentiation and relevance act as leading indicators of brand health while esteem and knowledge are lagging indicators. Stern Stewart combines differentiation and relevance to form a composite figure for brand strength, and combines esteem and knowledge to form a composite figure for brand stature. The resulting “power grid,” shown in Figure 1, is a diagnostic framework for analyzing brand health.

Despite irrefutable evidence from every quarter that brand equity and the loyalty it engenders drive profitability and offer a clear path to long-term growth by expansion into the larger consumer emotional domain, the C-Suite—the offices of the CEO, CFO, and COO do not understand nor appreciate the power of brands. If they did, they would assign brand building to one person and demand of that person the same focus on process, metrics and technology that in recent years have produced so much value in other functions especially the supply chain.

Until the CEO places the same demands on marketing as on other functions, the growth crisis that afflicts virtually every business vertical and every company will remain unmet. Building brands is the need, transforming marketing with process, metrics and technology is the answer. ■

Monobrand with at least 5% change in differentiation and relevance over 2 years.

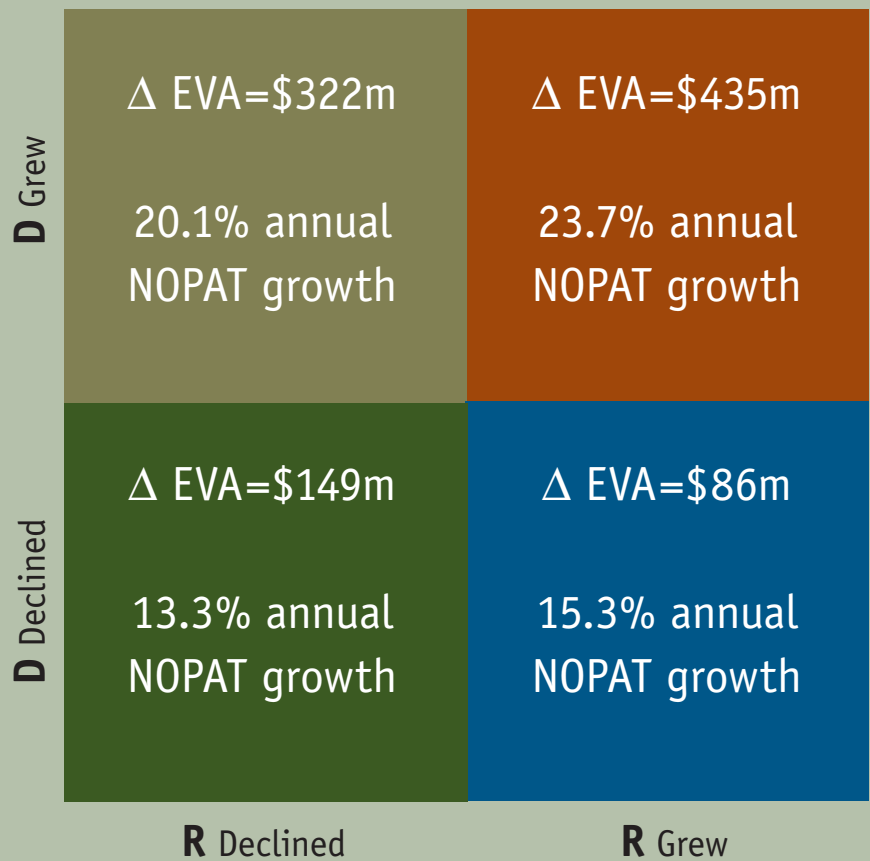


Figure 2—Some of the significant results of the study are as follows:

1. A large part of the intangible value of companies in certain sectors can be explained by the health of their brand as measured by BAV.
2. In a brand context, you rarely gain in volume what you sacrifice in margin.
3. Brands that suffered declines in both their differentiation and relevance (bottom left quadrant) still reported increased operating profit (NOPAT, net operating profit after tax) despite declining EVA. This reflects their inability to sustain the returns needed to justify the cost of the additional capital invested in the business.