Marketing and Successful Businesses

Strategic Marketing Masterclass – its role in profitable growth

Day 1

by
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Cranfield School of Management

Strategic Marketing Planning

Adapted from Professor Malcolm McDonald, Cranfield School of Management

1. Strategic Marketing Planning

The objectives for this module are:

- to illustrate the crucial link between marketing and other business functions
- to spell out the specific role of strategic marketing planning in creating profitable growth
- to spell out the process for doing this

Outputs/deliverables

- focus on and augment best practice marketing planning skills
- improve understanding of the techniques involved

Thought Starters

Deliverables from your strategic marketing plan:

- Can you list your key target markets? (in order of priority)
- Can you describe (quantitatively and qualitatively) the value that is required by each of your key target markets?
- In each of these key target markets, can you describe how your organisation creates this value?
- Do the relevant senior people in your organisation understand and support the above three points?
- Are all the relevant functions in your company organised in a way that is supportive of delivering the value required by the customer?

The purpose of strategic marketing planning

The overall purpose of strategic marketing planning, and its principal focus is the identification and creation of sustainable competitive advantage

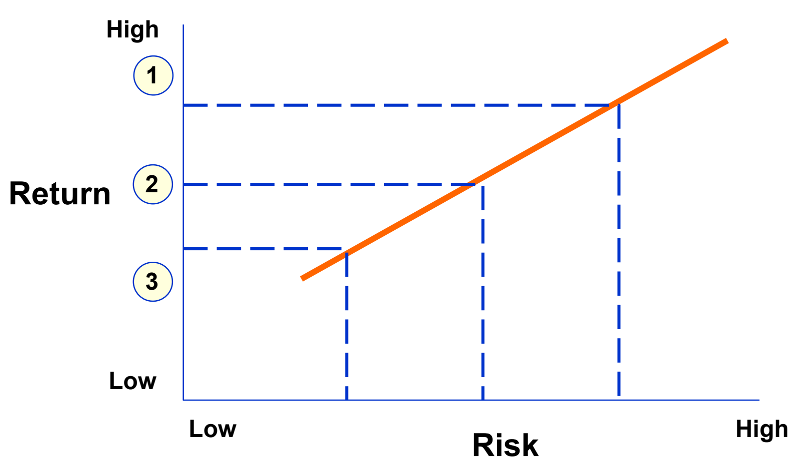
Adapted from Professor Malcolm McDonald, Cranfield School of Management

Financial Risk

Business Risk	Financial Risk: High	Financial Risk: Low
High	✗	✓
Low	✓	✗

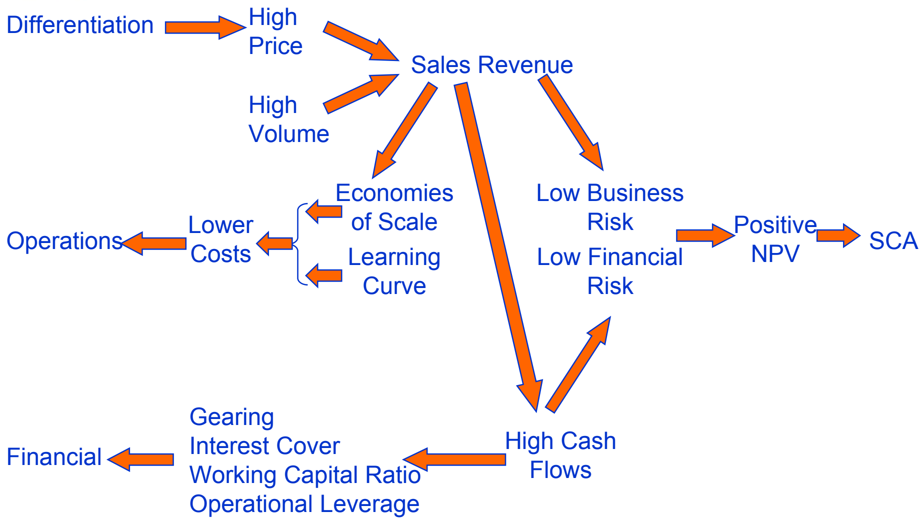
Adapted from Sri Srikanthan, Cranfield School of Management

Financial Risk and Return



Adapted from Sri Srikanthan, Cranfield School of Management

The route to Sustainable Competitive Advantage (SCA)



From Sri Srikanthan, Cranfield School of Management

Strategy

Tactics	Ineffective	Effective
Efficient	**Die**	**Thrive**
Inefficient	**Die**	**Survive**

Adapted from Professor Malcolm McDonald, Cranfield School of Management

Strategy

Tactics	Ineffective	Effective
Efficient	**Die (quickly)**	**Thrive**
Inefficient	**Die (slowly)**	**Survive**

Adapted from Professor Malcolm McDonald, Cranfield School of Management

A Salesperson

	Clever	Stupid
Lazy	✓✓✓	✓
Hard Working	✓✓✓ ✓✓✓	✗

Adapted from Professor Malcolm McDonald, Cranfield School of Management

Strategy

Tactics

	Ineffective	Effective
Efficient	**Die (quickly)**	**Thrive**
Inefficient	**Die (slowly)**	**Survive**

Adapted from Professor Malcolm McDonald, Cranfield School of Management

The need for a strategic marketing plan

Adapted from Professor Malcolm McDonald, Cranfield School of Management

Differentiation \ Relative cost	High	Low
High	Niche	Outstanding Success
Low	Disaster	Lowest cost

Adapted from Professor Malcolm McDonald, Cranfield School of Management

$$\frac{\text{Operating income}}{\text{Net assets}} = \text{RONA}$$

$$\text{(ROS)}\ \frac{\text{Operating income}}{\text{Sales revenue}} \times \frac{\text{Sales revenue}}{\text{Net assets}}\ \text{(Asset turnover)}$$

Adapted from Professor Malcolm McDonald, Cranfield School of Management

Challenges

- Market Maturity
- Globalisation
- Customer power

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Market Maturity

Adapted from Professor Malcolm McDonald, Cranfield School of Management

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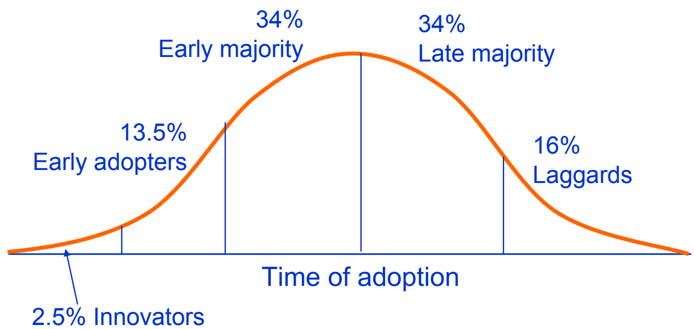
Non-cumulative diffusion pattern



Adapted from Everett Rogers

Generalised cumulative and non-cumulative diffusion patterns

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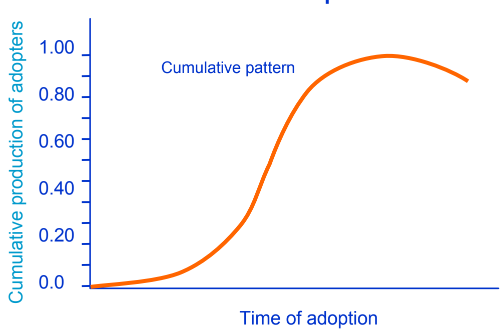
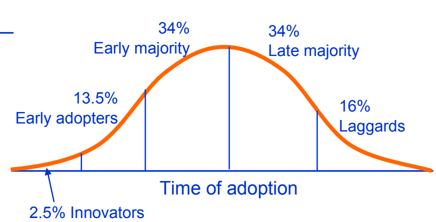
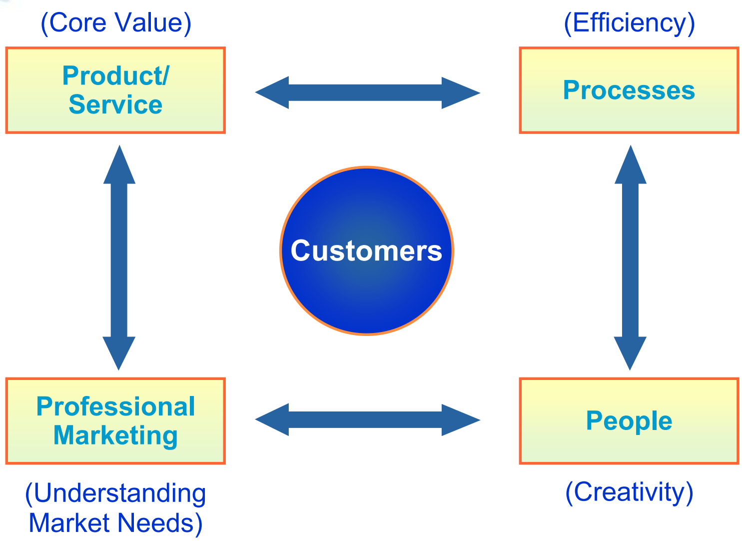
Cumulative diffusion pattern



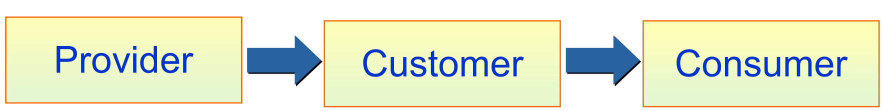
Non-cumulative diffusion pattern



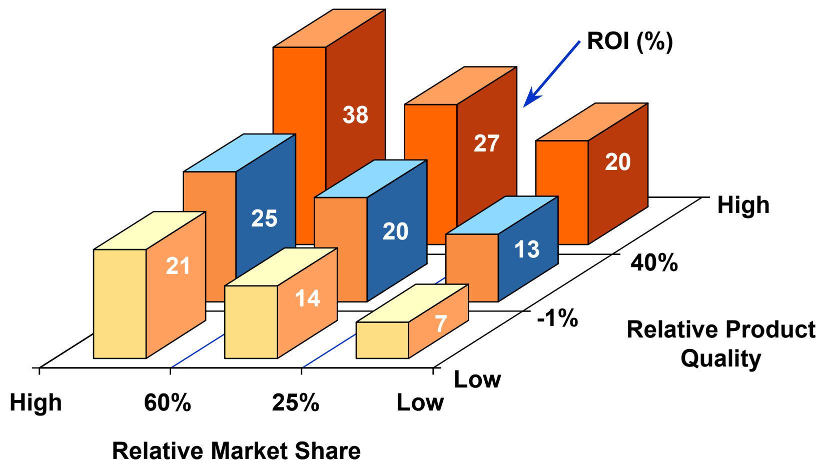
How excellent companies are responding



The value chain



Quality and share both drive profitability



Source: PIMS

Are you getting these essential deliverables from your strategic marketing plan?

Score out of 10

Market structure and segmentation

- Is there a clear and unambiguous definition of the market we are interested in serving?
- Is it clearly mapped, showing product/service flows, volumes/values in total, our shares and critical conclusions for our organisation?
- Are the segments clearly described and quantified? These must be groups of customers with the same or similar needs, **not** sectors.
- Are the real needs of these segments properly quantified with the relative importance of these needs clearly identified?

Differentiation

- Is there a clear and quantified analysis of how well our company satisfies these needs compared to competitors?
- Are the opportunities and threats clearly identified by segment?

Detailed checklist of essential deliverables from a strategic marketing plan

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Score out of 10

Scope

- Are all the segments classified according to their relative potential for growth in profits over the next three years and according to our company's relative competitive position in each?
- Are the objectives consistent with their position in the portfolio? (volume, value, market share, profit)
- Are the strategies (including products, services and solutions) consistent with the objectives?
- Are the measurement metrics proposed relevant to the objectives and strategies?
- Are the key issues for action for all departments clearly spelled out as key issues to be addressed?

Value capture

- Do the objectives and strategies add up to the profit goals required by our company?
- Does the budget follow on logically and clearly from all the above, or is it merely an add on?

Strategic marketing planning

- What is our purpose?
- What is our Market?
- Who are our customers?
- What are our products?
- What does the customer need?
- How well do our products satisfy these needs?
- What are our objectives?
- How can we allocate our resources optimally?
- What are our strategies?
  - What new products should be developed?
  - How should we price our products?
  - What should our channel strategies be?
  - What service levels should we provide for our different customer groups?
  - How should we communicate with our target markets?
- How should we measure the effectiveness of our plan?

Key areas for improvements in strategic marketing planning

General comments

A strategic marketing plan should be a clear and simple summary of key market trends, key target segments, the value required by each of them, how we intend to create superior value (to competitors), with a clear prioritisation of marketing objectives and strategies, together with the financial consequences.

Frequently, they are diffuse, confusing compilations of unconnected individual sections.

Key areas for improvements in strategic marketing planning
Specific comments

- Market overviews contain substantially more information than is necessary, with no hint of the implications for marketing activity.
- Key segments are rarely identified. 'Segments' are often sectors or products, rather than groups of customers with similar needs.
- The competitive situation is not well analysed and plans appear to assume no activity or reaction by competitors.
- SWOT analyses rarely pin down convincingly the value that is required by segments. They are frequently too general to lead to any actionable prepositions.
- Our own distinctive competences are rarely isolated and built on.
- SWOTs are rarely summarised clearly and logically in a portfolio which provides a categorisation of the relative potential of each and our relative strengths in each.
- Marketing objectives are frequently confused with marketing strategies and do not follow logically from the portfolio summary.
- The resource implications of effecting the marketing plans are not always clear.

Based on formal critiques of strategic marketing plans from the SBUs of multinational, industrial and service businesses (May 1996)

Key elements of world class marketing

1. Profound understanding of the market-place
2. Creative segmentation and selection
3. Powerful differentiation positioning and branding
4. Effective marketing planning processes
5. Long-term integrated marketing strategies
6. Institutionalised creativity and innovation
7. Total supply chain management
8. Market-driven organisation structures
9. Careful recruitment, training and career management
10. Vigorous line management implementation

Ansoff matrix

PRODUCTS
increasing technological newness

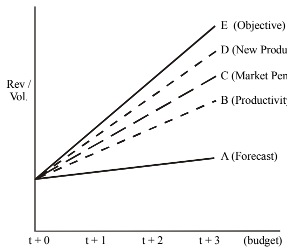
MARKETS
increasing market newness

	Present	*New*
Present	**Market Penetration**	**Product Development**
New	**Market Extension**	**Diversification**

Strategic planning exercise (gap analysis) revenue

1. OBJECTIVE

(A) Start by plotting the sales position you wish to achieve at the end of the planning period, point E.
(B) Next plot the forecast revenue position, point A



2. GAPANALYSIS (Productivity)

Are there any actions you can take to close the gap under the following headings? Plot the total value of these on the Gap Analysis Graph on the left, point B. (These represent cash and margin focus). Now proceed to 3 below.

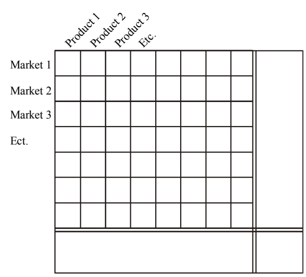
Productivity (NB: Not all factors are mutually exclusive)	Revenue
Better Product Mix (1)	
Better Customer Mix (2)	
More Sales Calls (3)	
Better Sales Calls (4)	
Increase Price	
Reduce Discounts	
Charge For Deliveries	
Total	

5. GAPANALYSIS (Diversification)

Finally, list the value of any new products you might develop for new markets until point E is reached. (Steps 3, 4 and 5 represent a sales growth focus).

6. GAPANALYSIS (Capital Utilisation)

If none of this gives the required return on investment consider changing the asset base. This could be
(A) Acquisition
(B) Joint Venture
(Step 6 represents a capital utilisation focus)



3. GAPANALYSIS

ANSOFF PRODUCT/MARKET (MARKET PENETRATION)

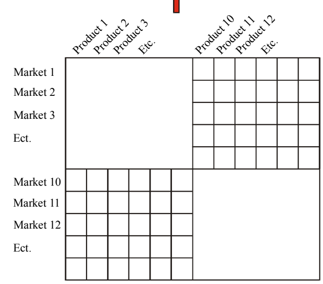
(A) List principle products on the horizontal axis and principle markets on the vertical axis. In each smaller square write in current sales and achievable sales value during the planning period.

(B) Next, plot the market penetration position, point C. This point will be the addition of all the values in the right hand half of the small boxes in the Ansoff Matrix. If there is a gap, proceed to 4 below. Please note, revenue from (1) (2) (3) and (4) from the productivity box should be deducted from the market penetration total before plotting pointC.

4. GAPANALYSIS

ANSOFF PRODUCT/MARKET MATRIX (NEW PRODUCTS/ NEW MARKETS)

Next, list the value of any new products you might develop which you might sell to existing markets. Alternatively, or as well as, if necessary, list the value of any existing products that you might sell to new markets. Plot the total value of these on the Gap Analysis Graph above, point D. If there is still a gap proceed to 5.



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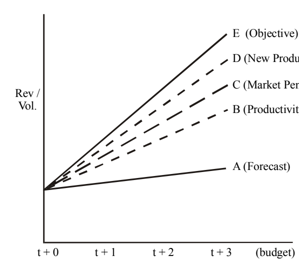
Strategic planning exercise (gap analysis) profit

1. OBJECTIVE

(A) Start by plotting the profit position you wish to achieve at the end of the planning period, point E.
(B) Next plot the forecast profit position, point A



2. GAPANALYSIS (Productivity)

Are there any actions you can take to close the gap under the following headings? Plot the total profit value of these on the Gap Analysis Graph on the left, point B. (These represent cash and margin focus). Now proceed to 3 below.

Productivity (NB: Not all factors are mutually exclusive)	Profit
Better Product Mix	
Better Customer Mix	
More Sales Calls	
Better Sales Calls	
Increase Price	
Reduce Discounts	
Charge For Deliveries	
Reduce Debtor Days	
Cost Reduction	
Others (Specify)	
Total	

5. GAPANALYSIS (Diversification)

Finally, list the profit value of any new products you might develop for new markets until point E is reached. (Steps 3, 4 and 5 represent a sales growth focus).

6. GAPANALYSIS (Capital Utilisation)

If none of this gives the required return on investment consider changing the asset base. This could be
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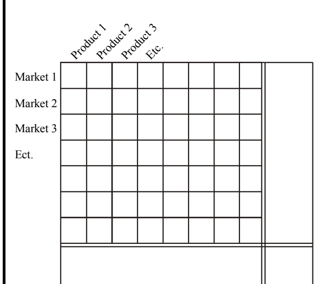

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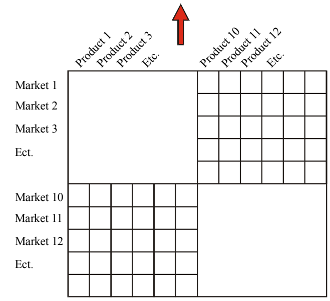

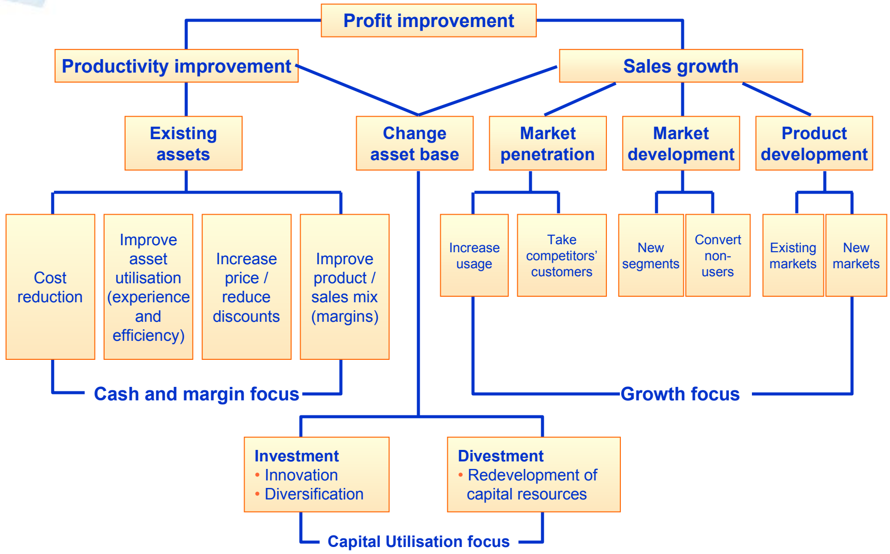

The marketing Planning process	The output of the marketing planning process Strategic marketing plan contents	Marketing theory (Structures, frameworks, models)	Financial theory / Structure
Phase 1 Goal setting	Mission statement Financial summary		
Phase 2 Situation review	Market overview → Market structure → Market trends → Key market segments → Gap analysis	Marketing audit Market research Market segmentation studies Gap analysis Product life cycle analysis Diffusion of innovation Ansoff matrix Forecasting Market research	Competitor analysis Industry/sector analysis Risk evaluation Ratio analysis, valuation studies Cost of capital NPV analysis Project evaluation Life cycle costing
	Opportunities Threats (By product) (By segment) (Overall)	Issue management	Profitability analysis by products / segments Comparative analysis of competitor products Experience curves and cost structures
	Strengths Weaknesses (By product) (By segment) (Overall) Issues to be Addressed (By product) (By segment) (Overall)	Key success factors matrix Market research Market segmentation studies	
	Portfolio summary	B.C.G. Matrix Directional policy matrix	Cash flows and risk evaluation Sensitivity analysis
	Assumptions	Downside risk assessment	Sensitivity analysis Decision trees Probability theory
Phase 3 Strategy Formulation	Marketing Objectives (By product) (By segment) (Overall) → Strategic focus → Product mix → Product development → Product deletion → Market extension → Target customer groups	Porter matrix Ansoff matrix Bcg matrix Directional policy matrix Gap analysis	Performance targets / ratios Cost, price, volume (CPV) analysis Marginal and absorption costing Activity base costing
	Marketing Strategies (4 x 4 ps) (Positioning/branding) → Product → Price → Promotion → Place	Market segmentation studies Market research Response elasticities → McDonald PRODUCTIVITY MATRIX → Blake mouton matrix	Budgeting and financial planning Zero base budgets
Phase 4 Resource Allocation And monitoring	Resource Requirements	Forecasting Budgeting	Integrated financial planning Limiting resource analysis
		Measurement and review	

Marketing planning and marketing theory (structures, frameworks, models etc.)
Adapted from professor Malcolm h.B. McDonald 1987

The contents of a strategic marketing plan (T+3) (less than 20 pages)

- The purpose statement
- **Financial summary**
- **Market overview**
- **SWOT analysis**
- Portfolio summary
- Assumptions
- **Objectives and strategies**
- Budget

Types of mission statements

Type I 'Motherhood' - usually found inside annual reports. Designed to 'stroke' shareholders, otherwise no practical use

Type II The real thing. A meaningful statement, unique to the organisation concerned, which 'impacts' on the behaviour of the executives at all levels

Type III This is a 'purpose' statement (or lower level mission statement). It is appropriate at the state/branch/or departmental level of the organisation.

Unit mission statement

This is the first item to appear in the business plan

The purpose of the mission statement is to ensure that the raison d'être of the unit is clearly stated. Brief statements should be made which cover the following points:

1. **Role or contribution of the unit** ,
   e.g. profit generator, service department opportunity seeker
2. **Definition of the business**
   e.g. the needs you satisfy or the benefit you provide. Don't be too specific (e.g. 'we sell milking machinery') or too general (e.g. 'we're in the engineering business).
3. **Distinctive competence**
   A brief statement that applies only to your specific unit. A statement that could equally apply to any competitor is unsatisfactory.
4. **Indications for the future**
   A brief statement of the principal things you would give serious consideration to (e.g. move into a new segment).

Market overview

– What the market is

– How it works

– Key leverage points

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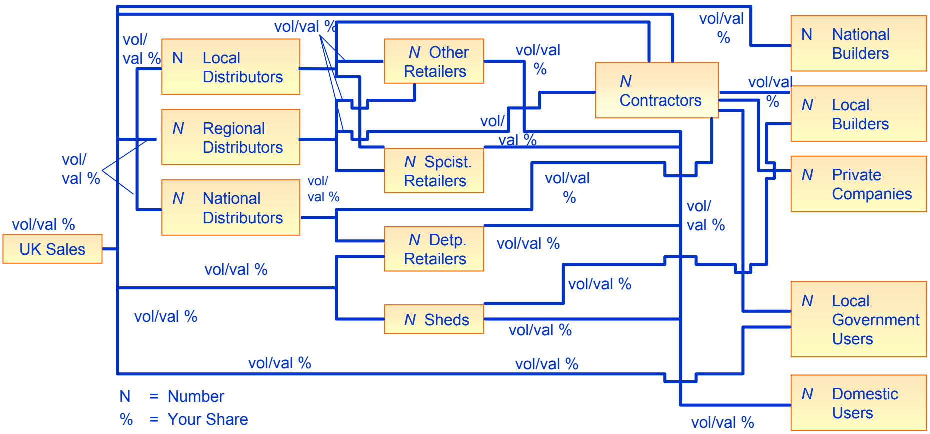
Market mapping

…including the number of each customer type



NB. Sketch out complex junctions separately. Alternatively, build an outline map, applying details at the junctions to be segmented.

Radiator Market Map 1996

Radiator Manufacturer

		Distribution	Sector Share
Stelrad 2275 41.7%	1	1830	70.2
	2	360	17.3
	3	66	11.2
	4	Nil	Nil
Premier 860 15.8%	1	555	21.3
	2	280	12.8
	3	26	4.3
	4	Nil	Nil
Supaline 605 11.1%	1	125	4.8
	2	450	20.5
	3	30	5.1
	4	Nil	Nil
Barlo 480 8.8%	1	90	3.4
	2	270	12.3
	3	120	20.7
	4	Nil	Nil
Warmastyle 300 5.5%	1	5	Nil
	2	255	11.6
	3	40	6.9
	4	Nil	Nil
Other Imports 905 17.1%	1	Nil	Nil
	2	556	25.3
	3	300	51.8
	4	80	100.0
5455			

Distributor

1. National Merchants	2605 47.8%
2. Large Independents	2190 40.1%
3. Small Independents	560 10.6%
4. Sheds	80 1.4%
5455	

Installer

5. British Gas 465 8.5%	1	295
	2	170
	3	Nil
	4	Nil
6. Installer 2755 50.5%	1	1065
	2	1360
	3	360
	4	Nil
7. Contractor 1905 34.9%	1	1135
	2	540
	3	230
	4	Nil
8. Self Installer 80 1.4%	1	Nil
	2	Nil
	3	Nil
	4	80
9. Direct Works 250 4.6%	1	120
	2	130
	3	Nil
	4	Nil
5455		

Primary Leverage Point

Specification Decision

Manufacturer 250	10	Nil	
	11	250	31.3
	12	Nil	
	13	Nil	
	14	Nil	
Local Authority 1350	10	Nil	
	11	Nil	
	12	1050	95.4
	13	50	50.0
	14	250	27.8
Housebuilder 350	10	Nil	
	11	350	43.8
	12	Nil	
	13	Nil	
	14	Nil	
British Gas 700	10	500	19.6
	11	100	12.5
	12	50	4.5
	13	Nil	
	14	50	5.6
Contractor 200	10	Nil	
	11	100	12.5
	12	Nil	
	13	Nil	
	14	100	11.1
Consultant 550	10	Nil	
	11	Nil	
	12	Nil	
	13	50	50.1
	14	500	55.6
3400			**623**

End User Segment

10. Private Exitsting 2555 46.8%	5	385
	6	2010
	7	100
	8	80
	9	Nil
11. Private New 800 14.7%	5	Nil
	6	50
	7	750
	8	Nil
	9	Nil
12. Public Existing 1100 20.2%	5	50
	6	395
	7	506
	8	Nil
	9	150
13. Public New 100 1.8%	5	Nil
	6	Nil
	7	Nil
	8	Nil
	9	100
14. Commercial 900 16.5%	5	50
	6	300
	7	550
	8	Nil
	9	Nil
5455		

Market Map - Office Equipment

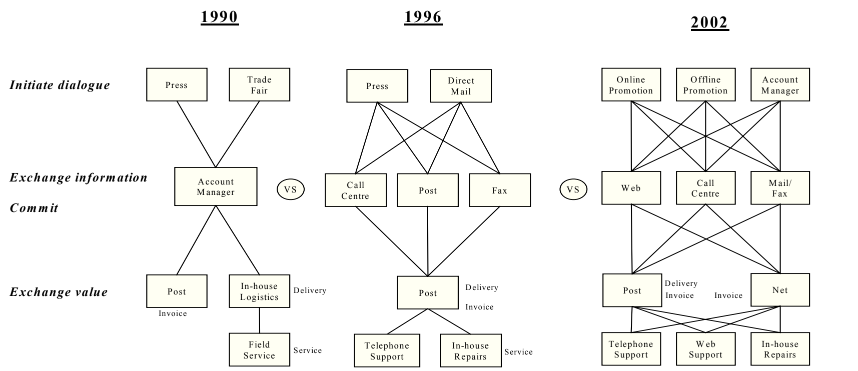
Colours	Red	Black
	53%	14%

Manufacturers → Final Users

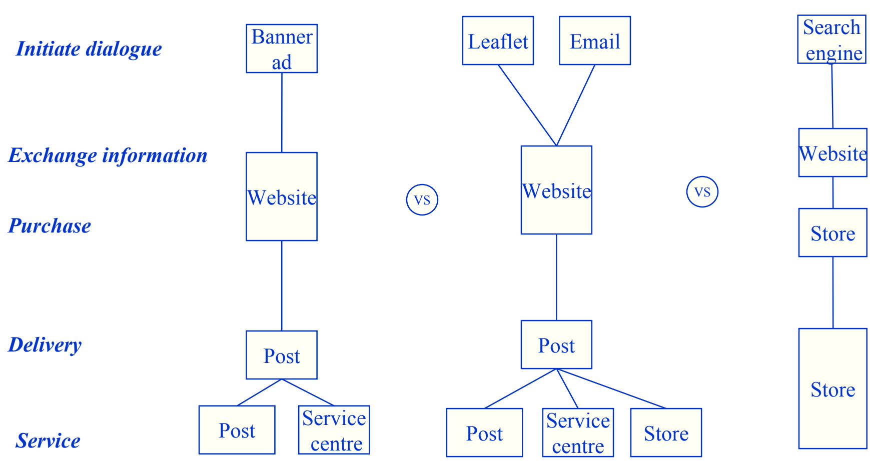
	Red	Black
Direct Field Sales		
Type A Dealer Chain	7%	3%
Type A Independent	9%	3%
Type B Dealer Chain	0%	3%
Type B Independent	1%	8%
Type C Dealer Chain	15%	7%
Type C Independent	4%	18%
VARs	5%	4%
Buying Consortia	4%	10%
Retail	2%	10%
Direct Response	0%	8%
Other	0%	12%

Final Users Route to Market (black)
Company's Route to Market (red)

– Channel chains



Channel chains: major retailer



The building blocks for successful marketing

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…but if the basic building block is unsound!

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SWOT analysis

- **By segment**, what value is required by the customer?
- What value are you offering to entice the customer to buy from you
- Avoid SWAGs

Strategic marketing planning exercise - SWOT analysis

1. SEGMENT DESCRIPTION
It should be a *specific* part of the business and should *be very important* to the organisation

2. CRITICAL SUCCESS FACTORS
In other words, how do customers choose?

1	
2	
3	
4	
5	

3. WEIGHTING
(How important is each of these CSFs? Score out of 100)

Total 100

4. STRENGTHS / WEAKNESSES ANALYSIS
How would your customers score you and each of your main competitors out of 10 on each of the CSFs?
Multiply the score by the weight.

	You	Comp A	Comp B	Comp C	Comp D
1					
2					
3					
4					
5					
°					

5. OPPORTUNITIES / THREATS
What are the few things outside your direct control that have had, and will have, an impact on this part of your business?

