SECTION I

Why You Should Be Unhappy with Your Marketing Even if You're Not

1

Nothing Is More Important than Marketing

Peter Drucker once noted the only purpose of a business is to find and keep customers. If there are no customers, there is no business. And the only purpose of marketing is to find customers for businesses. Therefore, marketing is at the heart of every business. However, by *marketing* we don't mean silly advertising, golf outings, or buy-one-get-one-free loss leaders. We mean solving people's problems with products and services at a profit.

Because the business's purpose is to find and keep customers, all company activities that touch customers directly or indirectly fall within marketing's purview. So marketing is about research and development (R&D), distribution, pricing, advertising, direct marketing, and sales. It is about public relations, the company web site, and sports and event sponsorship. And in the sophisticated company of tomorrow, the chief marketing officer (CMO) will be responsible for all of these functions.

In these companies, the CMOs will still make marketing decisions based in part on creativity, judgment, and experience—to a modest extent by using their gut—but experience will be supplemented, buttressed, or balanced by careful analysis of unimpeachable data. That is, facts.

We've helped companies large and small improve their marketing through analysis of hard data, by using their heads rather than their instincts. Yet we see too many marketers making their decisions with their gut rather than their heads. Consider what happened to Interstate Bakeries.

In early 2001, senior executives at Interstate Bakeries faced a dismal business outlook. The country's largest wholesale baker—known for brands like Wonder, Home Pride, Sunbeam Breads, Dolly Madison, Hostess Twinkies, Ding-Dongs, Drake's Coffee Cakes, and more—carried a heavy debt load, many of its 60 factories were outmoded and inefficient, and competition for shelf space and market share was fierce.

Perhaps worse, consumers were increasingly concerned their kids were eating too many Twinkies and other junk foods, leading to childhood obesity, and they themselves had started counting carbohydrates, adopting the Atkins diet, and dropping bread from their meals. The situation appeared dire as Interstate's management looked for a way to reverse a string of annual losses.

This was, we believe, a situation crying for better marketing. If consumer tastes are changing, develop products that satisfy the new tastes. If kids are eating too many Twinkies, Ho-Hos, and Ding-Dongs, start marketing to adults. Reposition the snacks as a quick pickup or as a reward for getting through a difficult day. Interstate's management could have tried a number of alternative marketing strategies.

Interstate's management, apparently using their gut rather than their head, saw the challenge as a financial issue. It's expensive to keep fresh bread on store shelves: Three days out of the oven and bread becomes noticeably stale. That's one reason why Interstate had all those factories; you can't take a lot of time shipping bread around the countryside, so the bakery has to be close to the retail outlet.

Company chemists had discovered a way to extend the shelf life of Zingers, a Dolly Madison crumb cake. New additives made Zingers, and subsequently the entire Hostess products line, stay soft and fresh-looking longer without compromising taste. Rather than restock store shelves every week, drivers would have to restock them only every other week, cutting delivery costs.

At the same time, an industry supplier had developed enzymes that promised a longer life for bread as well. Increasing bread's shelf life meant the company could reduce spoilage and waste—a big savings. Longer shelf life would mean Interstate could close inefficient bakeries and would require fewer deliveries to the same number of stores—a colossal savings. "Our extended-shelf-life program will continue to play a significant role in cost control," proclaimed Charles Sullivan, Interstate's chairman and chief executive officer (CEO) at the time. Executives promised Wall Street "cost cutting like never before" as James Elsesser, a legendary cost cutter at Ralston-Purina, took over for Sullivan and continued to support the shelf-life plan.

Unfortunately, the company didn't give the significant customer-side implications a second thought as they forged ahead with the plan. First, from a strategic point of view, the idea of bread having a longer shelf life was unlikely to appeal to consumers who were increasingly looking for fresh, right-out-of-the-oven baked goods. Interstate's own retailers—major supermarket chains—were adding bakeries to their stores to meet this demand. So there was no added value to consumers for a product with a longer shelf life thanks to additives and enzymes. In fact, there was nothing that would further—and positively—differentiate Interstate's brands or give customers a compelling reason to buy them and keep buying them.

