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Introduction

Why Marketing Mavens Spell Marketing with a Capital *M*

Over the past dozen or so years, globalization has turned business on its head. For almost a half century, from the late 1940s until the 1990s, the overriding factor that dominated the economic scene was scarcity of supply. Companies did not have to be all that good, much less great, and competitive innovations in another country or region presented little threat. If somebody, somewhere, found a better way to do something, there was plenty of leeway to ignore it or slowly acquiesce to change.

Companies no longer have the luxury of such behavior, and customers no longer dance to their tunes. Today, the overriding factor that dominates the economic scene is scarcity of demand. Notwithstanding dozens of bloody civil, local, and regional wars, a half century of peace in the world at large has combined with technological advances and other forces to foster substantial economic growth, not only in the United States and western Europe but also in Asia, Australasia, and South America. As a result, the next innovation, the next killer competitor may come from anywhere, anytime, to take your customers—and thus your business—away from you in the virtual blink of an eye.

Today customers around the world have multiple choices for everything they want to buy. Hence, the most profitable customers in every business-to-business and consumer sector are increasingly scarce on the ground.

Mediocre companies remain mediocre, if they survive at all, because they still practice marketing with a small *m*, that is, they view marketing in its traditional roles of communications and sales. Great companies become and remain great because they practice marketing with a capital *M*. They know that thriving despite demand scarcity means doing business differently because they understand that one of the central facts of business life today is that customers *don't* have to do business with you. Great companies are populated at every level of the organization with Marketing Mavens obsessed with the idea that everything a company does, from R&D to customer service, must be focused on anticipating and meeting customer needs. Ensuring that scarce customers do business with you is front and center a marketing job.

The chief marketing officer (CMO) usually has the responsibility for analyzing and articulating which customers you want and how you will secure and retain them. Some CMOs do this job better than others and the best of the lot are Marketing Mavens. But Marketing Mavens are not just found in marketing. In the most successful companies the Marketing Mavens include not only the CEO and all senior managers but everyone in the organization from product developers to people in the Research and Development (R&D), Sales, Finance, and Human Resources departments. Marketing Mavens in short change the ways that their companies think about and do marketing by making marketing everyone's business. The mission of this book is to share the lessons from Marketing Mavens in a host of industries and change the way you think about and do marketing in your business. Marketing Mavens know that everyone in a company, not just those in the

Marketing Department, must help create and retain customers.

Marketing cannot be a separate function—it must be the job of the business as a whole. Marketing (with a capital *M*) must be a philosophy for your entire organization. Let's face it: if you don't have customers, you don't have anything. So whether you're a marketer, a plant manager, a chief financial officer (CFO), or chief executive officer (CEO); whether you're in R&D, Information Services, or Human Resources; whether you're a senior executive, a middle manager, or have just been hired in an entry-level position; and whether you have a customer-facing role or do a job deep in the organization, you must understand how to put customers at the center of what you do on a day-by-day basis.

The late Peter Drucker sounded a prescient call for this perspective in his classic 1954 text, *The Practice of Management*. There is only one valid definition of business purpose: to create a customer. It is the customer who determines what a business is . . . What the business thinks it produces is not of first importance— especially not to the future of the business and to its success. What the customer thinks he is buying, what he considers “value” is decisive . . . [A business enterprise] has two—and only two—basic functions: marketing and innovation . . . Marketing is so basic that it cannot be considered a separate function . . . it is the whole business . . . seen from the customer's point of view. Concern and responsibility for marketing must, therefore, permeate all areas of the enterprise. Few companies heeded that call consistently while scarcity of supply still held sway. Now all the top companies have made marketing an organization-wide priority. For example, Michael Hines, senior vice president of Global Marketing and Communications for Prudential Financial, lately one of the more successful companies in consumer financial services, captured this dynamic in the very first interview I conducted as part of the research on which this book is based. “There is a lot of supply and a lack of demand,” Hines said. “What we base our marketing on, is that people don't need to do business with us.” The same is true in virtually every market and industry sector in today's economy. To put it bluntly, you need customers more than they need you. Hence, caveat emptor (buyer beware) has become caveat venditor (seller beware)!

