

# WHY SHOULD YOU CARE ABOUT MARKETING ?

## BECAUSE IT PRODUCES RESULTS



*"Marketing is not a specialised business activity – it is the whole enterprise seen from the customers point of view" (Drucker: "Practice of Management" 1954)*

**Why care about marketing ? Because Drucker goes on to say "Marketing and innovation produces results; All the rest are costs. Marketing is the distinguishing unique function of the business" and "the purpose of business of a business is to create a customer". Thus all businesses need to care about marketing.**

As companies come blinking into the light after COVID they need to really understand the customers and what they value from the products and services.

A gift of COVID has been that it has given CEOs time to reflect on not only the what but the how. The brands and the balance sheet need rebuilding and inevitably more will need to be done with less. It is a huge opportunity for return on investment using marketing effort to spur revenue and margin gain.

In this article we offer a method to do this. "The aim of marketing" also says Drucker "is to know and understand the customer so well that the product or service sells itself"

We cannot predict the speed of the recovery but we can speed things up. We can look at the data, go for greater share of voice, boost digital influence and be positioned to grow market share and profitability.

In examining the enterprise from the customers point of view, can also reduce costs not only in sales and marketing but also in activities right across the business.

### Choices have to be made.

A key question is how to optimise value to customers, while managing marketing cost optimally and effectively for company value generation.

What is the optimal scale and allocation of marketing input cost when it comes to e.g. IT, digital capability, products, packaging, loyalty incentives, communication, distribution, customer engagement etc? What is the optimal margin to recover and what is the price elasticity to be managed?

It is also about what your customers are more likely to believe: Your beautifully crafted marketing or the opinion of a trusted peer ? Digital influence is very much a tool of the trade.

At Glentaffe Capital and Auditel we work with clients to help answer these key questions using an approach based on the value chain and value analysis.

Our difference is that we work through the lens of customer research and marketing together with accounting and financial disciplines.

Our goal is to help companies win and keep customers by delivering what (value) matters most. We do this by working with clients, informed by their customers, intermediaries etc, to understand, refine and optimise the customer value proposition and how its functions are allocated as costs and margin recoveries in the value chain.

## Our Approach

We work collaboratively with the client. Our work group will include cross functional client members and people from Glentaffe and Auditel with relevant skill sets and experience to the project at hand. There are six steps from market research, then assessing, developing value propositions, identifying mismatches, then confirming the new value proposition, before acting on it and procuring spend.

### Step One: Market Research

We start by working with the client to review their available market research, their views of the market, customer needs, value drivers, decision making and buying behaviour. We confirm the client target market(s) and client customer value proposition, (as well as key competitors), using our proprietary method.

We then unpack the client value proposition into the attributes and functions that make up and deliver the proposition to market, e.g., a pouring cap for a drinking yoghurt or a pricing tool for a B2B service.

A value proposition of a product or service can be financial, material, emotional or social and there can be different propositions for different markets. We assess competitive alternatives, unique attributes, value, target market and market category of each product or service.

We ask four key questions on building competitive advantage on offering superior (or a better combination of) :

1. **Economic value ?**
2. **Functional value ?**
3. **Emotional value ?**
4. **Symbolic value ?**

We capture what capabilities are needed to deliver these attributes and functions and their costs that need to be allocated( e.g. R&D< Data Analytics etc) using activity based costing. We then plot functions using value chain methodology and allocate costs and margins realized. (While we will not have the accurate cost information, we can do this for competitors too to understand the choices they have made to serve the same market.)

There will naturally be differences between product and services marketing. One is tangible and the other intangible. Products tend to be standard, can be taken away, owned though often subject to an expiration dates. Services can be customised, rely on provision by the company and the personality of the brand, and consumed at a point in time though the benefits can often be timeless.

Much will depend on the quality and depth of the market research and whether it is secondary, primary or indeed focused on digital influence. We have expertise in each of these areas.

The deliverable here is the status quo view of the market and what we believe customers value and a base case value proposition unpacked into its functions and allocated out on a value chain.

The research work focuses firstly on the customer profiles, wants, fears, needs and the pains to avoid and gains the customer is seeking. Then the product or service is evaluated in terms of what it offers from an economic, functional, emotional and symbolic or social perspective, as expressed in it's benefits, features and experience. The research consists of series of hypotheses that are identified, tested, built, measured and learnt from. These are then matched to customer types and from this the customer proposition emerges as well as a series of activities right across the business to not only create but also to maintain it.

