THE MANAGEMENT OF MARKETING PRODUCTIVITY

Allan McGrath

In the light of depressed demand because of prolonged recession, price deflation in multiple markets, intense competition for market share, and inflation in some marketing infrastructure costs, is it any wonder that the pressure is on to boost the productivity of marketing operations?

It does no good for a company to improve its factory and logistics productivity if it gives such unit cost advantages away by poor marketing productivity. It is often marketing productivity that is the crucial factor in shareholder wealth and a sustained market presence.

For example, contrast the marketing productivity of Kmart and Wal-Mart. Kmart, with a huge head start in the 1960's, has 2,200 stores, many in prime centers, across North America. Wal-Mart has only 1,573, most of them in the rural south and midwest, and is only now moving to California and the populous northeast. But Wal-Mart's marketing productivity keeps its per store revenues 40 percent higher than Kmart ($16.5 million versus $11.4 million per store in 1990). As a result, Wal-Mart surpassed Kmart's total business last year by $1 billion (to $26 versus $25 billion), after only a little more than a decade of sustained effort. It was marketing productivity that boosted the value of Sam Walton's stock and made him one of America's wealthiest men. Wal-Mart's marketing emphasizes knowing customers better, treating them better, and tracking them better through computerization, than its rival Kmart.

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The Components of Marketing Productivity

Managing marketing for productivity requires the management of four key areas:

- **strategy management**
- **cost management**
- **asset management**
- **organization management**

Productivity in these areas is defined as efficiency and effectiveness of management. By astute management, the value of marketing's output (revenue or gross margins) per unit of input by marketing or sales personnel (cost, head count, time) will go up over the long haul. Figure 1 models marketing productivity.