Make no mistake, customers are your core assets—they must form the centerpiece of your activities. You will be successful with customers, you will survive and grow, and the market value of your business will increase if, and only if, your products and services deliver greater value to customers than your competitors deliver. If you fail in this task, and your competitors deliver greater value, ultimately you will go out of business. It's that simple. The problem, of course, is that competition is getting tougher. As someone working in today's business environment, you know only too well that competition comes from so many different places beyond your traditional rivals—from different industries with different technologies, from different countries, and even from your suppliers and distribution channels.

Finding the Marketing Mavens

To date there has been little in-depth study of how successful companies focus on customers throughout their operations and how they put this focus into action on a daily basis. To fill that gap and understand better how the best companies husband and grow their customer assets, I formed and led a research team at Columbia Business School in a

multiyear study of top marketing companies. To identify marketing leaders, we began our research by studying lists of top companies, such as *Fortune*'s Most Admired Companies, the *Forbes* Platinum 400, *BusinessWeek/Interbrand*'s 100 Most Valuable Global Brands, *Advertising Age*'s Global World's 100 Biggest Advertisers and annual Marketing 100 lists of America's best marketers, and *PROMO* magazine's 50 Best-Promoted Brands. We looked for consistent repeat appearances, especially on multiple lists, as well as dramatic recent entrants. We combined the short list that emerged with quantitative data from a rich database housed at the strategy-consulting firm DiamondCluster International, and customer satisfaction data from the University of Michigan's American Customer Satisfaction Index. (For a detailed discussion of the research methodology, see appendix 1.) Using these data, we constructed company and brand rankings for three broadly based criteria that we developed: *market leadership*—focused on marketing and financial performance; *company/brand reputation*—focused on reputation in areas such as innovation, product quality, brand equity, and customer satisfaction; and *market power*—focused on influence among marketing professionals. We tallied the scores for each of the three criteria and then calculated a combined rank for each organization. Our final universe, spanning twenty-four industries, ranked the top 150 public companies, one hundred brands, and forty private companies. We then interviewed fifty-seven executives from forty organizations in a broad array of businesses. Interviewees included CEOs; chief operating officers (COOs); CMOs; and other business professionals in public, private, and not-for-profit organizations spanning eighteen of twenty-four industry categories such as banking and investment; business services; industrial materials; media, entertainment, and information; health-care services; and transportation and logistics. Most organizations were based in the United States, but we also had significant representation from Asia and Europe. Many companies were global in scope, but some were purely domestic. Quite deliberately, we omitted some high-ranking enterprises so that we could show you data across a wide array of economic sectors.

This book would not exist in its present form if it were not for the participating executives' generosity with their time and insight. We did not want a snapshot of perceived excellence in a single year or a single business climate but proven excellence over time. Short-term winners may have seductive appeal—remember when Enron was, briefly, a most admired and envied company? But this book is about the lessons of long-term winners. We conducted our first interviews in 2002, usually in person, and our last follow-up interviews, more usually by telephone and e-mail, in 2006. Some of our original interviewees no longer have the same positions. Some have different jobs in their organizations; others have moved on to new challenges—after all, the market for high-quality marketing talent is increasingly vigorous. Some executives we interviewed once; others we interviewed on multiple occasions. (This book notes interviewees' titles at the time of the most recent interview.)

To make sure that the views from the top accurately reflected the organization as a whole, we also conducted focus groups with marketers on the front lines, including more recent college and MBA graduates. Over the same time span, we also performed extensive secondary research on each organization that we interviewed. In the chapters that follow, I present lessons drawn from the successes of Alcoa, Amazon, Bloomberg L. P., Dell, ESPN, ExxonMobil, L'Oréal, Mayo Clinic, Nestlé, Oracle, Pfizer, Progressive, Prudential Financial, Samsung Electronics, SAP, Starbucks, Target, The Home Depot,

Toyota, UPS, and others. Despite being in disparate businesses, they share the common characteristic of a fierce company-wide focus on the customer.

For example, it will come as a surprise to many readers that Alcoa is not just an aluminum company, but manufactures and sells many composite products that do not even include aluminum. As Dick Melville, vice chairman of Alcoa Industrial Components' Aerospace Market Sector Lead Team told us, "[In general] our customer is not normally the person who actually puts the aluminum or other product to its final use. In many cases we go three, four and even five customer levels deeper to reach the end market and gauge trends, assess our positioning, and analyze how we can pull value through the chain."