OPPORTUNITIES		THREATS
1		
2		
3		
4		
5		

6. KEY ISSUES THAT NEED TO BE ADDRESSED
What are the really key issues from the SWOT that need to be addressed?

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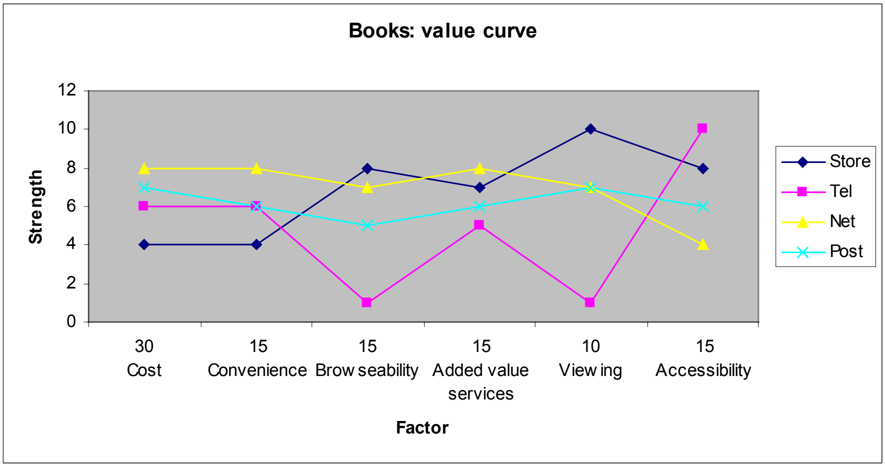
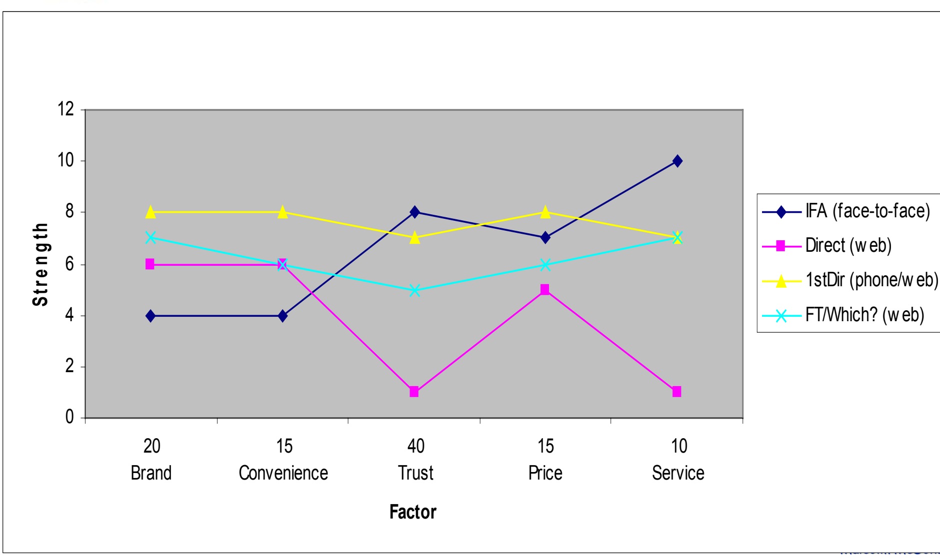
Choosing channels: the channel curve



Source: Wilson et al (2001), 'Profiting from eCRM', FT Prentice Hall

Value curve: pensions



Customer-Oriented SWOT Analysis

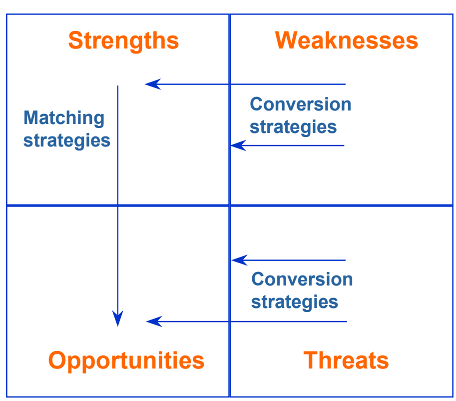
- SWOT can be made effective with the following guidelines
  - focus on specific issues/areas
  - shared vision - it works best with a planning team or group
  - customer orientation means nothing; can be a strength or weakness unless customers recognize and value it
  - environmental - opportunities and threats exist outside, they are not the things we plan to do
  - use it for structured strategy testing and generation

Customer-Oriented SWOT Analysis

The New Rules:

Strengths and Weaknesses must be recognized by customers

Opportunities and Threats exists in the environment, not because of us



A Hint

– If anyone says "X" is both our greatest strength <u>and</u> our greatest weakness, they are wrong
– It just means you need to think harder about what is it about "X" that creates a strength and what creates a weakness

Breaking Down Strengths and Weaknesses (1)

"We are an old-established firm"

?

<u>Strengths</u>

Stable suppliers for after-sales service
Trustworthy
Experienced

<u>Weaknesses</u>

Inflexible
Old-fashioned
No innovations

Breaking Down Strengths and Weaknesses (2)

"We are a large supplier"

?

Strengths

Comprehensive product range and technical expertise
Status/stability is reassuring

Weaknesses

Bureaucratic
Offhand with customers
No continuity of personal contacts

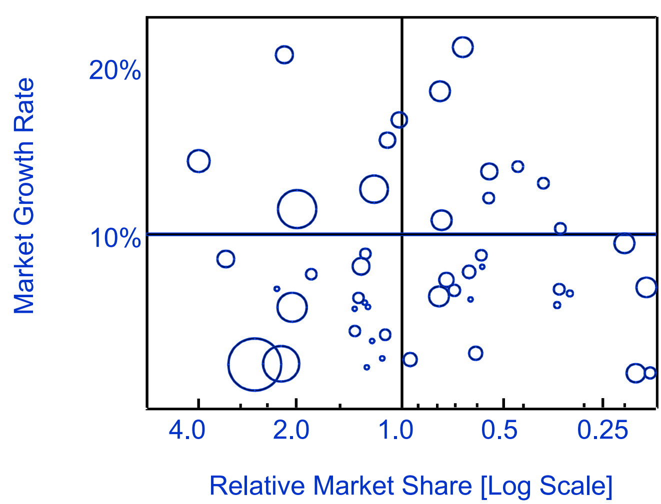
Another Hint

– As well as making SWOT customer-oriented and environmental, you need to screen out meaningless "motherhood" statements:

"Motherhood" Strengths Statements

Strengths	Please tick appropriate boxes	Hidden Meanings
High quality		We can't think of any real reason why we do business in this market . . .
Low price		That must explain it . . .
Personal service		We still can't . . .
High value to ustomers		Our products are a bit expensive, but we still sell some
Old-established firm		We must be OK, we've survived so far
Technologically sophisticated		We know more than the customer
Product strengths		Look at the product, never mind the customer.
The 'natural' supplier to this market		We don't know who our competitors are
We are the industry standard		We don't think we have any competition

A product portfolio chart [growth-share matrix] of a comparatively strong and diversified company



Market / segment selection criteria

Market / segment attractiveness

- Size
- Growth
- Profitability
- Competitive intensity

	High	Low
High	**Invest / Grow**	**Selectively Invest**
Low	**Maintain/ manage for sustained earnings**	**Manage for Cash / Withdraw**

Business Strengths

- Product Range
- Product Efficacy
- Service Quality (Including distribution)
- Price
- Associated Services (e.g. Technical advice)
- Reputation / Image

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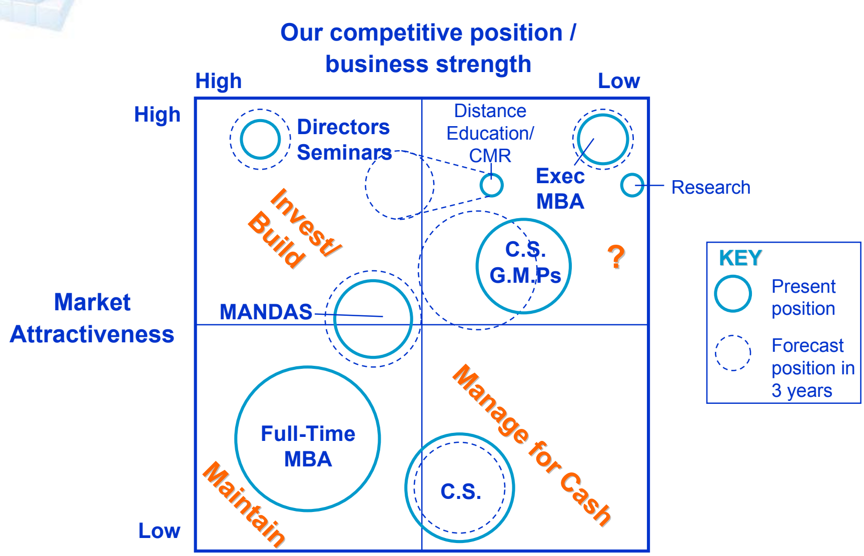
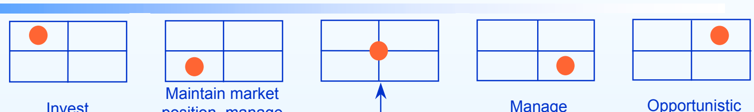


Market attractiveness evaluation

Factor	Scoring Criteria 10	5	0	Score	Weighting	Ranking
1. Market Size (£ millions)	≥£250	£51.250	≤ £50	5	15	0.75
2. Volume Growth (Units)	≥10%	5.9%	< 5%	10	25	2.5
3. Competitive Intensity	Low	Medium	High	6	10	0.6
4. Industry Profitability	> 15%	10.15%	< 10%	8	25	2.0
5. Vulnerability	Low	Medium	High	3	15	0.9
6. Cyclicality	Low	Medium	High	2.5	10	0.25
					Total	**7.0**

This form illustrates a quantitative approach to evaluating market attractiveness. Each factor is score multiplied by the percentage weighting and totaled for the overall score. In this example, an overall score of 7 out of 10 places this mark in the highly attractive category.

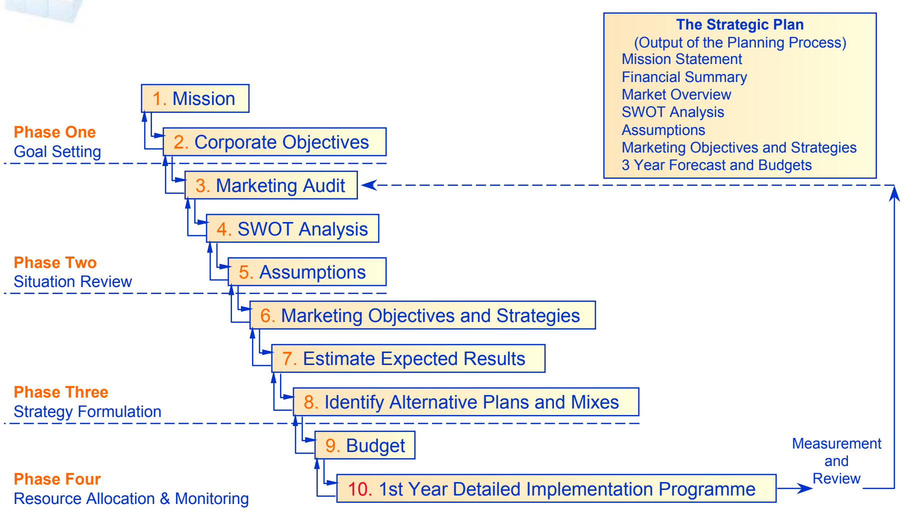
Programme guidelines suggested for different positioning on the directional policy matrix



	Invest for growth	Maintain market position, manage for earnings	Selective	Manage for cash	Opportunistic development
Market Share	Maintain or increase dominance	Maintain or slightly milk for earnings	Maintain selectivity-segment	Forego share for profit	Invest selectively in share
Products	Differentiation - line expansion	Prune for less successful differentiate for segments	Emphasise product quality	Aggressively prune	Differentiation - line expansion
Price	Lead - Aggressive pricing for share	Stabilise prices / raise	Maintain or raise	Raise	Aggressive - price for share
Promotion	Aggressive marketing	Limit	Maintain selectively	Minimise	Aggressive marketing
Distribution	Broaden distribution	Hold wide distribution pattern	Segment	Gradually withdraw distribution	Limited coverage
Cost Control	Tight control - go for scale economies	Emphasise cost reduction viz. variable costs	Tight control	Aggressively reduce fixed & variable	Tight - but not at expense of entrepreneurship
Production	Expand, invest (organic acquisition, joint venture)	Maximise capacity utilisation	Increase productivity e.g. specialisation	Free up capacity	Invest
R & D	Expand - invest	Focus on specific projects	Invest selectively	None	Invest
Personnel	Upgrade management in key functional areas	Maintain, reward efficiency, tighten organisation	Allocate key managers	Cut back organisation	Invest
Investment	Fund growth	Limit fixed investment	Invest selectively	Minimise & divest opportunistically	Fund growth
Working Capital	Reduce in process - extend credit	Tighten Credit- reduce accounts receivable increase inventory turn	Reduce	Aggressively reduce	Invest

The Strategic Marketing Planning Process

The ten steps of the strategic marketing planning process



Summary - the marketing audit checklist

External audit
Business and economic environment
- economic
- political/fiscal/legal
- social/cultural
- technological
- intra company

The market
Total market, size,growth and trends (value/volume)
market characteristics, developments and trends
- products
- prices
- physical distribution
- channels
- customers/consumers
- communication
- industry practices

Competition
Major competitors
size
market share/coverage
market standing/reputation
production capabilities
distribution policies
marketing methods
extent of diversification
personal issues
international links
profitability
key strengths and weaknesses

Internal audit
marketing operational variable

own company

sales (total, by geographical location, industrial type, customer, by product)
market shares
profit margins/costs
marketing information/research
marketing mix variables as follows:
- product management
- price
- distribution
- promotion
- operations and resources

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Criteria for a marketing plan

A. Creative thinking

B. Clarity
- of thinking
- presentation

C. Completeness
- Not of details
- of essential elements
  - reiteration of basic strategy
  - basic plan
  - supporting programmes
  - relationships
  - financial impact

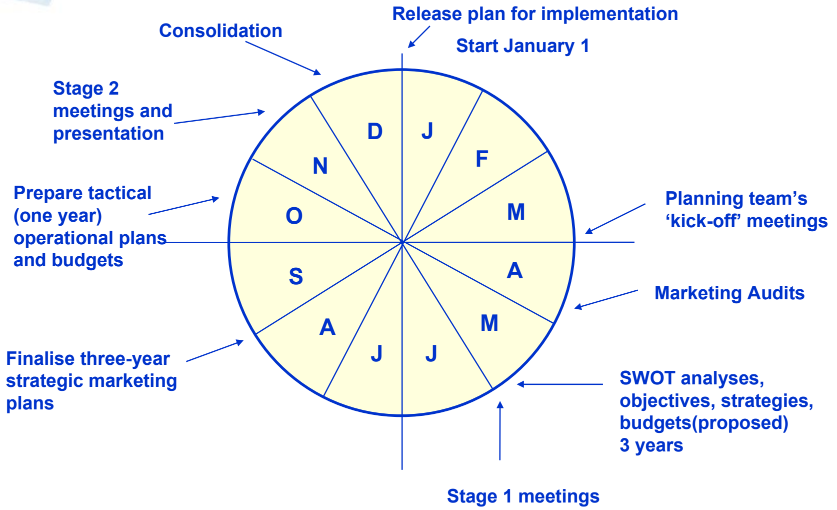
D. Usefulness
- You
- Subordinates
- Peers
- Superiors

E. Prepareable
- is the product worth the effort

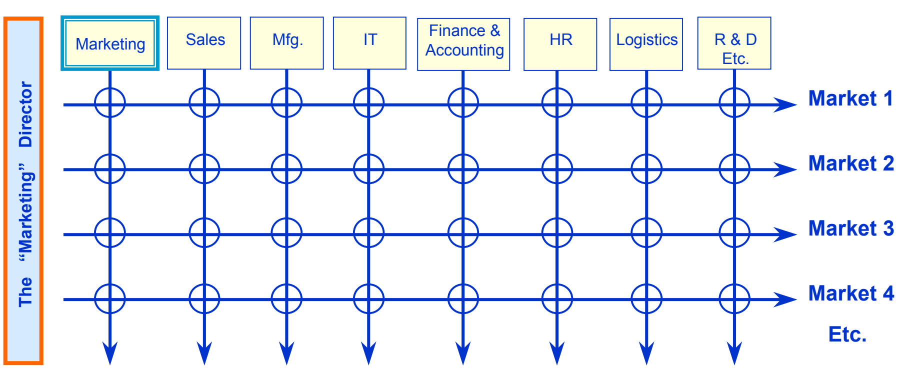
F. Good process

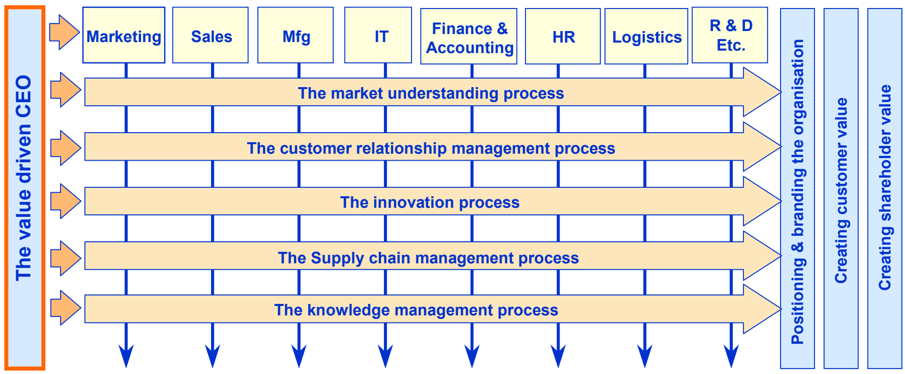
G. Objectivity

Strategic and operational planning cycle



The market understanding process





Syndicate Exercise

Reflecting on our discussions on marketing planning, and thinking about your own experiences in your companies, what are the key issues to be addressed to improve the effectiveness of your marketing planning activities in terms of e.g.:

- management understanding and commitment
- concepts and approach
- processes
- tools and methodologies
- data
- IT support
- interfunctional integration
- creativity
- implementation
- measurement

Your market audit

Elements of Marketing Plan		Models, Structures, Frameworks	Done Score out of 10	Not Done	Actions for improve-ment
Mission Statement Financial Summary					
Market Overview	Market Structure Market Trends Key Market Segments Gap Analysis	Market Segmentation Studies Gap Analysis Product Life Cycle Analysis Diffusion of Innovation Ansoff Matrix Forecasting Market Research			
Opportunities & Threats	By product By segment Overall	Issue Management			
Strengths & Weaknesses	By product By segment Overall	Key Success Factor Matrix Market Research Market Segmentation Studies			
Portfolio Summary		BCG matrix Directional Policy Matrix			
Assumptions		Downside Risk Assessment			
Marketing Objectives	Strategic Focus Product Mix Product Development Product Deletion Market Extension Target Customer Groups	Porter Matrix Ansoff Matrix BCG Matrix Directional Policy Matrix Gap Analysis			
Marketing Strategies	Product Price Promotion Place	Market Segmentation Studies Market Research Response Elasticities McDonald Productivity Matrix Blake Mouton Matrix			
Resource Requirements		Forecasting Budgeting			

Appendix 1

Strategic Marketing Planning
Quality Test

by Brian Smith
PhD Student
Cranfield School of Management

Effective Marketing Strategies Contain

A definition of one or more target market ***segments***

A definition of the value proposition for each segment

And have properties of

- Defining tactical activity
- Leveraging strengths
- Minimising weaknesses
- Enabling synergy
- Meeting customer needs
- Allowing for competitive strategy
- Allowing for macro-environmental trend implications
- Meeting our business objectives
- Being achievable with the resources allocated
- Differing significantly from competitors

Strategy test 1

- Our marketing strategy makes it clear what markets or parts of the market we will concentrate our efforts on
  - If your strategy attacks all of your market sector (e.g retail groceries, super-conducting magnets) equally = 0
  - If your strategy is focused by "descriptor group" (e.g. ABC1s, Large firms, SMEs etc.) = 1
  - If your strategy attacks needs-based segments (e.g. efficacy focused customers with high ego needs) = 2
  - If you don't know = -1

Strategy test 2

- Our marketing strategy makes clear what actions fit with the marketing strategy and what does not
  - If your strategy allows complete freedom of action = 0
  - If your strategy allows a high degree of freedom of action = 1
  - If your strategy makes most of your action plan decisions for you = 2
  - If you don't know = -1

Strategy test 3

- Our marketing strategy clearly defines our intended competitive advantage in the target market segments
  - If there is no strong and supported reason why the customer should choose you = 0
  - If there is a reason the customer should buy you but no strong proof = 1
  - If you can state clearly the reason the customer should buy you and not the competitor and substantiate that reason = 2
  - If you don't know = -1

Strategy test 4

- Our marketing strategy allows synergy between the activities of the different parts of the organisation
  - If the strategy is a compromise of what each department is capable of = 0
  - If the strategy uses the strengths of only one or two departments = 1
  - If the strategy uses the best strengths of all departments = 2
  - If you don't know = -1

Strategy test 5

- Our marketing strategy is significantly different from that of our competitors in our key market segments
  - If we attack the same customers with the same value proposition = 0
  - If we attack the same customers OR use a the same value proposition =1
  - If we attack different customers with a different value proposition = 2
  - If you don't know = -1

Strategy test 6

- Our marketing strategy recognises and makes full allowance for the needs and wants of our target customers
  - If you only meet the basic functional needs (safety, regulation, efficacy) =0
  - If you also meet the higher functional needs (efficiency, service, price) = 1
  - If you also meet the emotional and ego needs (brand, confidence) = 2
  - If you don't know = -1

Strategy test 7

- Our marketing strategy recognises and makes full allowance for the strategies of our competitors
  - If you are ignoring the competitors' strategy = 0
  - If you are allowing for some of the competitors' strategy = 1
  - If you are allowing for all of the competitors' strategy = 2
  - If you don't know = -1

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Strategy test 8

– Our marketing strategy recognises and makes full allowance for changes in the business environment that are beyond our control, such as technological, legislation or social change
  – If your strategy is designed for today's conditions =1
  – If your strategy allows for one or two changes (e.g technology or demographics) = 1
  – If your strategy considers the combined effects of all the external factors = 2
  – If you don't know = -1

Strategy test 9

– Our marketing strategy either avoids or compensates for those areas where we are relatively weak compared to the competition
  – If you have taken little or no account of your relative weaknesses = 0
  – If you are trying to fix your relative weaknesses = 1
  – If your strategy means that your relative weaknesses don't matter = 2
  – If you don't know = -1

Strategy test 10

– Our marketing strategy makes full use of those areas where we are relatively strong compared to the competition
  – If you have taken little or no account of your relative strengths = 0
  – If you are trying to use your relative strengths = 1
  – If your strategy means that your relative strengths become more important = 2
  – If you don't know = -1

Strategy test 11

– Our marketing strategy, if successfully implemented, will meet all the objectives of the organisation
  – If your strategy, fully & successfully implemented, does not deliver your financial or non-financial objectives = 0
  – If your strategy, fully & successfully implemented, delivers only your financial objectives = 1
  – If your strategy, fully & successfully implemented, delivers your financial & non-financial objectives = 2
  – If you don't know = -1

Strategy test 12

- The resources available to the organisation are sufficient to implement the marketing strategy successfully
  - If you have neither the tangible nor the intangible resources to implement the strategy = 0
  - If you have only the tangible or the intangible resources, but not both = 1
  - If you have both the tangible and the intangible resources need to to implement the strategy = 2
  - If you don't know = -1

How did you score?

- 18-24 - Well done! (are you sure?)
  - Can I buy some shares?
- 12-17 - You will succeed
  - If your competition is weak!
- 6-11 - You will survive
  - If your competition is weak!
- Less than 6
  - Oh dear, it was nice knowing you

Appendix 2

Competitive Marketing Strategy Masterclass
Day 2

by
Professor Malcolm McDonald
Cranfield School of Management

Objectives

- To highlight the growing concern about marketing's lack of accountability and the frustration of boards with their marketing colleagues.
- To explain how return on marketing expenditure can be measured.
- To explain how institutional investors assess company performance.
- To highlight the pivotal importance of intelligence in implementing successful CRM systems
- To provide a step-by-step process for carrying out market segmentation
- To explore with delegates implementation issues, especially those relating to e-commerce.
- To spell out competitive marketing strategies to gain differential advantage.
- To provide ten practical steps to world class marketing.

Programme

- Measuring the contribution of marketing, including brand equity
- CRM: faster, smarter, bigger; but is it better?
- Marketing implementation issues
- Competitive marketing strategies and gaining differential advantage

"Growth is often the wrong objective for promotional expenditure. It's a bit like an ingredient (or component, or raw material) in a product. You wouldn't stop putting a component in a product just because sales didn't grow in any budget period! Similarly, much promotional expenditure is about maintaining the status quo".

Professor Malcolm McDonald

Marketing expenditure adds value when it creates assets that generate future cash flows with a positive net present value.

- Suppliers are still interested principally in volume
- Whilst they are interested in the potential for ‘added value’, most still do not measure account profitability

From ‘Key Account Management’
Cranfield University School of Management, 1996

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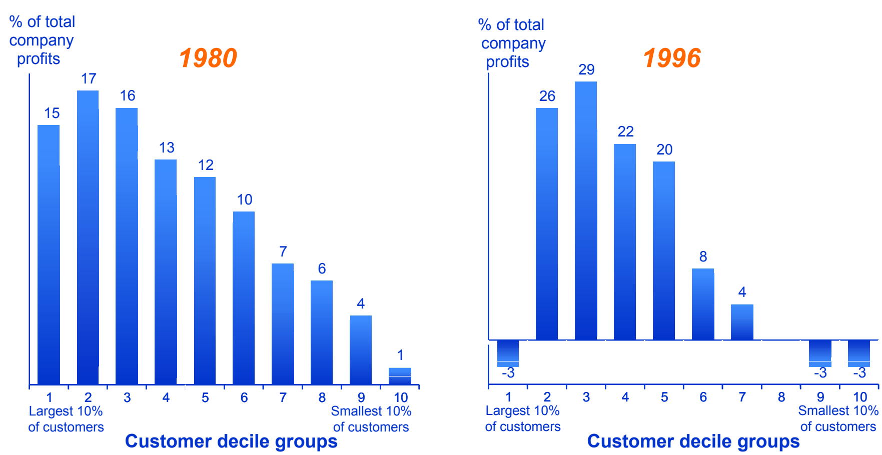
The widening rift between profitable and unprofitable customers:

% of company profit by customer decile (each decile = 10% of customer base)



Source: Supplier to the European printing industry (turnover £200 million)

Source: Profitable Customers by Charles Wilson

Customer account profitability analysis

The key phrase is Attributable Costing

The objective is to highlight the financial impact of the different ways in which customers are serviced

Four types of marketing asset

- Marketing Knowledge (skills, systems and information)
- Brands (strong brands often earn premium prices and can be enduring cash generators)
- Customer Loyalty (loyal customers buy more, are cheaper to serve, are less price sensitive and refer new customers)
- Strategic Relationships (channel partners provide access to new products and markets)

Justifying investment in marketing assets

Whilst accountants do not measure intangible assets, the discrepancy between market and book values shows that investors do. Expenditures to develop marketing assets make sense if the sum of the discounted cash flow they generate is positive.

Balance sheet

Assets	Liabilities
- Land - Buildings - Plant - Vehicles etc.	- Shares - Loans - Overdrafts etc.
£100 million	£100 million

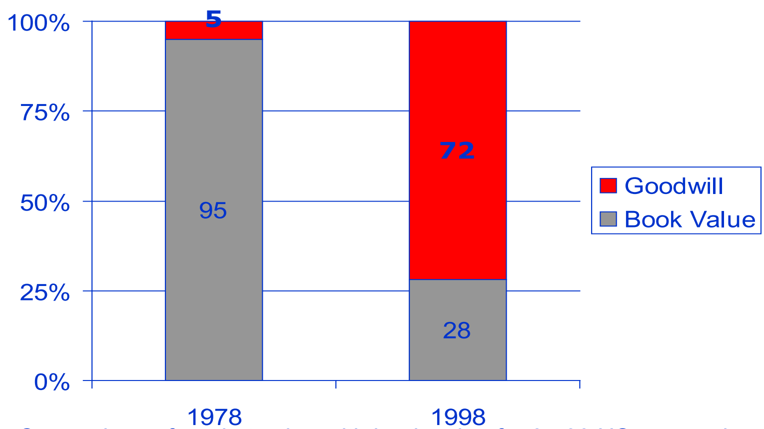
Balance sheet

Assets	Liabilities
- Land - Buildings - Plant - Vehicles etc.	- Shares - Loans - Overdrafts etc.
£100 million	£900 million

Balance sheet

Assets	Liabilities
- Land - Buildings - Plant - Vehicles **Goodwill £800m**	- Shares - Loans - Overdrafts etc.
£900 million	£900 million

Intangibles are the key driver of shareholder value

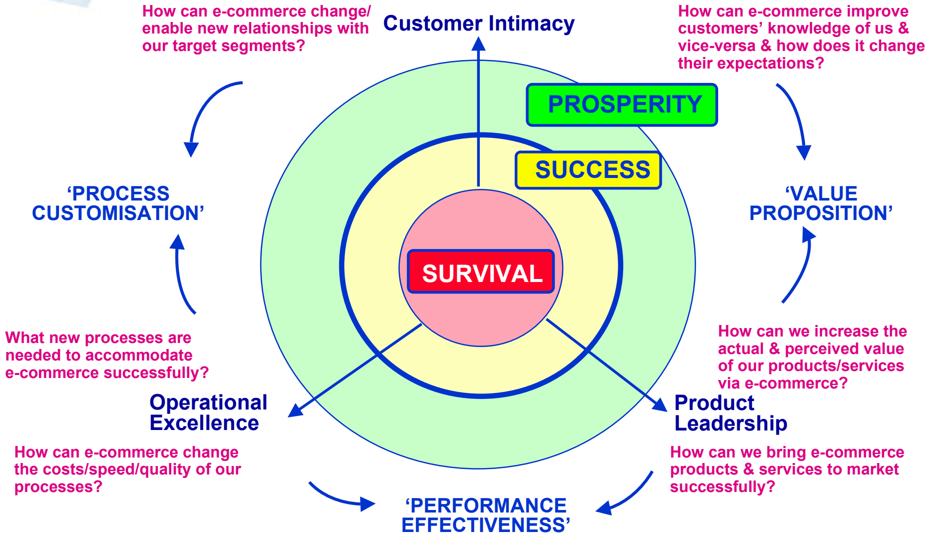


Comparison of market value with book value for 3,500 US companies over the period 1978 - 1998

Source: Fortune, April 16 2001

Dimensions of Competence

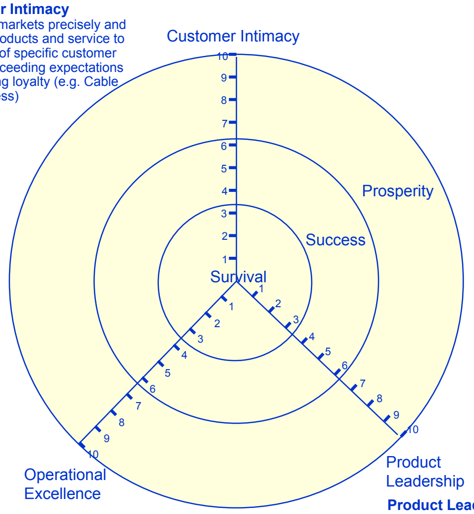
E-commerce and the dimensions of competence



Internal competence dimensions

(This tool is not specifically concerned with e-commerce, but it is an essential starting point for later diagnostic tools)

Customer Intimacy
Targeting markets precisely and tailoring products and service to the needs of specific customer groups, exceeding expectations and building loyalty (e.g. Cable and Wireless)



1. Score your company out of 10 on your current position against each of these three dimensions and join the lines up.

   N.B.
   - Score yourself 1-3 if you are currently below the minimum level required in your market
   - Score your 4-6 if you are currently as good as the average in your sector
   - Score yourself 7-10 if you currently exceed the average in your sector.

2. Score your company out of 10 on the position you would need to attain in, say, 3 years time against each of their dimensions in order to ensure your continuing prosperity.