Most importantly, however, increasing product shelf life meant meddling with a recipe that consumers loved. Although the taste and appearance of Twinkies and other snacks didn't seem to be affected by the additives, bread was another story. Once the new recipe went into production, it worked inconsistently. Loaves sometimes turned out gummy and doughy, and the center often caved in. Customers started complaining: "I've been eating Merita bread [an Interstate brand] for decades," but "the taste seems to have changed," wrote one anonymous consumer on the web. "Whatever has happened or is happening we do not like it and have gone to another brand," wrote another.[1]

The product's taste was not the only problem. Before the shelf-life plan, delivery people would remove damaged goods and spruce up retail shelves so the products didn't look picked over. But when the company cut the number of deliveries, the Interstate store shelves looked disheveled or were empty for days at a time. Not only did the product look and taste yucky in many cases, it looked worse on messy or empty shelves, which pleased neither retailers nor customers. The company eventually acknowledged it had cut service too deeply and began restoring driver routes, but the damage was already done to retailer and consumer relationships.

With the cost-cutting program a flop and other problems coming to a head, Interstate filed for bankruptcy and CEO Elsesser resigned at the end of September 2004. Analysts said the current food fads had little to do with the company's troubles. "It exacerbates their sales issues," said one, "but it's not the critical issue at all."[2] The critical issues were high labor costs and—especially—lack of innovation. Other analysts responded to the bankruptcy filing with the strong suggestion that "the company's highest priority ought to be improved marketing and increased sales, rather than cost cutting." The problem with having cost cutters in charge, rather than marketers, is that they don't distinguish between an unnecessary and a necessary expense. They fail to recognize that certain costs are vital to supporting a brand's positioning, maintaining product quality, sustaining customer loyalty, or all three.

In retrospect (and speaking as total outsiders), we think Interstate had several marketing alternatives. The company could have rolled out new products: a multigrain bread, a new favorite among consumers and the bread industry's hottest product, for instance. It could have launched a reinvigorating ad campaign for Twinkies and Ding-Dongs. Indeed, postbankruptcy research found that 53 percent of households that purchase Twinkies have no children; adult males who grab Ho-Hos, Ding-Dongs, and fruit pies at convenience stores represent a major market segment. Instead, management looked for a financial panacea, and their brands, their employees, their stockholders (the stock went from $16 a share to $2.05 in six months), and their customers have suffered the consequences.[3]

Why Marketing Is in Trouble

The Interstate Bakeries example may be a case in which a company ignored marketing with catastrophic results, but Interstate is certainly not alone in disregarding marketing. Companies take two routes to grow today: mergers and acquisitions or marketing. Our research shows that 8 out of 10 U.S. companies are not growing organically by more than 2 percent or 3 percent per year—that is, through their marketing efforts, R&D, and new products. The rest are holding their own or actually declining.

Growth through mergers and acquisitions is often short-lived and illusory. As Gary Hamel, chairman of Strategos and director of the Woodside Institute, noted, "a spate of academic research has demonstrated the mega-mergers are as likely to destroy shareholder wealth as to create it. In most cases, the costs of integration, both direct and indirect, overwhelm the anticipated economies. As management's attention turns inward, customers lose out and market share wanes."[4]

One indication of the lack of growth is falling market share. As we look across a broad range of consumer and business offerings, the shares of the market leaders are declining in most product categories. Compare the shares of the top 10 brands in almost any product category, say ten years ago and at the end of 2006, and you'll see the average has declined.

Market shares fall for a number of reasons. Poor marketing is perhaps the most important and the one the company can most easily affect and improve. CEOs and chief financial officers (CFOs) talking to analysts about their businesses always blame the problems on outside forces, on exogenous variables: Consumer tastes are changing, demographics are changing, new technologies have been introduced. It's not *our* fault. They almost never mention the inadequate marketing.

Look at some U.S. marketing icons: Coca-Cola, Budweiser, MasterCard, McDonald's, General Motors. The problem, from our perspective, is clearly marketing. Coca-Cola hasn't had a successful new advertising campaign since the kids were singing "I'd like to give world a Coke" a quarter century ago. Coke hasn't had a really successful Coca-Cola line extension, or new product other than water, since it launched Diet Coke many years ago.

