Marketing Technology as a Service: Proven Techniques that Create Value
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Appendix
Marketing Tools and Techniques

As in other business functions, marketing specialists use a range of concepts, models and tools in their work. These are taught in universities and professional institutes across the world. They are researched, analysed and critiqued by academics; and form a body of knowledge which are the elementary basics of marketing.

This appendix contains, in alphabetical order, descriptions of a number of those tools referred to in the main text of the book. It does not attempt to be an exhaustive review of all the techniques to which marketers can resort, nor does it attempt to provide a detailed description, or critique, of each one. Its purpose is to confine the main body of the book to argument which is directly relevant to marketing the services of technology firms. It describes briefly each tool or concept and its use. Further reading and details on the use of these tools can be found in the publications listed in the reference section.

Service marketers clearly need to be conversant with these tools and have the experience to know when they are applicable. Without that it is unlikely that they have developed the judgement and perspective which can reliably contribute to the creation of value for the firm.

'AIDA' CONCEPT

Application: Advertising Planning

1. The tool

Phillip Kotler cites the source for this venerable tool as *The Psychology of Selling*, published by E.K. Strong in 1925 (Kotler, 2003). Despite its age, it is typical of a number of tools used to design, plan and measure advertising. Although the concepts that they are based on vary, they assume that the buyer 'passes through a cognitive, affective and behavioural stage'; to quote Kotler. In other words, buyers move through a number of states in relation to a proposition (see Figure A.1). This one assumes that they become interested after the proposition has first gained their attention. Properly crafted, it will then cause them to desire it. This, in turn, will cause them to take the action of buying. Advocates of this approach suggest that suppliers break their target market into groups of buyers in these different states and plan their advertising accordingly.

2. Constructing a profile with this tool

In order to gain an empirical understanding of its market, the supplier must first understand the total universe it is addressing and the numbers in it. From this a representative sample can be calculated. Research can then be conducted to understand the numbers in the sample which are in the different states of the model (from attention to action). By multiplying each grouping by the percentage that the sample is of the total market, the number of buyers in

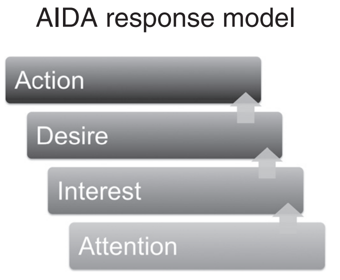

Figure A.1

each group can be calculated. If this exercise is repeated after a campaign, the effect of the campaign can be estimated.

3. Use of the tool

The concepts behind this tool are useful in themselves. By reminding marketers involved in communications that clients need to move progressively towards a purchase, sophisticated approaches can be planned and communications will be much more precise. It may be, for example, that a campaign is then designed with a number of phases. The first might be to raise awareness whilst others move the potential buyers towards a direct action, like buying. It need not be used on just advertising though. If, say, a high-profile PR launch gains attention for a new idea, and this is followed by large presentations to generate interest and desire, then the final meetings with sales.

The tool can also be used to set communication objectives. If the supplier knows the attitude of its market, then objectives can be set in the light of that knowledge. If the customers are unaware of an offer, for example, then the very first communication objective is to create awareness.

The tool also works quite well in indicating the effect of communications on a large market. If, after a campaign, a number of customers indicate that they have been convinced to engage in the service, then it is likely to have been effective.

ANSOFF'S MATRIX

Application: Strategy Development

1. The tool

The, now, classic representation of Ansoff's matrix is reproduced below in Figure A.2. It suggests that firms distil their strategic options by focusing their thinking through a review of existing markets, new markets, existing products and new products. As such it is a useful simplification to help executives reach consensus during strategy debates.

However, Ansoff's original representation of the concept (see Ansoff, 1957) was more sophisticated and designed to examine diversification options. His work was based on analysis of M&A activity by American businesses in the first half of the 20th century. He suggested that there were two key bases for diversification, which he made the axes of his diagram. They were:

- 'Product lines': referring to both the physical characteristics of the product and its performance characteristics.

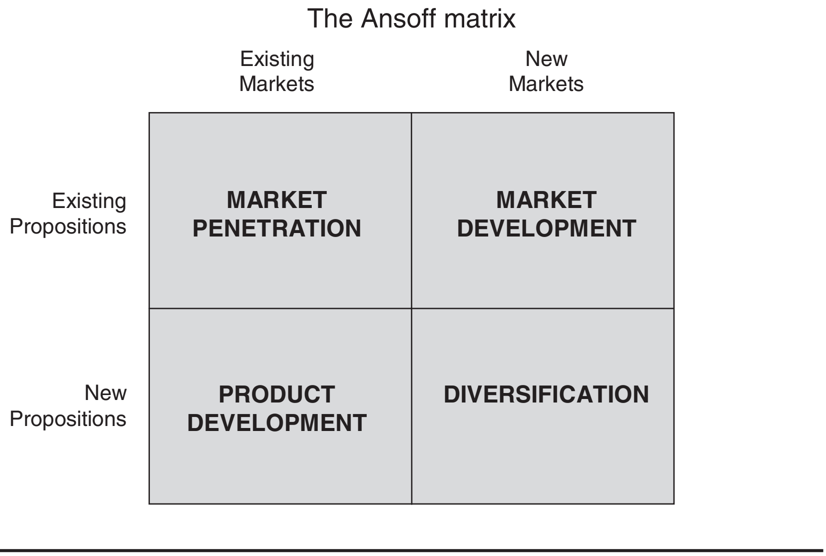

Figure A.2
Reproduced by permission of H. Igor Ansoff's Estate.