3. On a separate sheet, list some of the main strategies you will need to implement to achieve the desired positions.
   These will be useful for completing the next diagnostic exercises.

Operational Excellence
Enabling products and services to be obtained reliably, easily and cost-effectively by customers, implying focus on business processes to outperform others, delivering low costs and consistent customer satisfaction. (e.g. Dell, Wal-Mart, Federal Express)

Product Leadership
Continuing product innovation which meets customer needs. This implies not only creativity in developing new products and enhancing existing ones, but also astute market knowledge to ensure they sell (e.g. Johnson and Johnson, 3M)

Modern Finance

Modern Finance is based on four principles:

– Cash Flow (the basis of value)
– The time value of money
– The opportunity cost of capital (other investments of similar risk)
– The concept of net present value (the sum of the net cash flows discounted by the opportunity cost of capital)

Marketing Accountability

Britain's top companies (Management Today)

Year	Company[1]	Market Value (£m)	ROI[2]	Subsequent performance[3]
1979	MFI	57	50	Collapsed
1980	Lasmo	134	97	Still profitable
1981	Bejam	79	34	Acquired
1982	Racal	940	36	Still profitable
1983	Polly Peck	128	79	Collapsed
1984	Atlantic Computers	151	36	Collapsed
1985	BSR	197	32	Still profitable
1986	Jaguar	819	60	Acquired
1987	Amstrad	987	89	Still profitable
1988	Body Shop	225	89	Still profitable
1989	Blue Arrow	653	135	Collapsed

1. Where a company has been top for more than 1 year, the next best company has been chosen in the subsequent year e.g.. Poly Peck was related top 1983, '84 and '85
2. Pre-tax profit as a percent of investment capital

From Professor Peter Doyle, Warwick University

Inter Tech's 5 year performance

Performance (£million)	Base Year	1	2	3	4	5
Sales Revenue	£254	£293	£318	£387	£431	£454
- Cost of goods sold	135	152	167	201	224	236
Gross Contribution	£119	£141	£151	£186	£207	£218
- Manufacturing overhead	48	58	63	82	90	95
- Marketing & Sales	18	23	24	26	27	28
- Research & Development	22	23	23	25	24	24
Net Profit	£16	£22	£26	£37	£50	£55
Return on Sales (%)	6.3%	7.5%	8.2%	9.6%	11.6%	12.1%
Assets	£141	£162	£167	£194	£205	£206
Assets (% of sales)	56%	55%	53%	50%	48%	45%
Return on Assets (%)	11.3%	13.5%	15.6%	19.1%	24.4%	26.7%

Why Market Growth Rates Are Important

InterTech's 5 Year Market-Based Performance

Performance (£million)	Base Year	1	2	3	4	5
Market Growth	18.3%	23.4%	17.6%	34.4%	24.0%	17.9%
InterTech Sales Growth (%) Market Share(%)	12.8% 20.3%	17.4% 19.1%	11.2% 18.4%	27.1% 17.1%	16.5% 16.3%	10.9% 14.9%
Customer Retention (%) New Customers (%) % Dissatisfied Customers	88.2% 11.7% 13.6%	87.1% 12.9% 14.3%	85.0% 14.9% 16.1%	82.2% 24.1% 17.3%	80.9% 22.5% 18.9%	80.0% 29.2% 19.6%
Relative Product Quality Relative Service Quality Relative New Product Sales	+10% +0% +8%	+8% +0% +8%	+5% -20% +7%	+3% -3% +5%	+1% -5% +1%	0% -8% -4%

Quality of profits

%	Virtuous plc (%)	Dissembler plc (%)
Sales Revenue	100	100
Cost of Goods Sold	43	61
Profit Margin	57	39
Advertising R&D Capital Investment	11 5 7	3 - 2
Investment Ratio	23	5
Operating Expenses	20	20
Operating Profit	14	14
Key Trends ⟶	• Past 5 year revenue growth 10% pa • Heavy advertising investment in new/ improved products • Premium priced products, new plant, so low cost of goods sold	• Flat revenue, declining volume • No recent product innovation, little advertising • Discounted pricing, so high cost of goods sold

[3] **Note:** This table is similar to a P&L with one important exception - **depreciation**, a standard item in any P&L has been replaced by **capital expenditure**, which does not appear in P&Ls. In the long-term, Capex levels determine depreciation costs. Capex as a percentage of sales in an investment ratio often ignored by marketers, and it has been included in this table to emphasize its importance.

The make-up of 14% Operating Profits		
Factor	**Virtuous plc (%)**	**Dissembler plc (%)**
Profit on existing products over 3 years old	21	15
Losses on products recently launched or in development	(7)	(1)
Total operating profits	14	14

From Hugh Davidson's "Even More Offensive Marketing" 1998

Measurement of segment profitability

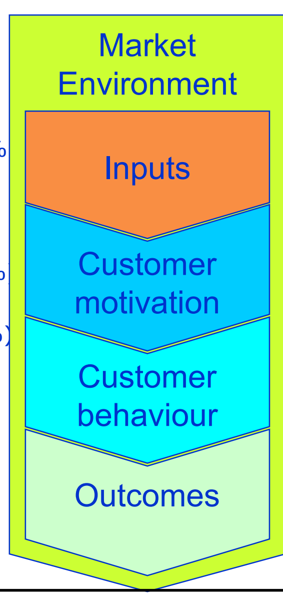
	Total Market	Segment 1	Segment 2	Segment 3	Segment 4	Segment 5	Segment 6
Percentage of market represented by segment	100.0	14.8	9.5	27.1	18.8	18.8	11.0
Percentage of all profits in total market produced by segment	100.0	7.1	4.9	14.7	21.8	28.5	23.0
Ratio of profit produced by segment to weight of segment in total population	1.00	0.48	0.52	0.54	1.16	1.52	2.09
Defection rate	23%	20%	17%	15%	28%	30%	35%

External Investor Marketing Disclosure

INFORMATION NEEDED

- Market value (86%)
- Key competitors (85%)
- Marketing investment (71%
- New product stats (68%)
- Brand awareness (62%)
- Customer satisfaction (60%
- Distribution coverage (68%)
- Price elasticity (72%)
- Market share (91%)

Source:
Brand Finance 1999

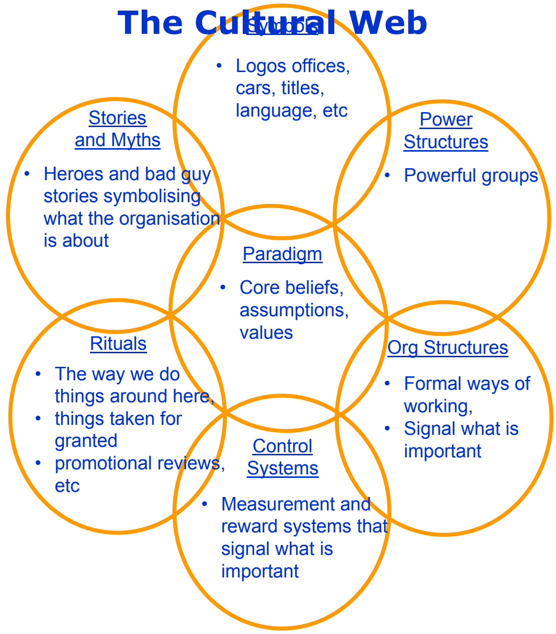


DISCLOSED

- Market size/trend (8%)
- Mkting investment (10%)
- Innovation (10%)
- Efficiency (6%)
- Brand preference (16%)
- Customer loyalty (18%)
- Relative perf (16%)
- Trade distribution (8%)

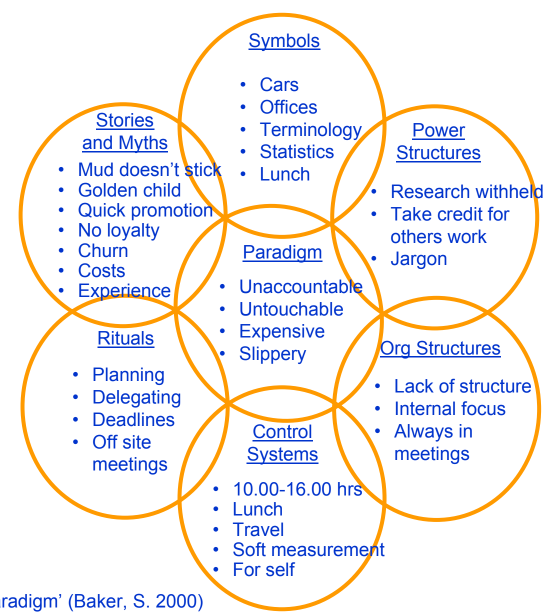
Source:
Professor Hugh Davidson,
(Cranfield visiting professor)

The Cultural Web



Source: 'Managing Strategic Change: Strategy, Culture and Action' (Johnson, G. 1992)

The Cultural Web (What senior non marketers believe about marketers)



Source: 'Defining a Marketing Paradigm' (Baker, S. 2000)

Valuing Key Market Segments

Background/Facts

- Risk and return are positively correlated, ie. as risk increases, investors expect a higher return.
- Risk is measured by the volatility in returns, ie. the likelihood of making a very good return or losing money. This can be described as the quality of returns.
- All assets are defined as having future value to the organisation. Hence assets to be valued include not only tangible assets like plant and machinery, but intangible assets, such as Key Market Segments.
- The present value of future cash flows is one of the most acceptable methods to value assets including key market segments.
- The present value is increased by:

- increasing the future cash flows
- making the future cash flows 'happen' earlier
- reducing the risk in these cash flows, ie. (hence the required return) improving the certainty of these cash flows

Suggested Approach

- Identify your key market segments. It is helpful if they can be classified on a vertical axis (a kind of thermometer) according to their attractiveness to your company. 'Attractiveness' usually means the potential of each for growth in your profits over a period of between 3 and 5 years.
- Based on your current experience and planning horizon that you are confident with, make a projection of future net free cash in-flows from your segments. It is normal to select a period such as 3 or 5 years.
- Identify the key factors that are likely to either increase or decrease these future cash flows. We suggest identifying the top 5 factors.
- Use your judgement to rank your segments according to the likelihood of the events leading to those factors occurring. This will help you to identify the relative risk of your key market segments.
- Ask your accountant to provide you with the overall required return for your company: this is often referred to as the weighted average cost of capital (WACC), or cost of capital.

- Now identify the required rate of return for each of your key segments based on the WACC. (WACC is the return required from the average segment). A higher required rate will apply for more risky segments and a lower rate for less risky segments. Your ranking of segments above will help you to decide the required return based on your understanding of the risk of each of these key segments.
- We recommend a range of plus or minus 30% of WACC provided by your accountant.
- Thus, (assuming your WACC is, say, 10%) in a matrix such as the one shown in Figure 1, you and your financial advisor may decide to use say, 8.5% for segments in Box 1, ie. a 15% reduction on the WACC, 11.5% for those in Box 2, (ie. a 15% premium over the WACC), 13% for segments in Box 3 (ie. a 30% premium over the WACC) and 10% for segments in Box 4.
- Discount the future cash flows identified above using the risk adjusted rates to arrive at a value for your segments.
- An aggregate positive net present value indicates that you are creating shareholder value – ie. achieving actual overall returns greater than the weighted average cost of capital, having taken into account the risk associated with future cash flows.

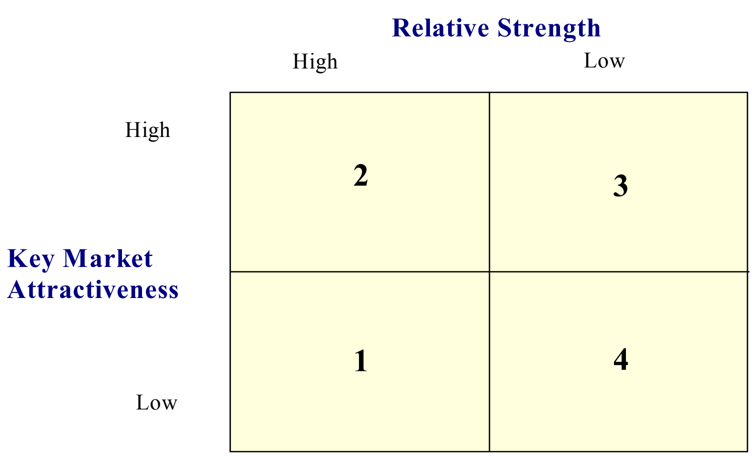


Figure 1
Sri Srikanthan, Professor Malcolm McDonald, June 2001

Customer Power

In future, the most powerful brands will be customer-centric. Successful companies will know the customer and will be the customer's advocate

Confusion Marketing

"Even when your product is not that different, better or special, it's the job of the marketer to make people think it's different, better or special" (Sergio Zyman - former chief marketing officer, Coca Cola)

What he really means is:

"when you genuinely can't add value for your customer (compared with what your competitors are offering), pull the wool over their eyes instead!"

(Alan Mitchell, Marketing Business, May, 2001)

Confusion Marketing

Ultimately, wherever confusion reigns, brands risk losing more in consumer trust than they gain in short term advantage.

(James Curtis, Marketing Business, Feb. 2001)

The purpose of strategic marketing is the creation of sustainable competitive advantage.

CRM

One definition

'Attracting, satisfying and retaining profitable customers'

Another definition (Professor Malcolm McDonald)

'The IT-enabled integration of data across multiple customer contact points to enable the development of offers tailored to specific customer needs'

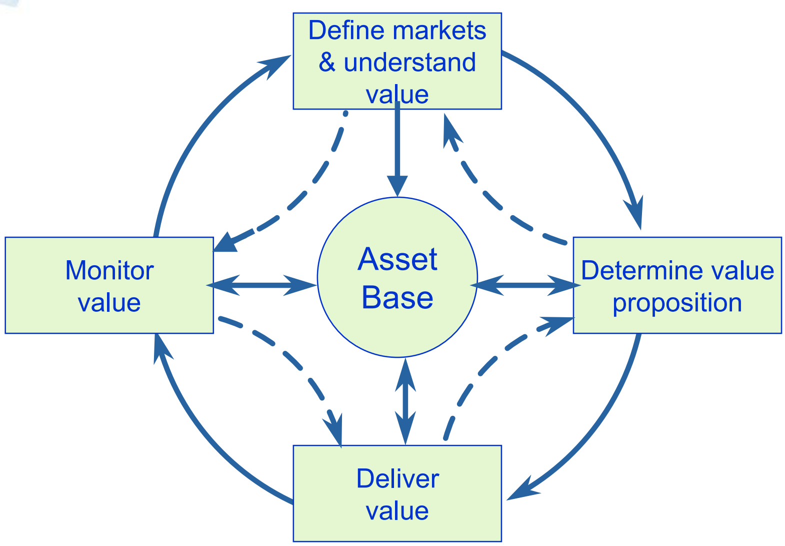
Definition of marketing

Marketing is a process for:

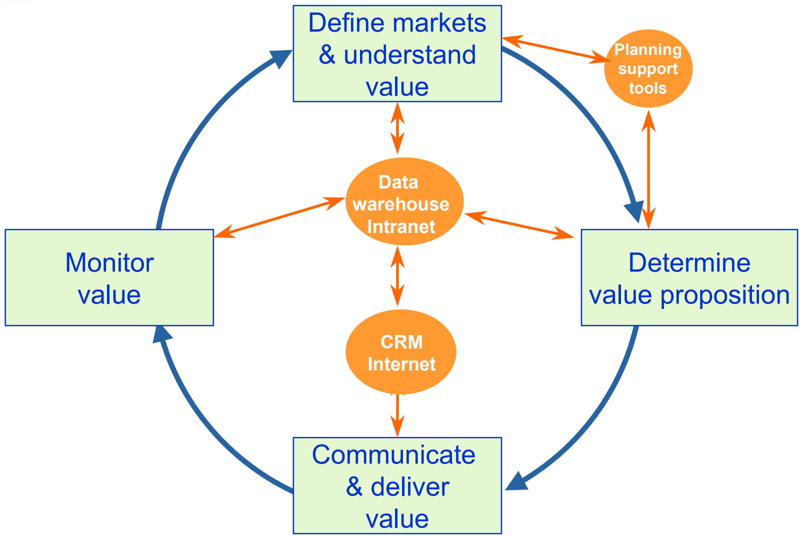
- defining markets
- quantifying the needs of the customer groups (segments) within these markets
- putting together the value propositions to meet these needs, communicating these value propositions to all those people in the organisation responsible for delivering them and getting their buy-in to their role
- playing an appropriate part in delivering these value propositions (usually only communications)
- monitoring the value actually delivered.

For this process to be effective, organisations need to be consumer/ customer-driven

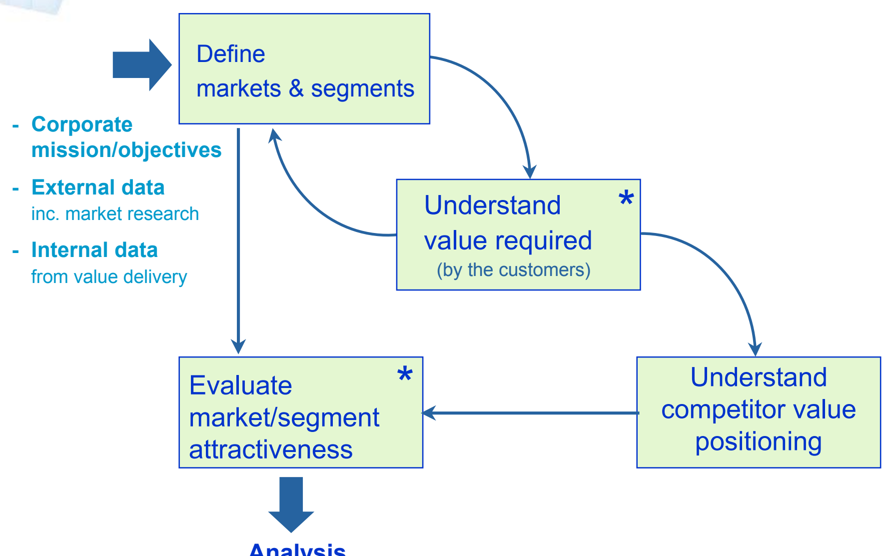
Map of the marketing domain



Application areas



Define markets and understand value



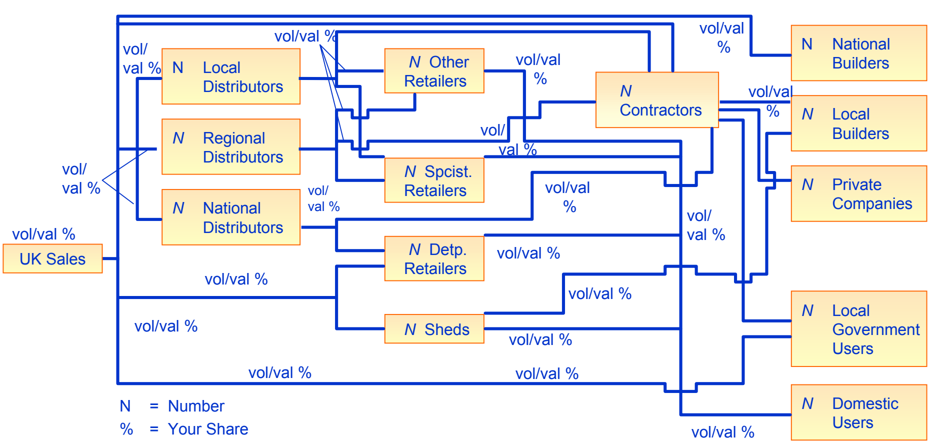
Market definition and segmentation

Correct market definition is crucial for:

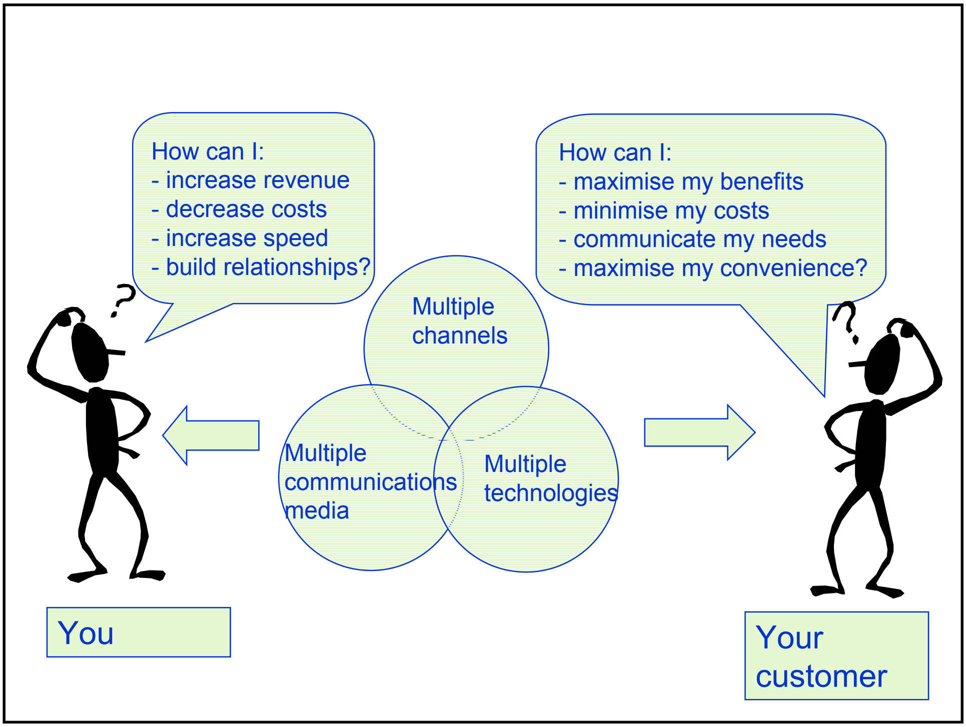
- Share measurement
- Growth measurement
- The specification of target customers
- The recognition of relevant competitors
- The formulation of marketing strategy

Market mapping

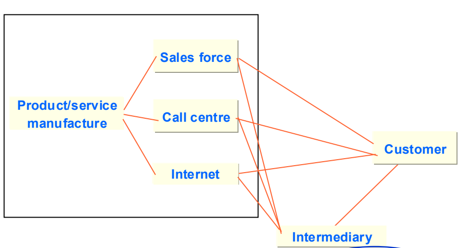
…including the number of each customer type



NB. Sketch out complex junctions separately. Alternatively, build an outline map, applying details at the junctions to be segmented.



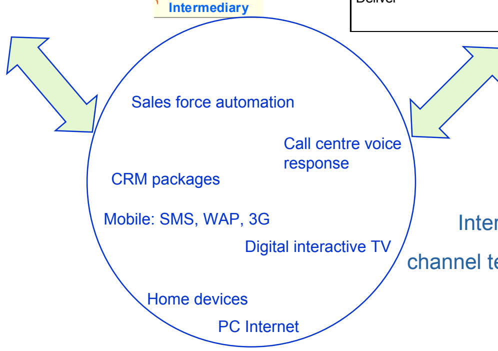
The changing market map



Integrated

marketing communications

Traditional sales perspective	Interaction perspective
Brand awareness	Recognise exchange potential
Prospecting	Initiate dialogue
Provide information	Exchange information
Persuade	Negotiate/tailor
Close sale	Commit
Deliver	Exchange value

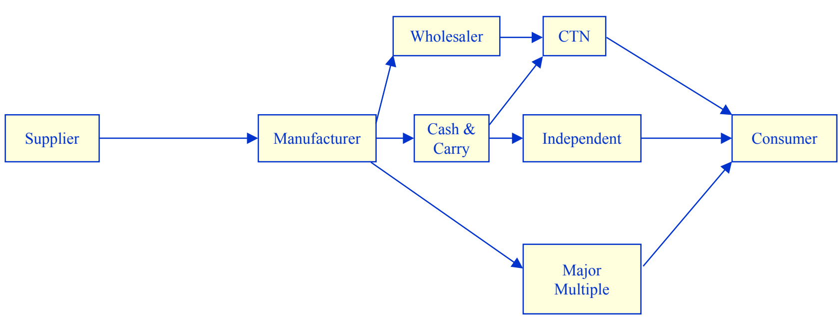


Interactive

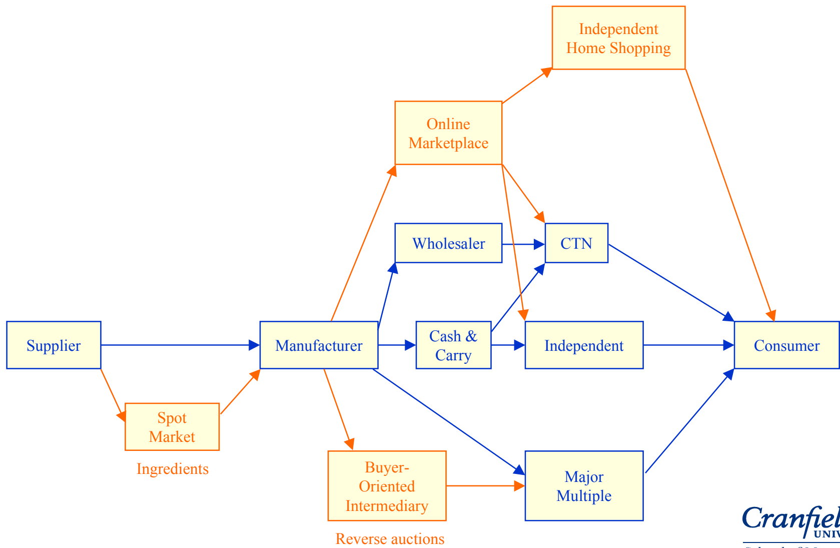
channel technologies

– Mapping future channels

Market map: groceries



Industry Restructuring: Groceries



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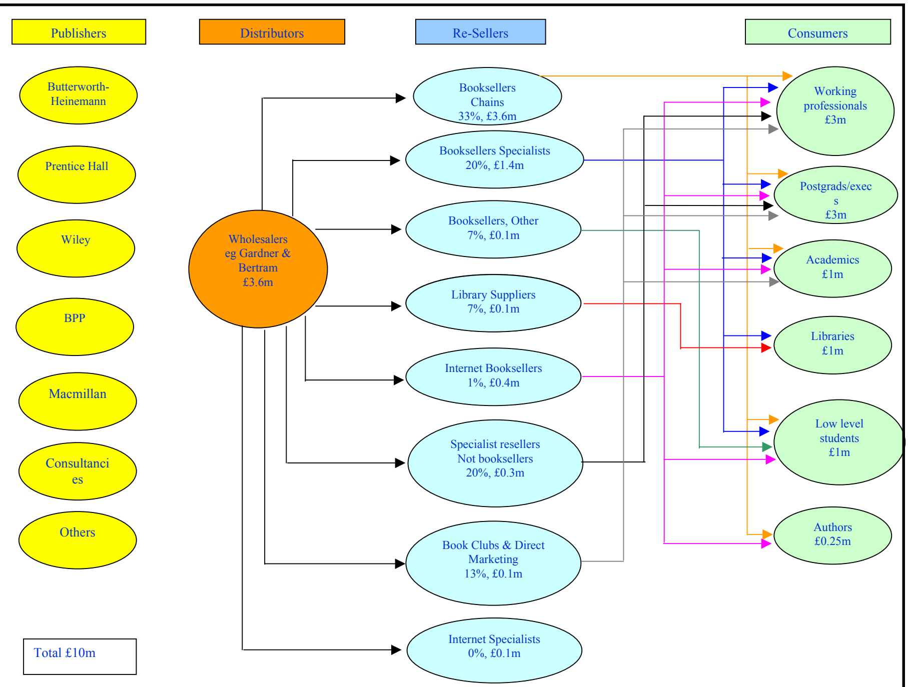

Purchase phase

Channel/Medium

	Initiate Dialogue	*Exchange Information*	*Negotiate & Tailor*	*Commit*	*Exchange value*
Face to Face		5% *5%*	10% *10%*		95% *90%*
Mail	85% *60%*	60% *40%*	20% *10%*	20% *10%*	
Tele	5% *5%*	10% *10%*	40% *20%*	80% *70%*	
Web	5% *15%*	20% *40%*	0% *25%*	0% *20%*	5% *10%*
Email	5% *20%*	5% *10%*	30% *35%*		

Illustrative figures only

Text Colour Key

- %age of current business using the medium to perform that task in the sales cycle
- *Future target*

Future market map

1. Having drawn the current market map, identify those points (junctions) where actual decisions are made about what is bought by the ultimate consumer/user and the percentage of total value/volume thus decided at each junction. In some cases, this point will be the ultimate consumer. In others, it may be a distributor or other influencer, such as an architect who, although not buying, say, radiators, decides for a builder what radiators should be bought.

2. Now do a buying factors analysis for each of these junctions, as follows.

a) Name of decision making junction, or segment

b) List the most important buying factors considered by the members of this junction or segment

1	
2	
3	
4	
5	

c) State the relative importance of each of these factors to the buyers. Score out of 100.

Total 100

3. Using your earlier analysis, in what ways can/will these needs be better met by e-commerce?

4. Now redraw the market map as it will be in, say, 3-5 years' time, given your knowledge about likely developments in the market, such as:
- new entrants
- new channels
- industry consolidation
- etc.

5. E-OPPORTUNITIES
Draw up a list of opportunities for your organisation.

	Cost reduction	**Value creation**
1		
2		
3		
4		
5		

Information flows and the channel mix

1. For <u>each</u> major decision making junction, now consider how information is obtained, leading to the purchase they make.
The following chart indicates the major steps in any purchase process (as column headings). Against each step, indicate where the relevant information is obtained by the decision maker. Thus, in each vertical column, what percentage of this task is currently completed using this medium?

	Initiate dialogue	Exchange information	Negotiate/tailor	Commit	Exchange value
Offline advertising (TV, press etc)					
Direct mail					
Sales force/ face-to-face contact					
Telephone					
Electronic					
Other (state:)					

3. Re-assess the percentages in these columns in, say, 3-5 years' time, taking account of e-commerce.

4. E-OPPORTUNITIES
Take the e-commerce row and list the e-commerce communication opportunities for your organistion.

	Cost reduction	Value creation
1		
2		
3		
4		
5		

Some Market Definitions (personal market)

Market	Need (on-line)
Emergency Cash ('Rainy Day')	Cash to cover an undesired and unexpected event often the loss of/damage to property).
Future Event Planning	Schemes to protect and grow money which are for anticipated and unanticipated cash calling events (eg. Car replacement/repairs, education, weddings, funerals, health care)
Asset Purchase	Cash to buy assets they require (eg. Car purchase, house purchase, once-in-a -lifetime holiday).
Welfare Contingency	The ability to maintain a desired standard of living (for self and/or dependants) in times of unplanned cessation of salary.
Retirement Income	The ability to maintain a desired standard of living (for self and/or dependants once the salary cheques have ceased.
Wealth Care and Building	The care and growth of assets (with various risk levels and liquidity levels).
Day-to-Day Money Management	Ability to store and readily access cash for day-to-day requirements.
Personal Financial Protection and Security from Motor Vehicle Incidents	Currently known as car insurance.

