

Improving Marketing Effectiveness

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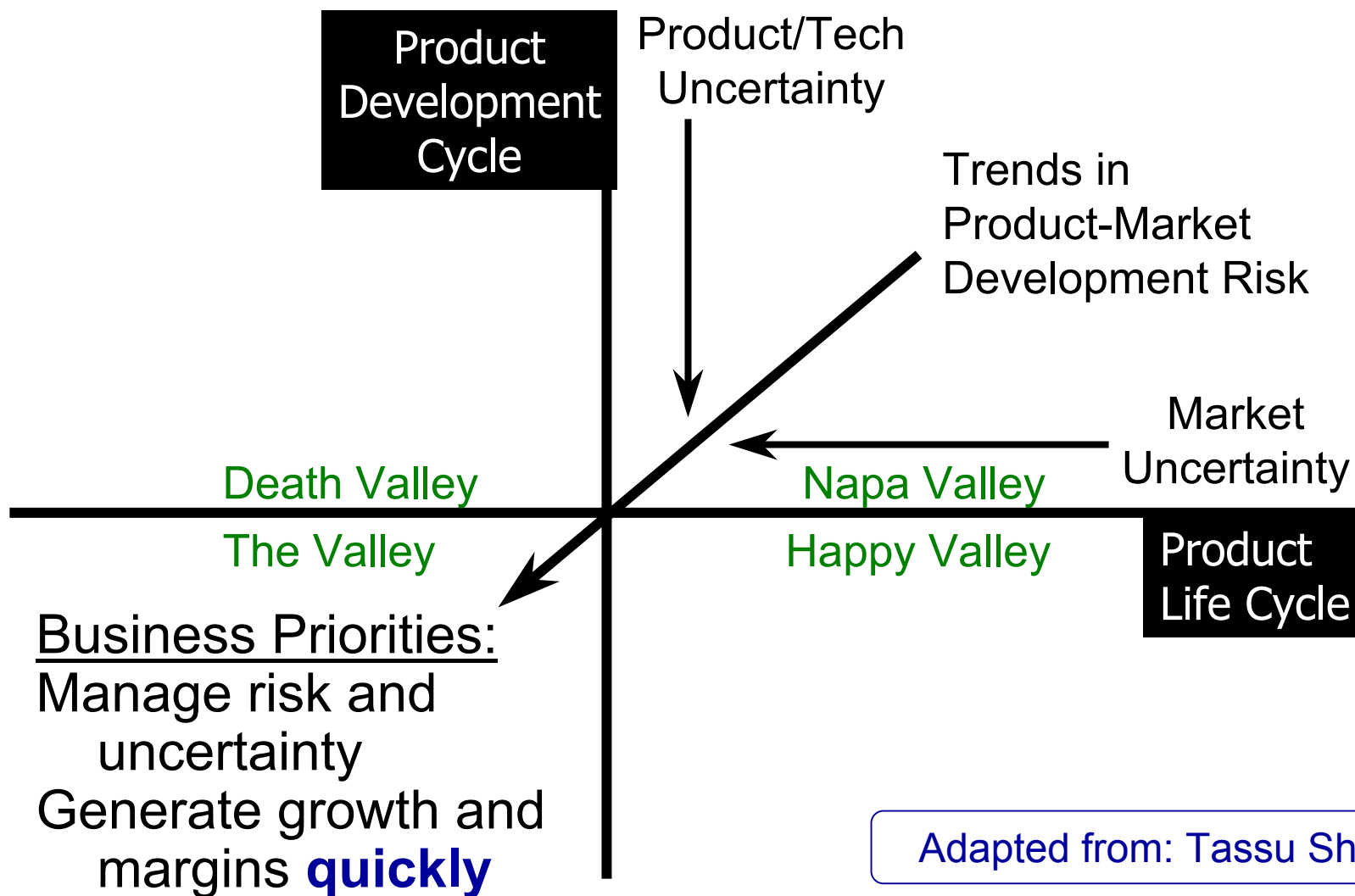
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Agenda

The Role of Marketing & Brands in:

- ❖ Managing Short-run Profits
- ❖ Managing Growth and Risk
(Vulnerability and Volatility of Cash Flows)
 - Strategic Options
 - Brands and customers as platforms

Emerging Competitive Environments



Adapted from: Tassu Shervani

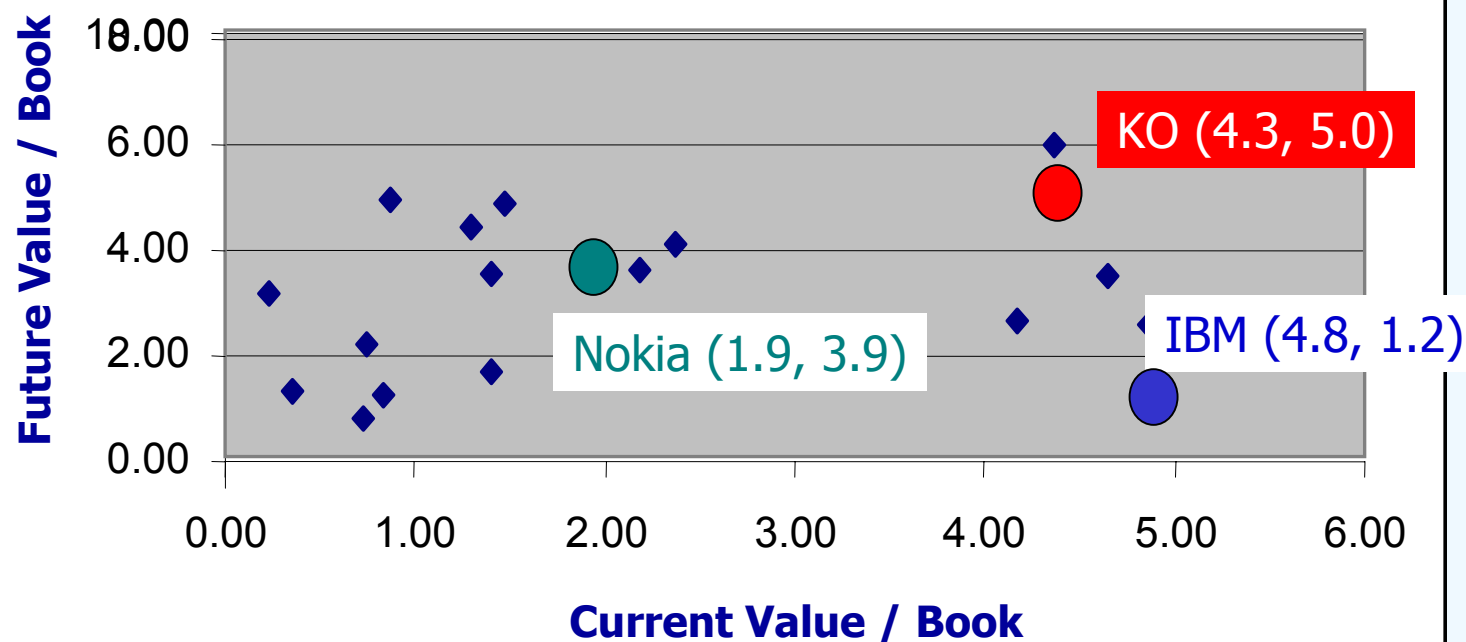
Marketing Challenges (as per CXO's)

- Pursuit of market share, not profits
- Demonstrating impact on shareholder value
- Overcoming fear of investing in new product-markets
- Managing market uncertainty and dynamics
- Failing to use (and to communicate) the value of market intelligence

Future + Risk

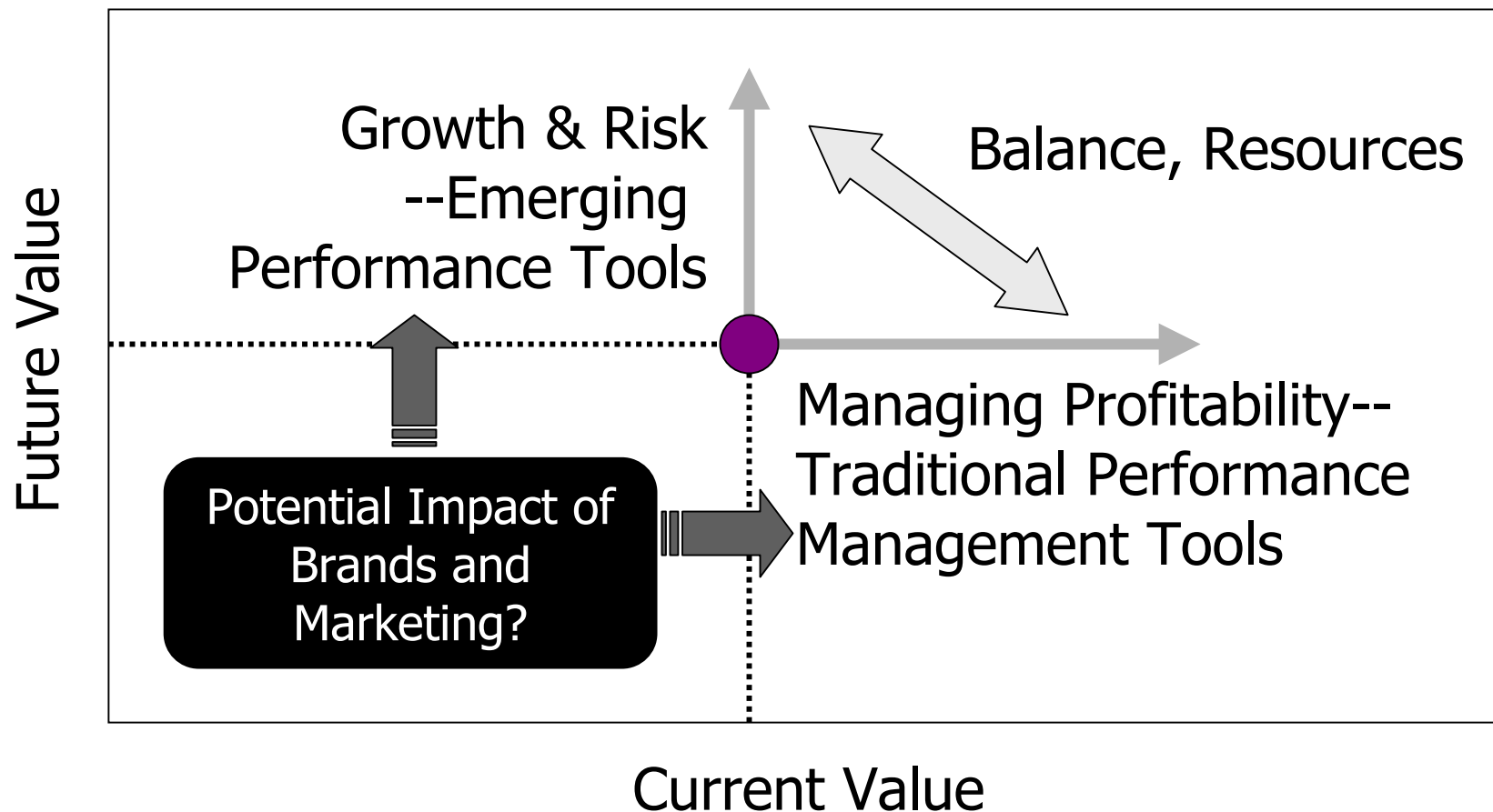
Managing for the Future?