General Motors is another example. We've watched GM's market share erode over the past twenty years. We've seen their brands decline in value (and one, Oldsmobile, discontinued). They've had very few exciting new products in twenty years. Their automobiles are inferior to the Japanese brands, to the German brands, and increasingly to the South Korean brands. They have had to resort to price promotions like the "General Motors Employee Discount for Everyone" to sell their cars, which, of course, affects sales for months after. It may be convenient to blame the corporation's problems on exogenous factors, but somebody has to look in the mirror and recognize that bad management decision making is the key to the problem.

A summer 2006 study undertaken by Copernicus and Greenfield Online of a nationally representative sample of 1,133 men and women found that far more brands are being transformed into commodities than commodities into brands. In 48 of the 51 categories in which the most marketing money is spent, brand equity—consumer perceptions of what distinguishes a brand from a commodity—is declining. This is particularly true for bottled water, credit cards, gas stations, and large office-supply stores. Table 1.1 shows the results of the study. At the one extreme, not surprisingly, most people see little difference between Aquafina and Dasani. At the other, they see considerable differences between Dunkin' Donuts and Starbucks.

Our work with business-to-business clients in industries ranging from cement to medical instruments, industrial gases to computers, printing services to insurance reveals a similar slide toward

Table 1.1 The Extent of Brand Commoditization*

Aquafina/Dasani	75
Visa/MasterCard	74
ExxonMobil/Shell	73
MetLife/Prudential	72
Office Depot/Staples	72
E-Trade/TDAmeritrade	70
Home Depot/Lowe's	70
Expedia/Travelocity	68
Gillette/Schick	67
DirecTV/Dish Network	65
Cialis/Viagra	64
Crest/Colgate	62
Allegra/Claritin	63
Nexium/Prevacid	63
Walgreens/CVS	62
Vytorin/Crestor	62
Folgers/Maxwell House	62
Fidelity/Charles Schwab	62
Red Bull/Monster	62
Purina/Pedigree	61
Bank of America/Wachovia	61
Best Buy/Circuit City	61
Lay's/Ruffles	60
Pampers/Huggies	59
UPS/FedEx	58
Carnival Cruise Lines/Royal Caribbean	57
Aflac/MetLife	56
Maybelline/Revlon	55
Budweiser/Miller	55
Toyota/Nissan	55

(continued)

Table 1.1 *(Continued)*

Cadillac/Lincoln	54
Verizon/Cingular	53
JCPenney/Sears	53
Sony/Philips	53
Tylenol/Advil	52
Nike/Adidas	52
Pantene/Garnier	50
Southwest Airlines/American Airlines	50
Canon/Kodak	50
McDonald's/Burger King	49
Google/Yahoo!	49
Mercedes-Benz/BMW	49
Tide/All	48
Olay/L'Oréal	47
Coke/Pepsi	46
Dell/HP	46
Ford/Chevrolet	45
State Farm/Geico	44
AOL/PeoplePC	43
Wal-Mart/Target	40
Dunkin' Donuts/Starbucks	28

*Percentage of consumers in the target market who perceive no difference or only a slight difference between the two brands in each pair.

commoditization. As perceived product differences disappear, a low price becomes increasingly important. Why, the consumer asks, should I pay more for essentially the same product? Why indeed? Table 1.2 shows the importance of price as opposed to product features and benefits in driving purchase behavior in the same 51 product categories. Note the strong correlation between the importance

Table 1.2 The Importance of Price versus Product Features and Benefits*

Bottled water	74
A gas station	71
Booking travel online	70
Airline tickets	69
A new credit card	68
Automobile insurance	60
Purchasing/leasing a vehicle	58
Wireless phone service plan	54
An office supply retail store	52
A satellite TV provider	52
A cruise line vacation package	51
A discount retail store	50
An online trading site	50
A new bank account	50
Disability insurance	48
An express package delivery service	48
Life insurance	47
An Internet service provider	46
A home improvement retail store	46
An electronics retail store	46
A financial planning services firm	45
A drugstore	43
A department store	42
Prescription medication	41
Disposable baby diapers	39
Home entertainment equipment	37
A personal computer	37
A pair of athletic shoes	36
An energy drink	35

