

Comment: Welcome to the Age of Marketing

16-12-2005 03:14 PM

Marketing is taking an increasingly important role in business strategies, as firms look for innovative ways to attract new customers and retain existing ones. In a special guest column, Andy Hobsbawm, European chairman and co-founder of Agency.com, explains why firms need to prepare for an increasingly demand-driven economy.

"You can't shrink your way to greatness" Tom Peters once warned corporations. His message has never rung truer than today when the biggest commercial challenge is how to sell your way to success.

There are three main reasons why business is moving into an Age of Marketing. First: over-capacity and the shift from a supply-side to a demand-driven economy. Second: a scarcity of the right skills within corporations to tackle this new growth challenge. And third, the rising importance of brands.

We'll start then with the imperative to generate market demand. Over the past couple of decades firms have worked harder and harder to squeeze more profit out of their existing operations and employees have been strapped to the wheel of continuous improvement: faster, better, cheaper. But while the incremental returns from re-engineering, down-sizing, re-structuring and cost-cutting and have been diminishing, the demand for earnings growth from the financial markets remains constant.

This has led to short-term fixes which effectively fake earnings growth, such as share buybacks and merger and acquisition binges (although the global concentration of capital is also part of a longer-term economic movement). But not only do these activities not deliver any permanent growth, some, like 50% of all mergers according to KPMG, actually destroy the value they are trying to create. (Not to mention the likes of Enron and Worldcom where rising income wasn't just faked, it was falsified.)

Now there's the additional challenge of significant over-production in most sectors. According to Martin Sorrell, the automobile industry has the capacity to produce 80 million vehicles but there's only a market for 60 million. This kind of over-supply leads to collapsing margins which explains why the average rebate packages offered by global car brands doubled between August 2000 and July 2004. (In fact as Sorrell also pointed out, General Motors recently announced their latest round of price cutting in the same week the world wondered if they were heading into chapter 11 bankruptcy!)

As an IBM survey of 80% of the world's top CEOs concluded last year, the primary corporate objective has shifted from cost-cutting to revenue growth. And when health conscious businesses realise they need a balance of exercise as well as diet to get in shape, who else can they turn to but marketers for fitness coaching?

So if "demand" rather than "supply" is the new engine of economic growth, where is that demand and what does it look like?

The first problem for companies is that it doesn't look like it used to. Consumers have moved on more in the last decade than the previous 40 years in terms of purchasing power, habits, identity groups, online behaviour and consumption of digital media.

Additionally, because of the corporate myopia generated by years of internal supply side introspection, it's difficult for firms to identify what this new demand does now look like. And because CEO, CIO and efficiency-obsessed consultants spent so long learning to think systematically about business process, most companies are now led by accountants or operational specialists and not visionaries.

So many corporations are not practised at where and how to seek new sales opportunities. It takes a different set of skills that neither administratively expert leaders or management consultancies traditionally possess. (Skills which are, needless to say, the best marketing agencies' stock-in-trade).

As a result, we'll see a lot more Marketers as CEOs in the future. Marketing - "the commercial functions involved in transferring goods from producer to consumer" - is already seen by many progressive companies as ultimately the CEO's job.

Lastly, as brands become more important than ever the ability to create, build and extend them will command a premium.

Branding was invented of course to try and create an emotional justification for using one similar product instead of another. There never was any difference between one soap powder and the next, but now this applies equally to all products and services in all industries. Even the cheapest cars today are quiet, rust-proof and go faster than speed limit.

This widespread product parity should come as no surprise. After all, everyone has access to same capital markets for finance and the same labour pools for talent. Firms use same IT so there's rarely any unique competitive advantage in how goods and services are manufactured and distributed. And everyone also hires the same management consultants, trained at the same business schools with the same MBAs based on the same Michael Porter strategy text books!

So these days no-one's drink tastes nicer, whites wash whiter, or whizzer whizzes faster.

And if a differentiated product advantage is developed, it can be copied almost immediately. Think of innovations like BA's flat beds or, in the case of expiring patents, Viagra and post-it notes. Stan Shih, the founder of Acer Computer, once coined the term "three-six-one" to describe this ruthless stampede towards obsolescence: three months to create a unique offer, six months of sales at a decent margin, and one month for a fire sale of what's left in the warehouse once it becomes a commodity.

And naturally, in times of too much supply and not enough demand, the focus shifts even more to the value of intangible assets like brands, and the psychological and emotional customer attachment they represent.

Core brands will play a progressively more important 'lighthouse' role for consumers trying to make sense of a world which is becoming more overloaded with news, opinions and ideas every day. The web's random flood of – at the last count -- 600 billion web pages distorts the truth and our trust in what's worth believing.

BT's ex-Chief Technologist Peter Cochrane once pointed out that there are two types of consumers in this world: those who will spend any amount of time to save a little money and those who'll spend any amount of money to save a little time. The latter audience are now even more likely to depend on trusted core brands when they simply haven't got the time or energy to separate truth from half-truths or a fair deal from a rip-off. In theory at least, you won't need to read the small print on a trusted brand's web site.

The inescapable conclusion is that there has never been a more important time for the right consumer insight skills to locate new customers and the creative, imagineering skills to engage, communicate and connect with them in a way that creates fresh sales.

The marketer's time has surely come.

Andy Hobsbawm

European chairman and co-founder, Agency.com

SOURCES

Conversations and e-mails with Marketing Strategist Piers Schmidt, between 2000 – 2005,
<http://www.luxury-branding.com>

"Best Face Forward: Why Companies Must Improve Their Service Interfaces With Customers", Jeffrey F. Rayport, Bernard J. Jaworski, 2005