These activities covering staff and all direct and indirect can be costed out and assessed along with the core marketing spend. Activity based costing is used to do this. Once done the existing and the proposed value proposition can be compared.

The customer value proposition for a beer is that it is considered globally ubiquitous, popular for centuries, and made from basic ingredients. It is cheap to make but sold at a high retail price.

It can offer superiority, affordability, popularity, substitutability, and self- satisfaction. A service like a credit card might be seen to gain an advantage, control accuracy, manage the system, harness the power, offer freedom from restrictions, boost identity through conformity.

To support these customer value proposition, a series of activities will be carried out across the organisation. These activities can be costed out and staff costs, direct and indirect expenditure using activity based costing techniques and tied back to not only marketing spend but also cost right across the organisation. The activities of the existing and proposed value proposition can be assessed.

The benefit of understanding what the customer values is that as Jeff Bezos said "Your brand is what other people say about you when you are not in the room". That information correctly assessed is like gold dust and you can already grasp what activities might be superfluous and which new ones might be needed.

### Step Two: Assess Current Value Proposition

The value proposition is what people get when they choose a product or service. A value proposition represents the tangible and intangible of what you sell both in terms of the product or service itself and the benefits the customer gets.

We now challenge the status quo view of the current value proposition in Step One, by talking to customers, intermediaries and key members of the company who develop and deliver the value proposition, using our proprietary research methodology.

From this research we identify what customers really value and are prepared to pay for, and what they don't value and are not prepared to pay for.

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We then establish the product or service functions that come from the research information and insights. These will include functions already included in our status quo value proposition, and maybe some new ones. We comprehensively assess the business model including routes to market and supply chain, it's organisation, functions, processes and activities from the customer perspective.

## We then ask 3 questions:

1. **How much does each function cost?**
2. **How much is each function valued by customers?**
3. **What do we need to give them better than the competition? (either by being best at the basics and / or sometimes offering something unique)**

We choose the functions we believe will win and keep customers, and we

- **Specify them – with expected levels of performance.**
- **Prioritise them – ranking the key drivers for customer value creation.**
- **Evaluate – how to implement the chosen functions (and manage out what is not needed)**

The value proposition is not what you or the company think is the value proposition. Rather it is what customers perceive to be your value, and thus there may be a big mismatch. This may be because your distribution and marketing channels are too weak, or your business model simply cannot fulfil the value proposition. It is not simply about marketing spend and grabbing attention rather, a question of the robustness of the value proposition, architecture and revenue model that aspires to deliver it.

Having defined the value proposition in Step One, this step assesses it not as a one time management activity, but a process of continuous improvement. The art is to tune the business model and the incentives system to support the value proposition.

This is an assessment done bottom up and top down throughout the organisation. You need to know the difference between the strategy, marketing communications and the daily argumentation of customer facing employees.

Here using the findings from the market research in Step One the detailed activity and cost analysis is done to show in detail show how they support the existing value proposition in terms of customer facing and non-customer facing costs. This can be quite fine and detailed analysis and might need an activity dictionary to give precision to the costs that need to be traced to the customer journey through the organisation and where necessary the trade channels needed to reach the end customer.

Naturally it will include cost of sales, direct marketing spend such as advertising, merchandising, packaging development and research but then also other costs in the journey such as selling, pricing, billing, inventory, and accounts receivable. It might also involve property, plant and equipment.

Beer will need to assess cost of product, bottles and manufacturing labour and traditional marketing. They might also want to include cost of delivery vehicles, barrels, pumps on the bar, pricing work, billing, inventory, and credit control.

Credit cards services will need to assess costs of the cards but more importantly the terms of services and how they are delivered. Traditional marketing will be there but there may well be costs associated with customer acquisition, ongoing customer service, determining fees, interest rates and offers, and assets like credit card machines, telephone systems and websites.

Here you know the cost of activities that support customer interactions including direct marketing. You can flag which costs matter and which ones do not. Remember good marketing means the product or service should sell itself.

## Step Three: Develop a New Value Proposition

We now articulate a new value proposition, lay it out as a new value chain with costs and margins allocated and compare it to the status quo. We compare it to the competitors to confirm we have a winning proposition.