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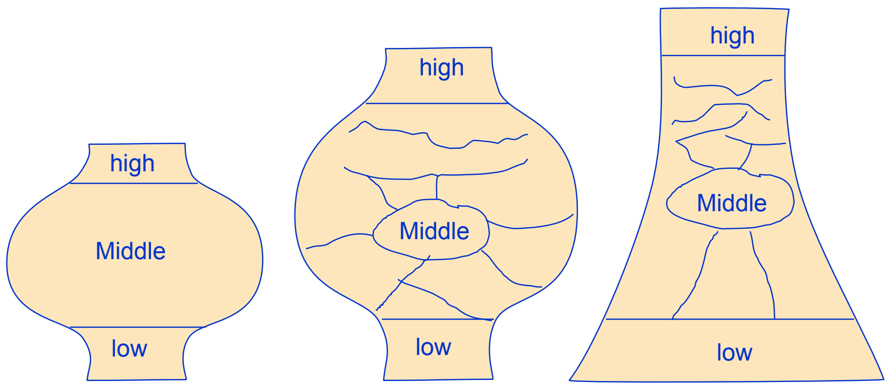
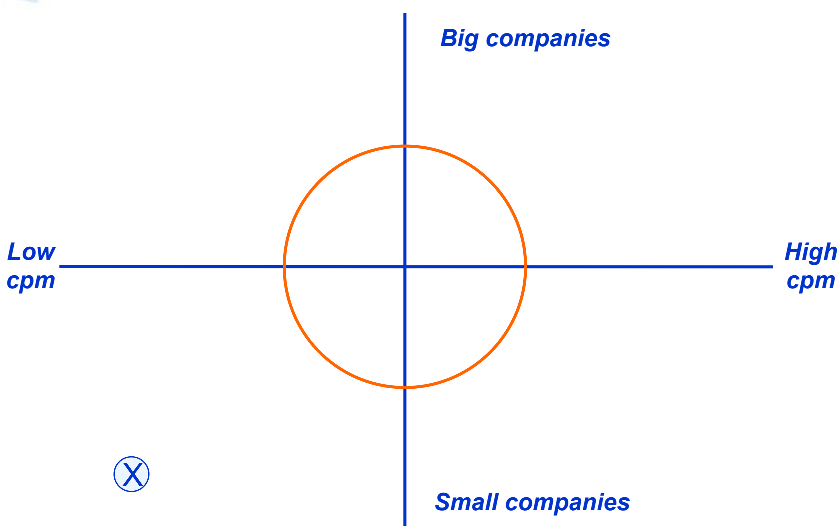
The product / market life cycle and market characteristics

Key Characteristics	Unique	Product Differentiation	Service Differentiation	"Commodity"
Marketing Message	Explain	Competitive	Brand Values	Corporate
Sales	Pioneering	Relative Benefits Distribution Support	Relationship Based	Availability Based
Distribution	Direct Selling	Exclusive Distribution	Mass Distribution	80 : 20
Price	Very High	High	Medium	Low (Consumer Controlled)
Competitive Intensity	None	Few	Many	Many
Costs	Very High	Medium	Medium/Low	Medium/Low
Profit	Medium/High	High	Medium/High	Medium/High Cost
Management Style	Visionary	Strategic	Operational	Management

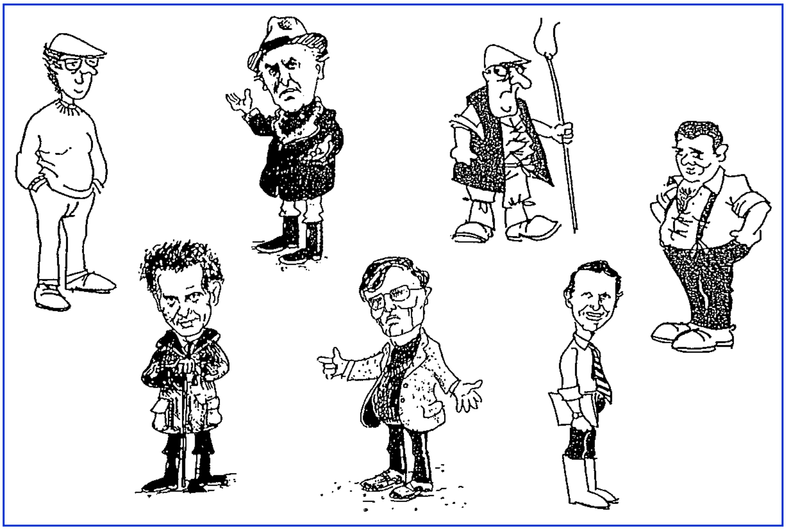


high
Middle
low
high
Middle
low
high
Middle
low



Big companies
Low cpm
High cpm
X
Small companies

Personalising segments



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Global Tech

Koala Bears	Uses an extended warranty to give them cover. Won't do anything themselves, prefer to curl-up and wait for someone to come and fix it.	Small offices (in small and big companies).	*28% of market*
Teddy Bears	Lots of account management and love required from a single preferred supplier. Will pay a premium for training and attention. If multi-site, will require supplier to effectively cover these sites. (Protect me).	Larger companies	*17% of market*
Polar Bears	Like Teddy Bears except colder! Will shop around for cheapest service supplier, whoever that may be. Full 3rd-party approach. Train me but don't expect to be paid. Will review annually (seriously). If multi-site will require supplier to effectively cover these sites.	Larger companies	*29% of market*
Yogi Bears	A 'wise' Teddy or Polar bear working long hours. Will use trained staff to fix if possible. Needs skilled product specialist at end of phone, not a bookings clerk. Wants different service levels to match the criticality of the product to their business process.	Large and small companies	*11% of market*
Grizzly Bears	Trash them! Cheaper to replace than maintain. Besides, they're so reliable that they are probably obsolete when they bust. Expensive items will be fixed on a pay-as-when basis - if worth it. Won't pay for training.	Not small companies	*6% of market*
Andropov Big Bears	My business is totally dependent on your products. I know more about your products than you do! You will do as you are told. You will be here now! I will pay for the extra cover but you will ……!	Not small or very large companies.	*9% of market*

Listen to how customers talk about category need

Customer View

Advice
- **cutting costs**
- **future technology direction**

Help
- **design & configuration**
- **process engineering**
- **electron commerce**

Run
- **international network**
- **disaster recovery**

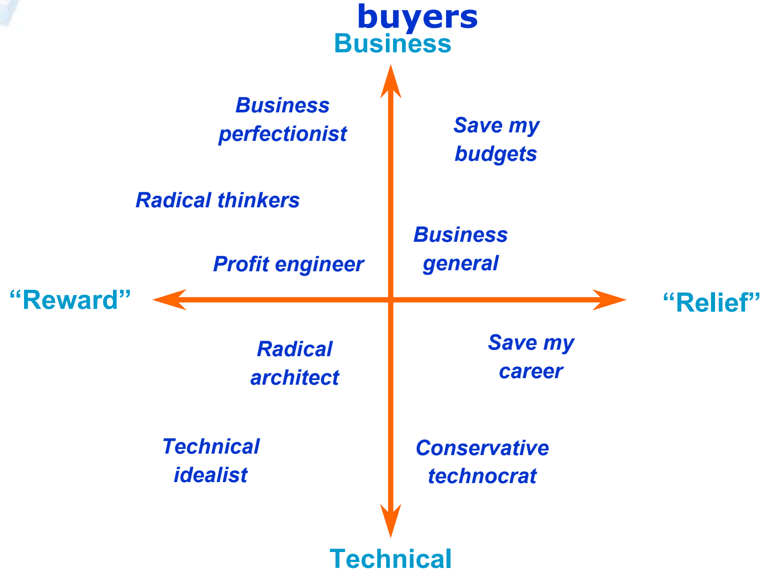
Supplier View

- fast PAD family
- multimedia FRADs
- PIX firewall

- Solutions
- Gigabit Ethernet
- solutions

- high performance
- LAN support

Understand the different category buyers



Cooking appliances

Is it a single market or several separate markets?

Volume	(units)
Value	
Domestic/commercial	
Fuels	(gas, electricity, coal, oil, etc.)
Cooking methods	(heat, radiation, convection)
Cooking function	(surface heating, baking, roasting, charcoal, etc.)
Design	(free standing, built-in, combination)
Prices	
Product features	
OEM / replacement	
Geography	
Channels	(direct, shops, wholesalers, mail order)
Why bought	
Others	(promotional response, lifestyle, demographics)
Usage	

The market segmentation process

Stage 1: Your Market and How It Operates

Step 1 - Market Mapping
Structure and decision makers

Stage 2: Customers and Transactions

Step 2 - Who Buys
Customer profiling

Step 3 - What is Bought
Purchase options

Step 4 - Who Buys What
Customers and their purchases

Stage 3: Segmenting the Market

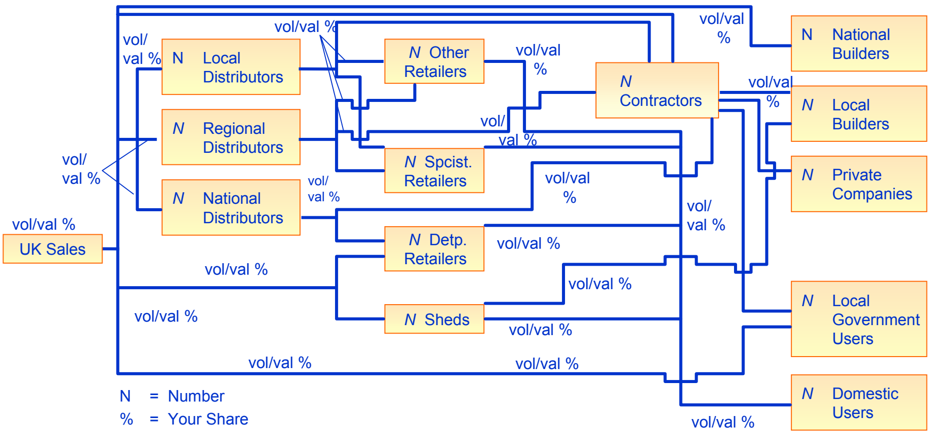
Step 5 - Why it is Bought
Customer needs

Step 6 - Forming Segments
Combining similar customers

Step 7 - Segment Checklist
Reality check

Market mapping

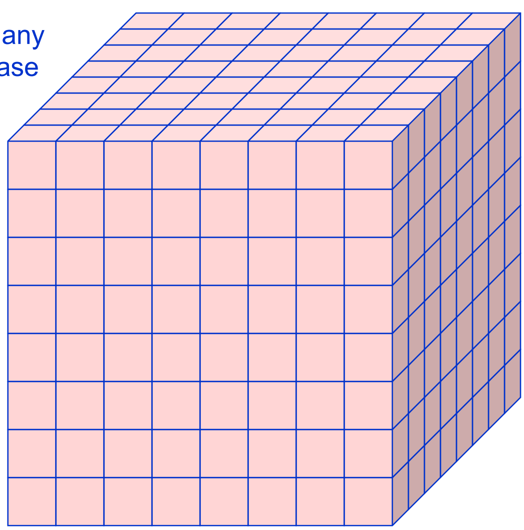
…including the number of each customer type



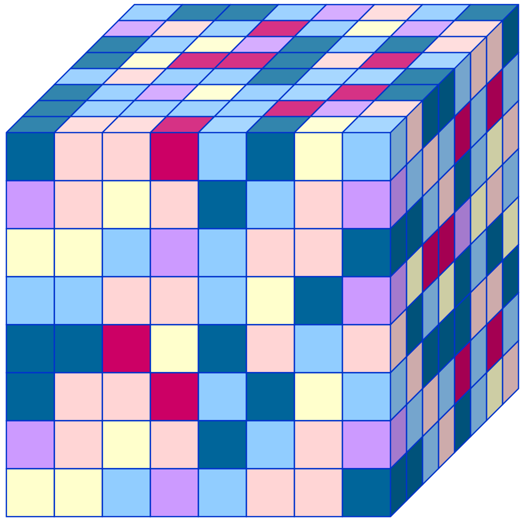
NB. Sketch out complex junctions separately. Alternatively, build an outline map, applying details at the junctions to be segmented.

An undifferentiated market

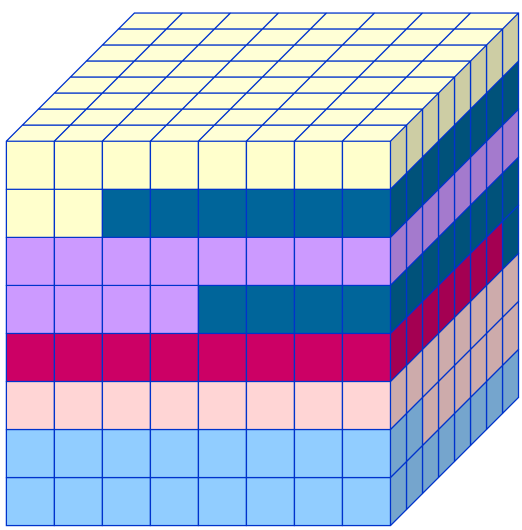
But one with many different purchase combinations



Different needs in a market



Segments in a market



Micro-segments

Micro-segment	1	2	3	4	5	6	7	8	9	10
Application (if applicable)										
What is bought										
Where,										
When,										
and How										
Who										
Why (benefits sought)										

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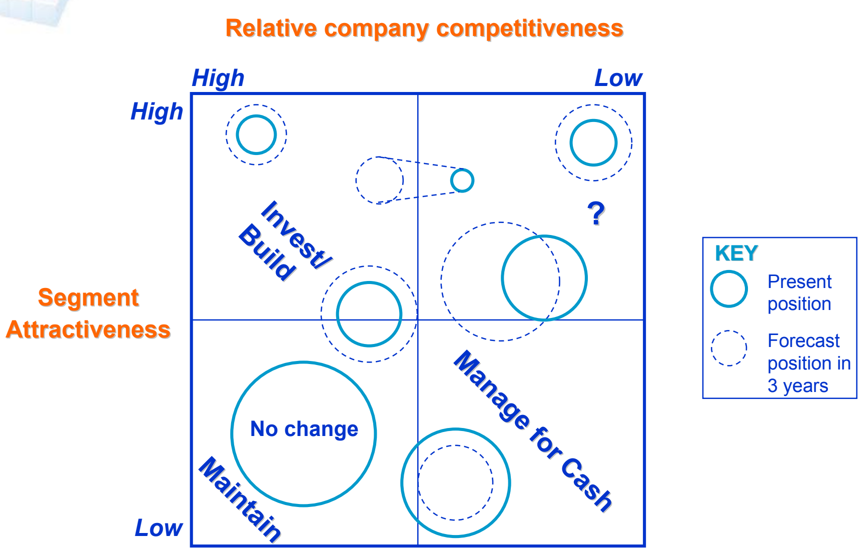
Concluding segmentation structure for your selected market

Segment name		1	2	3	4	5	6	7	8
Who buys	Demo-graphic								
	Geo-graphic								
	Psycho-graphic								
	Other								
What is bought	Product or service								
Where,	Channel								
When	Purchase frequency								
and How	Payment method								
Why it is bought	Benefits sought								
Price paid									

Segmentation in the toothpaste market

	Segment Name	Worrier	Sociable	Sensory	Independent
Who buys	Socio-economic	C1 C2	B C1 C2	C1 C2 D	A B
	Demo-graphics	Large families 25 - 40	Teens Young Smokers	Children	Males 35 - 50
	Psycho-graphics	conservative hypochon-driosis	high sociability: active	high self involvement: hedonists	high autonomy value oriented
What is bought	% of total market	50%	30%	15%	5%
	Product examples	Crest	McLeans Ultra Bright	Colgate (stripe)	Own label
	Product physics	large canisters	large tubes	medium tubes	small tubes
	Price paid	low	high	medium	low
	Outlet	super-market	super-market	super-market	independent
	Purchase frequency	weekly	monthly	monthly	quarterly
Why	Benefits sought	stop decay	attract attention	flavour	functionality
Potential for growth		nil	high	medium	nil

Prioritising and selecting segments



Market segmentation and corporate responsibility

– Fundamental to total corporate strategy

– Too important to be left to marketing department

– Senior management must focus on market segmentation

– Rank Xerox example

Understand market segmentation

– Not all customers in a broadly-defined market have the same needs

– Positioning is easy. Market segmentation is difficult. Positioning problems stem from poor segmentation.

– Select a segment and serve it. Do not straddle segments and sit between them

1. Understand how your market works (market structure)
2. List what is bought (including where, when, how, applications)
3. List who buys (demographics, psychographics)
4. List why they buy (needs, benefits sought)
5. Search for groups with similar needs

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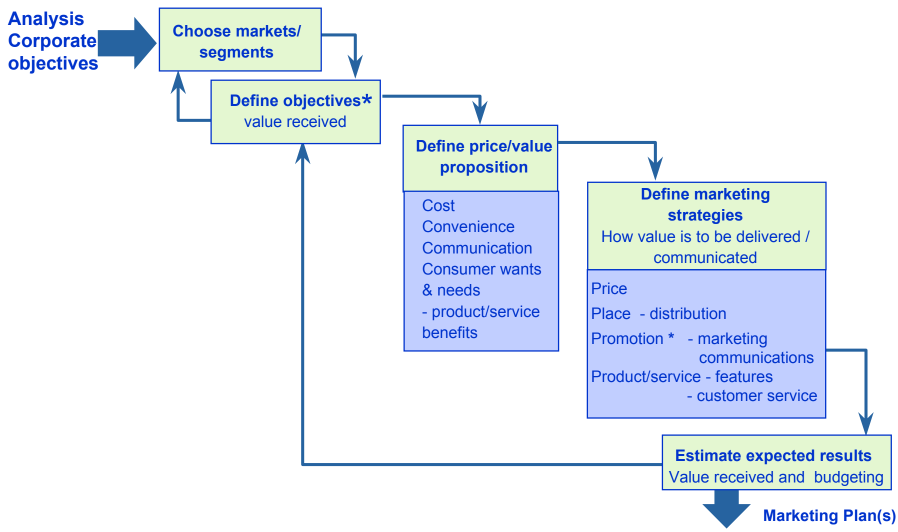
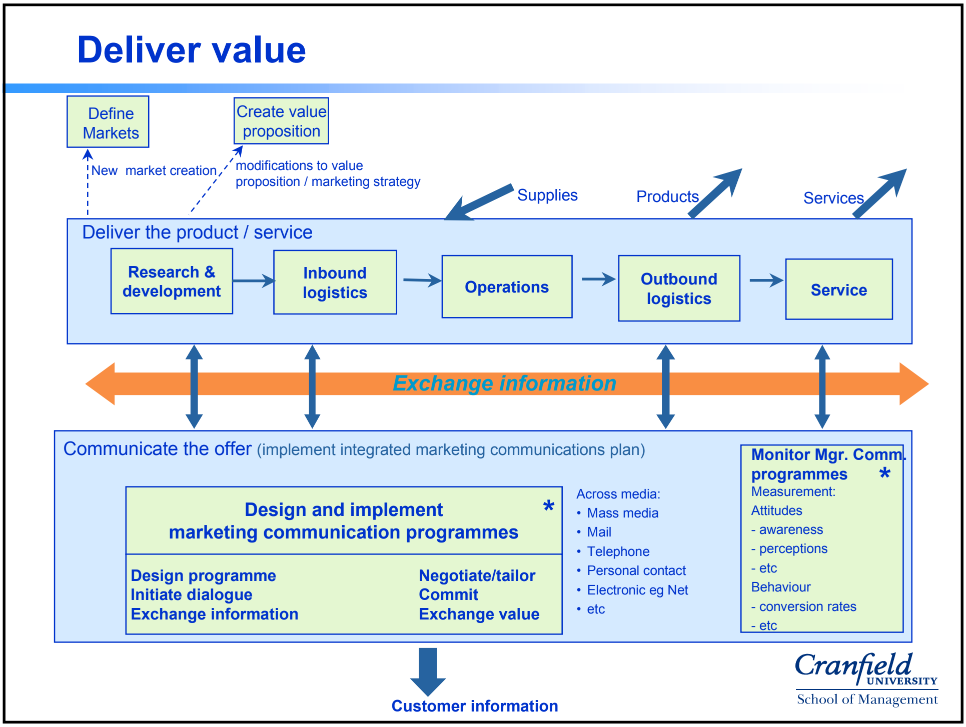
Create the value proposition



The contents of a strategic marketing plan (T+3) (less than 20 pages)

- The purpose statement
- **Financial summary**
- **Market overview**
- **SWOT analyses**
- Portfolio summary
- Assumptions
- **Objectives and strategies**
- Budget


Deliver value
Define Markets
Create value proposition
New market creation
modifications to value proposition / marketing strategy
Supplies
Products
Services
Deliver the product / service
Research & development
Inbound logistics
Operations
Outbound logistics
Service
Exchange information
Communicate the offer (implement integrated marketing communications plan)
Design and implement marketing communication programmes *
Design programme
Initiate dialogue
Exchange information
Negotiate/tailor
Commit
Exchange value
Across media:
• Mass media
• Mail
• Telephone
• Personal contact
• Electronic eg Net
• etc
Monitor Mgr. Comm. programmes *
Measurement:
Attitudes
- awareness
- perceptions
- etc
Behaviour
- conversion rates
- etc
Customer information
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Define marketing strategy for promotion
e.g test drive, demonstration, 5 senses
Place
Distribution Strategy
Channel/Medium Choice
Mass media
- objectives
- message strategy
- media strategy
Direct mail
- objectives
- strategy
Telephone
- objectives
- strategy
Personal contact
- objectives
- strategy
Electronic
- objectives
- strategy
Other
- PR
- POS
- etc
Integrated marketing communications plan
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Communicate the offer: activities

Supplier perspective		Interaction perspective		Buyer perspective	
Advertising	**Selling**	**Marketing activity**	**Interaction**	**Decision theory**	**Consumer behaviour**
		Define mkts/ understand value Create value proposition	***Recognise exchange potential***	**Problem recognition**	**Category need**
Brand awareness	**Prospecting**				**Awareness**
Brand attitude - info re benefits - brand image - feelings - peer influence	**Provide information**		***Initiate dialogue***	**Information search**	**Attitude**
	Persuade		***Exchange information***	**Evaluation of alternatives**	**Information gathering & judgement**
			Negotiate/ tailor		
Trial inducement	**Close sale**		***Commit***	**Choices / purchase**	**Purchase process**
Reduce cognitive dissonance	**Deliver**		***Exchange value***	**Post-purchase behaviour**	**Post-purchase experience**
	Service		***Monitor***		

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Activities by medium

Activity

Medium	*Recognise potential*	*Initiate dialogue*	*Exchange information*	*Negotiate / tailor*	*Commit*
Personal contact					
Direct mail					
Telephone					
Advertising					
Electronic					

The Sunworshippers

Background

- Live in Braintree in Essex; the family comprises Mum and Dad and three children, the oldest of which is just about to start her GCSEs
- Holidays are an important part of their lives: they book early and enjoy the ritual of preparing for their departure
- Mrs Sunworshipper and her daughter always book a programme of sunbed sessions in the month leading up to their holiday

Holidays

- Have holidayed in The Med for years, even when the kids were quite young
- They always get a package deal to the same tried and trusted resort and tend not to stray too far from the beach or hotel pool
- Now that their children are a bit older, they want to spread their wings and are planning to holiday in Florida next year

The Sunworshippers

	Internet	Mobile telephone	iTV	Broadcast TV	Traditional channels
• Recognise					
• Exchange potential					
• Initiate dialogue					
• Exchange information					
Negotiate/tailor					
Commit					
• Exchange value					
• Monitor					

John and Mary Lively

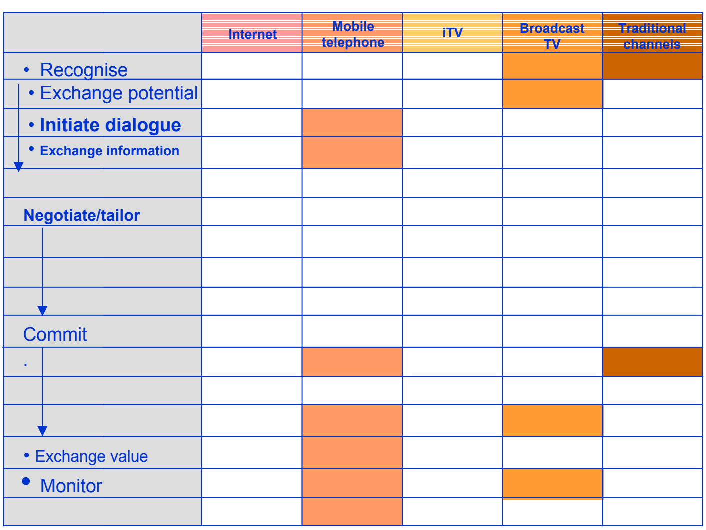
Background

- Live in Luton; childhood sweethearts, John and Mary have been seeing each other seriously for three years
- They were planning to buy a house together but put their plans on hold to ensure that they could take a holiday this summer
- John DJs part-time in a local nightclub and would happily leave his job as a mobile phone salesman a to pursue a DJ-ing career in a European beach resort

Holidays

- Feel like The Med doesn't have anything else to offer them and are keen to travel further afield: Mary likes the sound of Tunisia
- Tend to book a holiday on the basis of the facilities available, and are always keen to get involved in watersports and other beach activities
- Wouldn't dream of holidaying anywhere that doesn't have thriving nightlife

John and Mary Lively



Monitor value

Value required (by customers) latest vs expected

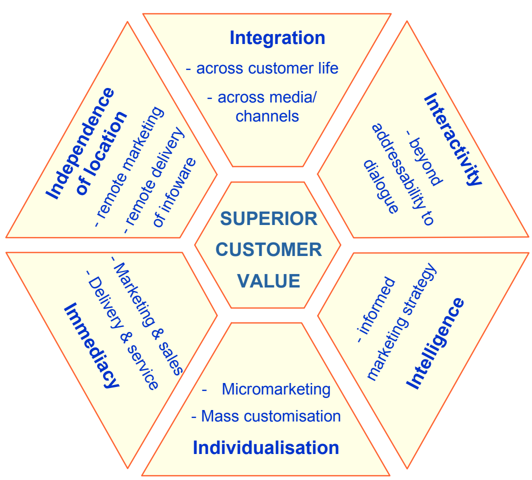
Value delivered vs proposition

Value received (by us) vs objectives

How value delivered / communicated vs marketing strategies

- Product / service vs plan (R&D, Operations)
- Promotions vs plan
- (IMCP)
- Place vs plan
- (Distribution Plan)
- Price vs plan

The e-marketing mix

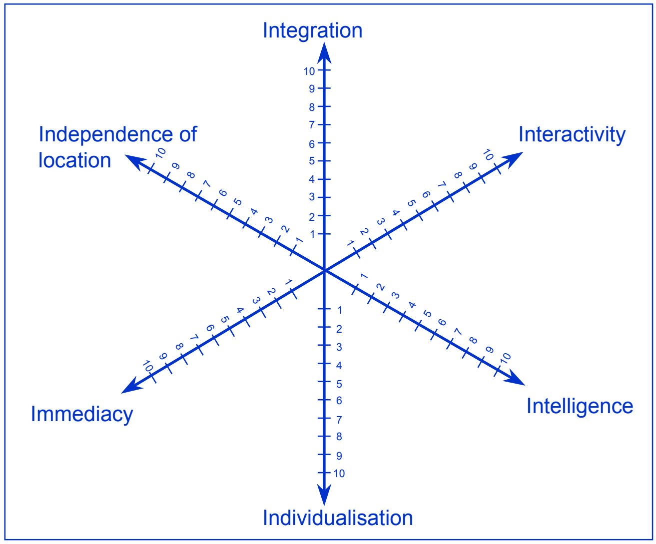


Source: McDonald & Wilson (1999), “e-Marketing”. FT Prentice Hall

The e-marketing mix

1. CURRENT POSITION

Locate your organisation on each of the six Is. Mark your location on the diagram below. Use the notes on the next page to prompt you if you wish.



Notes on the 6 Is

Integration of customer data

Do you have detailed knowledge of individual customers, influencers or consumers?
Do you share this knowledge across all customer-facing parts of the business?

Interactivity

Do you use interactive media to allow your customers to communicate with you?
Do you listen to what they say and respond appropriately in a continuing dialogue?

Intelligence

Do you inform your marketing strategy with intelligence gleaned from your operational systems at the customer interface? (For example, through analysis of customer needs, segmentation, prioritising segments according to customer lifetime value, etc.)

Individualisation

Do you use your customer knowledge to tailor products and services to the needs of particular individuals or segments?
Do you tailor all your communications to the characteristics of the recipients?

Immediacy

Do you allow customers to contact you, learn about your products, match them to their needs, price them and order them whenever they want to, and using the minimum amount of their time?
Do you deliver the product/service and any post-sales service in as timely a manner as possible?

Independence of location

Do you exploit remote media such as mail, the telephone and the Internet to communicate with customers wherever they are in a cost-effective manner?
Do you exploit any opportunities to deliver information-based products and services electronically?

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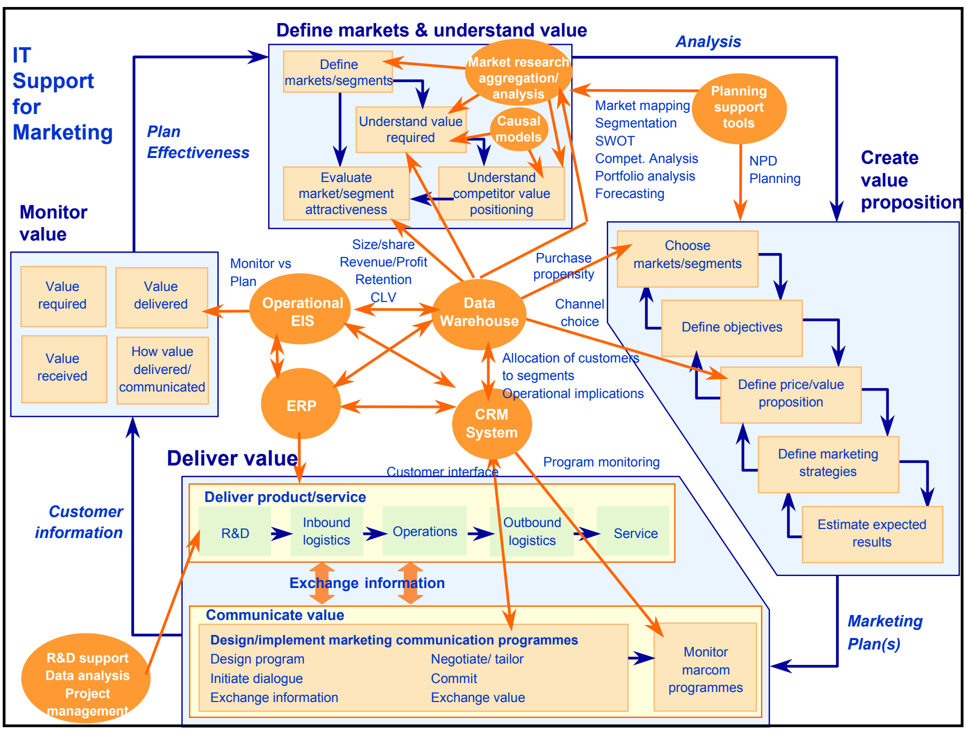
The e-marketing mix (cont)

2. FUTURE OPPORTUNITIES
Fill in the form below to indicate how e-commerce might improve the position of competitors on the 6 Is, and how you might be able to exploit e-commerce yourselves.