(continued)

Table 1.2 *(Continued)*

A digital camera	35
A razor or blades	33
A laundry detergent	31
Packaged ground coffee	30
Allergy medication	29
Potato chips	28
Toothpaste	28
Women's cosmetics	28
Shampoo	26
Pet food	25
A fast-food restaurant	25
Antiaging cream/lotion	25
A cola soft drink	25
A coffee/bakery shop	24
Beer for at-home consumption	20

*Percentage who agree "When thinking about the last purchase you made in the category, would you say price is very important? You strive to pay the lowest price or lowest fees."

of price on Table 1.2 and the level of commoditization shown in Table 1.1. Generally speaking, the more commoditized a category is perceived to be, the greater the value of a low price.

This slide into commoditization is preventable by sound marketing, by using the techniques we'll be discussing in the chapters ahead. Marketers who fail to communicate product differences, brand benefits, or brand equities in their advertising and sales efforts will see their brands lose ground. Many television commercials, for example, are nothing more than 27 seconds of entertainment with three seconds of the brand name tagged on at the end. Apparently, somebody made a conscious decision that entertaining, brand-personality type advertising is more effective than communicating anything useful about the product.

But not only are existing brands becoming commodities, new products and services continue to fail at an appalling rate. According to AC Nielsen BASES, 93 percent of the estimated all-new consumer products fail within the first three years. Yes, more than nine out of every ten new products do not make it.

High-revenue-potential new products fail at or soon after launch for several key reasons. According to a 2004 Deloitte Touche Tomahtsu study of 650 companies in North America and Europe, these reasons include insufficient information on customer needs (i.e., an inadequate and substandard level of marketing research); supplier capabilities; a reluctance to allocate appropriate spending on R&D; and a disjointed approach to innovation across product, customer, and supply chain operations.[5]

Despite the fact that many (perhaps most) senior executives consider genuinely new products (although not necessarily truly authentic innovations) to be the number one driver of revenue growth, the marketing department is often willing to go along with the belief of nonmarketers that it's easier and cheaper—not to mention far less risky—to launch a line extension, a product or service that builds on the cachet of an existing brand. Often, the marketing department initiates the launch with inadequate research to determine the level of consumer interest and preference for the new product. There is little or no test marketing to assess the probabilities of target trial and repeat purchase (if these have even been defined) or tests of media effectiveness. If the results of focus groups look good, the company launches the product and begins spending on the promotion campaign.

Unfortunately, product and concept test databases have shown repeatedly that line extensions are far more likely to fail than truly new products. Generally, consumers want uniqueness and distinctiveness in their new products, including line extensions. Equity in the parent brand, however strong, does not automatically translate into consumer acceptance of the extension. Also, they often fail to bring new users into the category or customers from other brands. Cherry Coke attracts Coke drinkers almost exclusively. As a consequence, they tend to cannibalize the parent brand and do not produce the net incremental sales required to make the extension profitable. Exceptions to these generalities exist, and we'll talk about them in Chapter 6.

Under these circumstances, marketing departments are guilty of negligence on at least two counts. First, they fail to press for support for genuinely new products having a higher probability of success and return on investment (ROI). Second, they fail to provide adequate research that demonstrates the new product or line extension's probability of success or failure. Granted, senior management may not want to spend the money to develop genuinely new products or to pay for adequate research, but a responsible marketing executive will at least make the case that it is in the firm's best interests to do so.

The Trouble with Measuring Marketing Return on Investment

Marketing is also in difficulty with senior management because after years of justifiably claiming that it was hard to impossible to measure marketing effectiveness, today's new data sources, technologies, and tools have made it possible to link marketing investments directly to market share, sales, and profits. And the results are embarrassing.

We have collected performance data on more than 500 marketing programs for consumer and business-to-business (B2B) products and services. The results are not good. Some 84 percent of these programs fail to have a positive ROI. This issue concerns us so much that we asked Marketing Management Analytics (MMA) to ransack its databases to tease out the effects of advertising. MMA is the largest ROI analytics firm in the United States. It discovered that advertising for established consumer packaged goods returns only 54 cents for every dollar invested. Other product categories return 87 cents—better, but still a losing proposition.