Decomposing Market-to-Book Ratio Into Current and Future Components

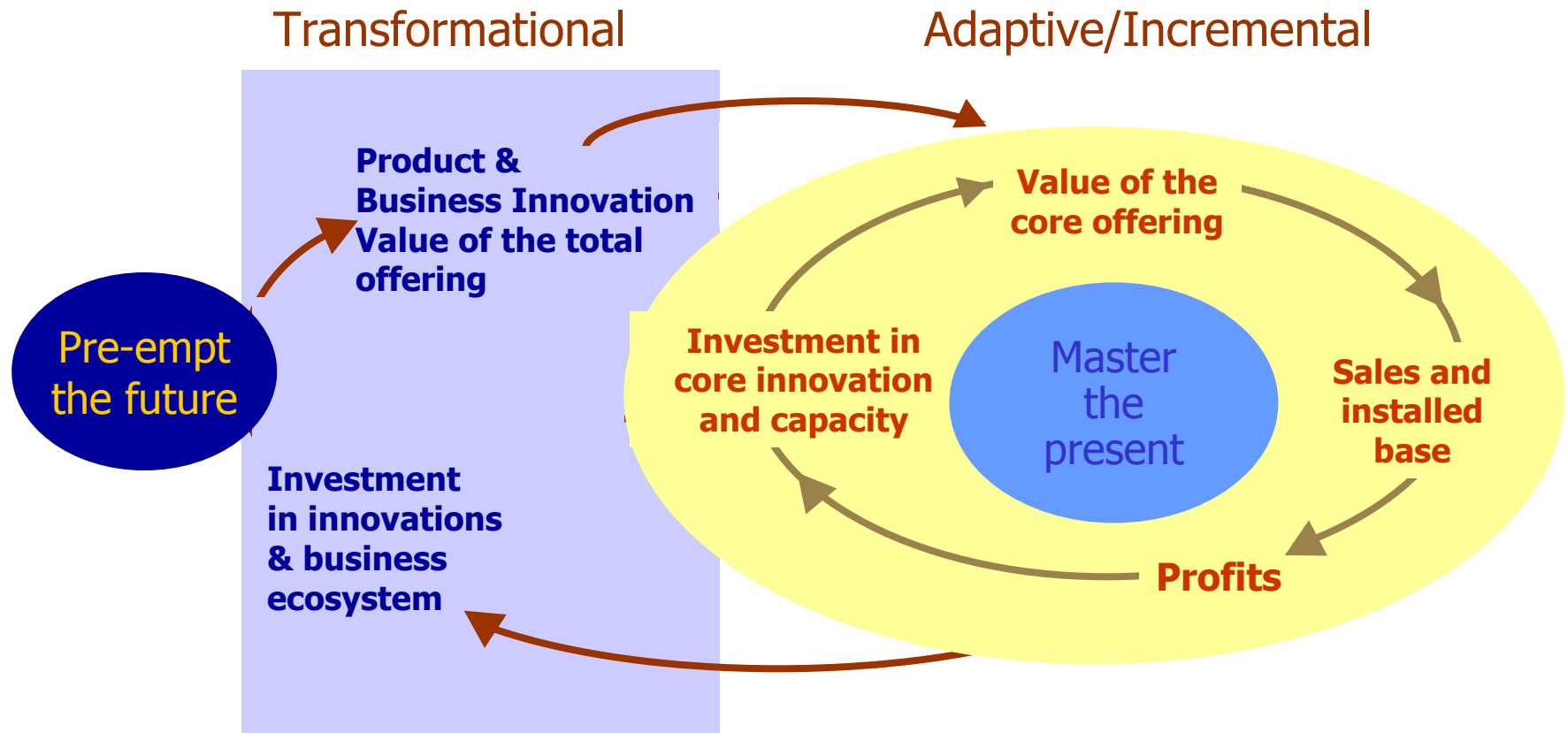


E*Trade, July 25, 2003

Architecting Shareholder Value

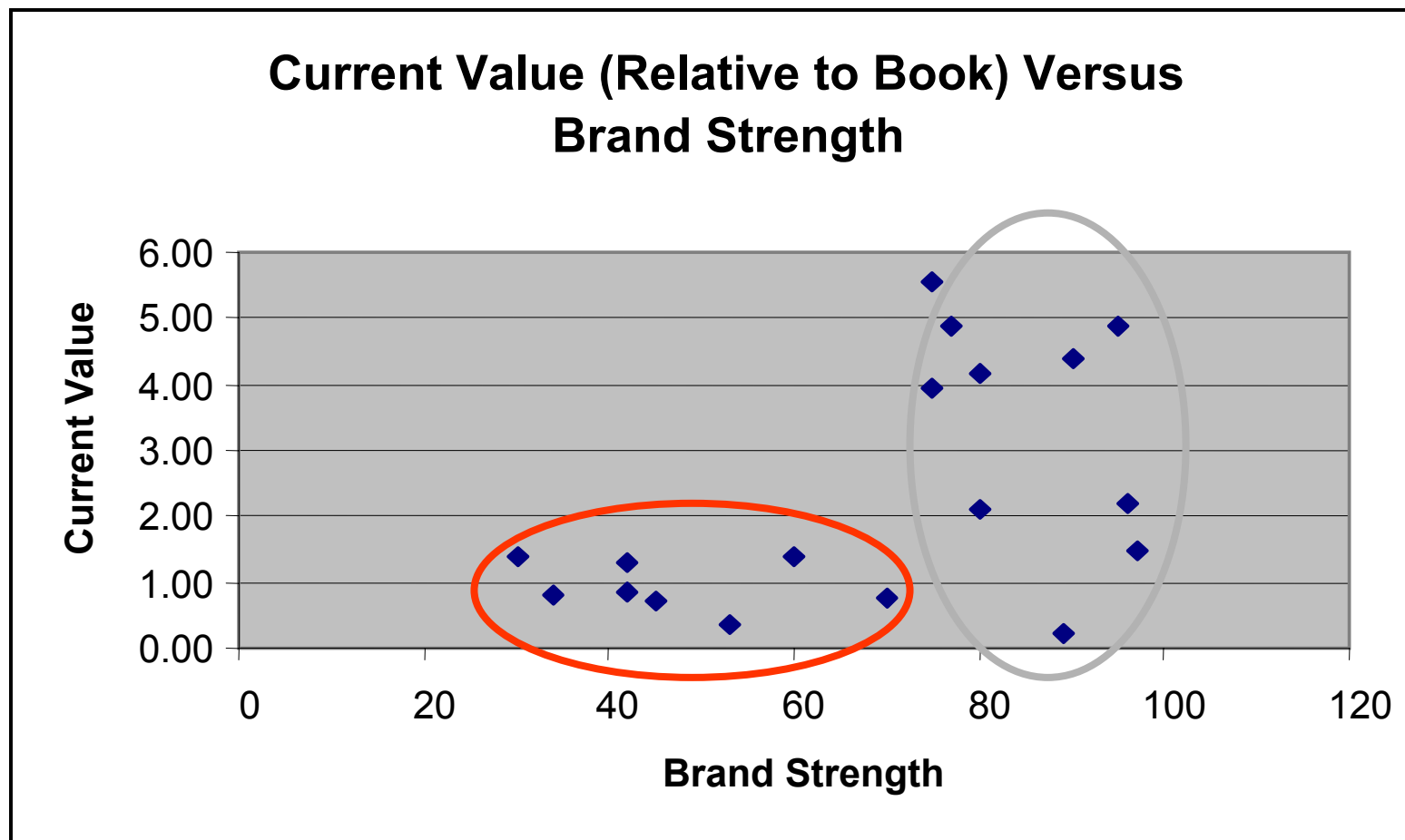


Double Loop Business Models



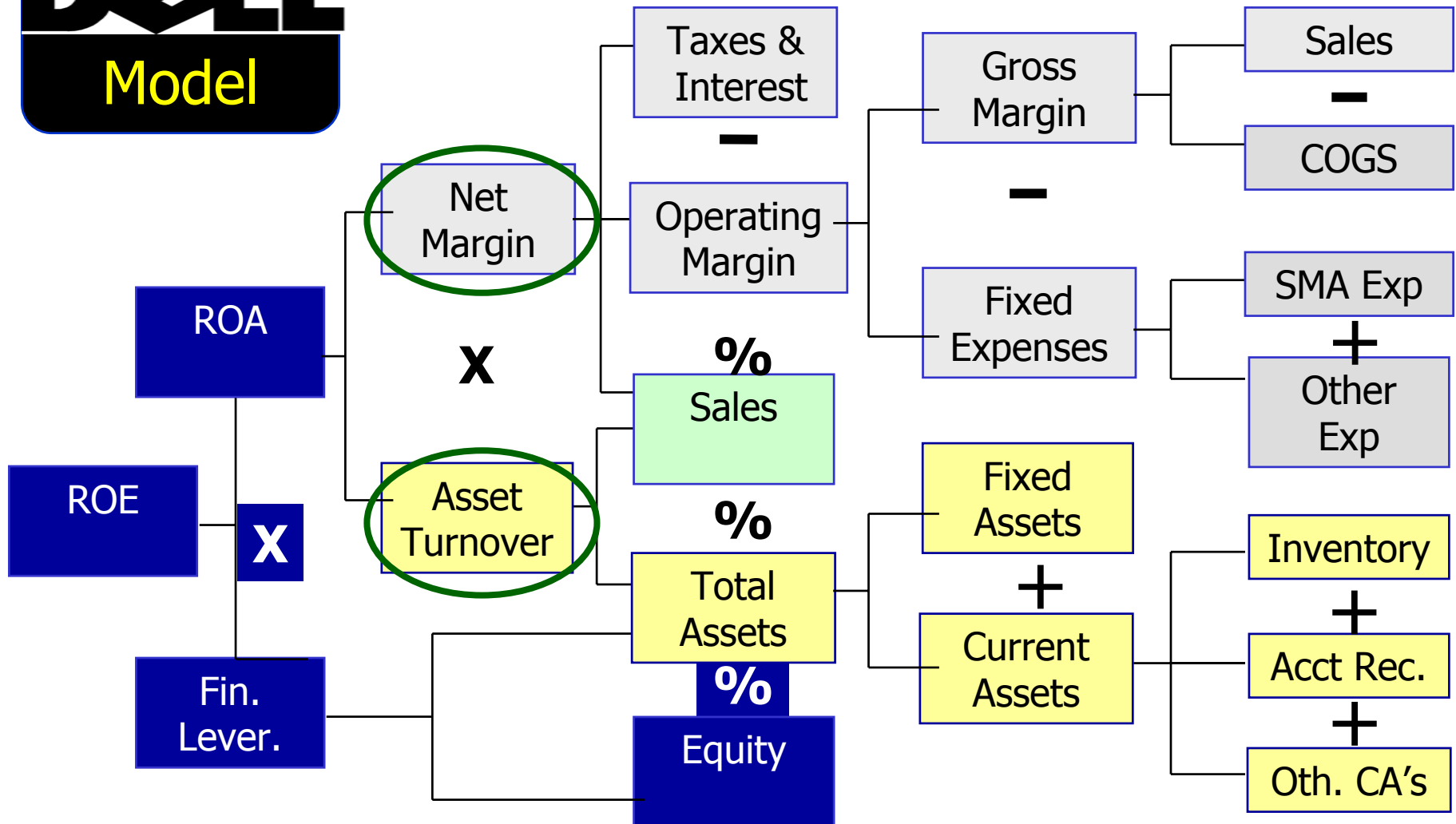
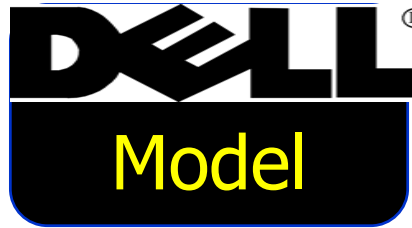
Organizations Must Strike a Balance Between Incremental and Transformational (Market-driving) Initiatives