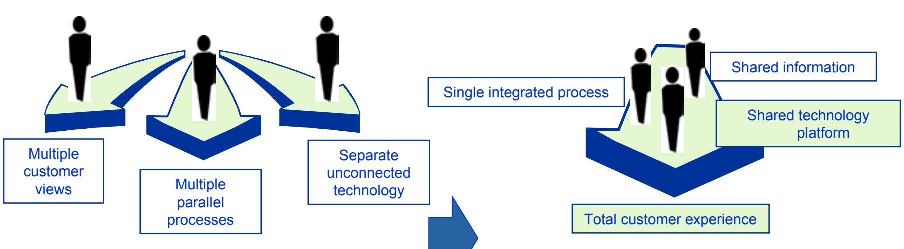
	THREATS	E-OPPORTUNITIES *Cost reduction*	 *Customer value creating*
1. INTEGRATION			
2. INTERACTIVITY			
3. INTELLIGENCE			
4. INDIVIDUALISATION			
5. IMMEDIACY			
6. INDEPENDENCE OF LOCATION			



CRM failure …

- until businesses are physically and culturally built for customer focus, their growing investments in front-office CRM software will achieve very little (Informa, 1999)
- seven out of ten CRM initiatives will fail over the next 18 months (Giga, 2001)
- 92% of CRM systems 'not very successful' (PMP 2001)
- 95% of European businesses installing CRM software have concentrated on technology at the expense of management behaviour and employee compensation (Gartner 2001)
- vendor hype, product immaturity and product cost are contributing to user dissatisfaction (Frost & Sullivan, 2000)
- market leader Siebel saw sales fall 31% in 2001

The significant benefits of channel integration span strategy, customer experience, process and technology



- Confused direction
- Multiple parallel processes, increasing operational cost
- Separate technology, increased maintenance cost
- Multiple customer views, duplicated or unreliable information
- Uncoordinated customer contact
- Less able to qualify cross-selling leads, lower conversion rate
- Higher potential for experience disconnect
- Dissatisfied customers

- Shared direction, shared purpose
- Shared processes, shared understanding
- Shared technology, decreased maintenance costs
- Shared information, better reuse of assets
- Decreased instance of un-coordinated customer contact
- Higher potential to cross-sell
- Decrease chance of experience disconnect
- Higher potential to retain customers

E-commerce has given the customer:

- speed/convenience
- choice
- control
- comparability

E-commerce

In future, the most powerful brands will be customer-centric. Successful companies will know the customer and will be the customer's advocate

Clarity about CRM as a concept

- CRM means:
  - focusing on customer needs
  - tailoring the value proposition (personalisation)
  - creating an interactive relationship with the customer
  - customer retention through satisfaction with the offer and the sales/service experience
- Company benefits realised as a result:
  - improved customer retention
  - improved cross-selling
  - improved profitability (per customer and in general)

Key elements of world class marketing

1. Profound understanding of the market-place

2. Creative segmentation and selection

3. Powerful differentiation positioning and branding

4. Effective marketing planning processes

5. Long-term integrated marketing strategies

6. Institutionalised creativity and innovation

7. Total supply chain management

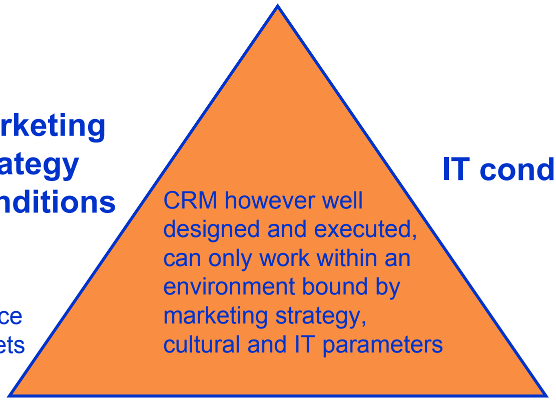
8. Market-driven organisation structures

9. Careful recruitment, training and career management

10. Vigorous line management implementation

Marketing strategy conditions

IT conditions



The CRM space bounded by sets of conditions

Cultural conditions

Implementation Issues

Modes of strategic planning

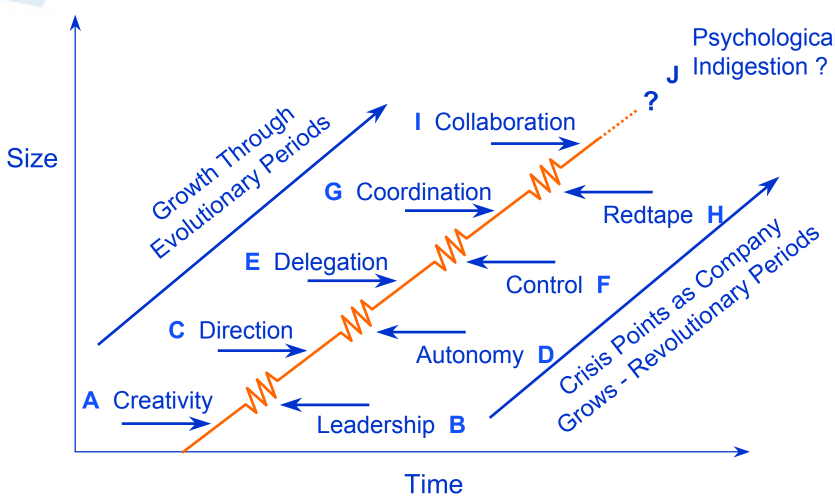
- Planning model
- Interpretive model
- Political model
- Logical incremental model
- Ecological model
- Visionary leadership model

Barriers to marketing planning

1. Cultural	Lack of belief in planning and/or marketing and/or need to change
2. Behavioural	Lack of top management support; lack of cross functional involvement
3. Cognitive	Lack of knowledge and skill
4. Systems & procedures	Lack of data and/or inappropriate systems
5. Resources	Lack of time, people and money

All of these factors are inter-dependent i.e. change one, it impacts on another

Cultural/Behavioural Factors



Lack of Knowledge and Skills

Some useful tools for marketing

- Market segmentation
- Ansoff Matrix
- Gap analysis
- Product life cycle analysis
- Diffusion of innovation
- Issue management
- Key success factors model
- Market attractiveness model
- BCG Matrix
- D.P.M.
- Porter's Models
- Forecasting
- Budgeting
- Market research models
- Experience curves

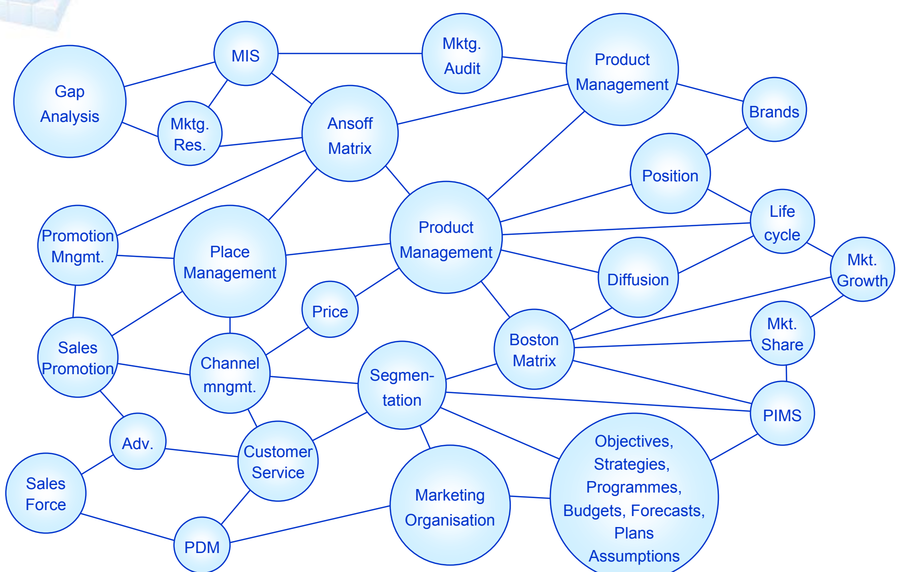
These are rarely used due to lack of knowledge and skills

(from 60 Marketing Tools in a survey by Dr. Robert Shaw of members of CIM and Economists readers, randomly selected

Problems of Technique Interrelationships

Key marketing concepts/tools, linkages.

The need for marketing planning



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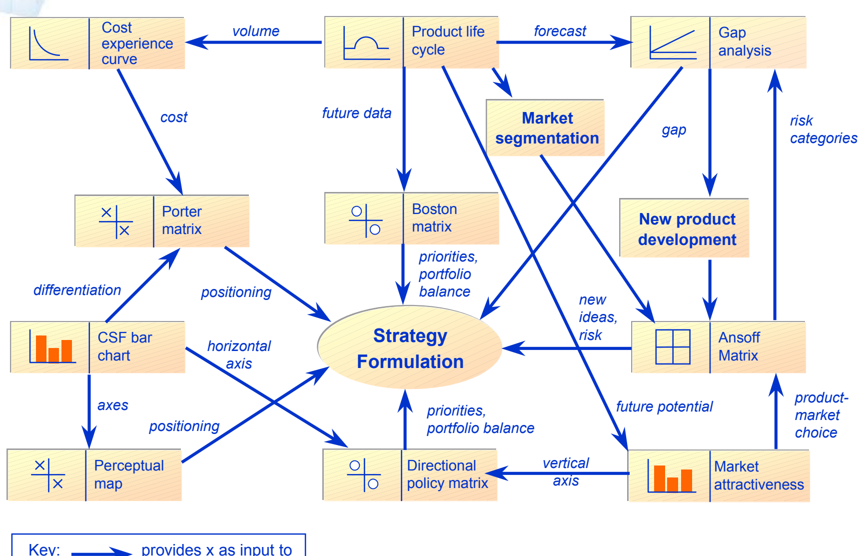
To develop solutions, via information technology, which make available the power of marketing tools, techniques and processes, to personnel at all levels within an organisation, who have an influence on marketing.

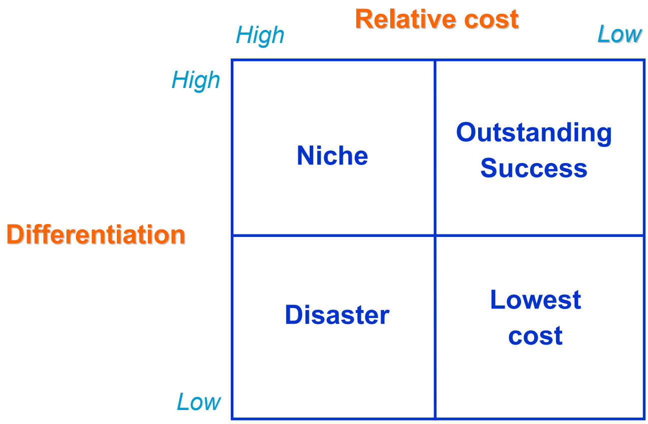
Some major technique interrelationships used in strategic marketing planning



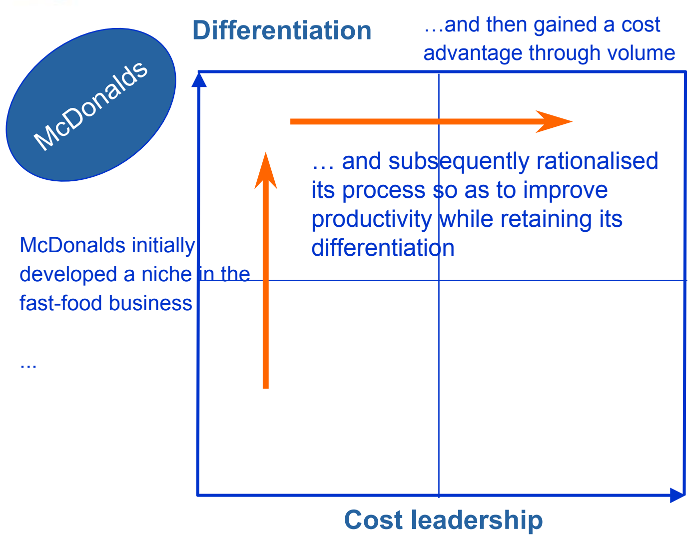
Competitive Marketing Strategies and gaining differential advantage

Competitive Strategies

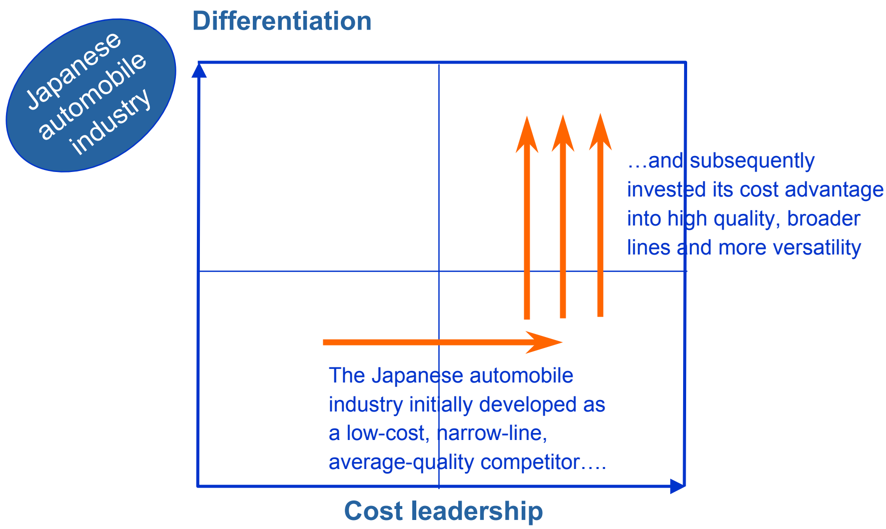
- what are they?

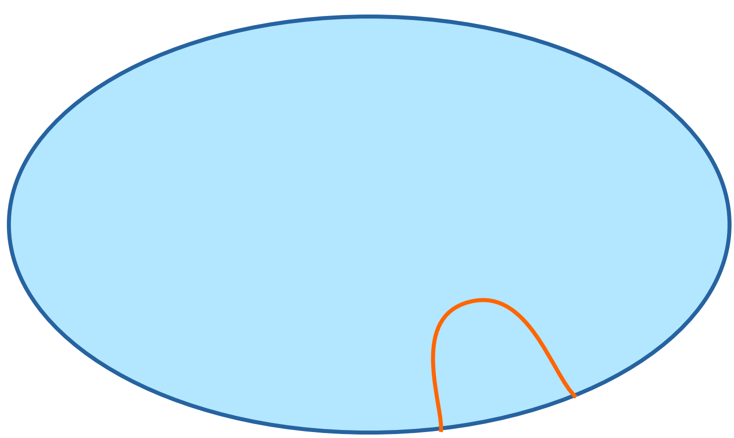


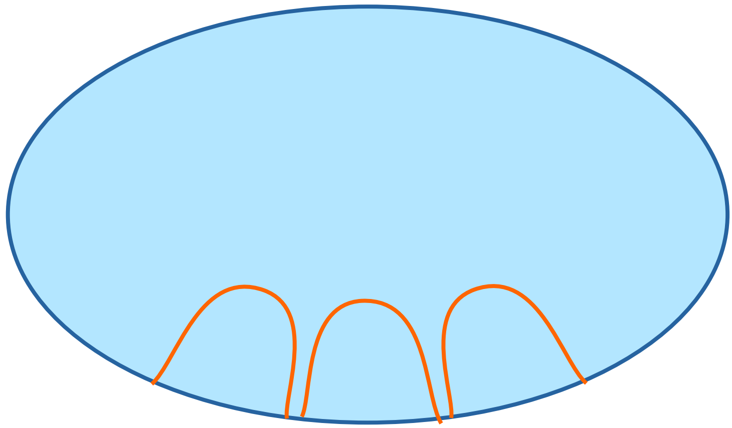
Choosing a path to improve competitive position

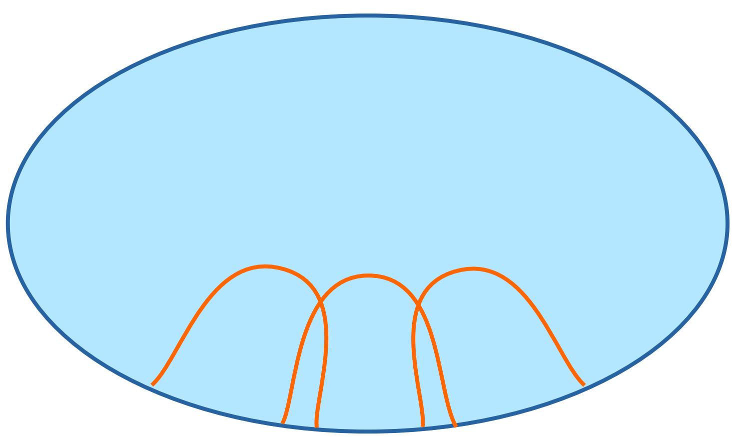


Choosing a path to improve competitive position

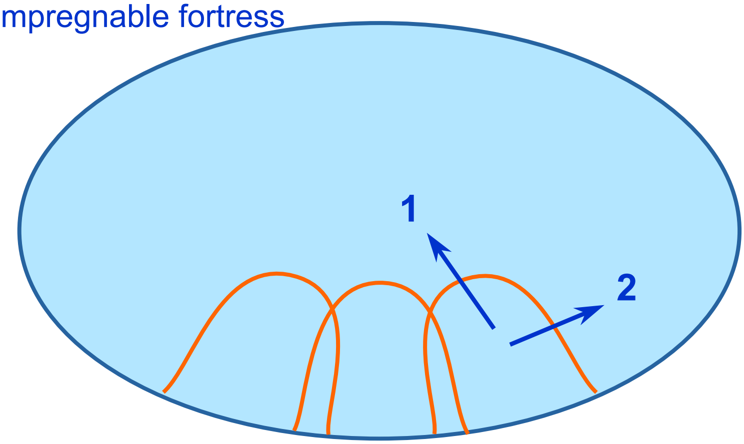


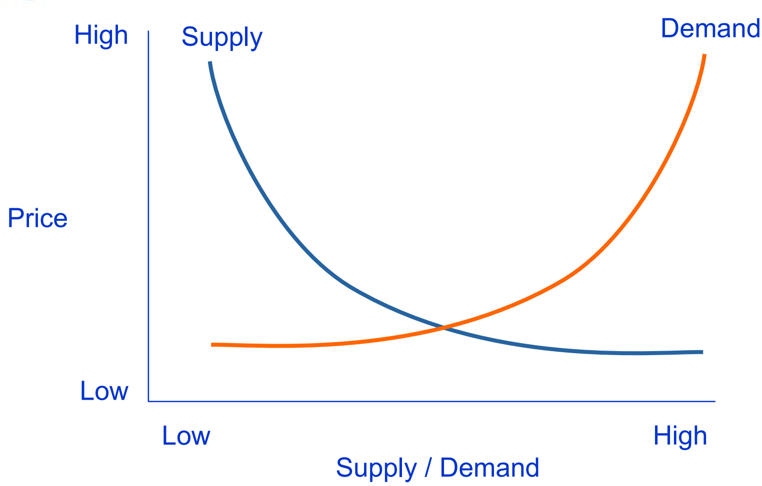




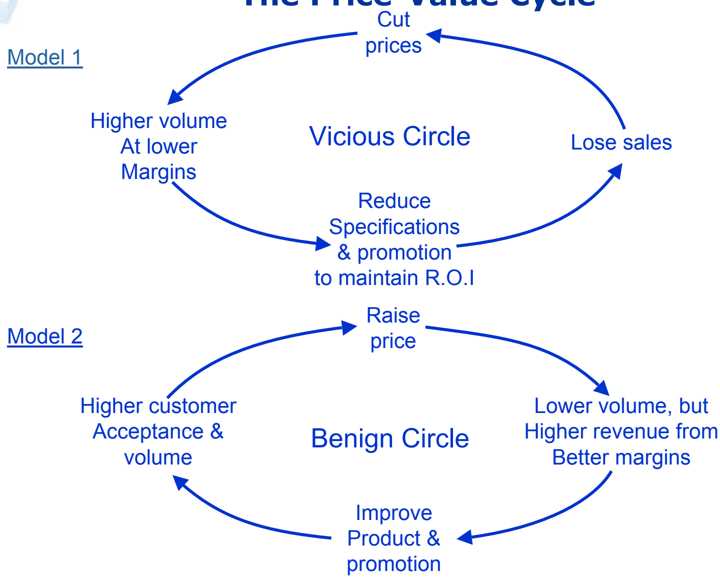


1. Terrain
2. Impregnable fortress





The Price-Value Cycle



Lanchester's Square Law ($E=MC^2$)

$$\text{Fighting strength} = \text{Weapon efficiency} \times \left(\text{Number of troops}\right)^2$$

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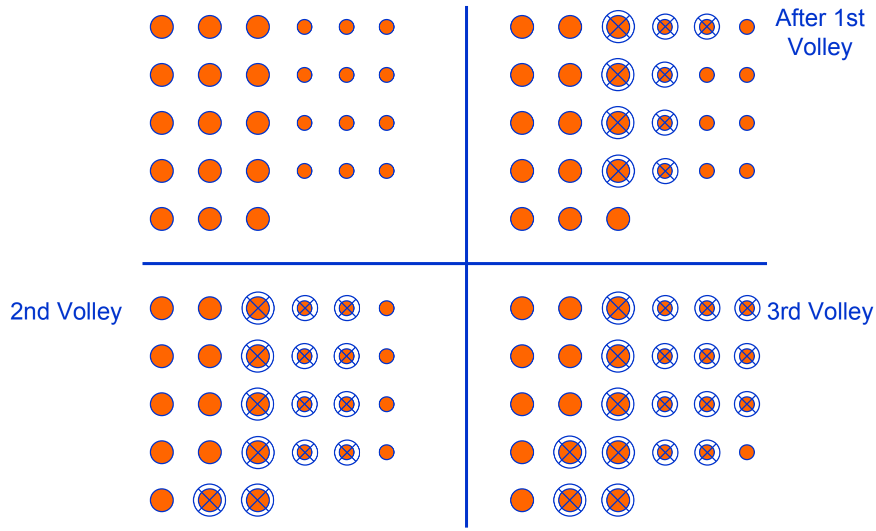
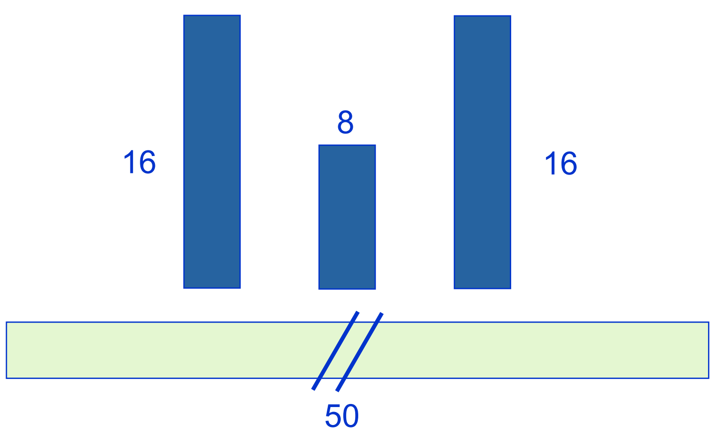
The importance of market share





Example

2 calls/month in 6 months = 12

4 calls/month in 6 months = 24

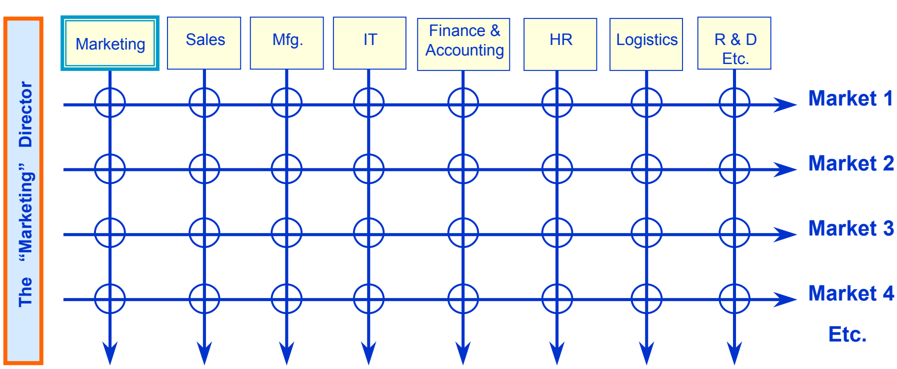
Competitive forces and e-commerce

After Michael Porter

Rivalry amongst existing/potential competitors

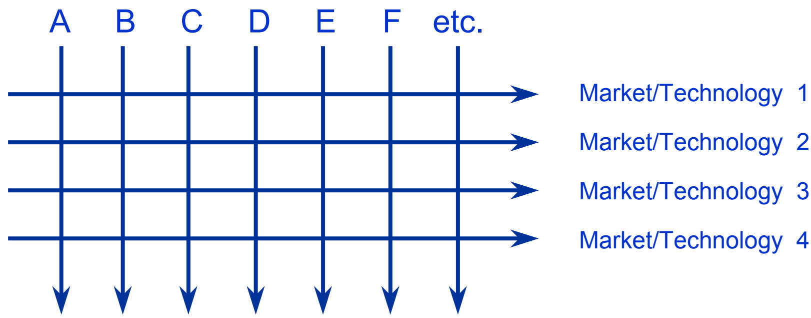
How can/will e-commerce change the basis of competition?		WHERE DOES MY COMPANY STAND?		
		THREATS	OPPORTUNITIES *Cost reduction*	 *Customer value creating*
1. THREAT OF NEW ENTRANTS *How can e-commerce build barriers to entry?*	a) Market share/size/brand/ service b) Leverage physical assets c) Provide dominant exchanges d) Cost/price e) Remote delivery of bitware f) Others			
2. BARGAINING POWER OF SUPPLIERS *How will e-commerce change the balance of power and relationships with suppliers?*	a) E-commerce enabled forward integration or disintermediation b) Lock-in (EDI) c) Others			
3. BARGAINING POWER OF BUYERS *How can e-commerce build in switching costs or change customer relationships?*	a) Price transparency b) Systems integration c) Aggregation of demand d) Others			
4. THREAT OF SUBSTITUTE PRODUCTS/ SERVICES *Will e-commerce generate new ways of satisfying customer needs?*	a) Remote delivery of bitware b) Others			

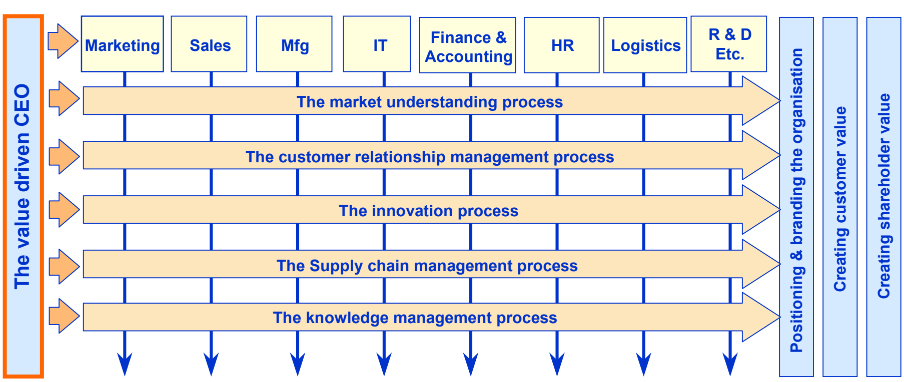
The market understanding process



Key Account Planning

Key a/c managers/customers

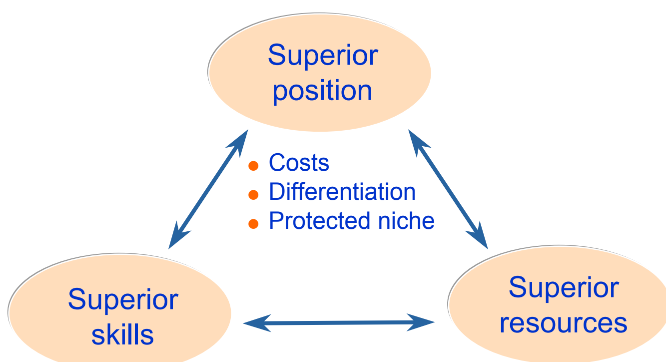




1. Understand Customer Orientation

- Develop customer orientation in all functions. Ensure that every function understands that they are there to serve the customer, not their own narrow functional interests.
- This must be driven from the board downwards.
- Where possible, organise in cross-functional teams around customer groups and core processes.
- Make customers the arbiter of quality

2. Understand the sources of competitive advantage



- Specialised knowledge
- Customer orientation
- Trade relationships
- Technical expertise
- Flexible organisation

- Coverage
- Economies of scale
- Financial structures
- Shared experiences
- Global / International

3. Understand the Environment (opportunities and threats)

(i) Macro environment
- political/regulatory
- economic
- technological
- societal

(ii) Market/industry environment
- market size and potential
- customer behaviour
- segmentation
- suppliers
- channels
- industry practices
- industry profitability

Carry out a formal marketing audit

4. Understand competitors

- Direct competitors
- Potential competitors
- Substitute products
- Forward integration by suppliers
- Backward integration by customers
- Competitors' profitability
- Competitors' strengths and weaknesses

Develop a structured competitor monitoring process.
Include the results in the marketing audit.

5. Understand Market Segmentation

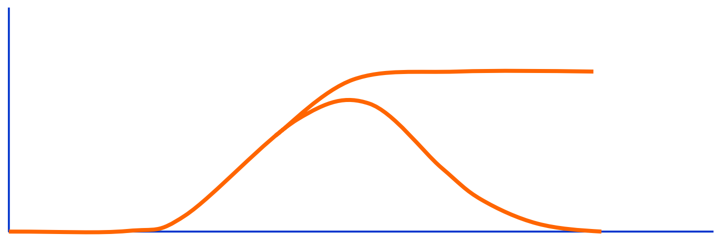
- Not all customers in a broadly-defined market have the same needs.
- Positioning is easy. Market segmentation is difficult. Positioning problems stem from poor segmentation.
- Select a segment and serve it. Do not straddle segments and sit between them.

1. Understand how your market works (market structure)
2. List what is bought (including where, when, how applications)
3. List who buys (demographics, psychographics)
4. List why they buy (needs, benefits sought)
5. Search for groups with similar needs

6. Understand Your Own Strengths and Weaknesses

- Carry out a formal audit of your own product/market position in each segment in which you compete, particularly of your ability to:-
  - conceive/design
  - buy
  - produce
  - distribute
  - market
  - service
  - finance
  - manage
- These must all be organised to provide superior customer value
- Include the results in the marketing audit
- Look for market opportunities where you can utilise your strengths

7. Understand the dynamics of product/ market evolution (product life cycle analysis)



- The biological analogy of birth, growth, maturity and decline is apt. Corporate behaviour - particularly in respect of the marketing mix, must evolve with the market
- Share building in mature markets is difficult and often results in lower prices.
- Those with lower costs have an advantage at this stage.
- Life cycles will be different between segments

8. Understand your portfolio (of products and markets)

You cannot be all things to all people. A deep understanding of portfolio analysis will enable you to set appropriate objectives and allocate resources effectively. Portfolio logic arrays competitive position against market attractiveness in a matrix form.

Market Attractiveness	Competitive position: *High*	Competitive position: *Low*
High	**2**	**3**
Low	**1**	**4**

Box 1 Maintain. Manage for sustained earnings
Box 2 Invest. Build for growth
Box 3 Selectively invest
Box 4 Manage for cash

9. Set Clear Strategic Priorities and Stick to Them

- Focus your best resources on the best opportunities for achieving continuous growth in sales and profits.
- This means having a written strategic marketing plan for 3 years containing:
  - a mission statement
  - a financial summary
  - a market overview
  - a SWOT on key segments
  - a portfolio summary
  - assumptions
  - marketing objectives and strategies
  - a budget
- This strategic plan can then be converted into a detailed one year plan.
- To do this, an agreed marketing planning process will be necessary.
- Focus on key performance indicators with an unrelenting discipline.

10. Be Professional

Particularly in marketing, it is essential to have professional marketing skills, which implies formal training in the underlying concepts, tools and techniques of marketing.

In particular, the following are core:

- market research
- gap analysis
- market segmentation/positioning
- product life cycle analysis
- portfolio management
- data base management
- the 'four Ps'
  - product management
  - pricing
  - place (customer service, channel management)
  - promotion (selling, sales force management, advertising, sales promotion, etc.)