We and MMA are not alone. A 2004 Deutsche Bank study of packaged goods brands found that just 18 percent of television advertising campaigns generated a positive ROI in the short term; less than half (45 percent) saw any ROI payoff over the long run. And according to Dominique Hanssens, the director of the Marketing

Science Institute and former professor at the University of California, Los Angeles's Anderson School of Management, the advertising elasticity coefficient for advertising for established products and services is 0.01, which means you would have to increase the ad budget by 100 percent (double it) to see a 1 percent increase in sales.

This means that if Anheuser-Busch had doubled the approximately $550 million the company spent on television, print, radio, outdoor, and Internet advertising in 2006, the firm would likely have enjoyed a 1 percent increase in net revenues from its current base of $15 billion. In other words, the firm would have spent $1.1 billion to make an incremental $150 million. Before you cancel your advertising, however, read Chapters 7 and 8 for some better ideas.

Often when MMA reports these dismal results, clients respond that MMA has only measured short-term effects, whereas the corporate objective is to build brand equity in the long term. Yet in addition to the 2006 study discussed earlier, four different studies suggest that brand equity for leading brands is declining. Stated differently, more than halfway through the first decade of this new century, most marketers are building neither sales nor brand equity.

If this isn't bad enough, consider that customer satisfaction averages just 74 percent, not just in our database but in the American Customer Satisfaction Index, produced by the University of Michigan;[6] most new-customer acquisition efforts fail to reach breakeven (i.e., it costs more to acquire a customer than the customer returns to the company); most promotional programs have proved to be unprofitable; and direct marketing response rates have been declining for thirty years. Looking at all the evidence, it's clear that most marketing programs are failures and that most brands are in trouble.

Most Executives Don't Know How Bad It Is

Most CEOs, CFOs, and even some CMOs are unaware of these terrible findings. Most are unaware of marketing's dismal performance. After all, if they were aware, it would be illogical (if not insane) to keep running programs that don't work. But those company executives who have seriously studied marketing program performance now recognize that what they've been doing for years doesn't work and are looking for ways to reverse the findings. Often they blame television advertising, frequently the largest-dollar item in the marketing budget. They argue that TV audiences are shrinking and consumers are giving less attention to those ads to which they are exposed. Surely, they say, there must be more effective media.

Their confidence in traditional media shattered (for good reason), marketers are responding by reallocating substantial dollars to nontraditional media. Unfortunately, there is very little data on the effectiveness of nontraditional media. In fact, measurement is today where measurement of traditional media was in the 1960s. Nontraditional media include sports and event sponsorships, Internet advertising, electronic outdoor billboards, simulated word-of-mouth buzz, and plastering logos and ads on every possible space (subway turnstile bars, office water jugs, turnpike toll booths).

Even though there is little information about nontraditional media's performance, with less clutter and, in many cases, lower costs—not to mention lots of hype—they appear to some marketers to be a more attractive (i.e., safer) investment. Our own experience, as an aside, is that nontraditional forms of media are no more powerful than the traditional forms, but that's a story for Chapter 7.

By installing measurement systems and buying what they hope is more effective media, marketers may feel they are making the practice more accountable. But using supporting elements of marketing accountability to improve performance is like fighting cancer with a thermometer and aspirin—it doesn't get anyone closer to a cure.

If marketers would turn their attention beyond measurement and media for just a moment and take a big-picture look at why the numbers are so bad, they'd see that their marketing strategies are flawed. With the help of the new measurement systems, marketers are evaluating with ever-increasing precision the impact of ill-defined targeting, weak positioning, unprofitably configured products and services, mediocre advertising campaigns, giveaway promotions, poorly allocated marketing dollars, and more.

Let's Address the Trouble

What can a company do about these problems? How can it improve its organic growth, growth that comes from selling its products (or services) to new customers; from selling more products to existing customers; from selling new, more profitable products to existing and new customers; or all three?