Impact of Brands on Short-term Performance

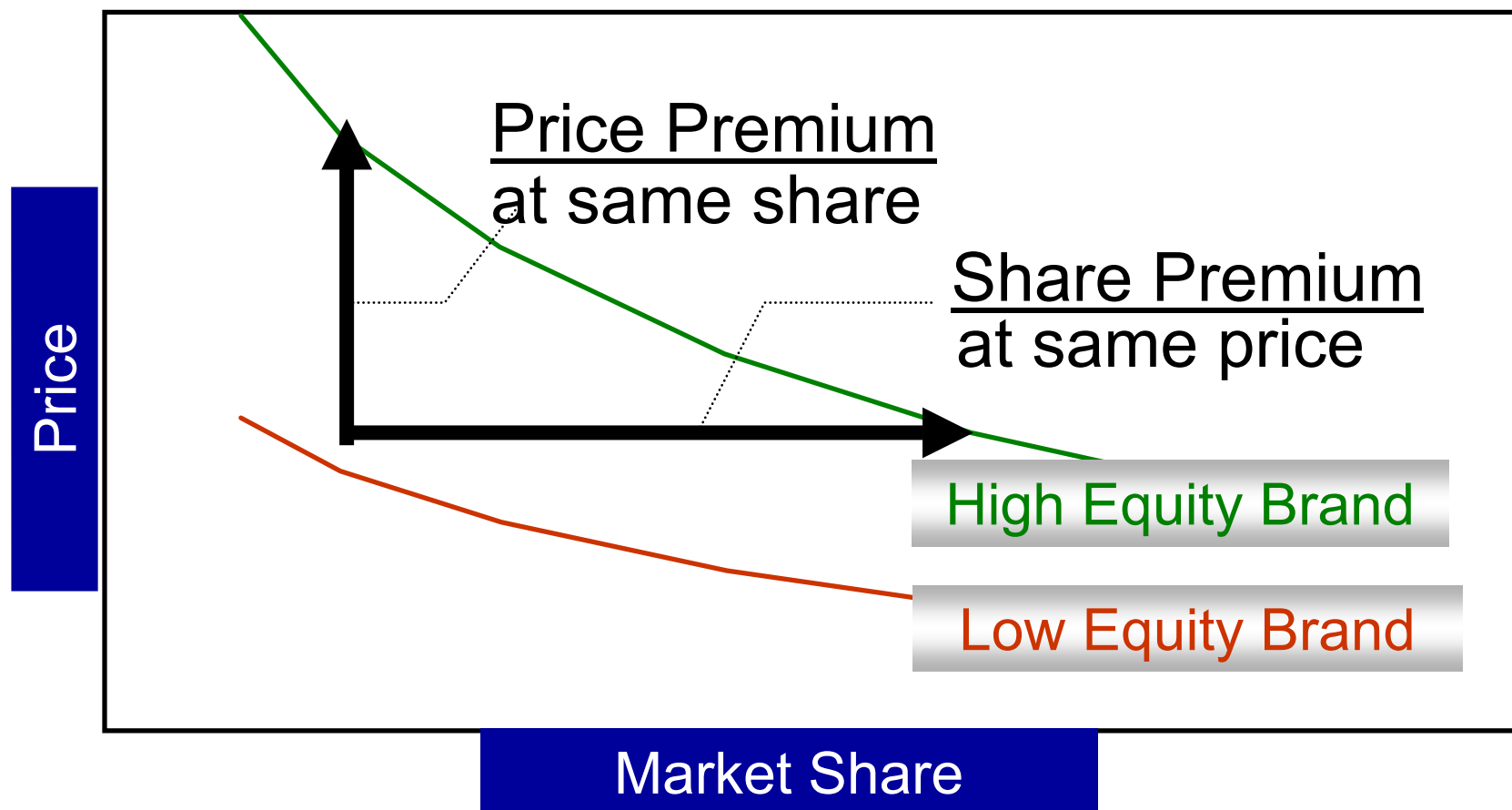


Managing Profitability

Traditional Performance Management Models

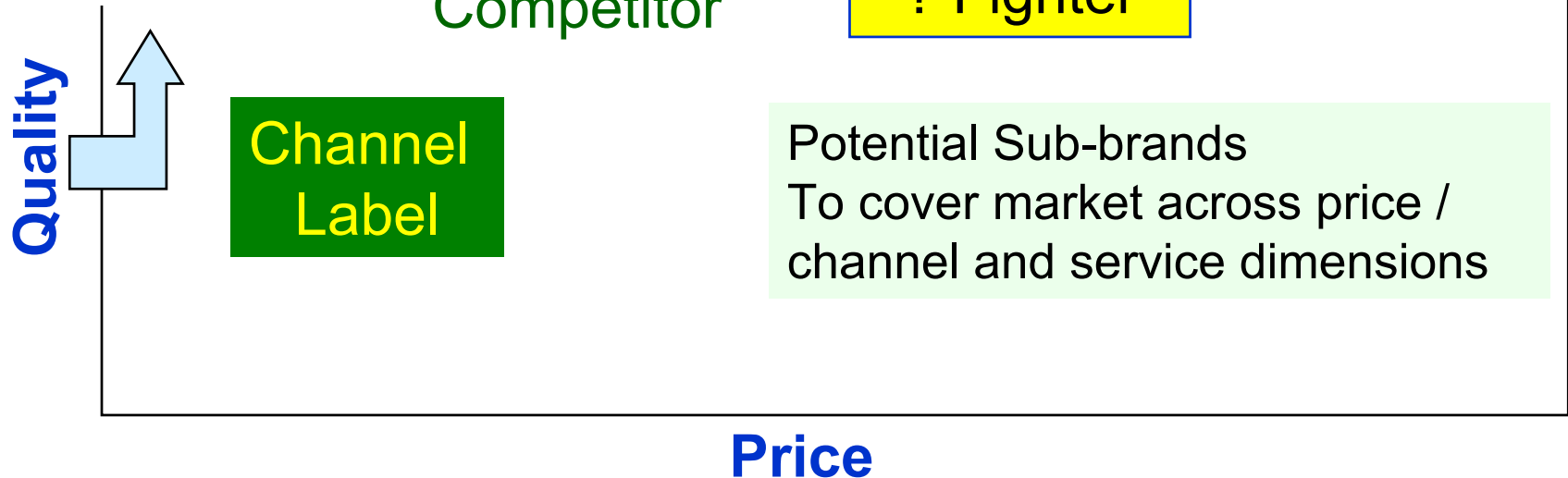


Leveraging Brand/Market Power

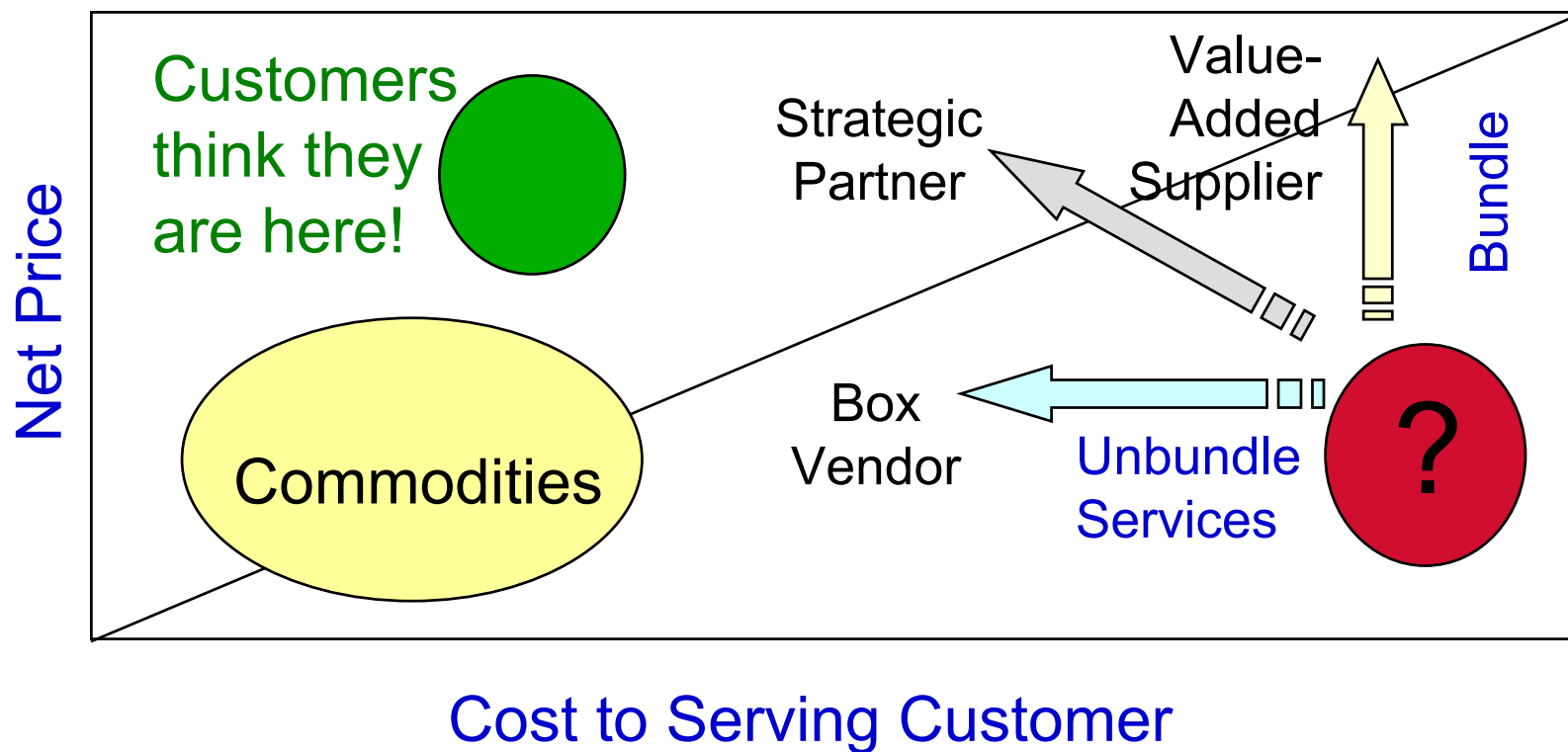


Competitive Brand Positioning

Specialty Features
Solutions, Complete
Product Line, TCO
Global
Performance
Reliability/Quality
Delivery, Support

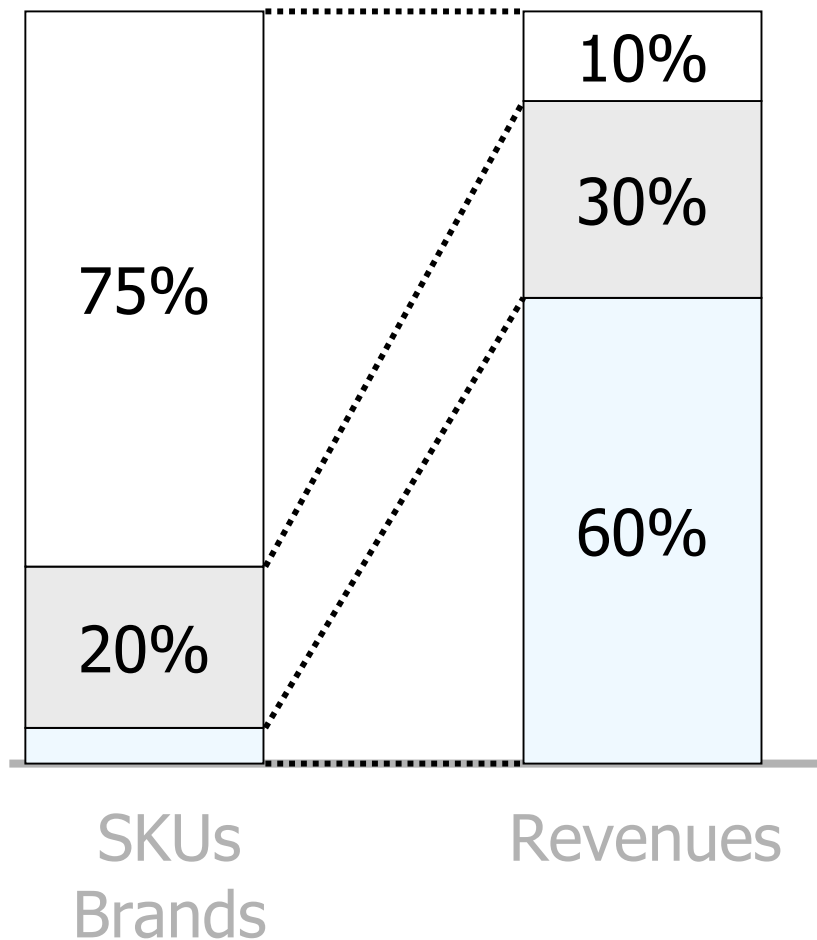


Managing Customers (& Margins)



Negotiation = Information, Options, Guts
Activity Based Costing (ABC) -- a MUST in Services

Eliminating Unprofitable Products



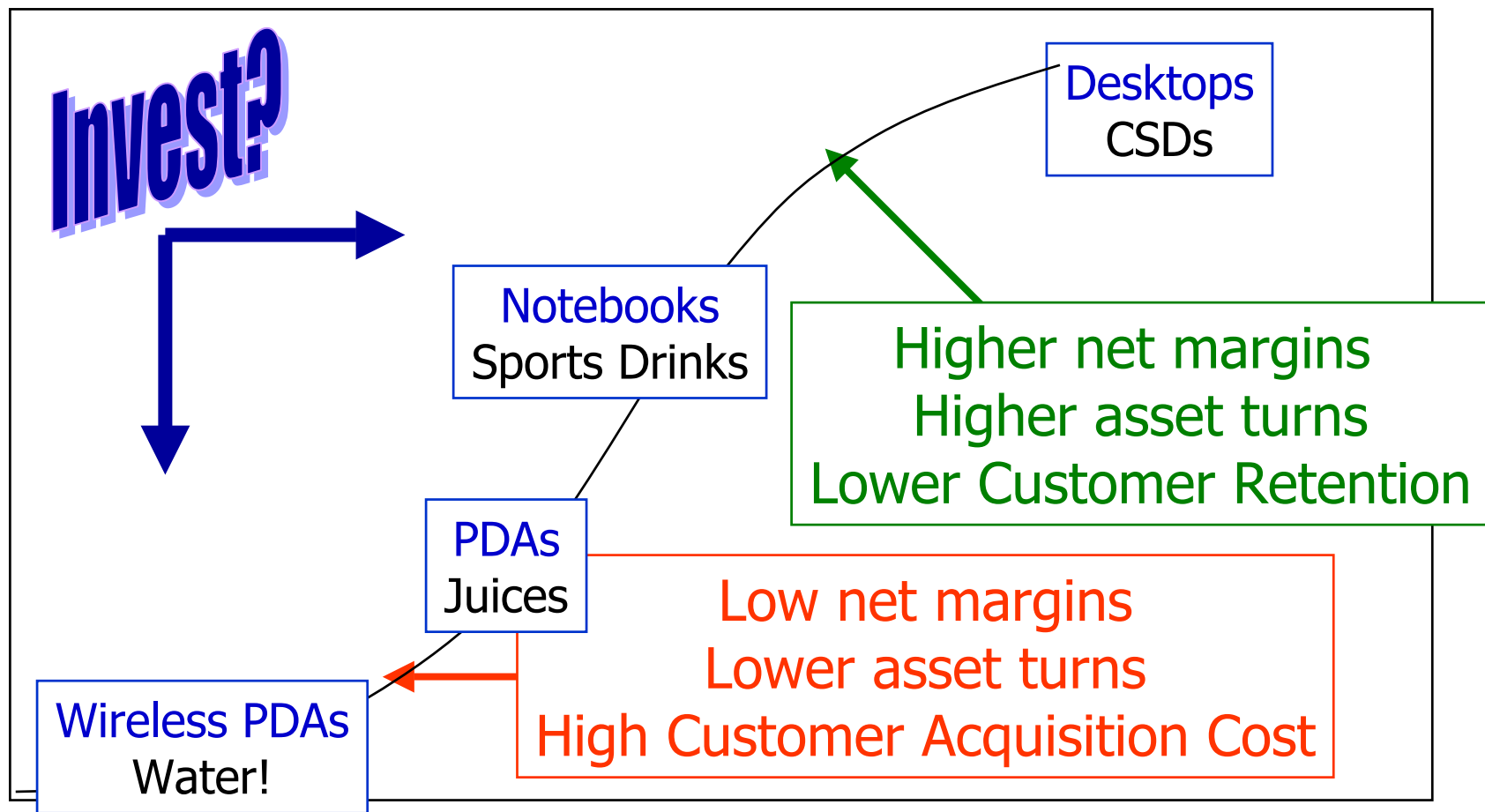
- Implications
 - **Eliminate mid-tier brands**
 - **Reduce SKUs**
- Outcomes?
 - **Higher growth**
 - **Lower costs**
 - **Higher average prices & margins**

Limitations of Traditional Tools/Metrics

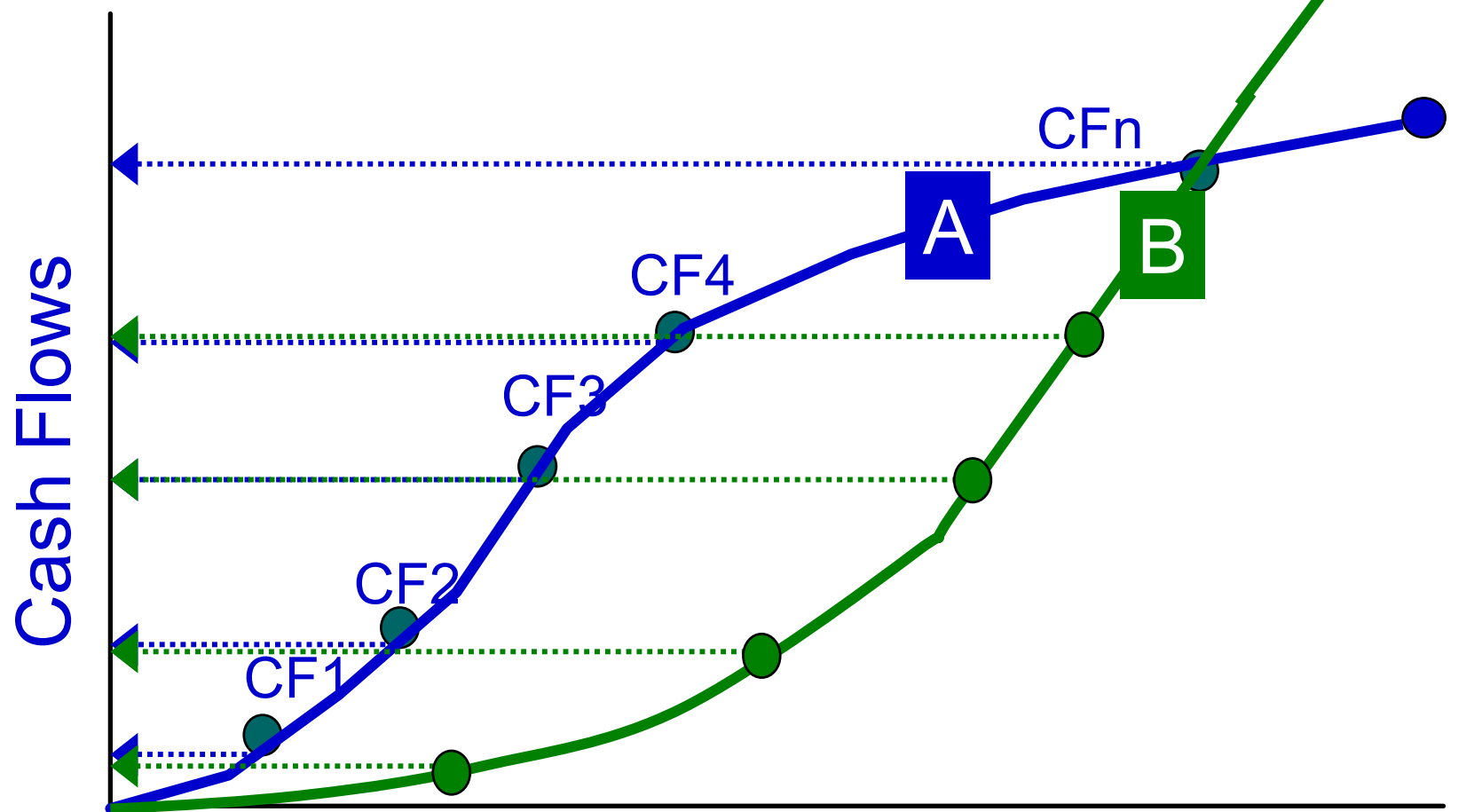
- Definition of expenses, assets
- Cost control versus value enhancement
- Retrospective
- R over I or R minus I
- **Ignores risk**
- **Sacrifices future opportunities for short term profits**

Most traditional financial metrics (e.g., margins) and tools (e.g., ROI, EVA) are geared for short term management