Nestlé Prepared Foods has seen substantial organic growth with its Stouffer's and Lean Cuisine brands by digging deep into the different needs of key market segments. President Stephen Cunliffe said, "We recognize that product requirements are different at different lifestages. What does a teenager want to eat? What do a young married couple, both working long hours, want to eat? What does a working mother want to feed her family? What do empty nesters want to eat?" By forming segments based on customers' needs and their attitudes toward food, and precisely positioning its products at target segments, Nestlé has come to dominate the prepared-foods business. Mayo Clinic has been providing exemplary medical care for over a hundred years and is the most well-known and powerful health-care brand in the world. Mayo's excellence is based on two simple yet powerful operating principles: "The best interest of the patient is the only interest to be considered" and "Two heads are better than one, and three are even better." Operating with these principles overcomes the interfunctional and interdepartmental tensions that are present in so many organizations.

Starbucks' success is legendary; chairman Howard Schultz credits that success to a company-wide, customer-focused marketing culture. "[T]he culture of our company allows our people to feel so positively about Starbucks that, without being asked to, they want to convey the attributes, the characteristics, the aspirational qualities of what we do for the customer."

In the past few years, Sony has faced tough times from competitors but even so has managed to improve its position on the 2006 *BusinessWeek*/Interbrand rankings of the top one hundred global brands. Sony spends enormous effort on measurement, driven by the mantra "If you can't measure it, you can't manage it." Ron Boire, president of sales for consumer electronics, told us how Sony's metrics for its major accounts became customer focused, and in this regard abandoned small *m* marketing for Marketing with a capital *M*: "We used to do classic sales compensation: budget versus sell-in. If you had a budget target of a million dollars for a category and you sold at \$1.1 million, you did a great job, you made a good bonus. Regardless of what was stuck in the barn at the end of the month or the end of the year. Regardless of whether or not they could pay for it. Regardless of whether you delivered it to them on time." Sony shifted to customer-focused metrics.

Said Boire, "[We] ask each customer, 'What's important to you? What are your targets? What are your strategic concerns?' . . . and our salespeople are given bonus compensation twice a year based on their customer scorecards."

Just like Sony, some of the other companies highlighted in this book have stumbled. Even great companies must sometimes go through rough times. Their

resilience in adversity goes hand in hand with their consistent pursuit of excellence and resistance to complacency in good times. One or more of these companies may be facing rough weather as you read this book, but I believe that their collective best practices will continue to stand the test of time.

It was fascinating to hear these stories of marketing achievement directly from the Marketing Mavens themselves, and I have tried to preserve the immediacy of the interviews by quoting extensively from them. But vividness and entertainment value are not the main reason for sharing so much of what we learned from winning companies in their executives' own words. Paraphrase simply cannot always capture the internal dynamics, the thinking, and the actions that make great companies great. The qualitative research data we obtained from our interviews offer a window through the income statement, balance sheet, and stock price to the interactions between a company and its customers that ultimately produce the sales increases and declines, the profits and losses, and the rises and falls in shareholder value. The evidence from the combined qualitative and quantitative data my research team amassed points again and again to a simple—and for many—a radical message. Marketing is not just about sales and communications, nor even about that old chestnut of the “4 Ps” marketing mix: product, price, placement, promotion. Marketing is about focusing all of the firm's energy on meeting five linked challenges that place customers at the center of strategic and tactical decision making. Indeed, these challenges form a new system of five linked imperatives that companies and businesses must follow if they are to be successful in the increasingly challenging environments of the twenty-first century:

- Pick markets that matter
- Select segments to dominate
- Design the market offer to create customer value and secure differential advantage
- Integrate to serve the customer
- Measure what matters

Toyota is now the number two automobile firm in North America with a market value ten times that of General Motors. It didn't achieve its position overnight but has been on a long, steady climb. Toyota is all about systems and has long drawn praise for its quality manufacturing system, which delivers high perceived value in reliability and performance to customers across the full Toyota, Lexus, and Scion ranges. But Toyota's increasingly strong lead over the rest of the global car industry also depends on excellence in several other systems that allow it to deliver superior design, dealer management, and customer service and communications.