Key Account Masterclass – global best practice

Day 3

by

Professor Malcolm McDonald

Cranfield School of Management

2. Global Key Account Management

The objectives for this module are:

- to provide a guide to the current world class practice of major account management
- to provide a framework for understanding the development of major customer relationships
- to provide a planning framework for improving major customer management

Outputs/deliverables

- focus on and augment best practice major customer management
- improve understanding of the techniques involved in the process

Programme

- Key account definition
- Modelling key accounts
- Defining and selecting key accounts
- Key account analysis and planning
- Organisational and skills issues

Challenges

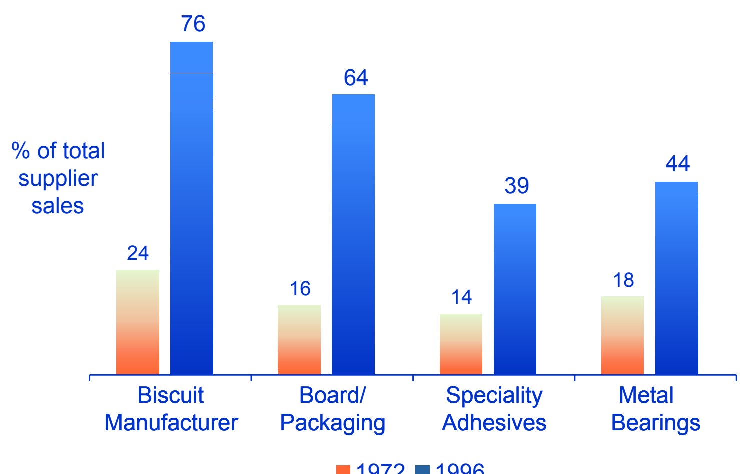
- Market maturity
- Globalisation
- Customer power

Customer power

- Big customers are getting bigger
- Customers are rationalising their supplier base
- Customers have become more sophisticated
- Customers want tailor-made solutions
- The cost of serving customers is increasing
- Suppliers and customers are developing new ways of working together

Increasing customer concentration…

Sales to the top 5 customers as a % of total supplier sales (1972 - 96)



From: *Profitable Customers*, Charles Wilson

Customer power

- Big customers are getting bigger
- Customers are rationalising their supplier base
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- Customers want tailor-made solutions
- The cost of serving customers is increasing
- Suppliers and customers are developing new ways of working together

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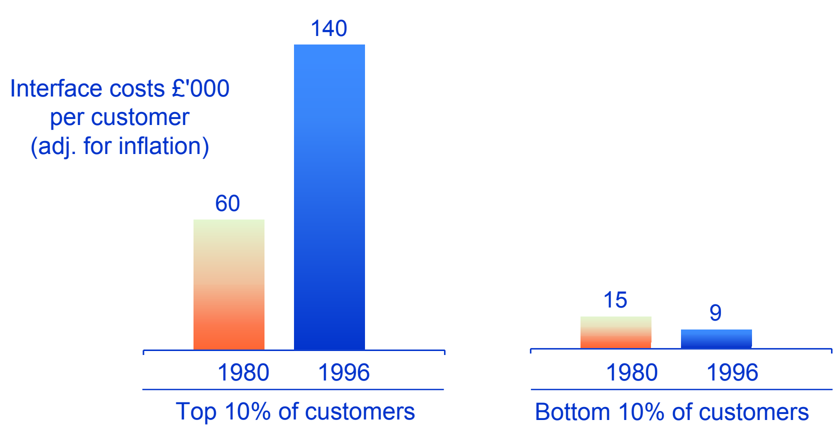
Increasing costs of interfacing with customers

Costs of the frontline (Sales, service, trade promotions etc.(1980 v 1996)



Supplier to the print industry (turnover £200M)

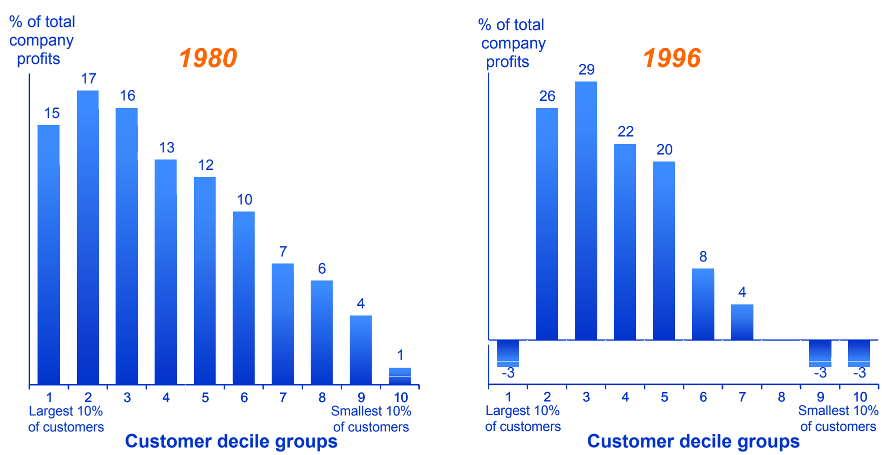
Source: Profitable Customers, by Charles Wilson

- Suppliers are still interested principally in volume
- Whilst they are interested in the potential for 'added value', most still do not measure account profitability

From 'Key Account Management'
Cranfield University School of Management, 1996

The widening rift between profitable and unprofitable customers:

% of company profit by customer decile (each decile = 10% of customer base)



Source: Supplier to the European printing industry (turnover £200 million)

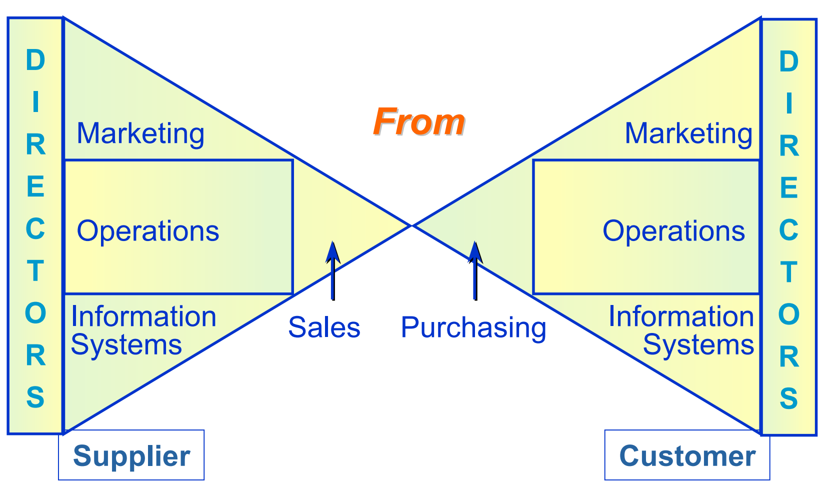
Source: Profitable Customers by Charles Wilson

Customer account profitability analysis

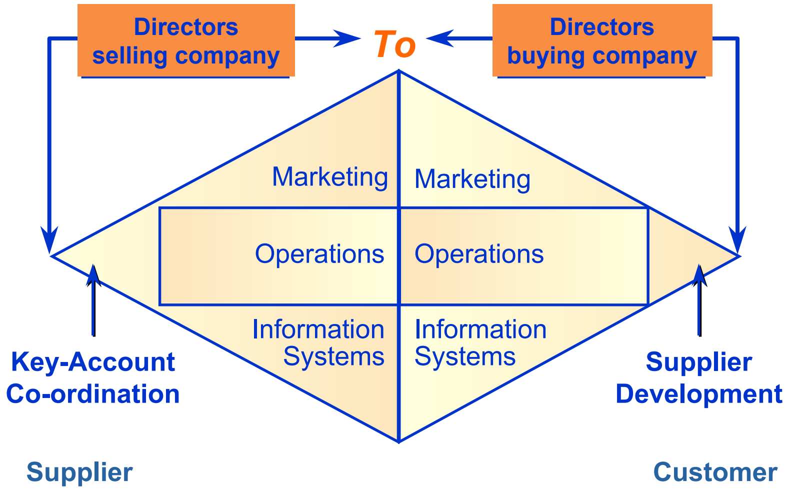
The key phrase is Attributable Costing

The objective is to highlight the financial impact of the different ways in which customers are serviced

Creating closer relationships with supply chain partners

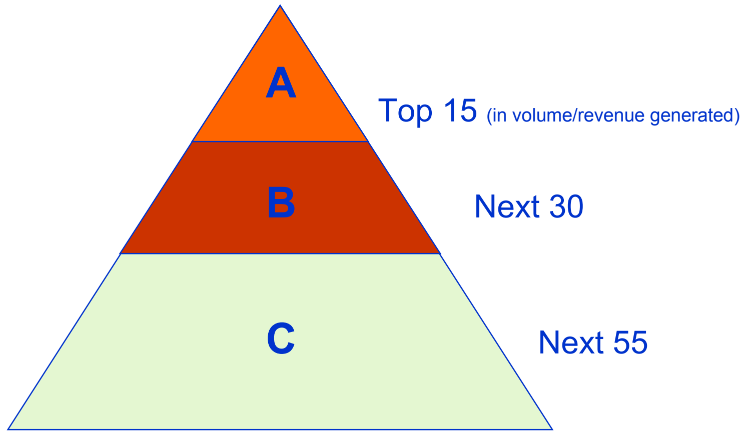


Creating closer relationships with supply chain partners

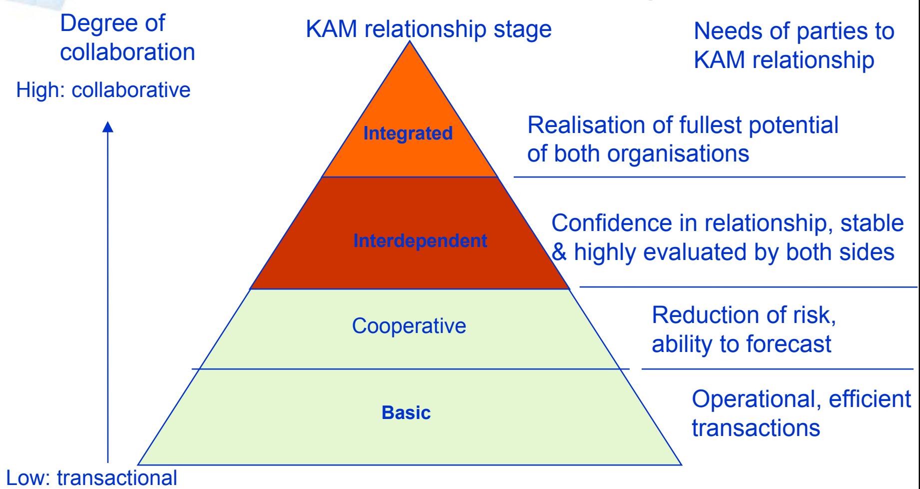


Preliminary selection of key accounts

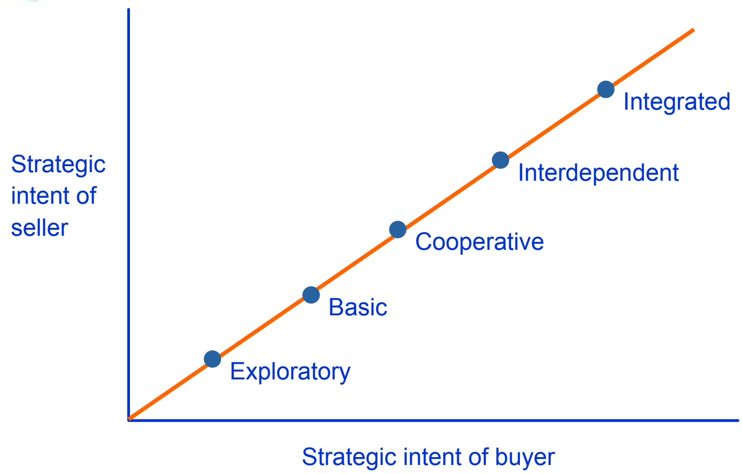
Key account preliminary categorisation



Key account preliminary categorisation

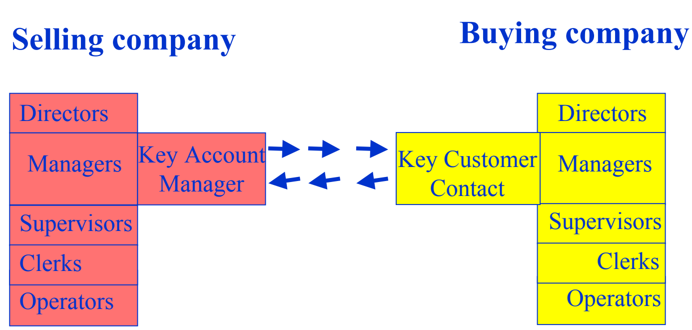


The relational development model



Adapted from a model developed by Millman, A.F. and Wilson, K.J. "From Key Account Selling to Key Account Management" (1994)

Exploratory KAM



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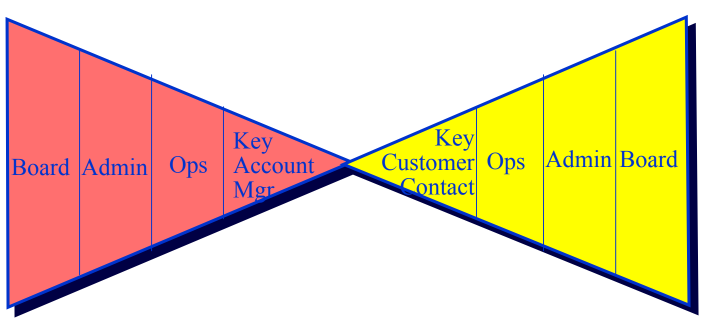
Exploratory KAM

- Pre trading
- Customer potentially qualifies as Key Account
- Both sides exploring
- Signaling important
- Seller needs to be patient & prepared to invest
- Reputations critical

Basic KAM

Selling company **Buying company**



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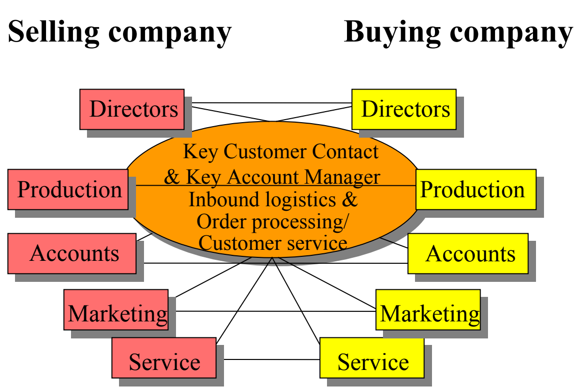
Basic KAM

- Transactional: emphasis on efficiency
- Driven by price, success measured by price
- Probably multi-sourcing
- Easy to exit
- Single point of contact
- Business relationship only
- Very little information sharing
- Reactive rather than proactive
- Probably low common interest
- Organisation suits selling company
- Reward structure of KAMgrs paramount
- Small chance of growing business
- Can be stable state or trial stage

Co-operative KAM



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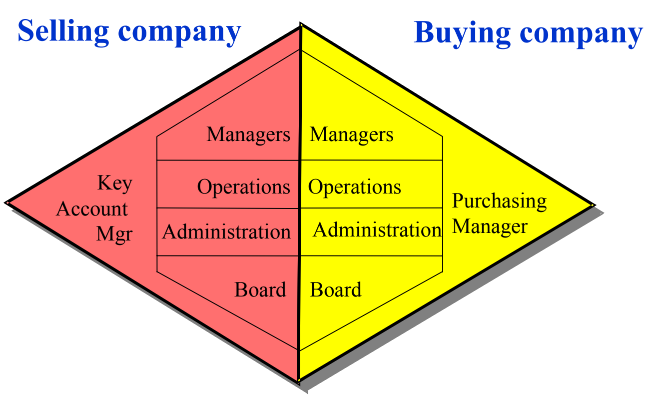
Co-operative KAM

- Selling company adds value to relationship
- Based on assumption/experience of delivery performance
- May be preferred supplier
- Exit not particularly difficult
- Multi-function contacts
- Relationship still mainly with buyer
- Organisation mainly standard
- Limited visits to customer
- Limited information sharing
- Forecasting rather than joint strategic planning
- Not really trusted by customer

Interdependent KAM



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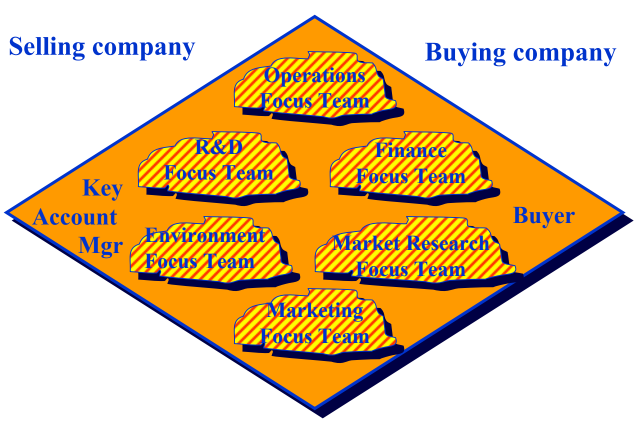
Interdependent KAM

- Both acknowledge importance to each other
- Principal or sole supplier
- Exit more difficult
- Larger number of multi-functional contacts
- Developing social relationships
- High volume of dialogue
- Streamlined processes
- High level of information exchange, some sensitive
- Better understanding of customer
- Development of trust
- Pro-active rather than reactive
- Prepared to invest in relationship
- Wider range of joint and innovative activity
- Joint strategic planning, focus on the future
- Opportunity to grow business

Integrated KAM



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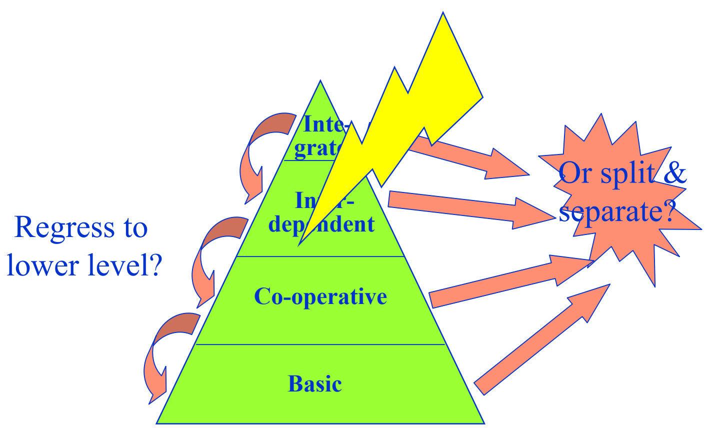
Integrated KAM

- Real partnership: complementary, mutually dependent
- Few in number
- Sole supplier, poss handling secondary suppliers
- High exit barriers, exit is traumatic
- Individual organisations subsidiary to team socially
- Dedicated, cross-boundary functional/project teams
- Open information sharing on sensitive subjects
- Transparent costing systems
- Assumption of mutual trustworthiness, at all levels
- Abstention from opportunistic behaviour
- Lowered protection against opportunism
- Joint long-term strategic planning
- Better profits for both

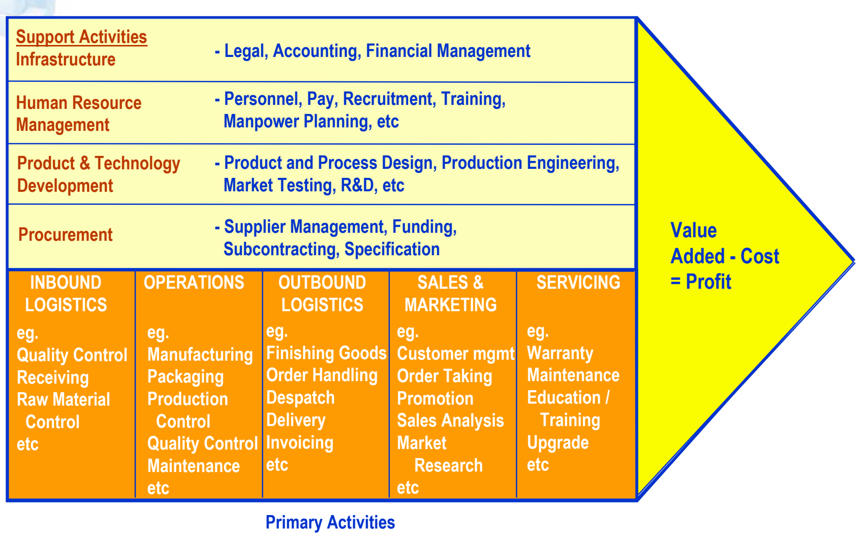
Disintegrating KAM



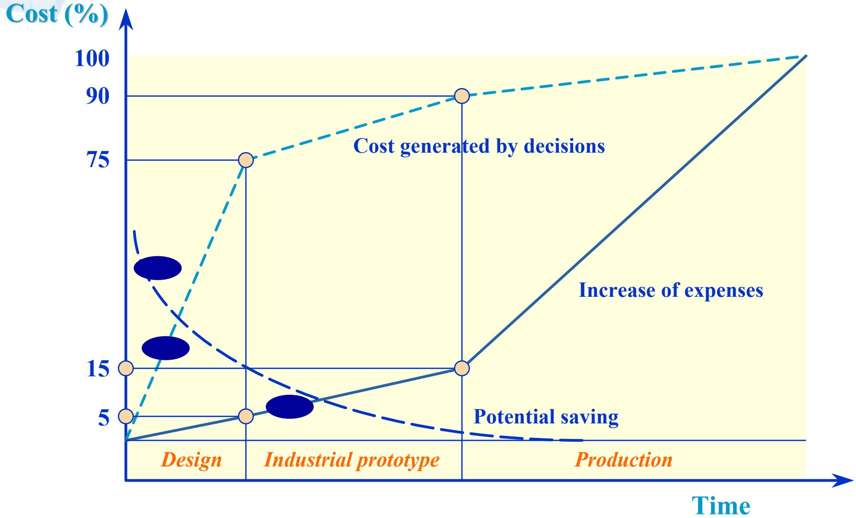
©Malcolm McDonald

Disintegrating KAM

- Occurs at any level
- Rarely caused by price problems
- Often change in key personnel
- Key Account Manager's approach or lack of skills
- Failure to forge multi-level links
- Breach of trust
- Prolonged poor performance against agreed programme
- Changing market positions
- Changing culture, organisation, ownership, role
- Complacency
- Financial disappointment?

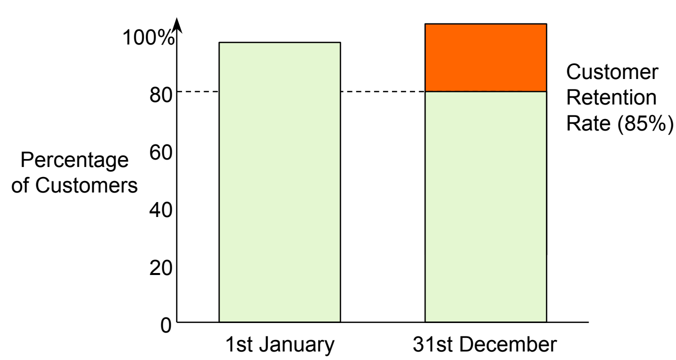


Many activities cross the boundaries - especially information based activities such as: Sales Forecasting, Capacity Planning, Resource Scheduling, Pricing, etc



Customer Retention

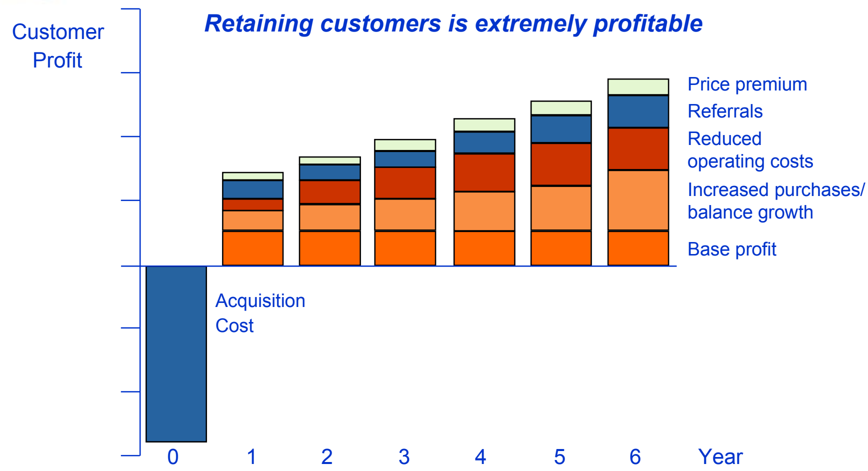
Customer retention is the best measure



Retention Rate: = (No. of customers at year end who were customers at the beginning of the year / No. of customers at the beginning of the year) x 100

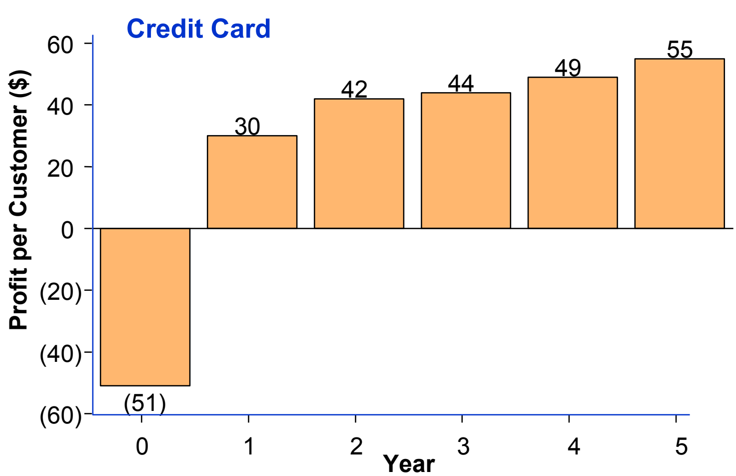
Source: Bain & Co, © Bain & Co 1990

Retaining customers is extremely profitable



Source: Bain Customer Retention Model, Bain & Company

How much profit a customer generates over time



Source: Harvard Business Review Sept. - Oct. 1990

How much profit a customer generates over time

Source: Harvard Business Review Sept. - Oct. 1990

Lifetime values of customers

A Defection rate ((% customer lost each year)	B Relationship Life expectancy (years)	C Annual Value (units of value)	D = B + C Lifetime Value (units of value)
20%	5	3000	15000
10%	10	3000	30000
5%	20	3000	60000
2.5%	40	3000	120000

Therefore

Halving customer defection rate doubles rate of future turnover-lifetime value of customer

Source: Wilson M. Marketing Improvements Group

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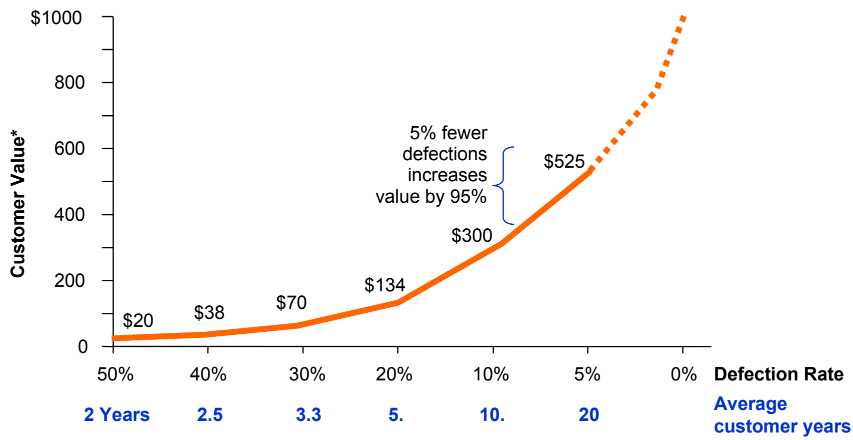
A credit card company's defection curve



*The net present value of the profit streams a customer generates over the average customer life. At 10% defection rate for example, the average customer life is ten years (1 divided by the defection rate). The customer value is the net present value of the profit streams for ten years.

Source: Harvard Business Review Sept. - Oct. 1990

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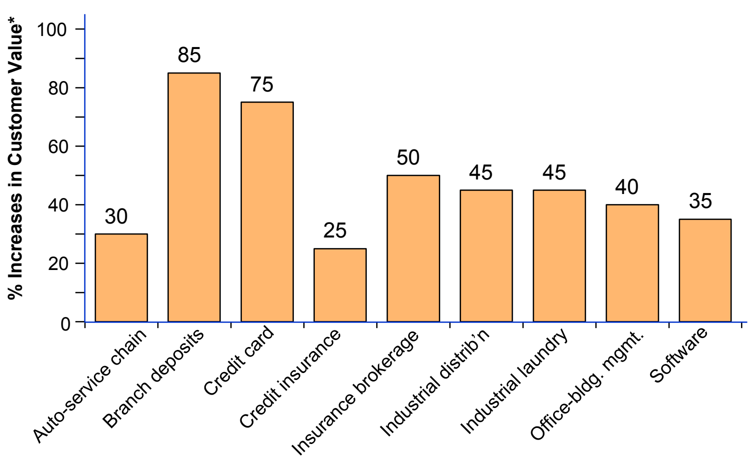
Reducing defections 5% boosts profits 25% to 85%



Calculated* by comparing the net present values of the profit stratems for the average customer life at current defection rates with the net values of the profit streams for the average customer life at 5% lower defection rates.

Source: Harvard Business Review Sept. - Oct. 1990

Why customers stop buying

1%	Die, retire or are terminated
3%	Transfer to other jobs, companies or locations
5%	Give their business to other friends
9%	Competitive reasons
14%	Product dissatisfaction
68%	Attitude of supply company

Research by Miller Business Systems

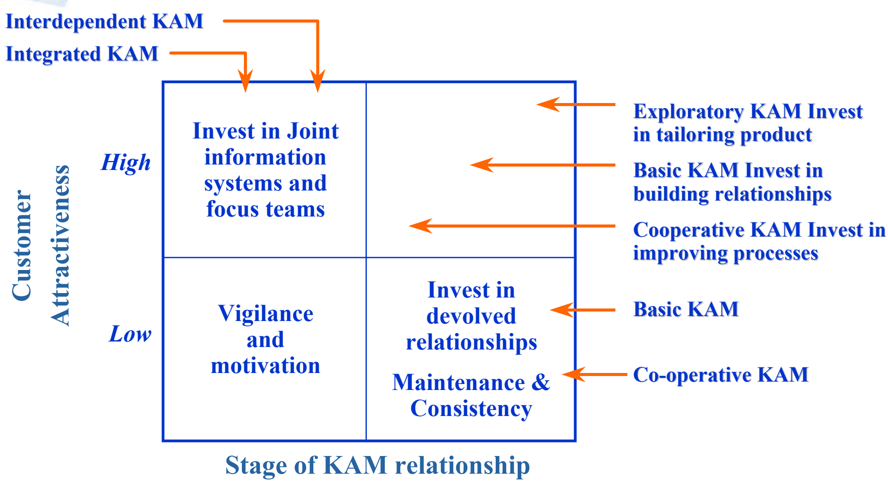
Thought starters

To what extent do you measure customer retention by segment?

Thought starters

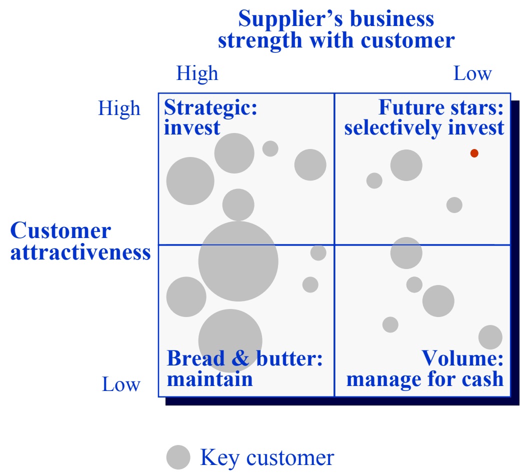
To what extent do you measure the impact on profitability of each % point increase in retention segment?