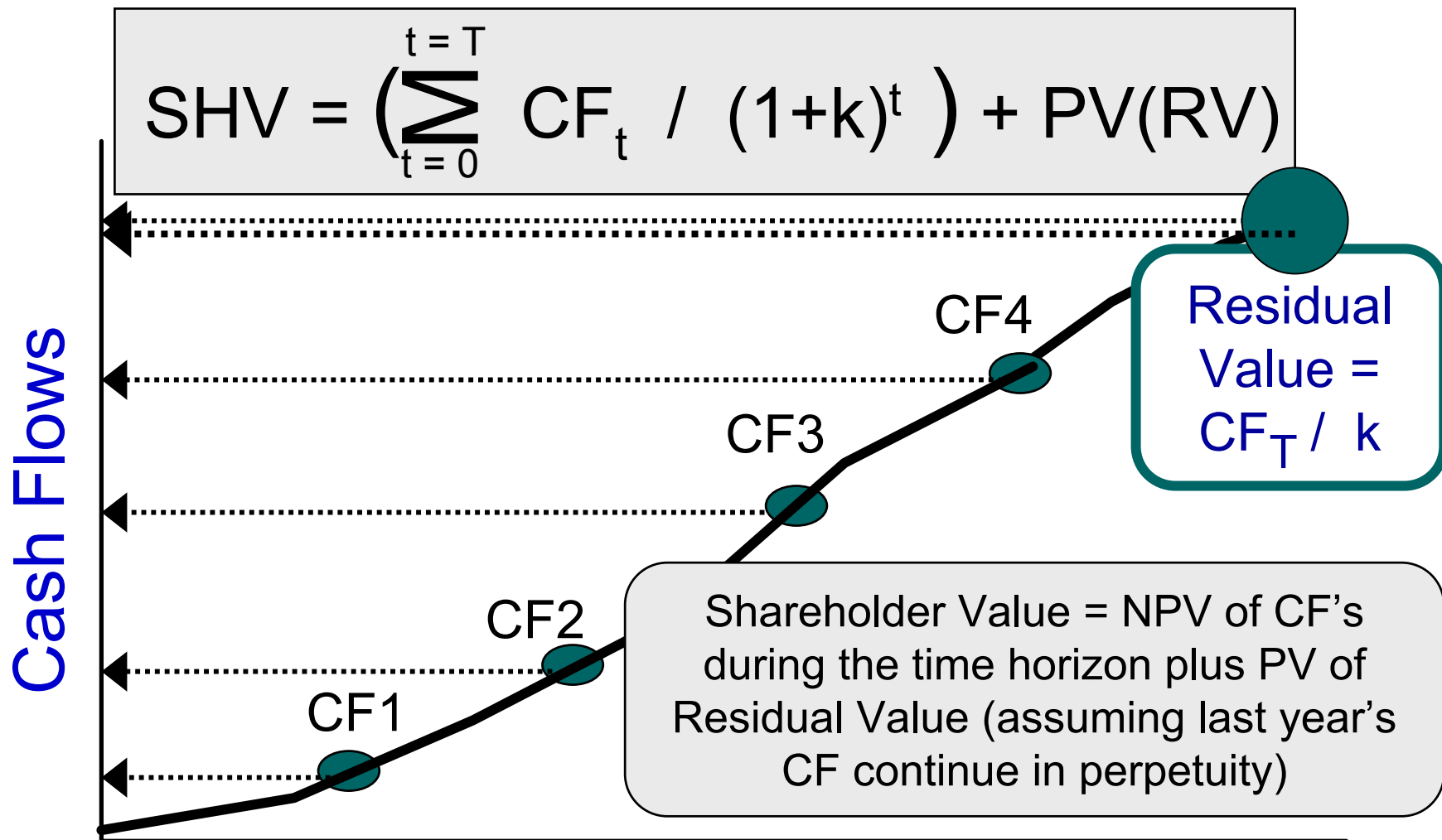
Relevant Metrics Depend on Stage of Product Life Cycle and Competition



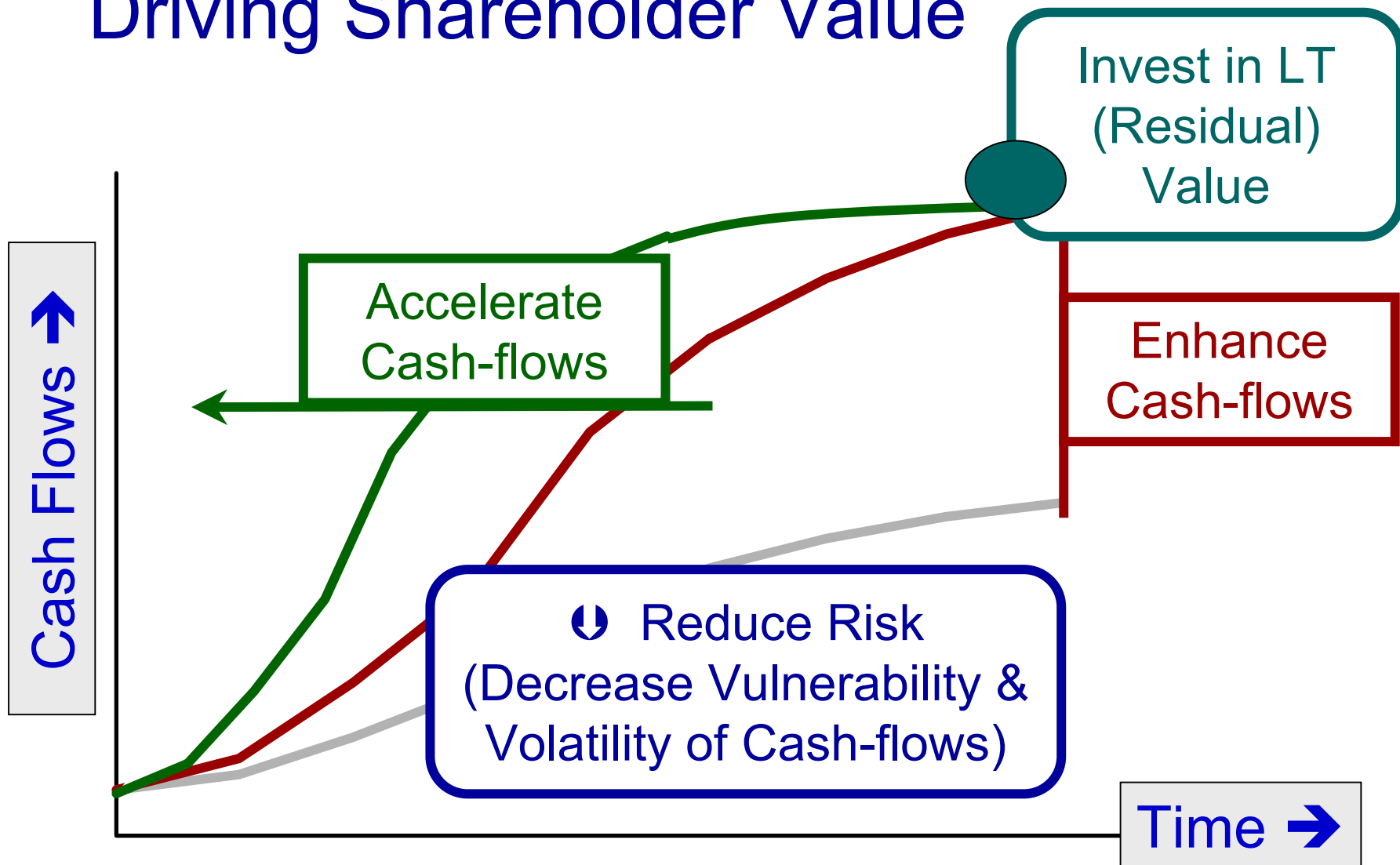
NPV--Which Opportunity is Better?



Shareholder Value



Driving Shareholder Value



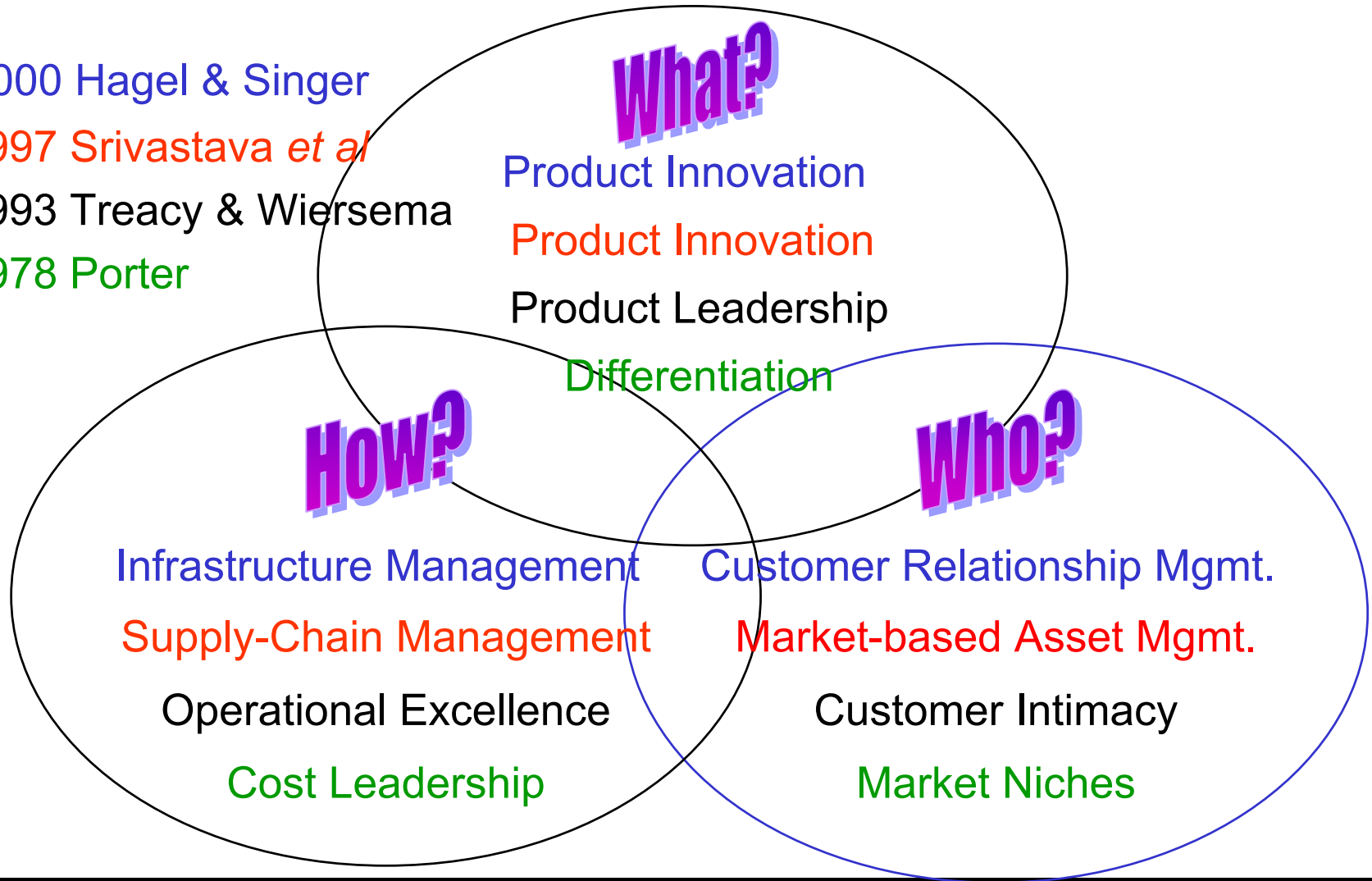
Value Creation Via Business Processes

2000 Hagel & Singer

1997 Srivastava *et al*

1993 Treacy & Wiersema

1978 Porter

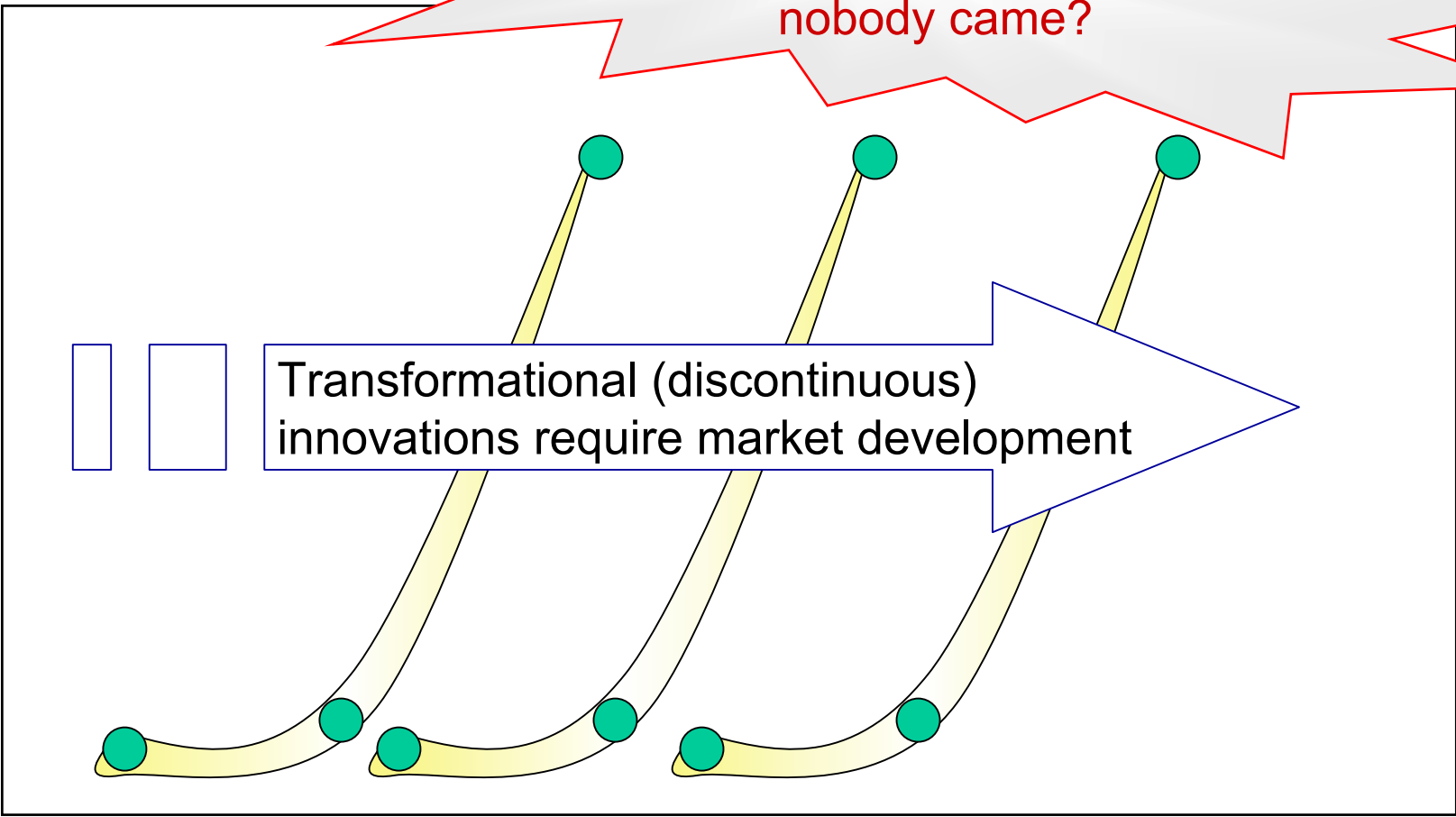


Business Models--Sample Value Metrics

<i>Components of Value</i>	Innovation Management	Supply Chain Management	Customer Management
Enhance Cash Flows	Margins via Differentiation Modular Designs to Reduce Costs	Reduce WC via JIT Principles Use Information to Drive SC Processes	Margins via Branding, X-Sell, Up-Sell
Accelerate Cash Flows	Time-to-Market Speed-Up Product Development	Time-to-Volume Reduce Order-delivery Time	Time-to-Market Penetration Reduce Customer Solutions Time
Reduce Volatility & Vulnerability of Cash Flows	Options; Product Differentiation Product/Tech. Platforms	Process Innovation Max. Synergies Across Products	Customer Retention LT Service Contracts Bundling Value Migration