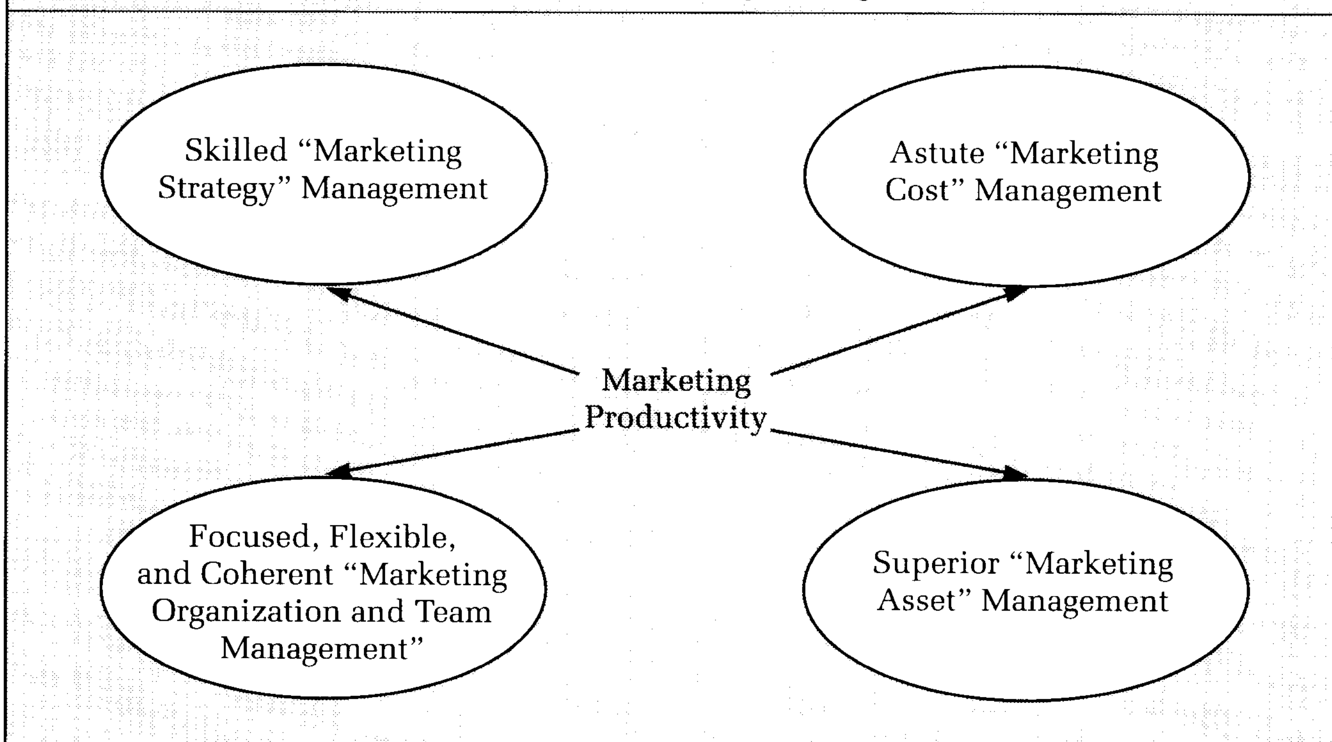
Strategy Management

Basic marketing strategies have a great impact on productivity. Strategies can either focus or disperse resources, either leverage a firm's strengths or use them poorly, either unite or disunite sales and marketing personnel. Clearly, productive strategies operate along a coherent pathway. Unproductive strategies try to be all things to all people, assume more skills than the firm possesses, and pull its marketing and sales personnel in different directions.

Segment Targeting

Focusing resources is very much a function of choosing the appropriate market segment and, if successful, dominating it. Black and Decker's choice of do-it-yourselfers is an example of focused segment strategy. Nike shoe's approach to a variety of athletic shoe segments is a multisegmented (yet still focused) strategy. Both firms sell multiple products at different price points across several distribution channels, but each basic strategy is disciplined and coherent because the choice of segment(s) is

Figure 1
A Model of Marketing Productivity Management Variables



understood and well targeted. When Xerox tried to sell computers versus copiers, it did not understand the computer market segment and dissipated its resources unproductively in trying to reach it, losing almost a billion dollars on the way.

Differential Skill Advantage

The exploitation of a company's unique skills can take many forms. So long as its marketing is differentiated from that of rivals and is appealing to customers, while leveraging its embedded talents, the strategy can be considered productive. Firms' marketing strengths vary. Wrigley Gum is skilled at merchandising, Procter & Gamble at branding, Caterpillar Tractor at dealer selection and support, McDonald's at advertising, Braun at elegant product design, Frito Lay at responsive distribution to retailers. Each of these firms leverages its unique talents efficiently in the service of its customers and, as a result, their marketing strategies are productive.

Unifying With Goals and Vision

In addition to choosing segments astutely and leveraging skills efficiently, a firm must motivate all its personnel to work together toward some shared vision and goals. The training and enthusiasm instilled in Wal-Mart's people play a big part in its growing productivity. Black and Decker continually infuses its marketing and sales personnel with new products, while Boeing unites its people with total quality management principles. Caterpillar Tractor's sales and marketing staff really care about their dealers; their helpful attitude to dealers permeates their thinking and actions. Nike marketers do not think of their athletic shoes as shoes at all, but rather as important pieces of "athletic equipment" that can enhance athletic performance, prevent injury, and reduce discomfort. McDonald's restaurants reinforce daily with their staffs the need for fast, friendly service, "value" pricing, and cleanliness in all operations. Attitudes can impact productivity since they bond the sales and marketing personnel with shared purposes.

Cost Management

Whatever strategies are chosen, productive companies engage these strategies at affordable cost. They understand how to combine proficiency with efficiency to deliver their uniqueness to their chosen segments cost-effectively. There are four crucial ways to manage costs in order to gain the best trade-off between efficiency and proficiency.