Can you do it with the sales department? We don't think so. At the companies we see, the salespeople are working flat out. "Go sell more," even if doable, does not address the company's basic problems. Without a compelling story, the salespeople's future efforts will be no better than they are right now.

Can you do it with new products and services? Yes, if they're successful. But as we just pointed out, most new products and services fail. We know from our experience that superior research improves targeting, positioning, new offerings, and more. We'll talk about each of these points in detail in coming chapters, but we see a chicken/egg issue here.

If the marketing is ineffective, most new products and services will (and do) fail. But if new products routinely fail, the CEO and the CFO want to know why they should give resources to a department that's not adding value. Why give those people even more responsibility, thereby perpetuating an ineffective department? At many companies, the marketing department's responsibilities are already exceedingly limited.

Marketing guru Philip Kotler related an exchange he had with the vice president of marketing for a major airline. Kotler asked the VP what his job involved. Did he control pricing? "Not really. That's the yield management department." Did he control where and how often the airline flies or the classes of service it offers? "No, that's the flight scheduling department." Did he control the services provided to customers by the airline on the ground? "Not really. That's the operations department." So, Kotler asked, what *did* he control? "Well," the VP replied, "I run advertising and the frequent-flyer program."[7]

Marketing is misunderstood in many, perhaps most, organizations. Senior executives—indeed, most managers in other departments—often equate marketing with advertising. They do not understand how the marketing function can contribute value to the enterprise that leads to organic growth. Yet as we have repeatedly seen, when CEOs, CFOs, and other top managers *do* understand marketing's potential, they lead their companies to greater revenues, profits, and growth than their less astute competitors.

Procter & Gamble (P&G) had been a marketing powerhouse until the 1990s, when it seemed to lose its way. It spent more than ten years integrating acquisitions and moving into emerging markets. In 1993, to compete with cheaper, private-label competitors, it cut 13,000 jobs, closed 30 factories, and took a $1.5 billion charge against earnings to pay for the restructuring. That clearly was not the answer to its problems because in July 1999, six months after Durk Jager took over as CEO, he announced that P&G was cutting 15,000 more jobs, closing more factories, and taking a $1.9 billion charge against earnings. Meanwhile, P&G had lost its sales lead in toothpaste (Crest), diapers (Pampers, Luvs), and soap (Ivory).

Jager told a *Fortune* reporter, "The core business is innovation. If we innovate well, we will ultimately win. If we innovate poorly, we won't win. To innovate, you have to go away from the norm. You have to be rebellious or nonconventional. You have to do things differently." All that may be true, but P&G needed to rededicate itself to improving its marketing. It has done so under A. G. Lafley, who became president and CEO in June 2000, and Jim Stengel, who became global marketing officer in 2001.

They have been changing the way the company thinks about the women who buy its products. "P&G has always aimed its marketing at women," says *The Wall Street Journal.* "But it used to develop consumer goods in its labs and market them based on the product's best technical feature. Its market research tended to be about the pros and cons of specific products. These days, employees spend hours with women, watching them do laundry, clean the floor, apply makeup and diaper their children. They look for nuisances that a new product might solve. Then, they return to the labs determined to address the feature women care about most." As Lafley told P&G executives at a recent meeting, "We discovered that women don't care about our technology and they couldn't care less what machine a product is made on. They want to hear that we understand them."[8] As P&G's marketing efforts have improved, the company's earnings have increased, on average, 17 percent each year since Lafley became CEO, to more than $7.3 billion.

But it is not only multibillion dollar corporations that can benefit from effective marketing; much smaller firms can benefit as well. (Indeed, a case can be made that because of size, inertia, and complexity, it is more difficult for a giant corporation to become a marketing force than a small company.) McCue Corporation has become the retail industry's recognized leader in protective and decorative bumper and shopping carts. Founder David McCue spent 11 years working in sales, product design, and marketing for a manufacturer of equipment for the retail industry. During his supermarket visits, he realized that the shopping carts were beating up the retail fixtures, and the more shopping carts per store, the more likely the aisles, counters, and displays had a beat-up look. His marketing strategy was simple: Start with a target that would be responsive to a new shopping cart (large food retailers) and solve their problem.