The Hockey Stick Effect

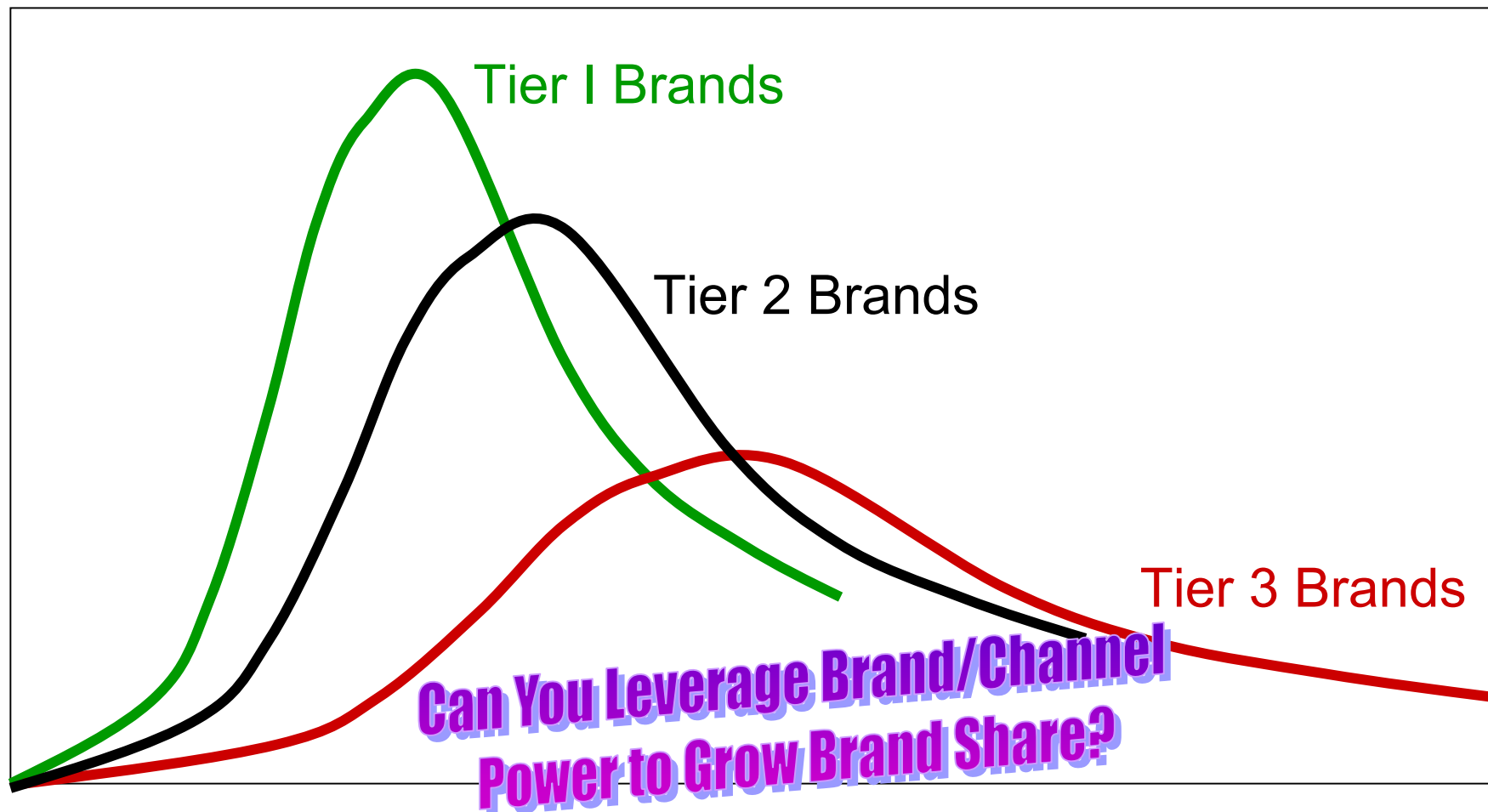
What if you threw a new
product into party and
nobody came?



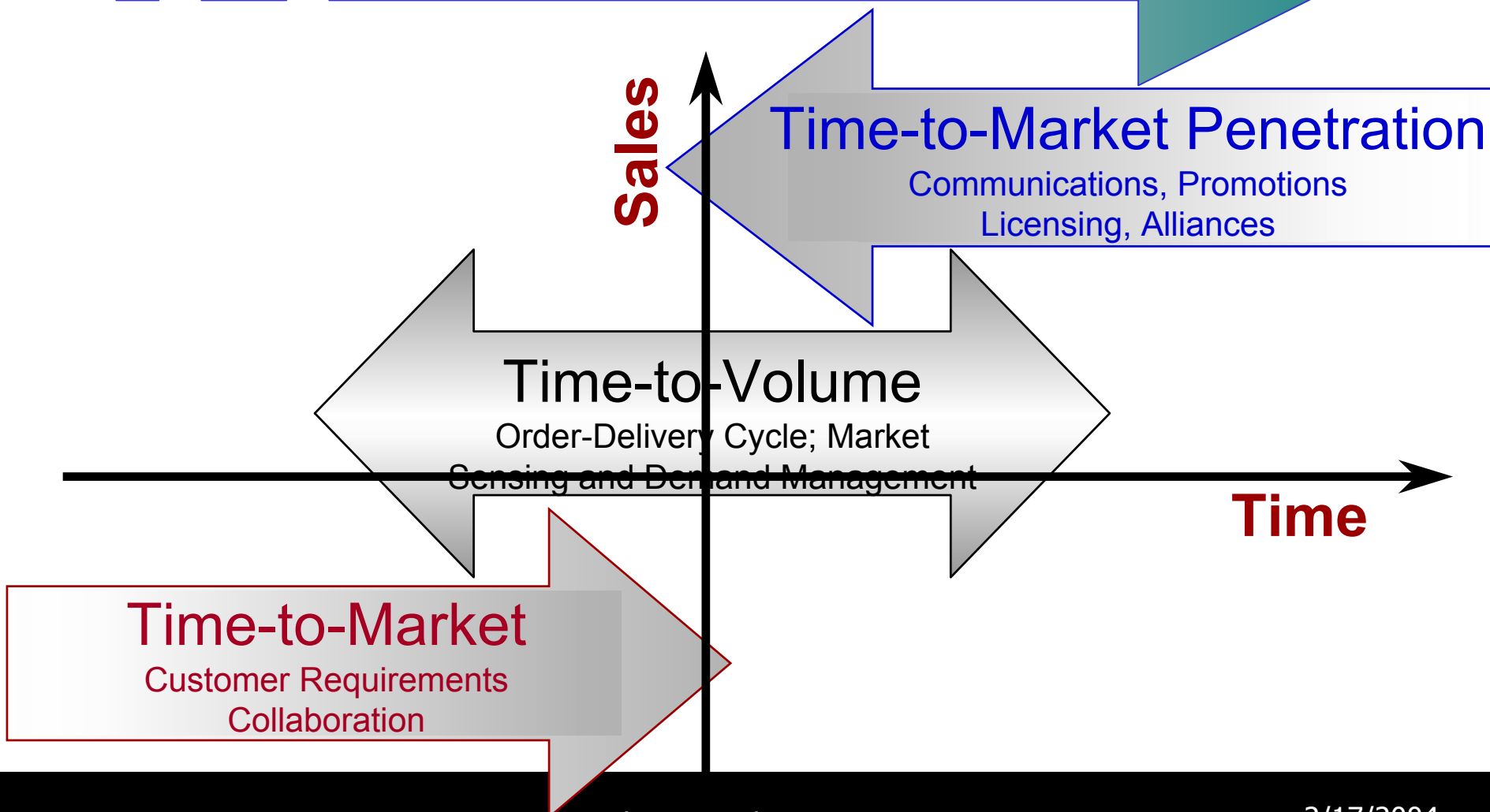
The diagram illustrates the 'Hockey Stick Effect' for three different products. Each product's performance is shown as a yellow curve that starts flat on the x-axis and then rises sharply, resembling a hockey stick. Each curve has two green dots on the flat part and one green dot at the end of the rising part. A large blue arrow points from the text box to the right. To the left of the text box are two empty rectangular boxes.

Transformational (discontinuous)
innovations require market development

Market Penetration Rates for Brand Extensions



Accelerating Time - to - Money and Cash Flow Velocity



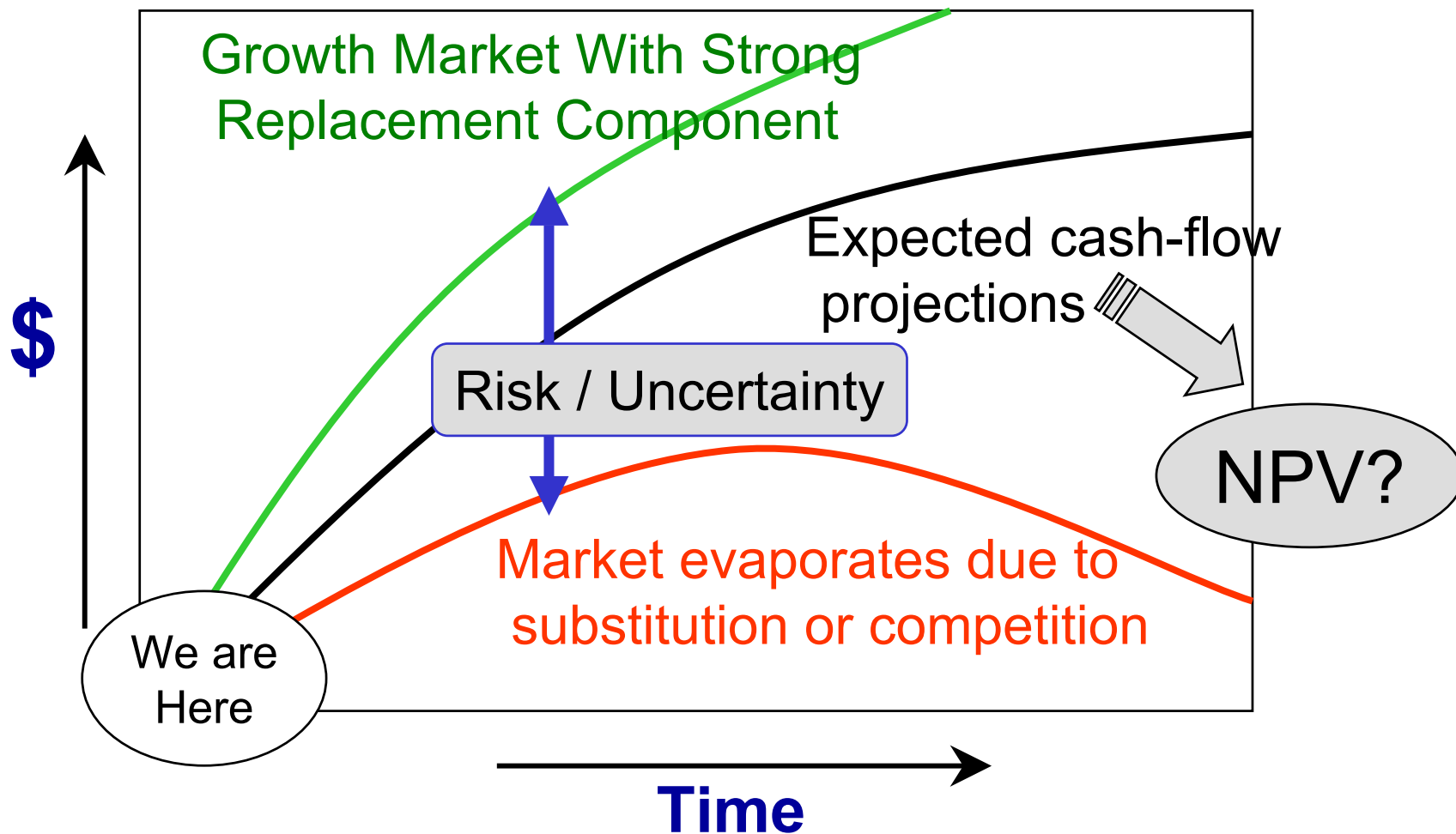
Managing Growth & Risk:

Leveraging Intelligence and Agility to Exploit Strategic Options

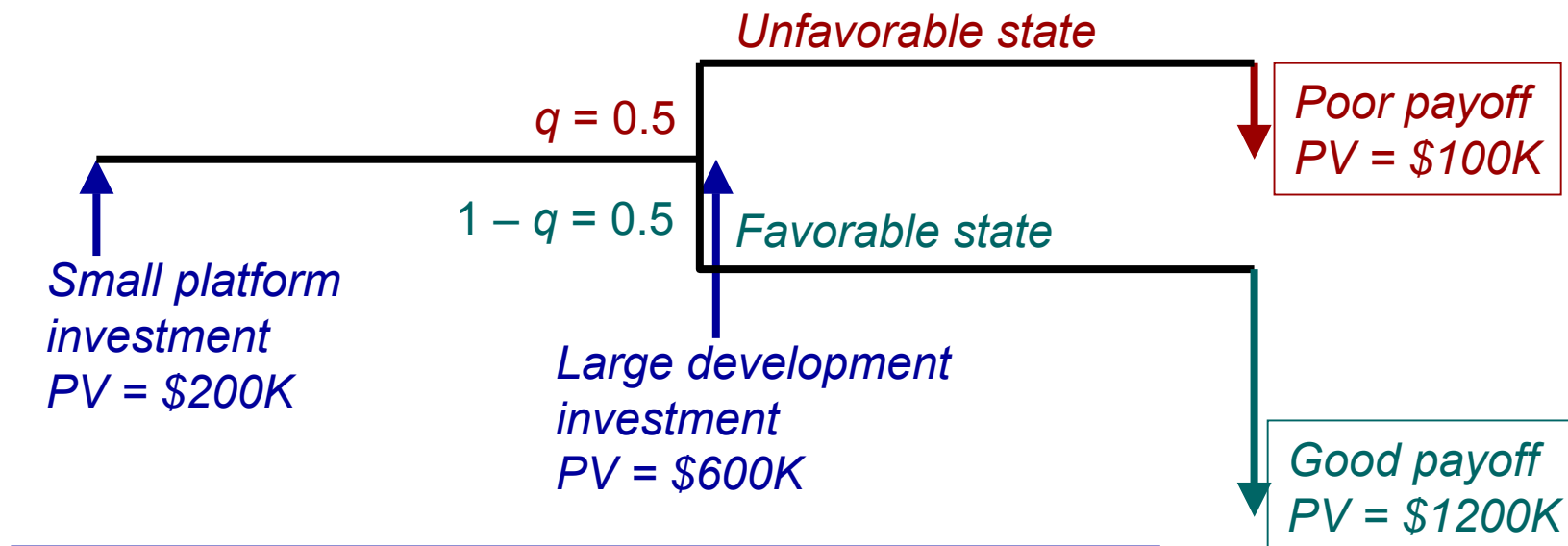
There are many ways to handle risk

- **Avoid risky product opportunities** and stick to incremental innovations
- **Outsource/share development** and commercialization risk with strategic partners or acquisition targets
- **Out-fox and out-perform competitors** in the innovation process (example--learn to kill marginal projects quickly to release resources)
- **Use market intelligence and flexibility/agility**—options based approach to management
- **Make markets “imperfect”** with long-term strategic investments (example--reflected in product, process and customer platforms)

How we undervalue the future ...