Lower-Cost Substitution

Often marketers can substitute one lower cost for another without harming sales or growth. For example, telesales might substitute for a portion of face-to-face selling. Harnischfeger sells small hoists by phone, in combination with trade publication promotion and direct mail. Publicity or direct mail may be a lower-cost substitute for print or electronic advertising. Regional ad media may be a good substitute for less targeted national media. Self-liquidating promotions may work as well as non-self-liquidating contests. Haagen Daz ice cream attained $100 million in sales in Europe in its first three years using sampling instead of costlier advertising. It is only now advertising as its channels of distribution broaden.

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Nevica Sportswear grew by using less expensive public relations instead of advertising, giving its ski outfits away to the world's top ski photographers on condition that they would feature them in their resort or action photography. Dell computer, selling by mail instead of dealers, is able to undercut competitor prices. Tulsa General Insurance sells car insurance via computer terminals in shopping centers throughout Oklahoma, as a partial supplement to more costly sales reps.

Cost Piggybacking

Often marketers can piggyback one type of spending for more than one use. Trade shows can be used to perform market research surveys. Sponsorship of a sports or other event, which in itself creates awareness, can be used to piggyback the awareness investment already made. Creative print ads can be piggybacked for use in multiple media, including posters, billboards, calendars, dealer flyers, retail signage, in-store displays, or even packaging. The creative is a sunk cost, so the marketer ought to exploit it to the fullest extent.

Cost Sharing

Partnering in collaboration with others cuts costs from simple collaborations such as in co-op advertising, to more complex collaborations such as co-promotions, co-pricing discounts, co-distribution ventures, full-blown co-production arrangements, or cosoftware development. Kelloggs co-promotes Lego System's children's blocks in their cereal, and Life Savers co-distributes TUMS to retailers. Airlines co-discount with rental car and hotel firms, and Ford and Mazda co-designed and co-built the new Escort. And a marketer who is really bold can propose an entire alliance to share costs in new markets or products, as did IBM-Apple.

Cost Transformation

Often the very nature of costs can be transformed. The fixed costs of direct selling might be transformed to variable costs in using agents or distributors. More variable pay plans may be required for the sales force. In-sourced costs may be moved to an out-sourced basis to become more variable. Vons supermarkets in California are even experimenting with a variable commission scheme with their ad agency. The more traffic that ads attract to stores, the higher the commission rate. Vons' computer scanning allows them to track not only customer counts and volume per transaction, but also what is purchased, so Vons can assign accountability for ad designs for specific featured products.

Any initiatives on cost management are designed to lower unit costs in marketing and boost productivity, given that prices may not be able to be increased and that market share gains may come only at the expense of even deeper price concessions.

Asset Management

Productive marketing requires management of assets, not merely the financial assets on the balance sheet, but also intangible resources, such as brands, patents and trademarks, customer lists and contacts, distributor networks, and information systems. Expertly managing assets allows for revenue exploitation at low incremental cost.

Brands, Patents, and Trademarks

Sir Adrian Cadbury considers brand assets to be "forms of property requiring defense against squatters that should be maintained in good repair and modernized." Today one might add to this definition, "and further exploited." Mars has taken its brand equity in chocolate bars into ice cream products, with great results for its overall marketing productivity. Coleman has extended its brand from lanterns and camp stoves to tents, sleeping bags, and even canoes. Berlitz, the world's leader in language training, has extended its brand into language phrase books, travel books, and even a palm-sized electronic gadget that translates typed-in words and phrases into any of five languages. More than 15 percent of its net profit now comes from such brand asset exploitation. Major league baseball now takes in $75 million per year in licensing fees for the use of team logos on more than 3,000 items. This figure nets out to $2.6 million per team.

Existing Customers

Existing customers are a fertile source for boosting marketing productivity. Customer complaints can be tapped for new product ideas. Small space-saver appliances came out of customer concerns about small kitchens. In Canada, Zellers exploits current customers with its Club "Z" cards, which reimburse frequent shoppers with points that can be used for selected gifts. Zellers has 6 million card members and intends to offer them more services such as auto club and travel services. In addition, Zellers will issue a special Gold Club "Z" card for seniors, good for extra discounts and bonus points toward gifts. The success of Microsoft's Windows 3.0 software (3 million copies sold the first year) was, in large part, due to the company's knowledge of its current customers and how to appeal to them via direct mail.