As a two-man company, McCue produced its first marketing brochure before it had its first product. The positioning and message was so strong, McCue began selling its first product and was able to contract with a manufacturer's rep company. Two years later, Wal-Mart began buying McCue products for its stores, and as McCue has grown, it has been able to develop more products to solve the problems of chain drug stores, supermarkets, and discount stores in trying to keep the stores clean, neat, and attractive. The marketing has been effective; McCue Corp. has now been listed twice on *Inc.* magazine's ranking of 50 fast-growing private companies.

Unfortunately, too many senior managers see marketing as a line-item expense—advertising, lead generation, customer loyalty programs—and unrelated to creating revenues or profits. The marketing budget is frequently the first expense to cut when management feels pressure to show a short-term profit. Executives under pressure often feel that spending more money on marketing—that is, on advertising—is a waste; hiring more salespeople who can begin to generate revenue immediately is a better investment. Given marketing's sad record, they are often correct.

Managers at entrepreneurial and medium-size companies tend to think that marketing is mainly advertising and, therefore, is relevant mainly to companies with large advertising budgets. They also feel that marketing is only tactical, not strategic; it's something you do for a specific product to get the word out. They do not believe that marketing people command a set of skills and processes on which the organization can depend to grow the entire business.

Many people in business see marketing as about *creating* needs, not *fulfilling* needs. They feel marketing is a qualitative discipline, more art than science, whereas business is quantitative. Moreover, they believe marketing usually cannot measure precisely the results of plans and programs; it therefore cannot be held accountable for decisions and action plans. When marketers *can* measure results (an ability that grows almost daily), they are often pitiful (as we've seen). Finally, we find a widespread belief among top executives that marketing is not needed to create new business concepts and products; R&D can do this very well without marketing's help. They also believe that if the product is good enough, you don't need marketing to sell it. As the heavenly voice told Kevin Costner in *Field of Dreams*, "If you build it, he will come."

What Kind of Company Have We Got?

Marketers may have learned in marketing management classes that sales is one of the elements under the marketing umbrella. The books say that sales should be part of a promotion process managed by the marketing department. Yet the reality in many organizations is that sales, not marketing, is in power because everyone recognizes that without sales no one gets paid. It's clear what salespeople do, and in every organization the outcome from the sales department is the same: sales put money in the bank. Senior managers can tie budgets to quantifiable sales quotas. A sales rep who breaks records gets a bonus; one who falls short gets replaced, and it's obvious who the star is and who the goat is.

No one would argue that the sales force is unimportant. A recent Accenture survey of 200 corporate executives rated each of 11 principal corporate functions in terms of their value contribution to the overall company (where 1 = no contribution and 5 = very significant contribution). These executives gave sales a rating of 4.4 and marketing a 3.7. Moreover, 61 percent said that sales makes a "very significant" value contribution, whereas only 23 percent said marketing does so.[9]

Sales reps routinely want new products, something fresh to tell prospects and customers. Many senior executives also believe that introducing new products and services is an effective way to obtain revenue growth. They need new products because most existing products are growing outmoded. The 2004 Deloitte Touche Tomahtsu study cited earlier found executives saying that new product revenue will increase from 21 percent of total revenue in 1998 to 35 percent in 2007. So the formula seems to be: Give the salespeople more new products to sell and the company will grow.

Marketing, however, is not the same as selling. As marketing professor Theodore Levitt wrote, "Selling focuses on the needs of the seller, marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash, marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering, and finally consuming it."[10] Selling is getting rid of what we've got; marketing is learning what people want and helping them get it.

We find that companies tend to be either sales-driven or marketing-driven. Although the marketing concept was developed by a number of scholars and businesspeople in the mid-1950s, and although a number of scholars have found in the last fifty years that companies that embrace the concept achieve superior performance, we still find top managers who believe marketing should support the sales department (with brochures, collateral, advertising, and leads) rather than believing that the sales function is one element in a comprehensive marketing program.

In summer 2006, Copernicus and *Brandweek* magazine surveyed 256 senior marketing executives at *Fortune* 1,000 companies to determine if the company they worked for was primarily sales or marketing directed. The 42 questions ranged from simple self-report measures such as "My company is more of a sales-driven company than a marketing-driven company" and its converse, "My company is more of a marketing-driven company than a sales-driven company," to more sophisticated measures that tapped into how respondents described their companies on six different dimensions (four items each).