Options thinking example

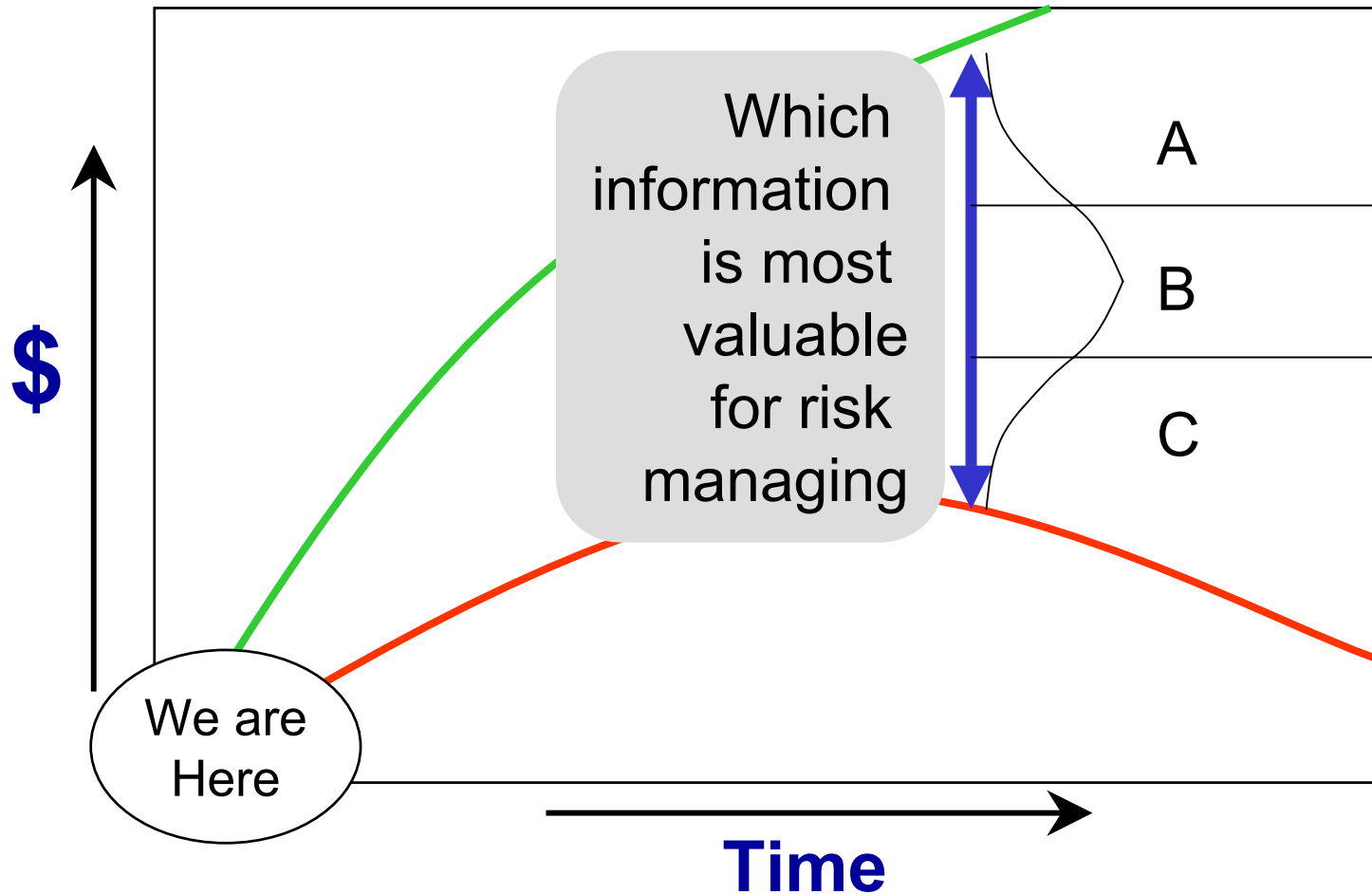


$$\begin{aligned}\text{Static NPV} &= -200 - 600 + (0.5 \cdot 100 + 0.5 \cdot 1200) \\ &= -800 + 650 = -150\text{K} \Rightarrow \text{Reject}\end{aligned}$$

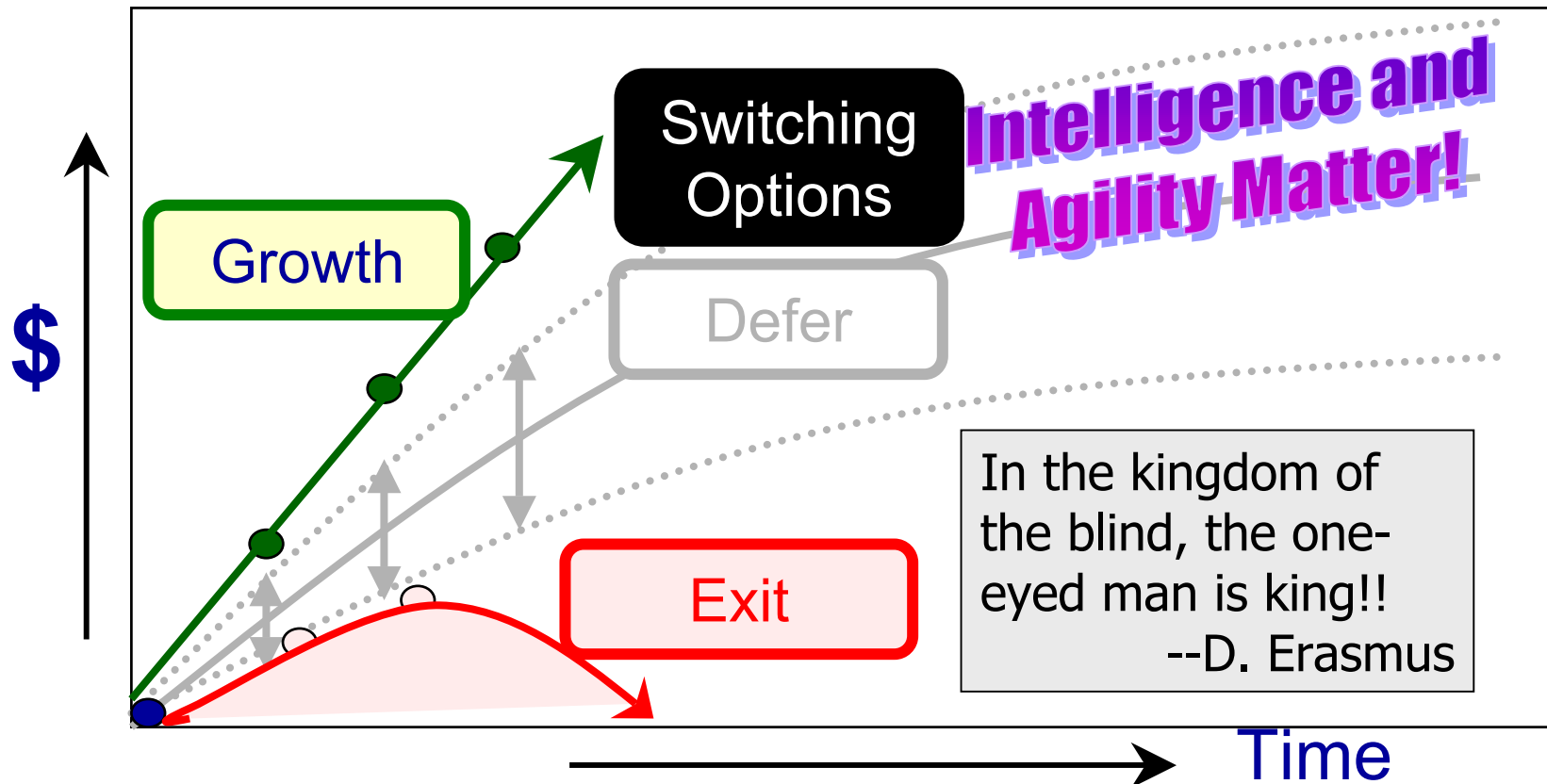
$$\begin{aligned}\text{Expanded NPV} &= -200 + 0.5 \cdot \max(100 - 600, 0) + 0.5 \cdot \max(1200 - 600, 0) \\ &= -200 + 0 + 300 = 100\text{K} \Rightarrow \text{Accept}\end{aligned}$$

Includes option value!

Managing Risk—Intelligence and Agility



Strategic options and market intelligence go hand-in-hand

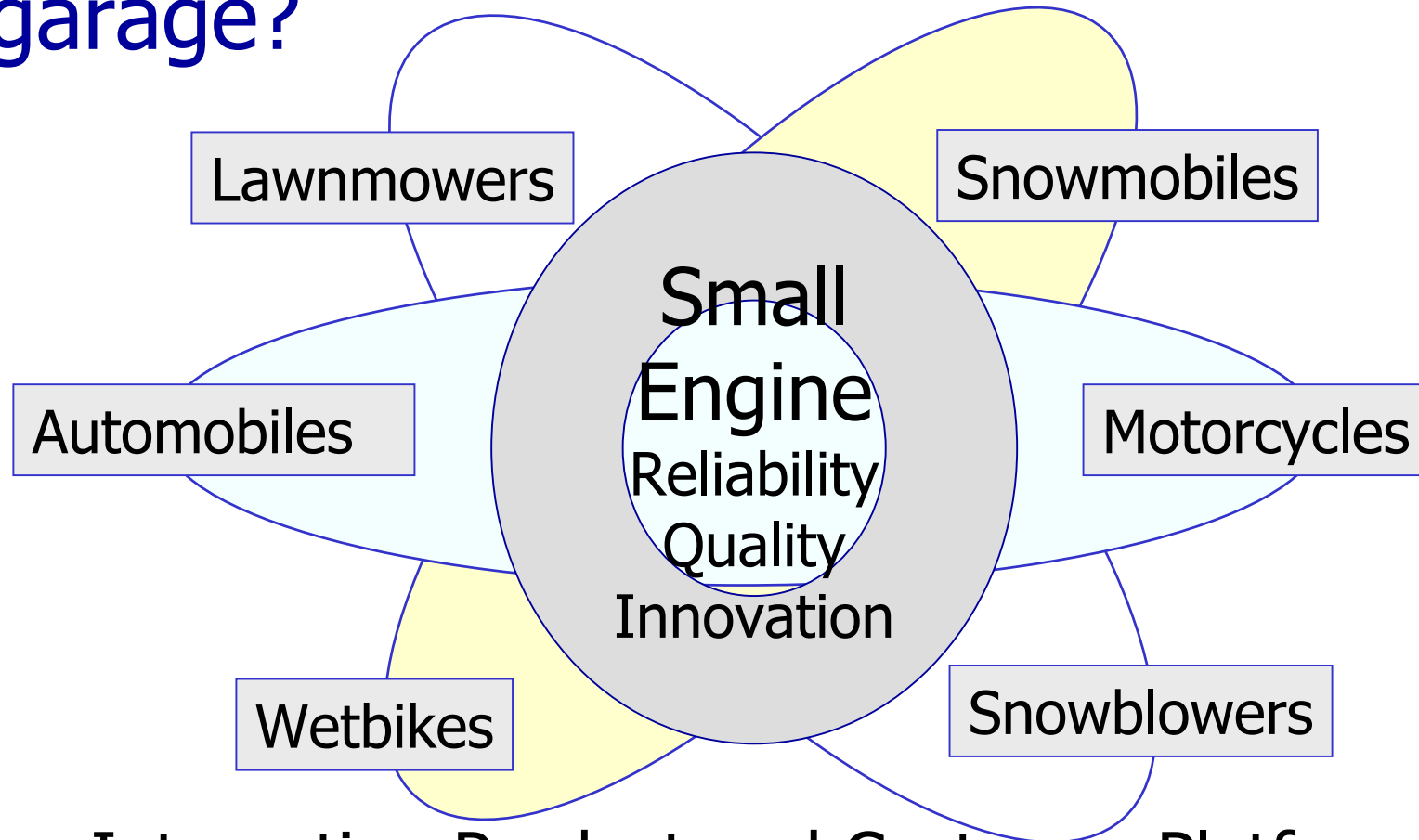


Uncertainty is a good thing risk can be managed with information to develop competitive advantages!

Managing Growth & Risk:

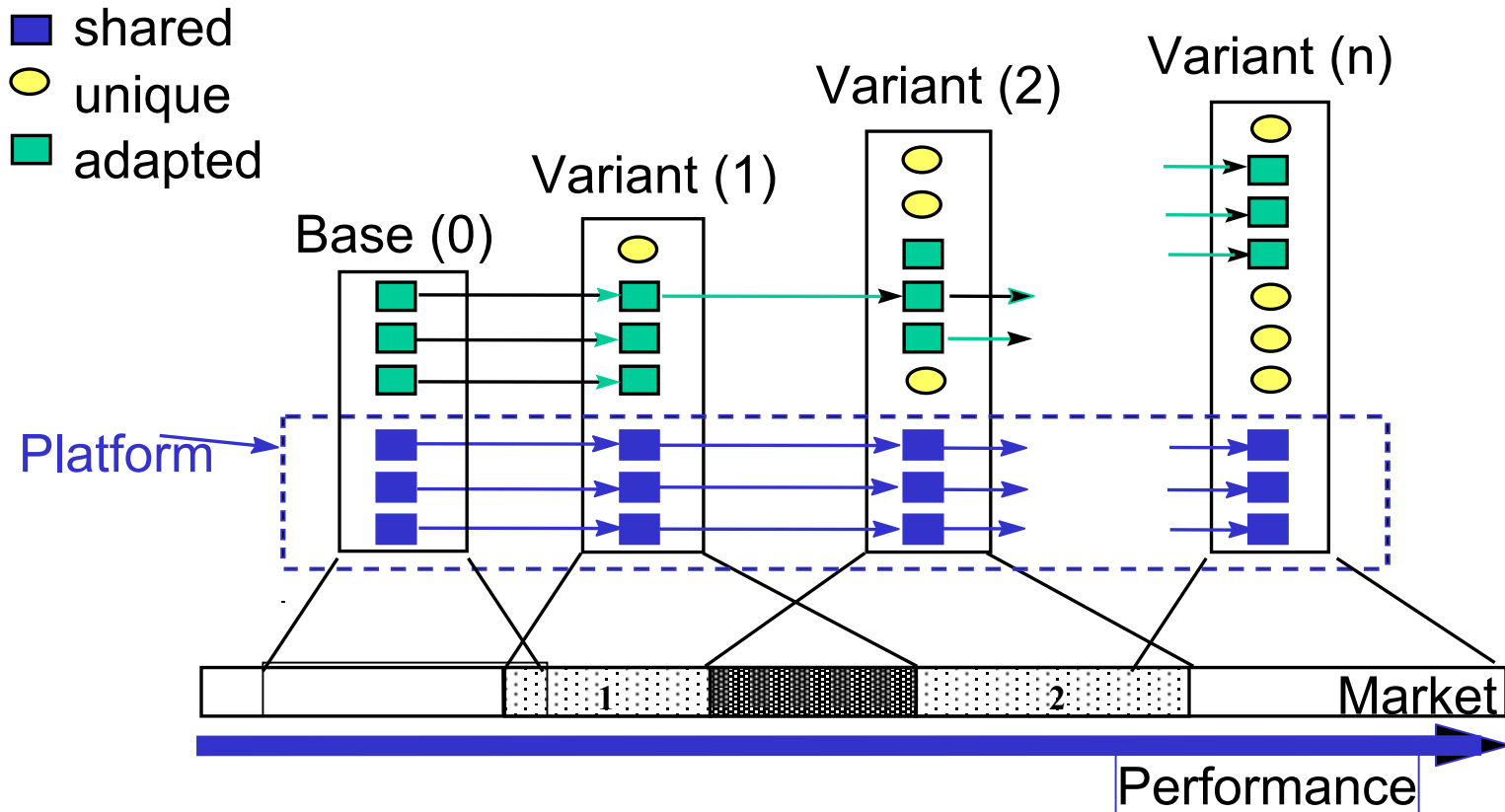
Increasing Market Inertia and Generating Sustainable Advantages Via Product and Customer Platforms

How can you park six Honda's in your garage?