Here we make the link between strategic, marketing and operations management. We spell out what we want to offer, what our customers expect and what we can offer. The value chain analyses is a process where a firm identifies its primary and support activities that add value to its final product and then analyses these activities to reduce costs or increase differentiation

Cost advantage is used when organisations are competing on costs and want to understand the sources of their cost advantage or disadvantage and what factors drive those costs. This 1) Identifies the firm's primary and support activities, 2) Establishes the relative importance of each activity in the total cost of the product or service, 3) Identifies cost drivers for each activity. 4) Identifies links between activities, and 5) Identifies opportunities for reducing costs.

For those seeking to drive superior products or services using differentiation advantage. The steps are to 1) Identify the customer's value creating activities, 2) Evaluate the differentiation strategies for improving customer value, and 3) Identify the best sustainable differentiation.

In this part the activities necessary to support the proposed customer proposition are costed out as done for the existing proposition above. For a beer there might a need to change the height of the beer pump in the bar, or to have next day delivery terms, or to stop supplying particular types of restaurant or shop. For a credit card service it might be to improve customer statements, or offer premium customer support lines, or to assign a designated account manager or to tighten credit checking, or to not serve particular markets or customer groups.

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## Step Four: Identify Mismatches

We now identify the mismatches between the status quo value chain, and the customer informed revised value chain. Here we compare the assessments in Step Two and Three above.

This identifies the gaps between perception and reality. You will see how simply spending more on marketing to grab attention will not necessarily increase sales of the product or service.

You will most likely need a better business model that is built around the value proposition not simply one way marketing spend.

So we will look at cost but also differentiation for competitive advantage.

### **We establish the functions to be:**

- **Added**
- **Simplified**
- **Improved**
- **Stopped**

Then work out the consequent cost or differentiation to be removed, re-allocated or increased. This is done not only for the business model of the organisation but also for the routes to markets, trade channels and supply chain of the products or services concerned.

## Step Five: Confirm Value Proposition and Action Plan

We confirm the revised value proposition with all stakeholders that have to develop and deliver it. We express it not only for the end consumer but also the trade channels that convey it there

We establish an implementation plan with timelines, required resources and expected results, that line up to a new revenue and costs, target P&L and improved balance sheet.

## Step Six: Procurement of Marketing Cost

This starts (based on the Steps One to Five above) with how marketing can drive value for the business or organisation. It assesses marketing strategy, operations, technology usage, and procurement, net zero and cost management solutions.

We understand the effort and the cost that goes into marketing and then how to procure it effectively and efficiently.

From our experience of internal audit of advertising agencies, media buying, promotional activity and research gathering we understand how cost can be accumulated.



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We also work in conjunction with procurement expertise at Auditel. We can examine marketing expenditure, identify suppliers and benchmark existing ones, through examining the spend on the ledgers, supplier contracts and invoices that back them up.

## **We proceed by asking questions :**

- **What's your annual marketing budget and spend?**
- **What do you spend it on: traditional/digital channels, content marketing, sponsorship, events, advertising, Is it in-house or agency-led?**
- **What are you trying to achieve with your marketing: awareness, product launch, lead generation?**
- **Do you invest in digital marketing? Is it in-house or external agency support?**
- **Do you use external agencies: PR, Marketing, Advertising, Promotion, Integrated?**
- **Do you spend on tools and technology to support your marketing: CRM, E-Commerce, Subscription, Measurement, SEO?**
- **What marketing collateral do you use to engage with your audiences: Magazines? Brochures? Video Marketing?**
- **How effective is your marketing operations: process, systems, workflow. Do you use tools to fulfil requirements?**

The outcome is a spend profile matched with the value proposition that can be procured from the best suppliers at an optimum and usually a lower cost.

Importantly the spend profile must be analysed by category and supplier, be reconciled to the activity and cost analysis, and tie back to agreed budgets and management accounts.

## **Conclusion**

The prize is a value proposition that can be supported by the necessary marketing spend and adjustments to other costs that influence how all functions face off to the market and the customers that inhabit it. It will be a profit and cashflow reward with revenue and cost benefits that need to be tracked and realised.

So here we are ready to help no matter where you are in the steps explained above. Do get in touch and let's discuss what needs to be done. We can then rapidly assemble a team of experts whether it be sales and marketing direction, digital influence, computing returns on marketing and sustainability, or procurement from suppliers.

We also have a set of proprietary approaches for each of the stages above. There is however no one size fits all but we would be happy to discuss how best these could be adapted to your situation. Drucker's approach in 1954 is not just good practice it is simply a business principle and mantra that will always be true even in 2054. Marketing is indeed the whole organisation looked at from the point of view of the customer.

## **NEXT STEPS - Please get in touch with either:**

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