We were surprised to discover how much importance our respondents place on the sales function: 49 percent said that they worked for a sales-oriented company in contrast to 31 percent who said they worked for a marketing-oriented company. Some 51 percent said that CEOs come from the ranks of the sales department, whereas only 22 percent said they come from marketing. These findings are particularly interesting because the respondents were all marketing executives and suggest that in many companies they see themselves as second-class managers. See Table 1.3 for selected findings from the study.

A sales-oriented culture is not limited to large companies. We find many small and medium companies are sales-driven. For instance, an entrepreneur identifies a problem and creates a solution. Because those with the problem are identifiable (supermarkets with battered fixtures, convenience stores that need plus-size staff uniforms), the entrepreneur has defined a target market. Because the new product solves a problem, the positioning is obvious. Because the positioning and target market are obvious, the advertising approach and the media to use are usually not difficult to create and select.

This works well as long as the company is small and close to its customers. When the organization grows to the point at which these marketing decisions are not obvious, however, a formal marketing effort becomes essential. Regrettably, there are senior executives even in major corporations who believe you need marketing only when your product is no good.

Sales are important. Every profit-making organization (and some nonprofits—think Girl Scout Cookies) has to have sales. The weaker the organization's marketing, however, the less efficient the

Table 1.3 Sales versus Marketing*

Between just marketing and sales, I would say that more CEOs come from sales than from marketing.	51
There are sales-oriented companies and marketing-oriented companies. Ours is a sales-oriented company.	49
Chief marketing officers should be responsible for both marketing and sales in their organizations.	47
In our organization, any sales plan needs to have buy-in from marketing management before it wins approval from top management.	38
There are sales-oriented companies and marketing-oriented companies. Ours is a marketing-oriented company.	31

*Percentage who strongly or somewhat agree.

sales effort tends to be. Salespeople generally do not have the time or inclination to provide much market research. (Why should they? It's not their job.) Salespeople are inclined to make the easiest sales they can—the low-hanging fruit syndrome. These may not be the sales the company needs to make for growth and profitability, however. We find sales-driven companies tend to be less efficient and profitable than marketing-driven firms. Over and over, we see sales-focused companies either out of stock and unable to fill orders or dumping inventory at fire-sale prices because they misjudged demand.

Effective marketing makes all organizations—those selling consumer products and services, those selling B2B products and services, large companies and small, profit-making and nonprofits—more efficient. For a profit-making company, that means a better return; for a nonprofit organization, it means a more effective use of resources and delivery of services.

What This Book Is About

It's obvious to us that effective marketing leads to superior company results. We have seen it transform a brand's trajectory, an executive's career, even an entire company for the better. Whether you market breakfast cereal or automotive parts, business insurance or museum memberships, the principles and ideas we discuss in the chapters ahead will help you improve your marketing. The principles apply to consumer products and services and to B2B products and services; they apply to profit-making organizations and to nonprofits alike. So the real question should be: How can we make the organization's marketing efforts more effective?

We'll begin in a moment to talk about the problems of intuitive decision-making, exactly why your gut is not smarter than your head—assuming your head has access to fact-based information and is not bedazzled by the research technique of the week. We then show you how to look at your products or service in the broad market situation, how to do a marketing decision audit.

The next seven chapters describe how to identify market targets that are the most profitable, how to craft a strong positioning, how to develop product/service offerings that have consumer appeal and are profitable, how to make sense of all the changes in traditional and nontraditional media, how to improve the impact and return on your advertising investments, the problems we see with sport sponsorships, and how to work with the sales department.

The book concludes with how to improve marketing plans, how to get the marketing plan implemented (never easy when you want to break with a pedestrian past to do something that can transform a brand, but we have some suggestions), an explanation of customer equity (as opposed to brand equity), and how to measure marketing's return on investment.

But first, let's talk about making major marketing decisions from the gut and the eccentric research that companies have used (or are still using) on which to base their decisions.