Toyota adheres closely to all five imperatives and its consistent excellence in fulfilling one customer-focused imperative leads to excellence in fulfilling the others in a virtuous iterative cycle. Designing and making cars better suited to customers' needs enables Toyota to promote the cars more efficiently. This in turn enables it to direct resources to *pick markets that matter* and segment them well, as it has done better than any rival; integrate operations in a company-wide marketing culture; and assiduously measure what matters, from defects on the assembly line to customers' satisfaction with their ownership experience.

The bottom line of business survival and growth is that next year's profits do not depend on this year's numbers—they depend on next year's customers. If you want to

know how the world's leading companies identify future customers, figure out what they need, and then deliver greater customer value than their competitors, please read on. If these issues do not concern you, then pick up a novel instead!

Measuring Wow Power: Building the First All-Digital Consumer Electronics Brand at Samsung

Few companies have so astutely leveraged their brand value upward in recent years as Samsung, the giant Korean semiconductor, telecommunications, and consumer electronics and appliance manufacturer. In doing so, Samsung has relied extensively on intelligent measurement of the firm itself, its competitors, and its customers—both trade channel and end user. Above all, it has focused on one measure that matters most to its brand value: design excellence. The 1997 Asian financial crisis threatened Samsung with extinction. Since its founding in 1969 the company had expanded steadily by following a high-volume, low-price strategy that was endorsed, and subsidized, by the South Korean government. Relying on large capital loans to finance its operations, Samsung strove above all to lift market share. In consumer electronics, increasingly its key battleground, the company manufactured components for high profile brands, yet its own products occupied the low end of the market in price, prestige, and profitability.

Eric Kim, Samsung executive vice president of global marketing operations, told my colleagues and me, “The Asian financial crisis triggered a catalytic change at Samsung. Continuing to increase market share on borrowed capital was no longer a viable option. Even scarier than the debt crisis, and the underlying reason why we couldn't count on riding things out, was that our commodity manufacturing competencies were losing value, because the number of contract manufacturers was exploding, especially in China. If we stuck to our old ways, we were faced with going out of business sooner or later.” As a result, Samsung decided to embrace a truly market-driven change, a fundamental change of mission, processes, and the way it measured its performance via a consistent, systematic, and information rich manner. Samsung's measurements shifted from a volume, market share and cost-centered approach to a customer-value and profit centered approach. It divested a lot of areas that were not core to its business and significantly improved its balance sheet by moving away from debt financing and focusing on internal cash generation. Every product group became responsible for its own profits and losses (P&Ls).

To move its products up the value chain in customers' eyes, Samsung established a system of measurement that translates into “right price-positioning system.” The idea was to figure out the best retail price position for each product category and product in terms of performance, features, image, promotion, and competition. A central element in the strategy was Samsung's decision to go all out with digital products, stealing a march on industry-leading Sony and nearly all of its other competitors. This required different measures from the traditional approach. Samsung decentralized financial responsibility for the P&Ls, but it simultaneously centralized brand management. That way it could migrate from a commodity brand to a lifestyle brand, targeting consumers who wanted leading-edge products with great value. To accomplish this transition, Samsung set out to design and build products with “wow power,” that, as Kim said, “would make consumers

say, ‘Wow, look at this,’ because they’re fun, stylish, and a perfect fit for contemporary lifestyles.” Designs that failed to measure sufficient “wow power” would no longer be brought to market.

Samsung adopted the slogan “Samsung DigitAll” to convey the idea of all digital products, and especially the convergence of digital products like the mobile phone, the personal digital assistant, the camera, and the MP3 player, for everyone. And it moved its positioning upmarket, striving to do so in a friendly rather than snobbish way.

Measurement was critical to Samsung in its new strategy. It invested heavily in market research to understand consumers and their lifestyles. It also invested heavily in design and measured its product groups on how many hit products they delivered. With focus, hard work, and good measurement, Samsung went from nowhere in design to being the second-most awarded design company in its category.