Key account strategies



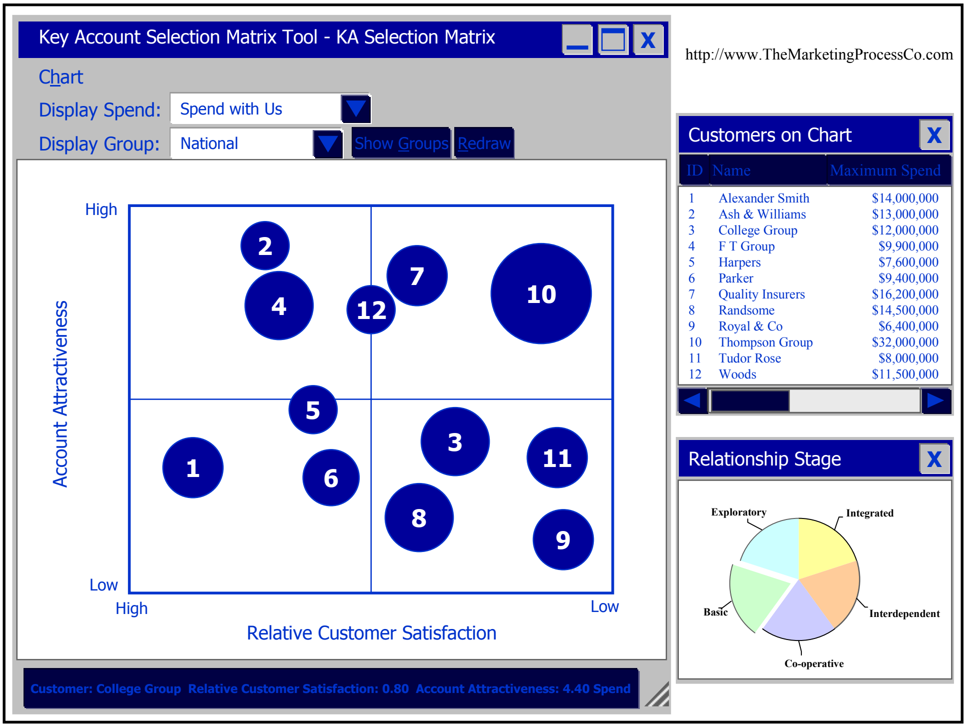
Adapted from: “Key Account Management”, Cranfield University School of Management, 1996

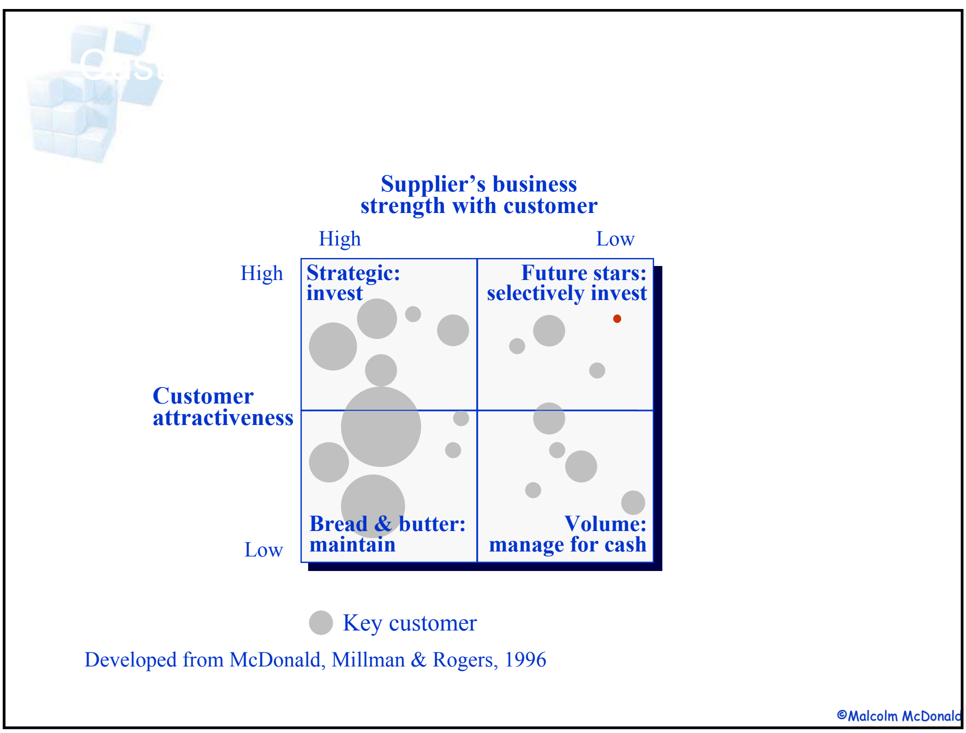
Customer portfolio strategy matrix



Developed from McDonald, Millman & Rogers, 1996

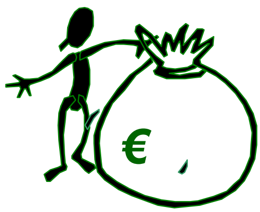
K.A. Attractiveness Factors	10-7	6-4	3-0	X weight
Volume/value				15
Growth/potential %				30
Profit potential%				40
'soft' factors				15
				100


Key Account Selection Matrix Tool - KA Selection Matrix
Chart
Display Spend:
Spend with Us
Display Group:
National
Show Groups
Redraw
High
Low
Account Attractiveness
High
Low
Relative Customer Satisfaction
2
4
12
7
10
5
1
6
3
11
8
9
Customer: College Group Relative Customer Satisfaction: 0.80 Account Attractiveness: 4.40 Spend
http://www.TheMarketingProcessCo.com
Customers on Chart
ID Name Maximum Spend
1 Alexander Smith $14,000,000
2 Ash & Williams $13,000,000
3 College Group $12,000,000
4 F T Group $9,900,000
5 Harpers $7,600,000
6 Parker $9,400,000
7 Quality Insurers $16,200,000
8 Randsome $14,500,000
9 Royal & Co $6,400,000
10 Thompson Group $32,000,000
11 Tudor Rose $8,000,000
12 Woods $11,500,000
Relationship Stage
Exploratory
Integrated
Basic
Interdependent
Co-operative


Supplier's business strength with customer
High
Low
High
Low
Customer attractiveness
Strategic: invest
Future stars: selectively invest
Bread & butter: maintain
Volume: manage for cash
Key customer
Developed from McDonald, Millman & Rogers, 1996
©Malcolm McDonald

Customer account profitability

"The total sales revenue generated from a customer or customer group, less all the costs that are incurred in servicing that customer or customer group."



(Ward - Strategic Management Accounting)

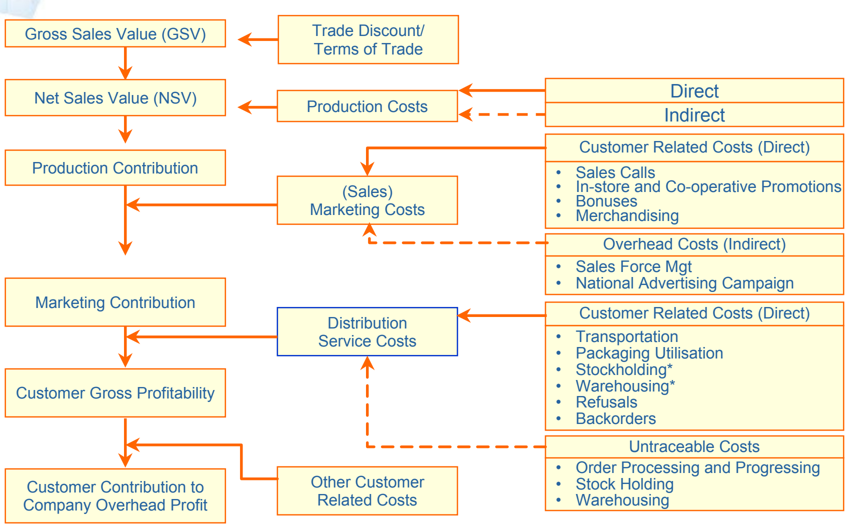
Why calculate CAP ?

- Knowing absolute profitability of customers assists in the decision: do we want to keep this customer? If so, on what terms?
- Knowing the relative profitability of customers helps in strategic decisions on allocation of resources
- Knowing the factors affecting customer profitability enables informed decisions to be taken in negotiations, and in pitching for new business.

Customer profitability – some questions

- How much does the customer buy in a year?
- What is the direct cost of those goods?
- Standard products or bespoke?
- Is it steady work, or seasonal peaks?
- How many orders do they place in a year? By what mechanism? How many of these are 'emergency' orders? Small quantities or large?
- How many times do our salespeople have to visit them?
- Do we have to maintain stock for them, or do we make to order?
- How many delivery sites? Where? What delivery terms?
- How many invoices do we raise to them? How many credit notes?
- Do they pay promptly? What are our credit control costs? How much does it cost us to finance their debts?
- How much after-sales service do they need?
- What is likely to change in the future?

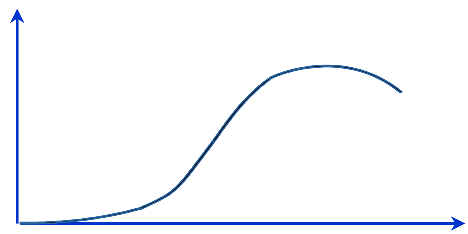
CAP: A basic model



* Only in Certain Circumstances

Customer account profitability

Remember: in the early stages of the lifecycle, many of your customers may be unprofitable to service. Consider the likely impact over the whole lifecycle!



Customer lifetime value

- NPV of future cashflows over the customer's lifetime
  - Lifetime revenue
    - For how long?
    - What amounts per year?
  - Costs to service
  - Discount rate

Valuing Key Customer Accounts

Background/Facts

- Risk and return are positively correlated, ie. as risk increases, investors expect a higher return.
- Risk is measured by the volatility in returns, ie. the likelihood of making a very good return or losing money. This can be described as the quality of returns.
- All assets are defined as having future value to the organisation. Hence assets to be valued include not only tangible assets like plant and machinery, but intangible assets, such as Key Customer Accounts.
- The present value of future cashflows is one of the most acceptable methods to value assets including key customer accounts.
- The present value is increased by:
- increasing the future cash flows
- making the future cash flows 'happen' earlier
- reducing the risk in these cash flows, ie. (hence the required return) improving the certainty of these cash flows

Suggested Approach

- Identify your key customer accounts. It is helpful if they can be classified on a vertical axis (a kind of thermometer) according to their attractiveness to your company. 'Attractiveness' usually means the potential of each for growth in your profits over a period of between 3 and 5 years.
- Based on your current experience and planning horizon that you are confident with, make a projection of future cashflows. It is normal to select a period such as 3 or 5 years.
- Identify the key factors that are likely to either increase or decrease these future cash flows. We suggest identifying the top 5 factors.
- Use your judgement to rank your customers according to the likelihood of the events leading to those factors occurring. This will help you to identify the relative risk of your key customer accounts.
- Ask your accountant to provide you with the overall required return for your company: this is often referred to as the weighted average cost of capital (WACC), or cost of capital.

- Now identify the required rate of return for each of your key accounts based on the WACC. (WACC is the return required from the average customer). A higher required rate will apply for more risky customers and a lower rate for less risky customers. Your ranking of customers above will help you to decide the required return based on your understanding of the risk of each of these key customers.
- We recommend a range of plus or minus 30% of WACC provided by your accountant.
- Thus, (assuming your WACC is, say, 10%) in a matrix such as the one shown in Figure 1, you and your financial advisor may decide to use say, 8.5% for accounts in Box 1, ie. a 15% reduction on the WACC, 11.5% for those in Box 2, (ie. a 15% premium over the WACC), 13% for accounts in Box 3 (ie. a 30% premium over the WACC) and 10% for accounts in Box 4.
- Discount the future cash flows identified above using the risk adjusted rates to arrive at a value for your customers.
- An aggregate positive net present value indicates that you are creating shareholder value – ie. achieving actual overall returns greater than the weighted average cost of capital, having taken into account the risk associated with future cashflows.

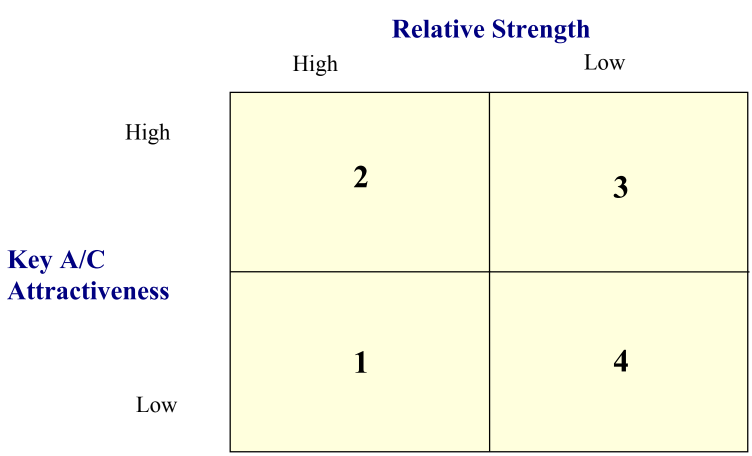
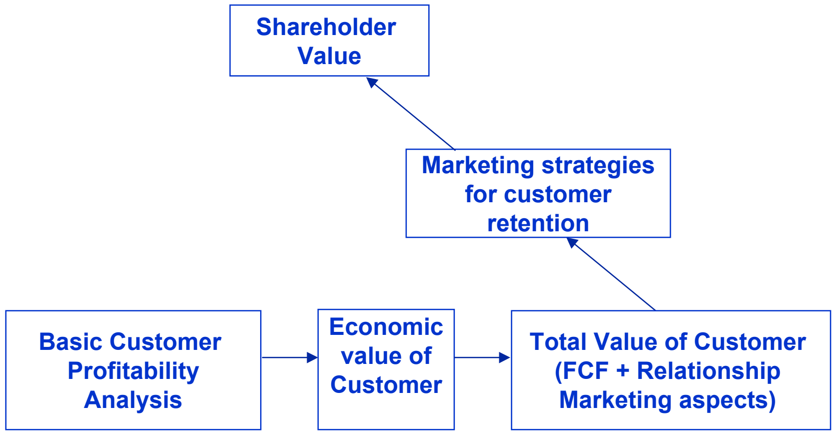
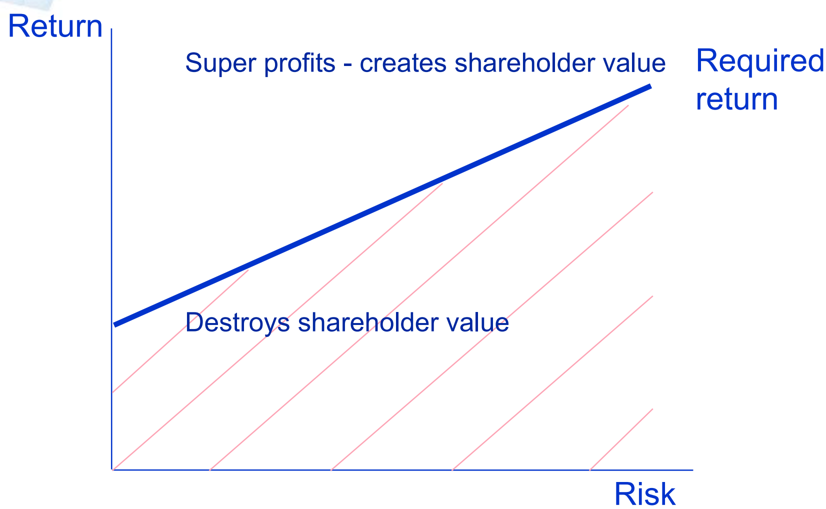


Figure 1
Sri Srikanthan, Professor Malcolm McDonald, June 2001

Linking CRM to shareholder value



How organisations build value



The total value of the key account

Has three elements:

- Customer lifetime value
- Other benefits from the relationship
- The risk of the key account
  - the probability of securing (1) and (2)

Total Value of Customer = (Customer Lifetime Value + Relationship Benefits) × Economic Risk

Calculating customer lifetime value

	Yr 1	Yr 2	Yr 3	Yr 4
Customer profit	£100	£100	£100	£100
Corporate discount rate	10%	10%	10%	10%
Net present value	£91	£83	£75	£68
CUSTOMER LIFETIME VALUE (1)				**£317**

Customer Lifetime Value

LIFETIME REVENUES

COSTS TO SERVE	High	Low
High	**Demanding customers**	**Least profitable customers**
Low	**Most profitable customers**	**Uncommitted or commodity customers**

Cost Drivers:
…………………
…………………
…………………
…………………

Revenue Drivers:
……………..
……………..
………………
………………

Measuring Customer Lifetime Value using risk-adjusted discount rates

	Yr 1	Yr 2	Yr 3	Yr 4
Customer profit	£100	£100	£100	£100
Corporate discount rate	10%	10%	10%	10%
Net present value	£91	£83	£75	£68
CUSTOMER LIFETIME VALUE (1)				**£317**
Risk-adjusted discount rate	15%	15%	15%	15%
Net present value	£87	£76	£67	£57
CUSTOMER LIFETIME VALUE (2)				**£287**

Key account risk

- Defection or migration
- Volatile purchasing patterns
- Negative word of mouth
- Default / fraud / litigation
- Slow payment

- Then, there are the PROFIT LEAKS: the things that suppliers themselves cause:
  - Using lots of our valuable time (sales, service, technical)
  - Using lots of our valuable services (that we offered them)
  - Demanding emergency support at peak times
  - Sorting out the errors we made (and not paying our invoices meantime)

Factors reducing customer defection risk

	Measure	
Relationship Factor	**Worst Case**	**Best Case**
Longevity of relationship (in years)	0.5	16
Number of business lines	3	10
Quality of relationship (1 to 5)	1	5
Number of contacts at client	2	8

Customer Risk Scorecard

Relationship Risk Factor	**Value**	**Probability of Renewal**
A. Relationship dimensions		
1. Longevity of relationship (years to date)	1	40%
2. Number of business lines purchased	3	60%
B. Account Relationship		
1. Quality of relationship (where 1 = poor and 5 = excellent)	4	90%
2. Number of contacts at client	6	90%

The relationship risk scorecard

Relationship Risk Factors	**Minimum value**	**Maximum value**	**Assigned Probability**
Overall relationship with the company			
1. Number of relationships with other business units	0	3	0=40%, 1=60%, 2=80%, >2=90%
2. Number of business lines within this business unit	3	10	1=40%, 2=50%, 3=60%, 4=70%, 5 to 10=80%, >10=90%
3. Longevity of relationship (in years)	0.5	16	<3=40%, 3=60%, 4=70%, 5=80%, >5=90%
Account Relationship			
4. Company's relationship with broker (where 1=very poor, 2=poor, 3=fair, 4=good, 5=excellent)	1	5	1=40%, 2=60%, 3=70%, 4=80%, 5=90%
5. Quality and warmth of company/client relationship (where 1=very poor, 2=poor, 3=fair, 4=good , 5=excellent)	1	5	1=40%, 2=60%, 3=70%, 4=80%, 5=90%
6. Number of relationship contacts company has at client	2	8	1=50%, 2=60%, 3=80%, More than 3=90%
7. Number of relationship contacts client has at company	3	10	1=50%, 2=60%, 3=80%, More than 3=90%
Understanding of client			
8. How good was our understanding of their company (where 1=very poor, 2=poor, 3=fair, 4=good, 5=excellent)	1	5	1=40%, 2=60%, 3=70%, 4=80%, 5=90%
9. How good was our understanding of their industry (where 1=very poor, 2=poor, 3=fair, 4=good, 5=excellent)	1	5	1=40%, 2=60%, 3=70%, 4=80%, 5=90%

Measuring Customer Lifetime Value using forecast probability

	Yr 1	Yr 2	Yr 3	Yr 4
Customer profit	£100	£100	£100	£100
Probability %	90%	90%	75%	75%
Probability-adjusted profit	£90	£90	£75	£75
Corporate discount rate	10%	10%	10%	10%
Net present value	£82	£75	£56	£51
CUSTOMER LIFETIME VALUE (3)				**£264**

Calculating the probability of relationship benefits

Total Value of Customer = (Customer Lifetime Value + Relationship Benefits) × Economic Risk

- May be at risk if the relationship goes badly
- May be obtained anyway, even without the relationship
- But the relationship increases the probability of benefit

Managing key relationships profitably

- Implement key account management strategies based on lifetime value:

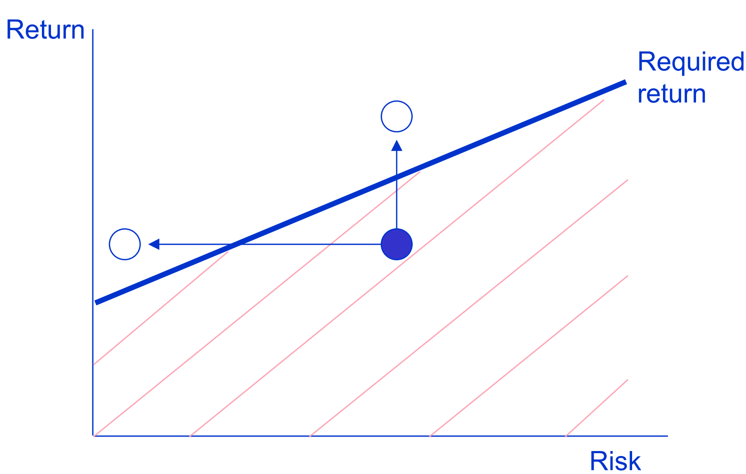
LIFETIME REVENUES

COSTS TO SERVE	High	Low
High	**MANAGE:** Cost reduction if appropriate e.g. buy over Internet. Discuss costs with customers.	**COST REDUCTION:** Reduce costs to serve, visit frequency, cheaper channels. Then, increase revenue. Possibly, divest
Low	**RETAIN:** Defend from competition, erect barriers to exit, share data, longer-term contracts, relationship pricing	**INVESTIGATE:** Increase share of spend. If not possible, contain costs to serve.

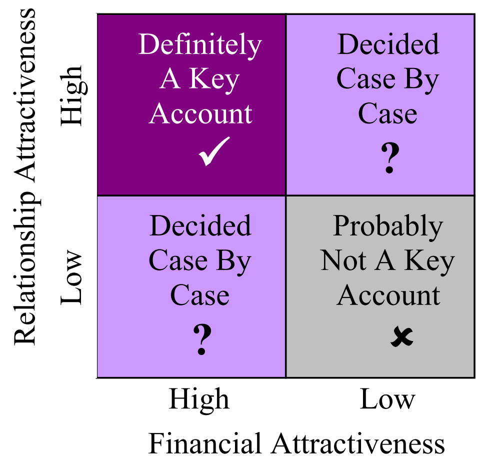
– Manage defectio

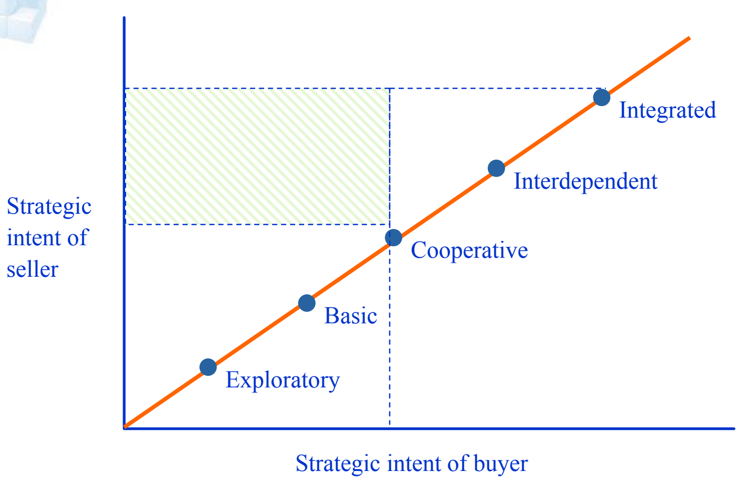
- Manage acquisition of unprofitable customers

Paths to value creation

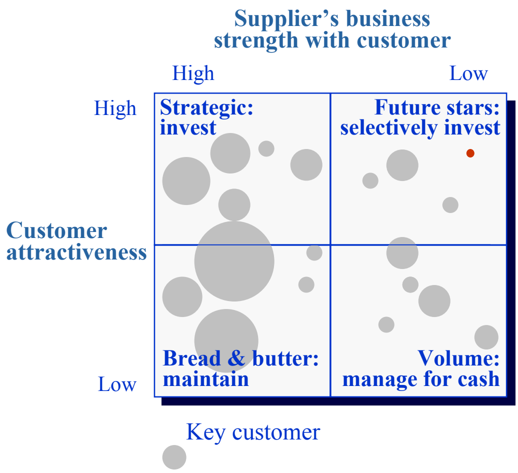


The key customer matrix



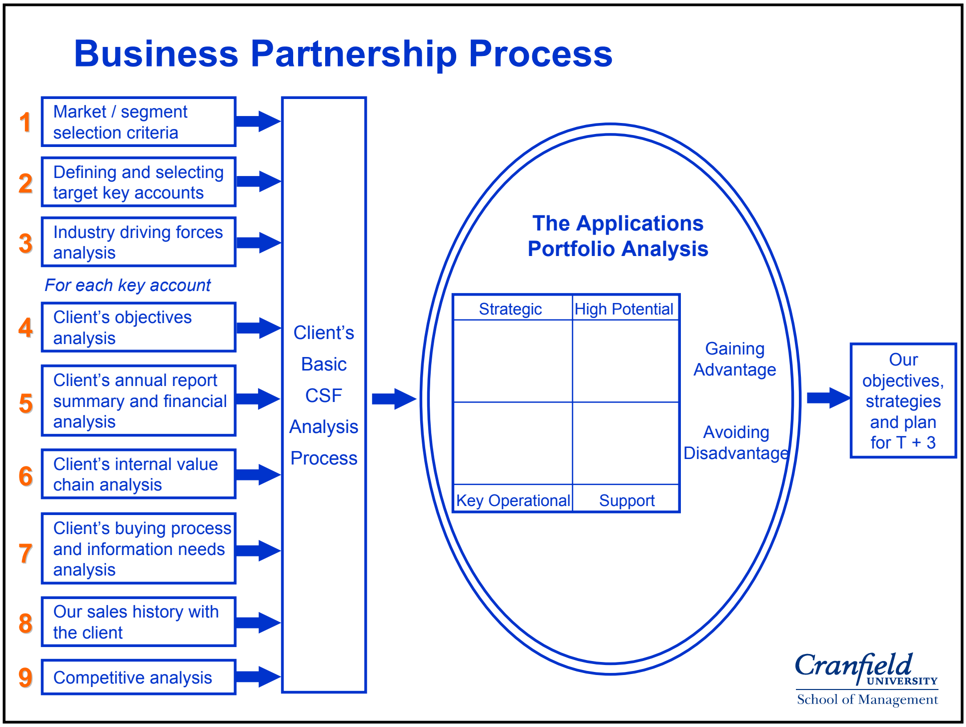


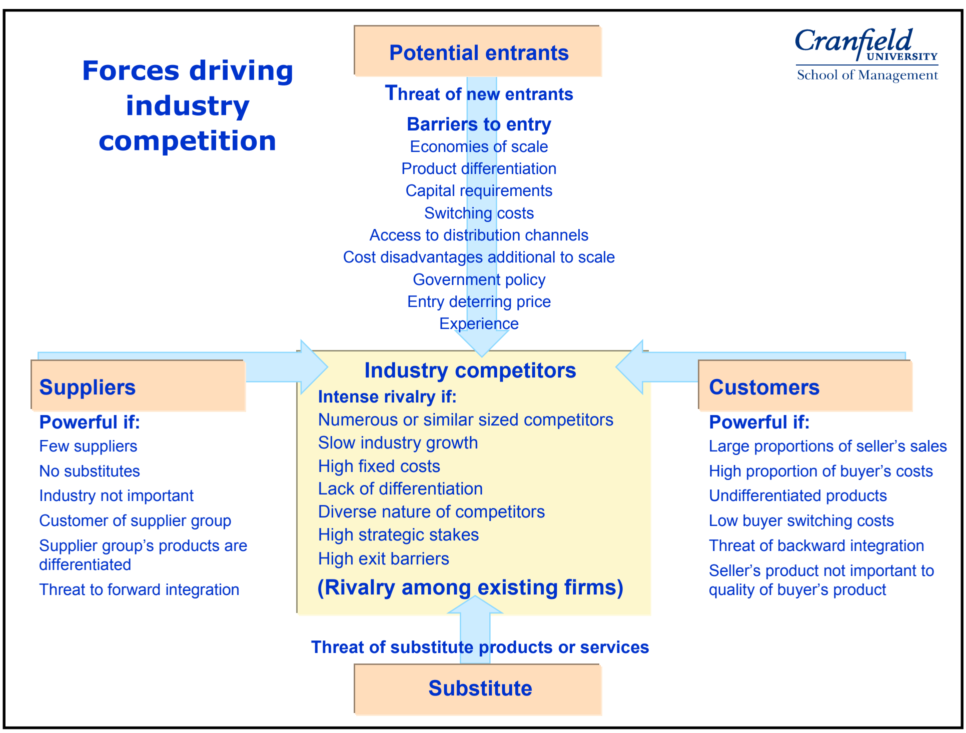
Adapted from a model developed by Millman, A.F. and Wilson, K.J.
"From Key Account Selling to Key Account Management" (1994)



Developed from McDonald, Millman & Rogers, 1996

Key Account Analysis


Business Partnership Process
1 Market / segment selection criteria
2 Defining and selecting target key accounts
3 Industry driving forces analysis
For each key account
4 Client's objectives analysis
5 Client's annual report summary and financial analysis
6 Client's internal value chain analysis
7 Client's buying process and information needs analysis
8 Our sales history with the client
9 Competitive analysis
Client's Basic CSF Analysis Process
The Applications Portfolio Analysis
Strategic
High Potential
Key Operational
Support
Gaining Advantage
Avoiding Disadvantage
Our objectives, strategies and plan for T + 3
Cranfield UNIVERSITY
School of Management


Forces driving industry competition
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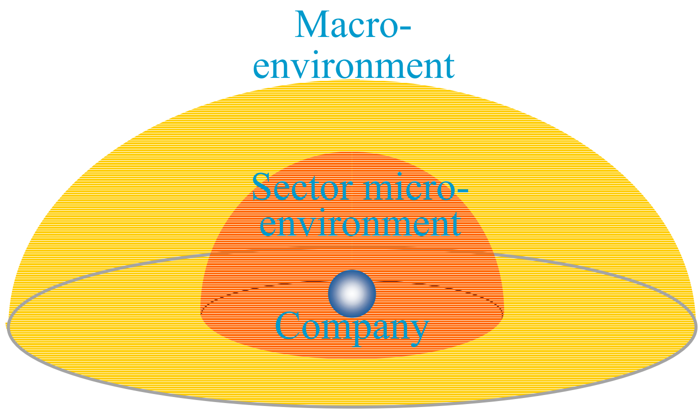
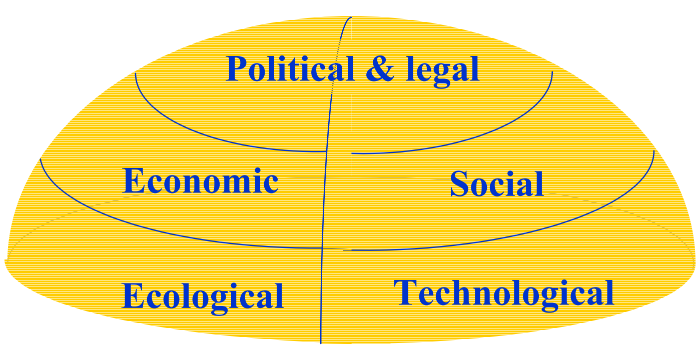
Potential entrants
Threat of new entrants
Barriers to entry
Economies of scale
Product differentiation
Capital requirements
Switching costs
Access to distribution channels
Cost disadvantages additional to scale
Government policy
Entry deterring price
Experience
Suppliers
Powerful if:
Few suppliers
No substitutes
Industry not important
Customer of supplier group
Supplier group's products are differentiated
Threat to forward integration
Industry competitors
Intense rivalry if:
Numerous or similar sized competitors
Slow industry growth
High fixed costs
Lack of differentiation
Diverse nature of competitors
High strategic stakes
High exit barriers
(Rivalry among existing firms)
Customers
Powerful if:
Large proportions of seller's sales
High proportion of buyer's costs
Undifferentiated products
Low buyer switching costs
Threat of backward integration
Seller's product not important to quality of buyer's product
Threat of substitute products or services
Substitute

