Marketing for the 21st Century

BY BENJAMIN BALL

Marketing in America is adrift today. Over ninety percent of all new products launched are not on the shelf two years later. Manufacturers are scrambling to maintain brand share in the face of a sea of private label entries. Consumers are showing less and less willingness to pay a premium for "national brands."

A hundred years ago we had it figured out. Marketing was about ***product***, ***place*** and ***price***. Get a good product to a place where someone could buy it for a price that reflected the intrinsic value of the product and how difficult (or dangerous) it was to get it to the buyer.

About 75 years ago we began to think of a brand as more than a name on a product. We added meaning by identifying it with product attributes.

Then, 50 years ago television gave marketers true mass-market access. Branding could go beyond the limitations of product attributes. We used people, music and pictures to create "positioning" and "brand identity."

By the 70s, marketers were using every means at our disposal to "build the brand franchise." Established retail channels made bringing new products to market a breeze. Barriers to entry reached an all-time low and new product success was all about "differentiating the brand." We began to talk in near-surreal terms of "brand personality" and "brand essence."

As the 90s rolled in, the American marketing machine was in overdrive. We were introducing 25,000+ new products per year—just in grocery and HBA! Over 100,000 retail outlets stood ready to offer these products to consumers across the country. We had hundreds of TV channels to announce these new entries to consumers, as well as thousands of publications, radio stations, Internet pop-up ads and other consumer communication vehicles available.

Financial pressure for a steady stream of new products to have driven the year-on-year sales growth that Wall Street demands forces marketers to flood the market with items that have little or no real differentiation. In fact, with an average of five-plus brands doing battle in every category, the competitive need to "cover every niche" guarantees that eighty percent of new items launched will be "me-too." Consumers don't need or want five or more brands of whitening toothpaste with cinnamon flavored swirls.

Stores continue to open at a record pace and new channels such as "dollar stores" emerge. But most retail observers agree that America is "over-stored" and consumers find they can purchase most common products and brands in any of a dozen choices. While creating more product and place options than we (or consumers) can effectively use, we've forgotten the basics of product, place and price. In the face of this myriad of options, consumers are reverting to a simpler approach to making choices. Consumers, it seems, haven't forgotten the basics of product, place and price. Just as we followed consumers into the frontiers of cable television, online shopping, warehouse clubs and dollar stores, now we must follow them again as they change the rules of the game to fit their needs.

ABOUT THE AUTHOR Ben Ball is Senior Vice President of Dechert-Hampe & Company, based in our Northbrook, Illinois office. Ben works with clients on integrated customer and market development projects, including customer relationship management. Prior to joining Dechert-Hampe, Ben was Vice President, Marketing PepsiCo Foods International.

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THE BASIC "P" PRINCIPLES OF MARKETING

PRODUCT

What kinds of products do consumers really want?

PLACE

Where is the best place to reach your market?

PRICE

How much is a premium brand worth?

Start with products. We must refocus consumer research and R&D efforts on generating real product innovation. We've tended to use more sophisticated marketing research methods to parse the date finer and finer until we identify a "white space." Much of the opportunity that research identifies is incremental at best. Did consumers really need manufacturers to compress powdered laundry detergent into tablets so it would be easier to measure and toss into the washer? Is it a convenience? Yes. Did market share change hands as a result of tablets introduction? Unquestionably—until every brand, including private label, introduced them. Did that make it absolutely necessary for every brand to offer tablets? Absolutely. Did any of this grow laundry detergent usage appreciably? Not hardly.

Next, reconsider "place." While it is once again paramount for marketers, place is now about more than access to consumers. Whether we refer to it as "the final four feet," "the red zone," "arm's-reach marketing" or any of the other emerging terms, place has reemerged as the great battleground of marketing. Leading-edge marketers are recognizing this in a number of ways. Procter & Gamble, for example, has created a "Retail Marketing" czar to oversee what it calculates is a $1.7 billion annual investment in influencing place. It has simultaneously named four agencies worldwide to coordinate P&G efforts in "place marketing." Most importantly, the company has integrated the place marketing effort within its customer teams. For P&G and all other manufacturers, the value of "place" has soared tremendously. After all, if your brand isn't in whatever outlet the consumer happens to be shopping in today when she needs detergent, you lose that sale.

Finally, we have to reconsider pricing. The second element of price value involves the intrinsic value of the product itself. Beyond the obvious point of product differentiation, this includes the "brand premium," or the amount consumers are willing to pay for a given brand in excess of the price they pay for a generic brand of the same quality. "Brand premiums" are historically calculated in comparison to private label offerings, but this game is quickly changing as well as retailers become brand marketers. How different is the brand premium Chips Ahoy!® can command when it is compared to President's Choice® Decadent Chocolate Chip Cookies versus a generic pack?