Integrating Product and Customer Platforms!

Product Platforms Contain Risk & Costs

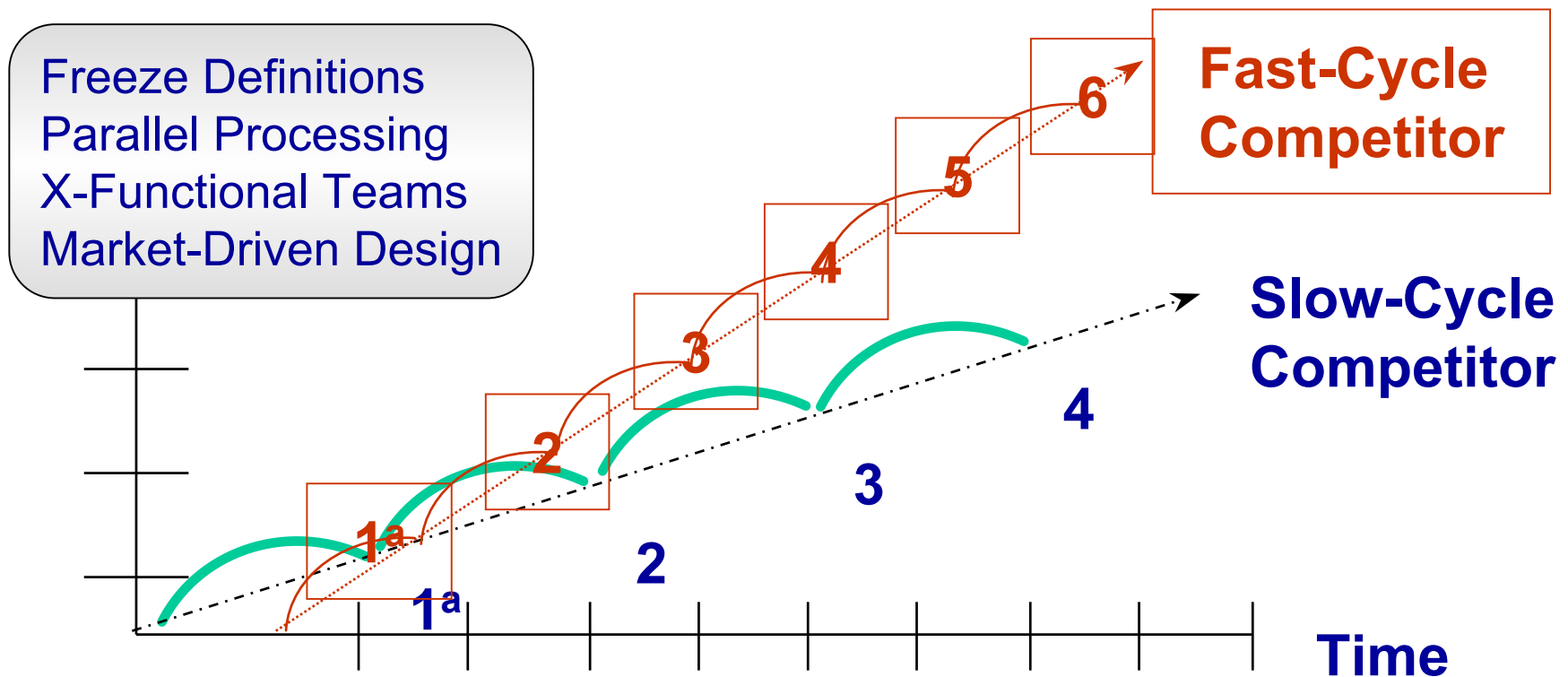


Product platforms exploit internal firm synergies, increasing profits and accelerating cash flows.

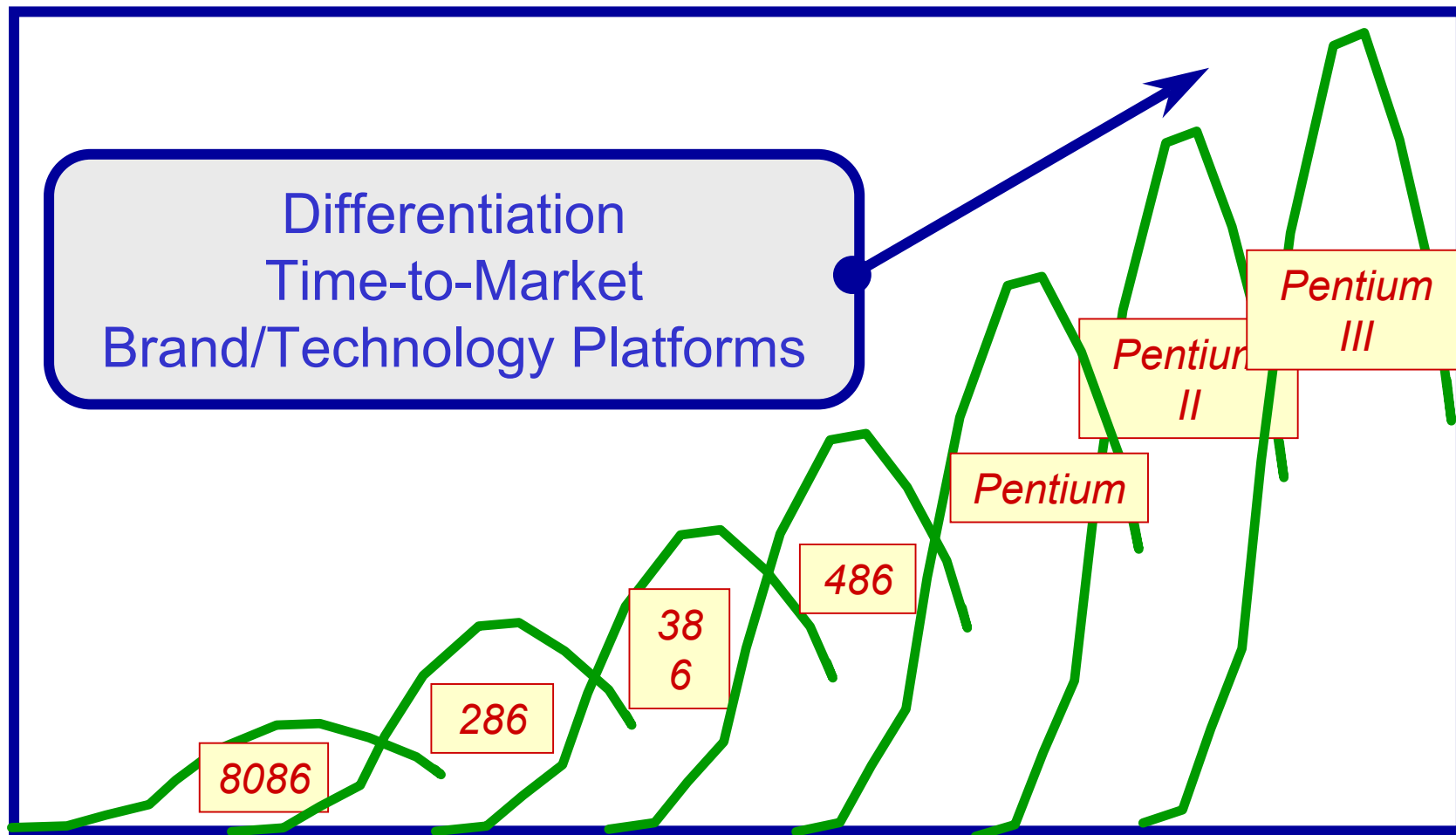
Importance of Cycle Time in PD

Cycle time advantage (even if small) is critical because it compounds over multiple cycles.

Frequent cycles reinforce the advantage.



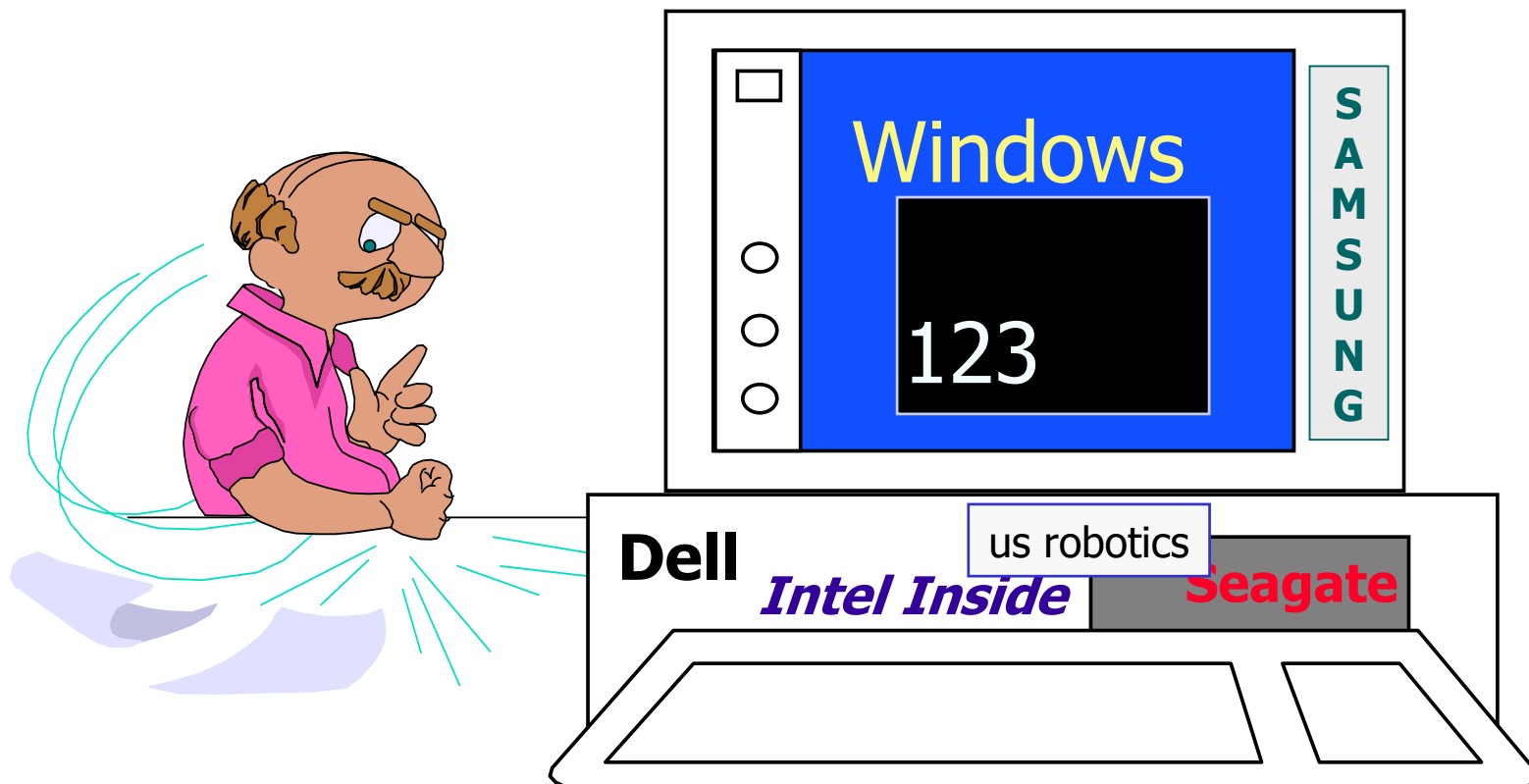
Leveraging Product Platforms



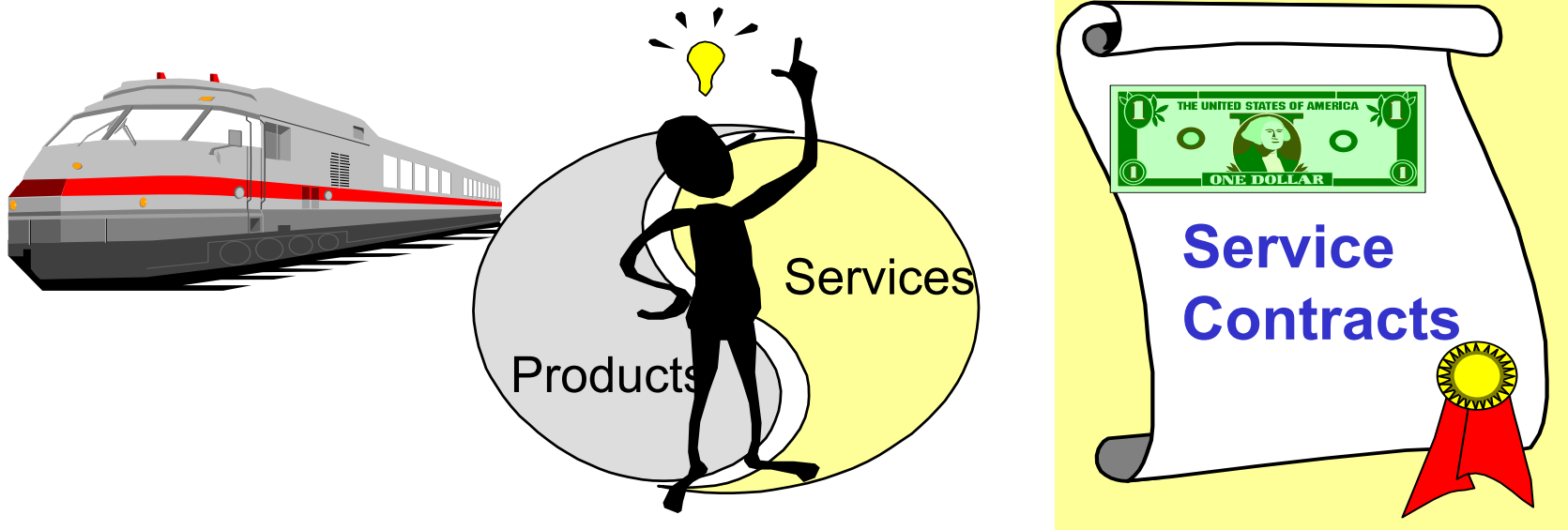
The Value of Product Platforms

Concept	Product Platform
Cost Containment	Reuse, Experience, Modular Design, Shared Manufacturing, Inventory
Growth Prospects	Scalability, Supply-side Synergies
Velocity	Time-to-Market and Time-to-Volume
Sustainability	Differentiation, TCO
Investment	Tangible (Product) & Intangible (Process) Know-how

Which is the least vulnerable “partner” in this network?