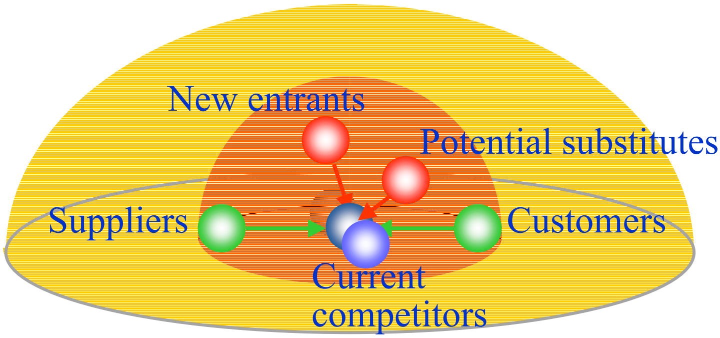
Macroenvironment



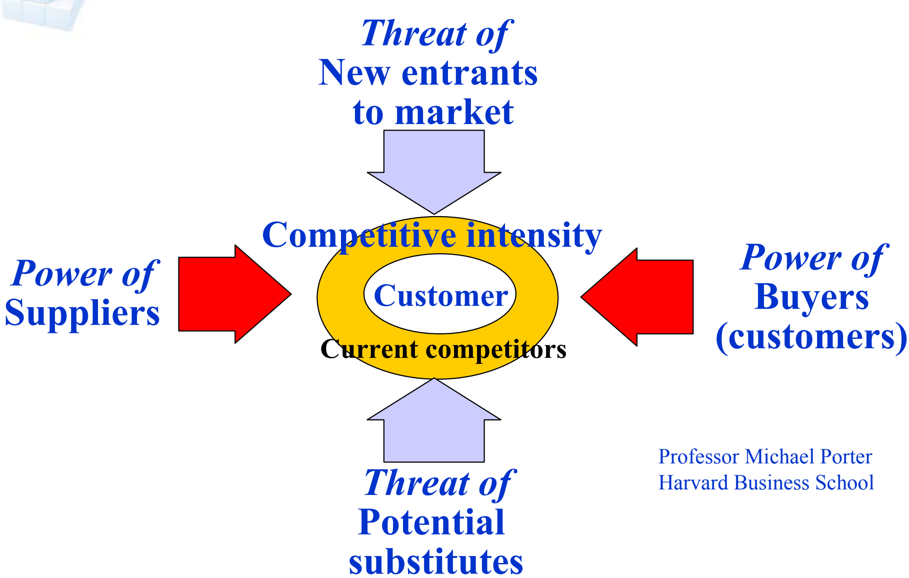
Macroenvironment influences: STEEP



Microenvironment influences

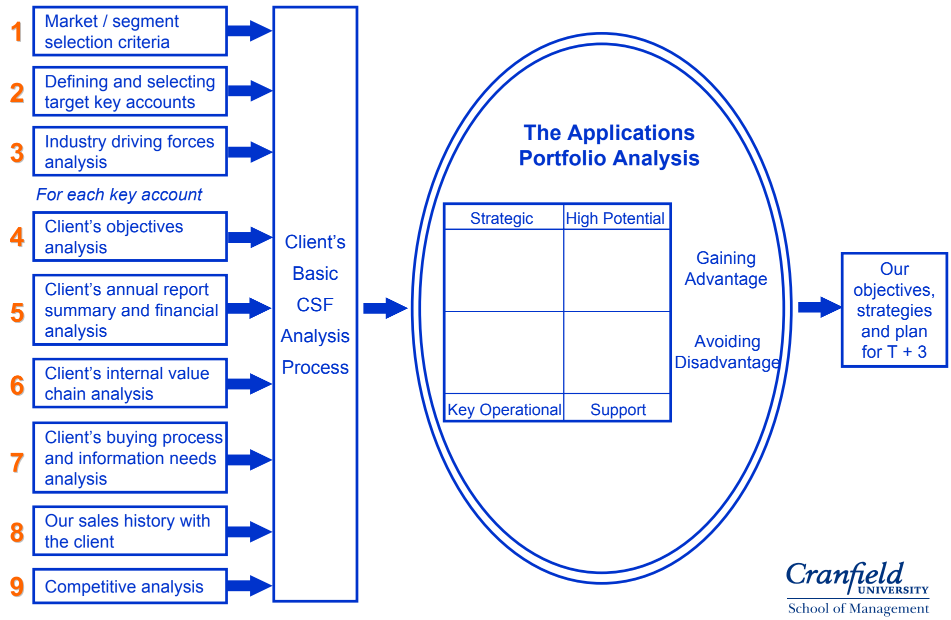


Porter's five forces of competitive intensity



Professor Michael Porter
Harvard Business School

Business Partnership Process



Annual Report Summary

1 MAJOR ACHIEVEMENTS

2 MAJOR PROBLEMS / ISSUES

3 OBJECTIVES

4 STRATEGIES

5 CONCLUSIONS / OPPORTUNITIES

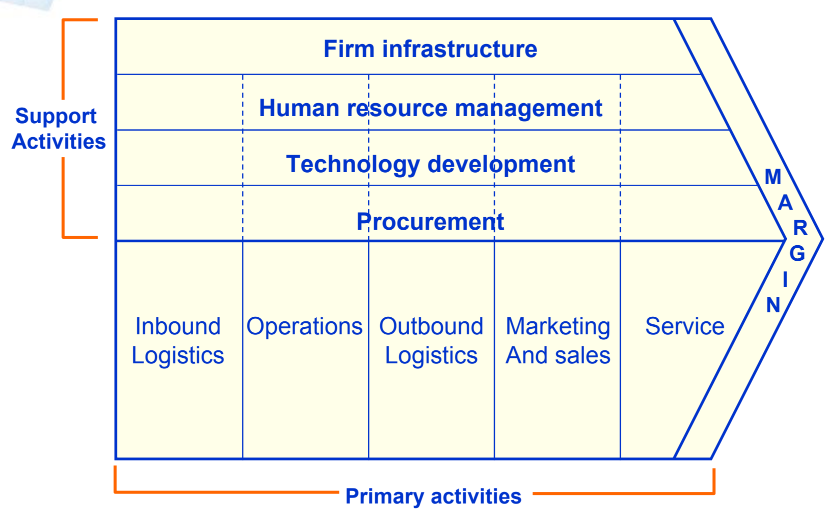
Financial Analysis

Financial Ratio Indicator	Formula	Source					Company Standing	Industry Standing	Does it appear as though improvement is needed?		Are there any initial thoughts about how our organisation's products/services can help?
		Annual Report							Yes	No	
Current Ratio	Current Assets / Current Liabilities										
Net Profit Margin	Net Profit / Net Sales										
Return on Assets	Net Profit / Total Assets										
Collection Period	Debtors Less Bad Debts / Average Day's sales										
Stock Turnover	Cost of Goods Sold / Stock										

Description of Indicators

Current Ratio	Measures the liquidity of a company - does it have enough money to pay the bills?
Net Profit Margin	Measures the overall profitability of a company by showing the percentage of sales retained as profit after taxes have been paid. If this ratio is acceptable, there probably is no need to calculate the Gross Profit or Operating Profit Margins
Return on Assets	Evaluates how effectively a company is managed by comparing the profitability of a company and its investments
Collection Period	Measures the activity of debtors. Prolonged collection period means that a company's funds are financing customers and not contributing to cash flow of the company
Stock Turnover	Evaluates how fast funds are flowing through Cost of Goods Sold to produce profit. If stock turns over faster, it is not in the plant as long before it is saleable as a product.

The value chain



Internal value chain: service companies eg consultancies

For service companies such as consultants this version may be more appropriate. For each key account, list ways in which you can use e-commerce to improve the key account's value chain, by reducing their costs or creating value for their customers.

		REDUCING COST	CREATING VALUE
Infrastructure	- Legal, Accounting, Financial Management		
Human Resource Management	- Personnel, Pay, Recruitment, Training, Manpower Planning, etc		
Product & Technology Development	- Product and Process Design, Production Engineering, Market Testing, R&D, etc		
Procurement	- Supplier Management, Funding, Subcontracting, Specification		

MARKETING THE CAPABILITY & BUSINESS ACQUISITION	PROBLEM SPECIFICATION	KNOWLEDGE APPLICATION	RESOURCE ALLOCATION	CONFIGURE & EXECUTE SOLUTION	
					REDUCING COST
					CREATING VALUE

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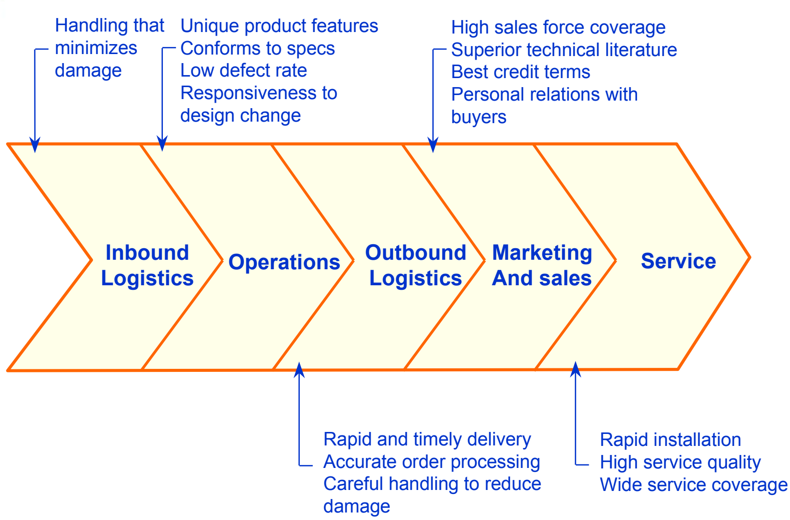
Sources of differentiation in the value chain



Value Chain Analysis Summary

Tangible Benefits	Product Solution	Analysis & Comment
Increased Revenue		
Increased Sales Volume		
Enhanced Product Line		
Cost Displacement		
Reduced Labour Costs		
Reduced Equipment Costs		
Reduced Maintenance Costs		
Lowered Stock Costs		
Reduced Energy Costs		
Cost Avoidance		
Reduced New Personnel Requirement		
Eliminate Planned New Equipment		
Intangible Benefits		
Customer Good Will		
Improved Decision-Making		

Customer Analysis Form

Salesperson ____________

Products ____________

____

Date of analysis ____________

Date of reviews ____________

Customer ____________

Address ____________

____________ Telephone number ____________

Buy class: new buy ______ straight re-buy ______ modified re-buy ______

Member of Decision Making Unit (DMU)	Production	Sales & Marketing	Research & Development	Finance & Accounts	Purchasing	Data Processing	Other
Buy Phase / Name							
1 Recognises need or problem and works out general solution							
2 Works out characteristics and quantity of what is needed							
3 Prepares detailed specification							
4 Searches for and locates potential sources of supply							
5 Analyses and evaluates tenders, plans, products							
6 Selects supplier							
7 Places order							
8 Checks and tests products							

Factors for consideration:
1 price
2 performance
3 availability
4 back-up service
5 reliability of supplier
6 other users' experience
7 guarantees and warranties
8 payment terms, credit or discount
9 other, eg. past purchases, prestige, image, etc.

Adapted from J. Robinson, C.W. Farris and Y. Wind, Industrial Buying and Creative Marketing, Allyn and Bacon, 1967

Competitive Comparison

	Importance Rating	You	Competitor	Implications
Product Quality				
Product Range				
Availability				
Delivery				
Price/Discounts				
Terms				
Sales Support				
Promotion Support				
Other				

Competitive Comparison (continued)

Importance Rating (by customer)

A - Very important (Essential)

B - Important (Desirable)

C - Low Importance

Rating (customer view)

1 - Consistently/fully meets needs

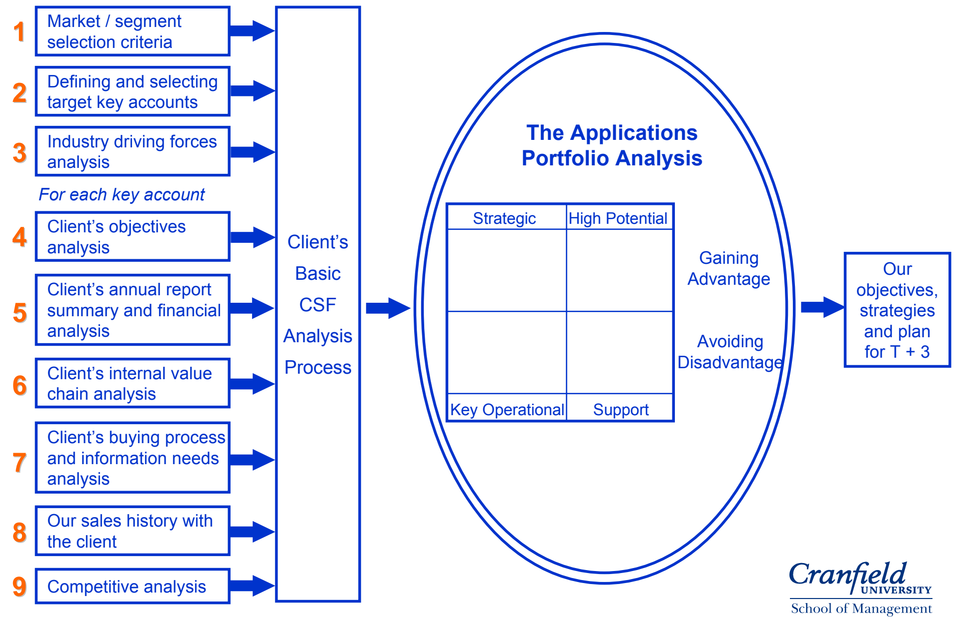
2 - Meets needs inconsistently

3 - Fails to meets needs

Competitor Strategy

Competitor	Strategy
1.	
2.	
3.	

Business Partnership Process



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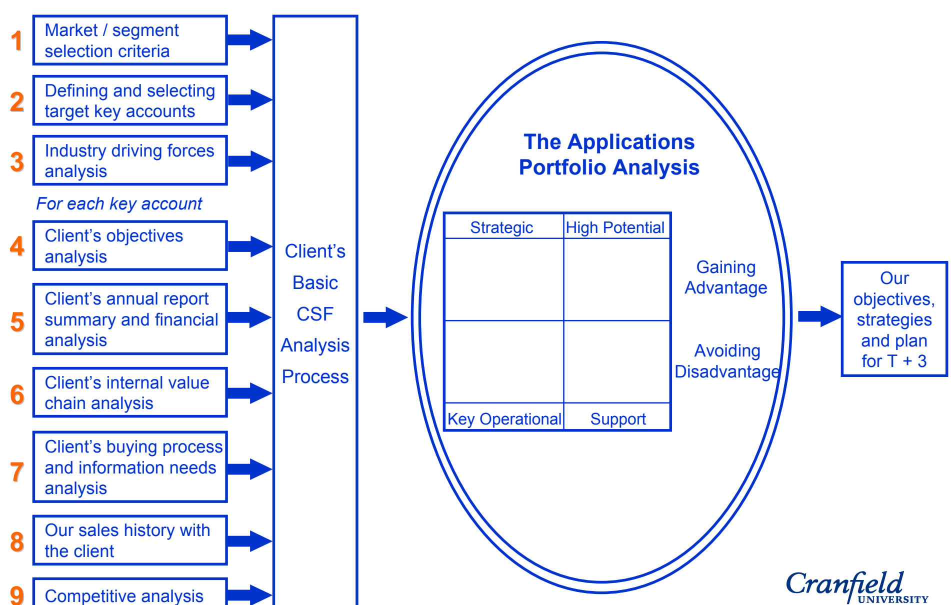
The application portfolio

	Strategic	High Potential
Creating Advantage	Applications which are critical to achieving future business strategy	Applications which may be critical in achieving future business strategy
Avoiding Disadvantage	Applications upon which the organisation currently depends for success	Applications which are valuable but not critical to success
	Key Operational	Support

Adapted from Professor Chris Edwards, Cranfield School of Management

Key account objectives and strategy setting

Business Partnership Process



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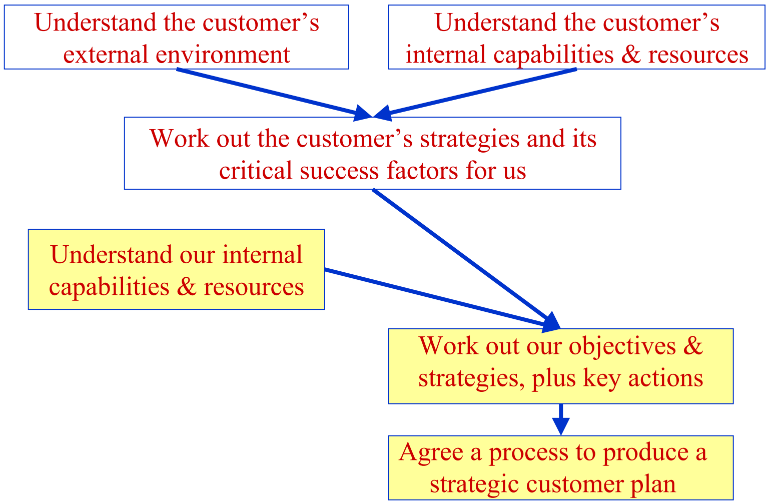
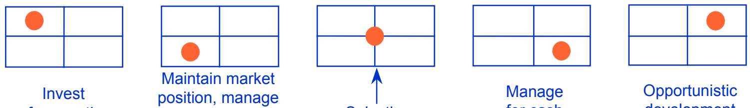
Developing strategic plans for strategic customers: the process



The contents of a KAM strategic marketing plan (T+3)

- Purpose statement
- Financial summary
- **KA overview**
- **Client's CSF analysis summary**
- **Applications portfolio summary**
- Assumptions
- **Objectives and strategies**
- Budget

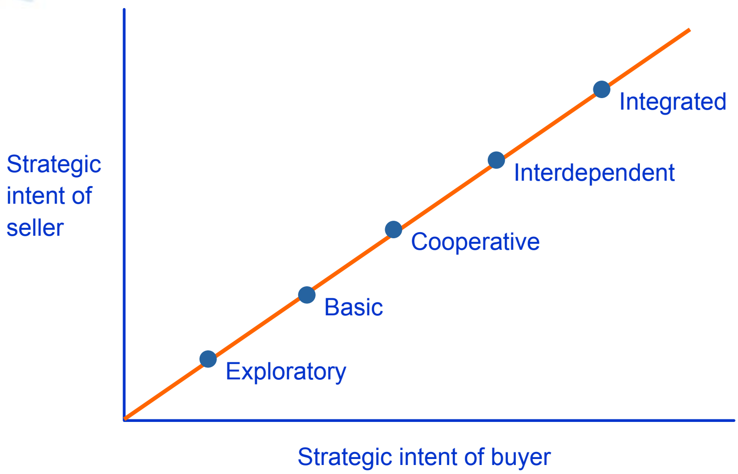
Programme guidelines suggested for different positioning on the directional policy matrix



	Invest for growth	Maintain market position, manage for earnings	Selective	Manage for cash	Opportunistic development
Market Share	Maintain or increase dominance	Maintain or slightly milk for earnings	Maintain selectivity-segment	Forego share for profit	Invest selectively in share
Products	Differentiation - line expansion	Prune for less successful differentiate for segments	Emphasise product quality	Aggressively prune	Differentiation - line expansion
Price	Lead - Aggressive pricing for share	Stabilise prices / raise	Maintain or raise	Raise	Aggressive - price for share
Promotion	Aggressive marketing	Limit	Maintain selectively	Minimise	Aggressive marketing
Distribution	Broaden distribution	Hold wide distribution pattern	Segment	Gradually withdraw distribution	Limited coverage
Cost Control	Tight control - go for scale economies	Emphasise cost reduction viz. variable costs	Tight control	Aggressively reduce fixed & variable	Tight - but not at expense of entrepreneurship
Production	Expand, invest (organic acquisition, joint venture)	Maximise capacity utilisation	Increase productivity e.g. specialisation	Free up capacity	Invest
R & D	Expand - invest	Focus on specific projects	Invest selectively	None	Invest
Personnel	Upgrade management in key functional areas	Maintain, reward efficiency, tighten organisation	Allocate key managers	Cut back organisation	Invest
Investment	Fund growth	Limit fixed investment	Invest selectively	Minimise & divest opportunistically	Fund growth
Working Capital	Reduce in process - extend credit	Tighten Credit- reduce accounts receivable increase inventory turn	Reduce	Aggressively reduce	Invest

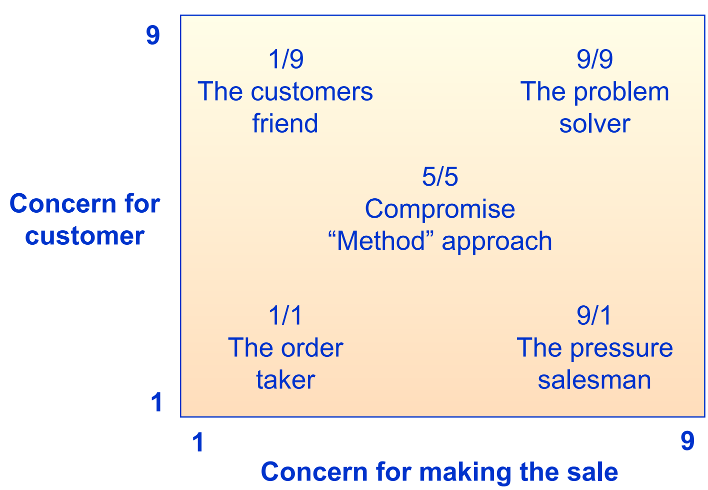
Skill Requirements for Key Account Management

The progression of the role of the key account manager

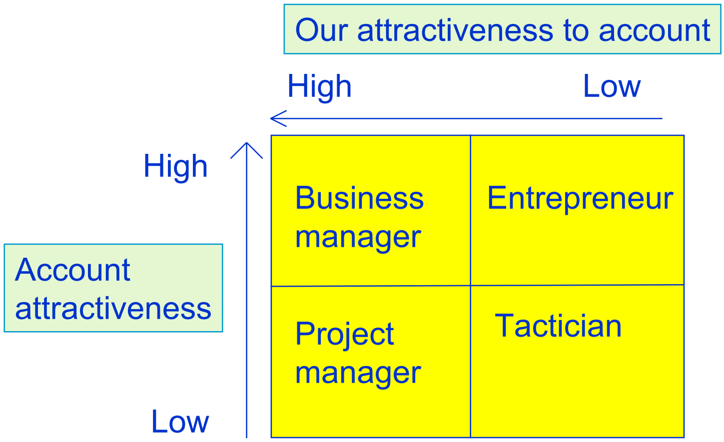


Adapted from a model developed by Millman, A.F. and Wilson, K.J. “From Key Account Selling to Key Account Management” (1994)

Blake and Mouton



Account Portfolio Matrix



Significant differences

Buying companies valued…

- integrity
- Trust

Selling companies valued…

- Selling skills
- Negotiating skills

The Buyers' View of Sellers (78%)

- The enemy
- Untrustworthy
- Pushy
- Aggressive
- Manipulative
- Unreliable
- Devious
- Opinionated
- Arrogant
- Poor Listeners
- Big Talkers

Only 18% saw the salesperson in positive terms

Source: Negotiation Resource International 'Buyer Behaviours', 2001
(2000 purchasers over 2 years)

Developing key account professionals

- Commercial awareness
- Interpreting business performance
- Advanced marketing techniques
- Business planning/strategy
- Finance
- Project management
- Interpersonal skills

Some key findings from KAM research

- Key account management is a strategic activity
- KAM is fashionable, but difficult
- KAM can develop beyond partnership to synergy
- There are mismatches between suppliers and customers
- KAM does reduce costs and improve quality but these are rarely measured
- A key account manager needs far more skills than a sales person
- KAM needs a customer-focused organisation

Appendix 1

Practical Exercises

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Step 1 List no more than seven key accounts.

Step 2 List Attractiveness Factors (to be used to evaluate the profit potential of **all** key accounts.

Step 3 List the criteria to be used to score each account under the columns 1, 2 and 3 (eg. if you say size or volume is a factor, what is a really attractive volume (column 1) What is a medium volume (column 2) and what is a poor volume (column 3).

Step 4 Decide which of these factors are more or less important by allocating a weight to each one.

Step 5 Score **each** key account from step 1 above, multiply the score by the weight and arrive at an 'Attractiveness' score for **all** selected Key accounts.

Step 6 Place each key account on a 'thermometer', on which the lowest point is just below the lowest 'attractiveness' score and on which the highest point is just above the highest 'attractiveness' score.

Key account management business strengths - SWOT analysis

1. KEY ACCOUNT DESCRIPTION
It should be a *specific* part of the business and should *be very important* to your company

2. CRITICAL SUCCESS FACTORS
In other words, how does this customer select its suppliers?

1	
2	
3	
4	
5	

3. WEIGHTING
(How important is each of these CSFs? Score out of 100)

Total 100

4. STRENGTHS / WEAKNESSES ANALYSIS
How would your customers score you and each of your main competitors out of 10 on each of the CSFs?
Multiply the score by the weight.

	You	Comp A	Comp B	Comp C	Comp D
1					
2					
3					
4					
5					
Total score					

5. OPPORTUNITIES / THREATS
What are the few things outside your direct control that have had, and will have, an impact on this part of your business?

OPPORTUNITIES

1	
2	
3	
4	
5	

THREATS

6. In what specific ways can your company help the customer to deal with the key issues it faces?

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Step 1 Select a key account and describe a specific part of this customer's business and the specific product(s) that your company do/could supply

Step 2 Specify the customer's critical success factors. In other words, what criteria does the customer use when selecting suppliers?

Step 3 Specify how relatively important each of these factors are to the customer (weighting).

Step 4 Score your company and at least two major competitors out of ten on each of these critical success factors. Multiply the score for each CSF by the weighting and arrive at a total score for your company and the two selected competitors.

Step 5 List the major opportunities and threats facing this customer.

Step 6 Specify in what ways your company can improve its competitive position or help the customer take advantage of the opportunities or overcome its threats.

Strategic management planning exercise - SWOT analysis for a key account

1. SEGMENT DESCRIPTION
It should be a *specific* part of the business and should *be very important* to the organisation

2. CRITICAL SUCCESS FACTORS
In other words, how do customers choose?

1	
2	
3	
4	
5	

3. WEIGHTING
(How important is each of these CSFs? Score out of 100)

Total 100

4. STRENGTHS / WEAKNESSES ANALYSIS
How would their customers score them and their main competitors out of 10 on each of the CSFs?
Multiply the score by the weight.

	You	Comp A	Comp B	Comp C	Comp D
1					
2					
3					
4					
5					
Total score					

5. OPPORTUNITIES / THREATS
What are the few things outside their direct control that have had, and will have, an impact on this part of their business?

OPPORTUNITIES		THREATS
1		
2		
3		
4		
5		

6. KEY ISSUES THAT NEED TO BE ADDRESSED
What are the really key issues from the SWOT that need to be addressed?

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Step 1 Select a key account and describe a specific part of this customer's business.

Step 2 Specify the critical success factors of the **key account's** customers. In other words, how do **their** customers choose a supplier?

Step 3 Specify how relatively important each of these factors are to the **key account's** customers (weighting).

Step 4 Score your key account and at least one of their major competitors out of ten on each of these critical success factors. Multiply the score for each CSF by the weighting and arrive at a total score **for the key account** and for at least one selected competitor.

Step 5 List the major opportunities and threats facing this customer.

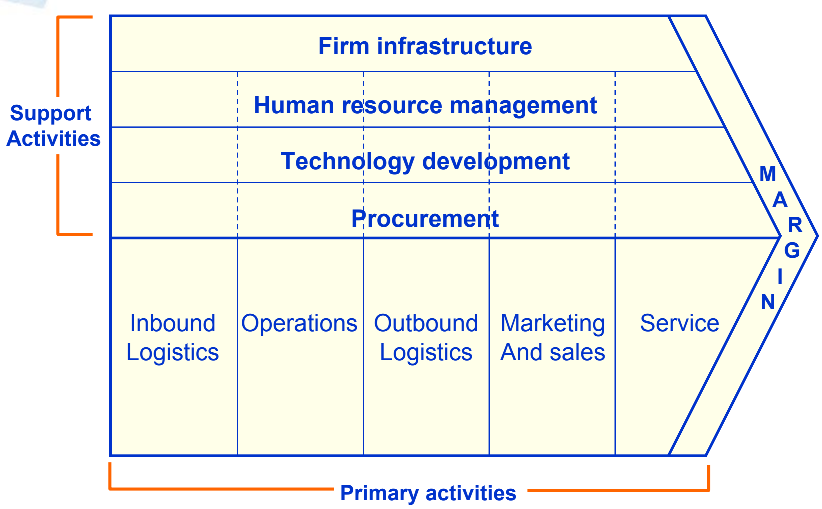
Step 6 Specify in what ways your company can improve the **key account's** competitive position and help it to take advantage of its opportunities or overcome its threats.

Value Chain Analysis

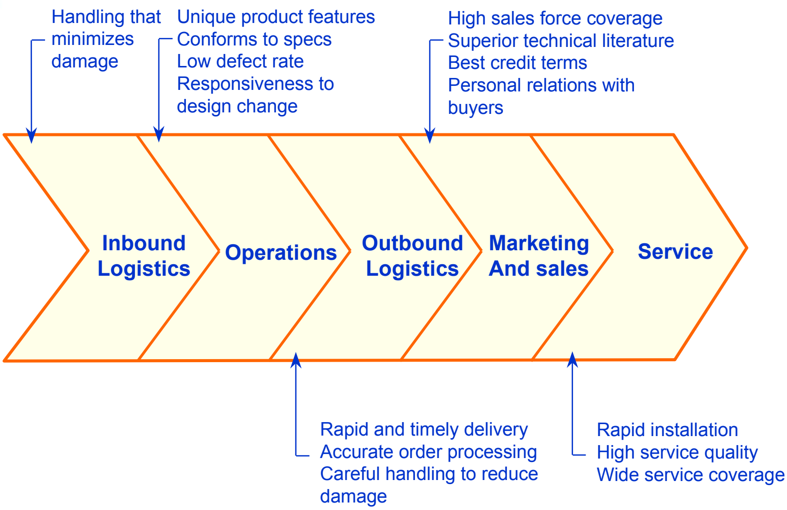
Select a Key Account and examine its value chain.
The objective is to identify ways in which your company could help the customer to:

- increase revenue (eg. increase volume
  enhance their product line)
- displace costs (eg. reduce labour costs
  reduce equipment costs
  reduce maintenance costs
  reduce stock levels
  reduce energy costs etc.)
- avoid costs (eg. reduce new personnel requirement
  eliminate planned new equipment etc.)
- gain other benefits (eg. increase customer goodwill
  improve decision making etc.)

The value chain



Sources of differentiation in the value chain



Key Account Buying Process Analysis

- Select a Key Account and, using the form provided (please amend it if you wish to reflect the reality of your key account's buying process), specify the individuals and groups who have any impact on the buying process. Please include **users, deciders, buyers, influencers** and **gatekeepers**, if appropriate.
- Specify the kind of information required by each individual or group at different stages of the buying process.
- Draw conclusions for action for your company

Customer Analysis Form
Salesperson
Products

Date of analysis
Date of reviews

Customer
Address

Telephone number

Buy class   new buy   straight re-buy   modified re-buy

Member of Decision Making Unit (DMU)	Production	Sales & Marketing	Research & Development	Finance & Accounts	Purchasing	Data Processing	Other
Buy Phase — Name							
1 Recognises need or problem and works out general solution							
2 Works out characteristics and quantity of what is needed							
3 Prepares detailed specification							
4 Searches for and locates potential sources of supply							
5 Analyses and evaluates tenders, plans, products							
6 Selects supplier							
7 Places order							
8 Checks and tests products							

Factors for consideration
1 price
2 performance
3 availability
4 back-up service
5 reliability of supplier
6 other users' experience
7 guarantees and warranties
8 payment terms, credit or discount
9 other, eg. past purchases, prestige, image, etc.

Adapted from J. Robinson, C.W. Farris and Y. Wind, Industrial Buying and Creative Marketing, Allyn and Bacon, 1967

The contents of a key account Strategic plan (T+3)

Bearing in mind that a strategic marketing plan should have the following key contents, specify what you believe should be the contents of all your company's KA strategic plans.

- Mission or Purpose Statement
- Financial Summary
- Market overview
  - what the market is
  - how it works
  - key segments
- SWOT Analyses (on segments)
- Portfolio Summary (of SWOTs)
  - prioritisation of objectives and strategies
- Budget (for 3 years)

How advanced is your key account practice?

How well do you know your key accounts?

Score out of 10:

DO YOU

1. Know your company's proportion of customer spend?
2. Know their financial health (ratios etc.)
3. Know their strategic plan?
4. Know their business process (logistics, purchasing, manufacturing, etc.)?
5. Know their key customers/segments/products?
6. Know which of your competitors they use, why and how they rate them?
7. Know what they value/need form their suppliers?
8. Allocate attributable (interface) costs to accounts/customer groups?
9. Know the real profitability of the top ten and bottom ten accounts/customer groups?
10. Know how long it takes to make a profit on a major new customer?

Appendix 2