Functional segregation

Business school professors used to extol the benefits of "big M marketing." They were referring to a definition of marketing that includes all of the elements of moving a finished product from the production location to the consumer purchase location. Until that cycle is completed, the job of "Marketing" is not done. This requires an integrated effort of the functions we variously term Marketing Research, R&D, Advertising, Consumer Promotion, Brand Management, Logistics, Customer Service ... and Sales.

In the evolution of marketing, European companies attempted to maintain the integration of these sub-functions by calling the whole thing "Commercial" and having it report to the Commercial Director. This approach has persisted, perhaps due in part to the stronger retailer community in Europe, Canada, Australia and elsewhere. Dealing with the realities of "power retailers" who understand branding and marketing quite well reinforces the need for manufacturers to present a stronger, integrated marketing effort.

In America's early days of marketing we did much the same, simply calling the whole thing either "Sales" or later more often "Marketing." But we have pursued "functional excellence" over the last fifty years with a passion. The first and major rift came with sales, and the reason is obvious and simple.

The American retail community in our first 200 years was completely absorbed in the Herculean task of simply building outlets and supplying goods fast enough to fill our geographic expanse and meet the needs of our exploding population. Consumers, manufacturers and, finally, even the retailers saw their stores as merely an outlet for the brands they carried. The profession of "Sales" was reduced to simply "get me distribution" and "get the order for this month." Marketers tended to take the importance of "place" in the marketing basics for granted ... and sales slowly disappeared from relevance in "big M marketing."

To effectively influence place as a key element of "big M marketing," we must be able to influence today's power retailers. That means bringing the sales role back under the "big M marketing" tent. These retailers understand marketing and branding better than ever before. That means the effort to influence them must contain marketing elements and speak marketing language.

To drive to put marketing back on course will require change in many of the sub-functions of "big M marketing" as it is practiced in America. Holding ourselves to higher standards of product innovation and brand building are key. But the most critical element of winning will be the reintegration of sales to the marketing effort—not as a subordinate absorbed—but as a conduit embraced to effectively carry the marketing message to the consumer at the most critical juncture ... the place. V

Marketing for the "21st Century" originally appeared in its entirety in "PROMO" magazine.

ASSESSING YOUR SALES RESOURCES

There is little disagreement that sales organizations have changed dramatically over the past decade. But the age-old question remains: "How many people do I need and how should I allocate them to be most effective?"

In an attempt to answer this question, many companies turn to benchmarking – which often proves difficult because of the wide variability in the way that companies structure and staff their sales organizations. Key factors include:

- Size of company
- Number of categories/product lines and product types
- Category dynamics: Competition, promotion frequency, importance of retail coverage
- Profile of product portfolio (leader, second tier, commodity)
- Financial constraints
- Resource deployment preferences/philosophy/strategy (dedicated/direct vs. shared/broker/rep/third party)

Dechert-Hampe & Company (DHC) recently researched 24 CPG sales organizations to better understand how functional resource allocation varies by size of company and type of sales organization.

We learned that while absolute headcount (and dollars per headcount) increases with company size, the relative allocation of external versus internal resources does not vary significantly. On average, 57% of a sales organization's human resources are allocated to external/field positions. Account and Broker Management positions represent 48% of total sales resources. Retail Operations and Supervision resources range from 8% to 16% and tend to decrease as a percentage of total sales resources with the size of the company and the number of trade channels a company markets their products through.

Internal/headquarter support-oriented functions represent on average 43% of a company's total sales resources. Larger companies and companies who participate in multiple product categories and/or numerous trade channels have a higher percentage of internal resources (48% on average for companies >$3 Billion, and as high as 54% for companies with multiple categories moving through a large number of trade channels).

Smaller and mid-sized companies devote internal resources to core sales support groups (category leadership, sales planning, customer development, and sales analysts) but do not have the breadth of internal support that large companies do in such areas as customization, co-marketing, sales communication and sales learning.

Sales resources allocated to account teams also vary dramatically across companies. Smaller companies (<$500M) typically only field a Wal-Mart team while larger companies (>$3B) field an average of eighteen separate account teams. Companies that go to market through brokers field fewer account teams (on average 3) since these manufacturers are often relying on their broker partners to provide customer coverage, and as required, account teams. HBC/GM companies tend to have fewer account teams (~8) than food companies (~11) since some of their key customers are in the drug class of trade, where account teams are less prevalent.

It is clear that more and more companies are taking a strategic approach to resource allocation and organization development based on their competitive strategy, product portfolio, category dynamics and what other comparable and/or competitive companies are doing. Today, sales resource allocation needs to be based on a variety of factors that are important to your business and the way you go to market.

For more information, please visit our website's Resource Center - **Research/White Papers** *where a synopsis of the study is available.*