Stressing the measuring and sharing of best practices is another critical factor to Samsung’s success. It encourages employees to adapt and invent new best practices. Once a year it goes through an extensive evaluation process, picks the top best practice innovations, and flies the individuals and teams responsible for them to headquarters for a celebration with a lot of fanfare where the CEO gives the grand prize and runner-up awards. Such a focus creates a tremendous drive to better practices throughout the company. “Applying that best practices vision was probably hardest for the manufacturing guys,” says Kim. “For years they had been charged with maximally utilizing capacity. When we set the new corporate agenda, they could no longer do that. They had to adjust to making lower volume, higher-ticket items, and either get rid of the excess capacity or find other products to make. If they had dug in their heels, we couldn’t have achieved the transition we wanted to make.”

Externally, Samsung demonstrated its brand-changing resolve by jettisoning high-dollar-volume customers who didn’t measure up to its new strategy. “We wanted to get out of the low-end, commodity-oriented channel and into a higher-end, premium-value channel. So we had to leave places like Wal-Mart and Kmart, which were a big source of our revenue, and flow into channels like Best Buy, Circuit City, Sears, and regional electronics specialists. In tandem with this we transformed our field marketing and sales operations based on a CRM [customer relationship management] paradigm.” Note that except for Sears, Samsung’s preferred retailers specialize in consumer electronics. A specialist retailer in any category naturally carries brands at a greater number of price points than a general department-store-like retailer and thus attracts customers who are more sophisticated about the product category and more likely to buy products at higher price points. It would surely be difficult to quantify exactly the demographic difference between a Wal-Mart and a Best Buy customer. Both are attracting value conscious consumers, and people who shop for consumer electronics at Best Buy may well shop for many other things at Wal-Mart. But Samsung was confident that there was a significant, if difficult to measure difference between the two customer sets, and it had the courage to act on its reading of this crucial variable. As for the inclusion of Sears among the preferred retail outlets for Samsung products, the legendary mass-market retailer still looks relatively upmarket in some parts of the country, despite its troubles. In any event, the strategy worked beautifully.

Eric Kim told us, “There’s a strong commitment at Samsung to continue to push forward to fully establish us as a premier brand in the consumer electronics category.”

Since the strategic overhaul began, Samsung has leapfrogged past most of the competition to vie with Sony as the premier consumer electronics brand. Among other Asian manufacturers, only Sharp has kept pace with Samsung, mainly because of its design- and technology-forward Aquos LCD televisions, and it's surely no accident that its "From Sharp minds come sharp products" slogan bespeaks a similar strategic approach to "Samsung DigitAll, Everyone's Invited." Samsung has been dubbed the "fastest-growing brand in the world," continually edging up *BusinessWeek/Interbrand's* annual measurement survey of the Top 100 Global Brands, reaching twentieth position in 2005 and 2006 with estimated brand equity respectively of just under \$15 billion and just over \$16 billion. In June 2004 Samsung proudly announced that over the prior five years it had received nineteen Industrial Design Excellence Awards (IDEA) from the Industrial Designers Society of America, tying Apple for first place. In 2004 five Samsung products received IDEAs, and in 2006 it won twenty-five prestigious International Forum Design Awards (Hanover, Germany), in both cases more than any other company. But Samsung has yet to develop category-defining products like the Apple iPod or the Sony PlayStation.

These results were reflected in its financial results. From 2001 to 2005 Samsung's revenues more than doubled, from \$35.4 billion to \$79.8 billion. Net income more than tripled, from \$2.3 billion to \$7.6 billion, and even reached \$10.4 billion in 2004. From the perilous days of 1997, when Samsung faced the threat of extinction, the company has fully justified its transformational strategy and the hard and soft measures it chose to implement it. In recent years the competition in mobile phones among Nokia, Motorola, and Samsung continued to be fought largely in terms of design. In 2005 Nokia finally released its first clamshell designs in the U.S. market and stabilized its number one U.S. and global market share through renewed design excellence. Meanwhile, Motorola regained the number two market share position, the *Wall Street Journal* noted, thanks to "a slew of cool devices and ads, featuring Motorola's trendy 'batwings' logo. Its ultraslim RAZR mobile phone has become the must-have handset since it was introduced, serving notice to Nokia that things are changing at Motorola." Samsung has no choice but to redouble its design efforts to develop products that score well on "wow." At the same time, as we will see in the concluding chapter, it formed common cause with its archrival, Sony.