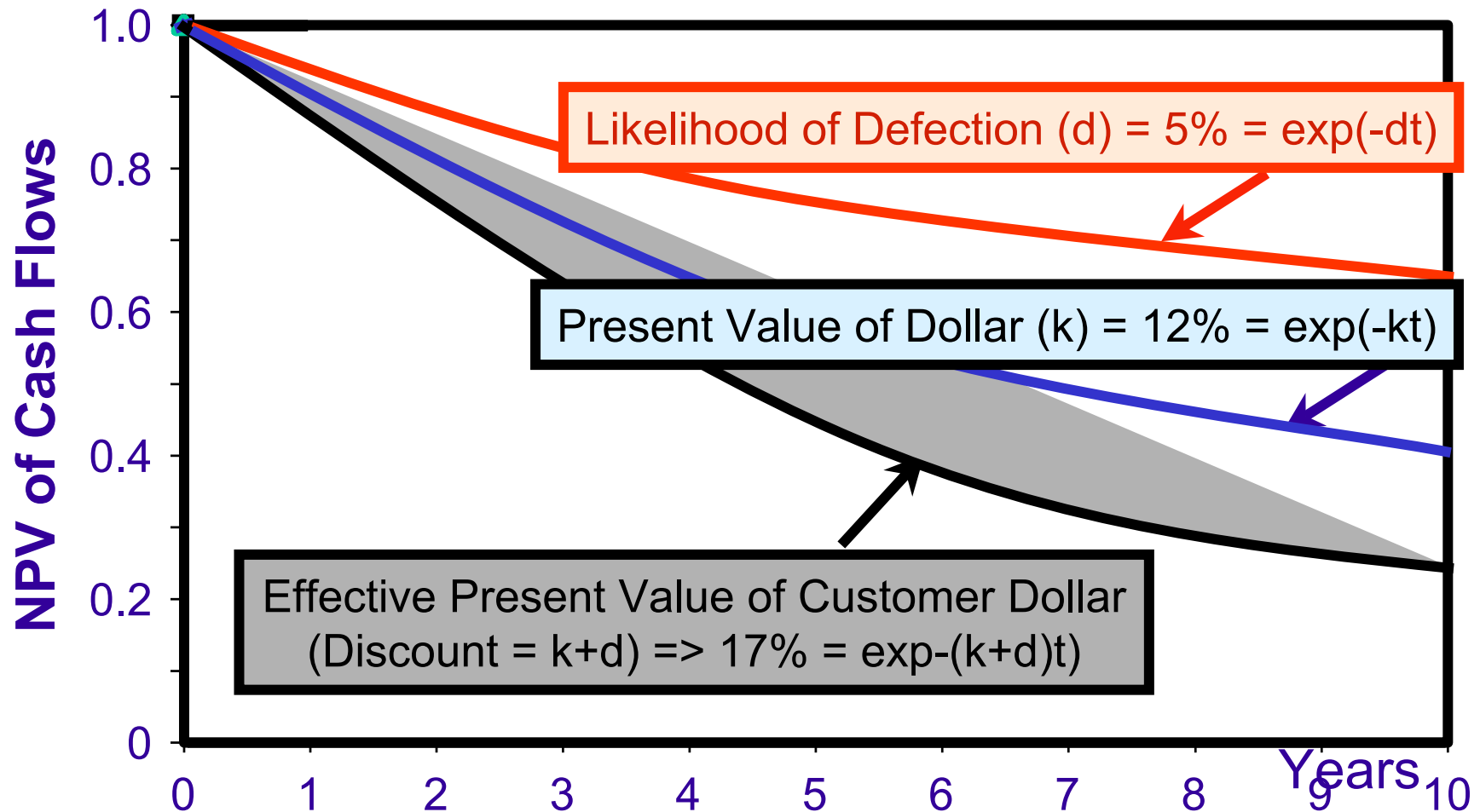


Reducing Vulnerability & Volatility at GE

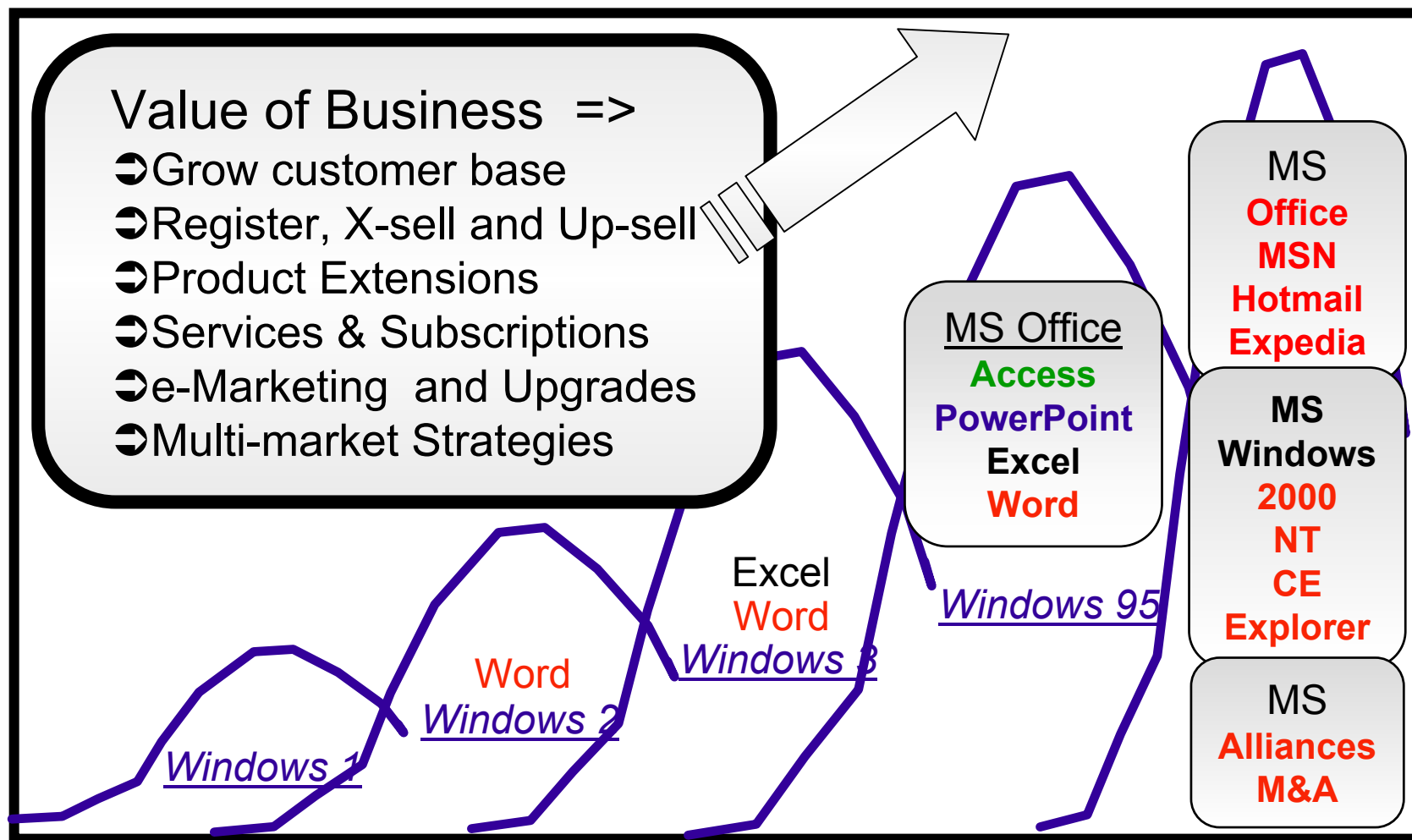


- ➔ Take advantage of synergies
- ➔ Shift to services and consumables
- ➔ Enhance loyalty and switching costs
(e.g., leasing, bundling)

Improving Customer Retention Can Drive Shareholder Value



Leveraging Customer Platforms



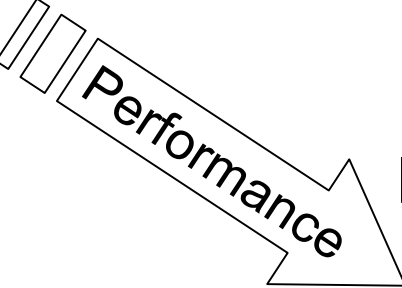
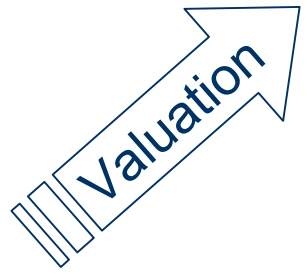
Concept	Product Platform	Customer Platform
Cost Containment	Reuse, Experience, Modular Design, Shared Inventory	Shared Sales, Service & Support; Solution Bundling
Growth Prospects	Scalability, Supply-side Synergies	X-Sell, Up-Sell, Demand- Synergy
Velocity	Time-to-Market and Time-to-Volume	Time-to-Market Penetration
Sustainability/Risk	Differentiation, Total Cost of Ownership	Switching Cost, Loyalty Vulnerability, Volatility
Investment	Tangible (Product) & Intangible (Process) Knowhow	Intangible (Brand Equity) and Tangible (Distribution NWs)

Risk-Management Implications of Market-based Assets

- ❖ Lower vulnerability of sales to competitive actions (brand loyalty and customer retention = evidence of market imperfections!)
- ❖ More stable sales (higher proportion of profits from recurring sales due to brand loyalty and customer retention)
- ❖ Lower vulnerability and faster recovery under adverse economic conditions
- ❖ Delay market entry (HP, GE, Cisco); leverage brands/customers and distribution strengths to roll over competition
- ❖ Lower failure rate for new brand extensions

Preliminary Results: Association of Advertising with Financial Performance and Risk

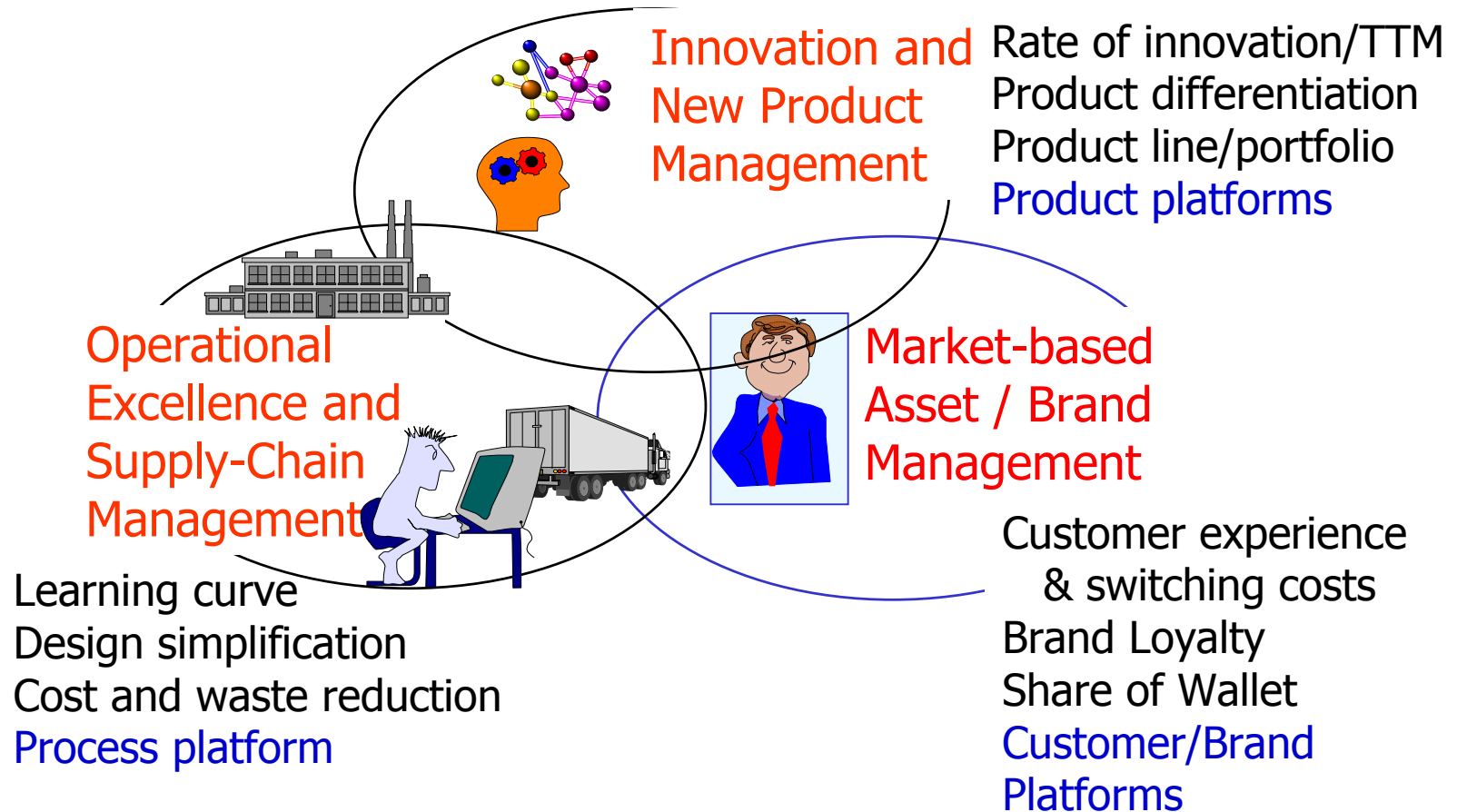
Maria Merino, ITAM-Mexico / Raji Srinivasan, UT-Austin, Rajendra Srivastava, Emory

	Performance	Volatility
 Return on Assets Return on Sales Cash Flow/Assets Income/Assets	Higher Higher Higher Higher	Lower* Lower Lower Lower
 Market-to-Book	Higher	Higher

Higher visibility seems to lead to higher investor response to performance news

All results except * are significant at $p = 0.001$

Platform Investments Create Market Imperfections (Sustainable Advantages) and Provide Growth & Switching Options



Process Priorities
Over the PLC

Supply
Chain

MBA's &
Value-NW

Product
Innovation

Time →

Future Value

Growth & Risk
--Emerging
Performance Tools

Balance, Resources

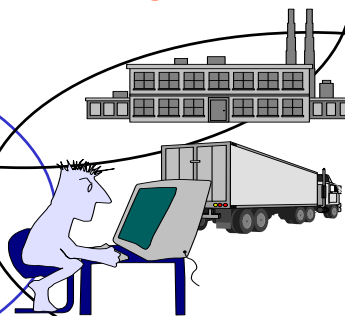
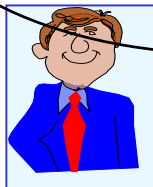
Managing
Profitability--
Traditional
Performance
Management Tools

Current Value

Innovation and
New Product
Management

Market-based
Asset / Value-NW
Management

Operational
Excellence and
Supply-Chain
Management



Questions