Information systems can be so useful that output can often be sold to others.

Waldenbooks, America's largest book seller, has a "frequent reader" program whereby customers get a preferred membership card entitling them to in-store discounts as well as coupon mailings to their home tailored to their reading tastes (made possible by bar code scanning equipment tracking each customer's title selections over time). A science fiction aficionado, therefore, may receive discount coupons on upcoming Sci-Fi releases.

Distributor Networks and Know-How

A strong distributor network can be an unexploited asset, that can be leveraged when a firm has a new product or wants to diversify into a new market.

As Steelcase has diversified from making office furniture to making total office systems, it has utilized its very strong presence with its dealers to keep its leading industry share on the newer lines as well. Coca Cola's market share in food service markets far exceeds that of Pepsi, because of its stronger inroads with food service distribution. DuPont's hugely successful Stainmaster Carpet was, in part, boosted by the company's excellent carpet retailer network established years earlier for less successful stain-resistant carpet treatments such as Teflon. 3M's inroads with office stationers due to its Scotch brand tape lines allowed it to leverage sale of its Post-It notes, diskettes, data cartridges, and transparency films. (When an existing distribution channel can run all-out with new product sales, marketing productivity gains are major, since channel set-up costs are minimal while revenue increments are often very high.) Loctite Corp. uses its distributors on advisory councils to guide Loctite on fine-tuning its marketing programs and to suggest new product ideas or applications.

Information Systems

Information system databases frequently can boost marketing productivity by allowing the marketing or sales teams to tailor programs to specific customers' needs.

Supermarkets such as Safeway "program" store offerings on the basis of local buying preferences contained in store-by-store databases. L. L. Bean uses extensive customer databases to fine-tune its catalog selling operation. The Four Seasons Hotel chain can offer personalized, knowledgeable service to repeat clients, since it stores customer service preferences in its databases—whether a guest prefers foam or feather pillows, a room service breakfast, express checkout, a low or high floor, advice on jogging routes and so forth. Ikea, the global furniture retailer, customizes the furniture mixes it sells at various stores according to the demographic preferences of different regions, all tracked in its database.

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Organization and Team Management

H. B. Fuller used to organize its sales organization to sell its more than 1,000 adhesives by territory (selling to 100 different industries). By reorganizing to specialize reps by industry/market, such as graphic arts, it boosted sales productivity by 120 percent from 1982 to today.

Inland Steel, rather than reorganizing by vertical market, has restructured into strategic account teams for large-volume accounts. In 1980 Inland sold 5 million tons to 3,000 small customers, but today its sales of 5 million tons are to only 200 accounts. Its marketing productivity per account is far higher with fewer sales and a smaller marketing staff.

Often informal cross-functional teams can boost yields at no additional cost, from new-product project teams and customer service improvement teams. Cross-functional teamwork at Ford allowed it to bring to market new products such as "lubrication-for-life" parts and disc brakes, in far less time than if the products had been developed without such teams. The bureaucracy of interdepartmental infighting would have slowed down the process. The team created a technology pool where, early on, sales, marketing, engineering, and manufacturing could share their knowledge and avoid more time-consuming linear development. Team systems in marketing always improve time "productivity."

Summary

The Marketing Productivity Equation (Figure 2) involves a combination of "tried and true" skill sets of marketers such as brand management and skilled segmentation as well as newer skills such as cross-functional teamwork, more attention to cost strategies and customer information exploitation. The 90's will severely test marketers, given the tougher competitors and compressed margins, those marketers that adopt a productivity mindset will have the surest chance of sustaining customer satisfaction, market share and healthy margins.

Figure 2
The Marketing Productivity Equation and Management Variables