- 'Markets': for the sake of this analysis he referred to markets as 'product missions' rather than buyer segments. By this he meant 'all the different market alternatives' or the various uses for the product and its potential uses.

He proposed his matrix as a way of constructing different 'product/market' strategies; those 'joint statements of a product line and the corresponding set of missions which the products are designed to fulfil'. His original diagram is reproduced below in Figure A.3. (π represents

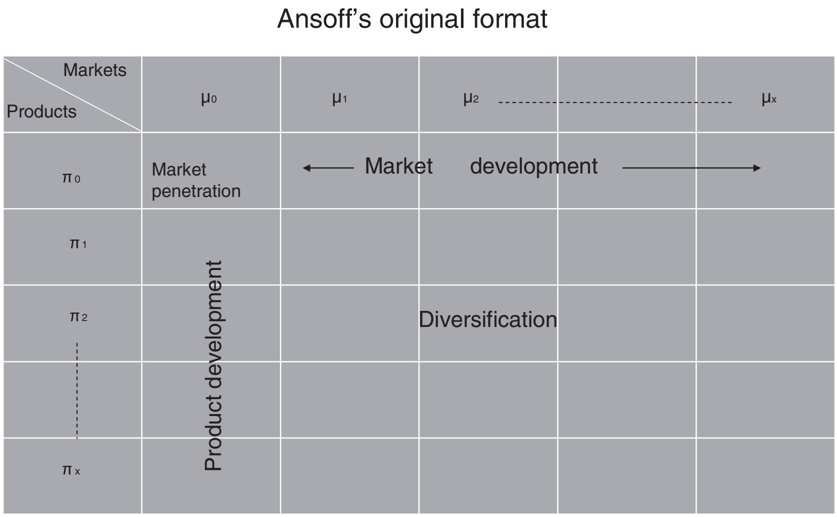

Figure A.3
Reprinted with permission from *Harvard Business Review*, Ansoff, Sept/Oct 1957.

the product line and μ the 'missions'.) Interestingly, this representation of his work puts less stress on market penetration than the popularly used version and details the many strategic options that arise from thinking broadly about the fusion of product and market possibilities. In other words, it was designed as an innovation tool.

2. Constructing the tool

The first step to constructing the matrix is analysis of product and market opportunities. This may begin with a simple list of all the existing product/market groups in which the company is established. Then, using market reports, research and internal brainstorming, it is possible to identify the other opportunity areas.

Once the analysis is available the options can either be summarised, using judgement, into the simplified version of the tool or crafted into a more thorough analysis by creating a cell for each product/market match, using the original version. The opportunities can either be discussed by the leaders at this stage or prioritised using agreed criteria. Ansoff himself recommended that, due to the risk and cost involved, firms conduct risk analysis of the more likely strategies. The most acceptable programmes should then be developed into full product, marketing and business plans.

3. Use of the tool

The matrix helps leaders think through four different growth strategies, which require different marketing and communications approaches. They are presented below in ascending order of risk:

- Strategy A is 'Market penetration', or increasing market share with existing propositions to current markets.
- Strategy B is 'Market extension', or market development, targeting existing propositions at new markets.
- Strategy C is 'Product development', developing new propositions for existing segments.
- Strategy D is 'Diversification', growing new businesses with new propositions for new markets.

The matrix helps to clarify leaders' thinking and to illustrate the very different strategic approaches needed for each of the four strategies. Ideally, an operational marketing plan should be constructed for each strategic option that is finally approved.

ARR MODEL

Application: Relationship Marketing

1. The model

The 'actors–activities–resources' model was developed, during the early 1980s, by researchers and theorists interested in both business-to-business marketing and network marketing. Yet it appears to be a tool that can also be used in practical marketing within a normal business as well as just pure theoretical research.

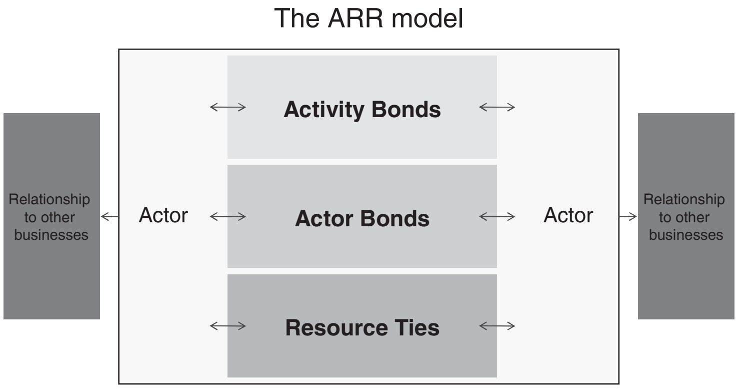

Figure A.4

The model divides business relationships into three layers, see Figure A.4:

(i) 'Actor bonds'. These occur when two business people interact through some professional process. Theorists suggest that there are three components necessary for them to develop. The first is reciprocity during the process, ensuring that both sides give something to the interaction, even if one is a client. The second is commitment and the third is trust. As people interact they form perceptions of each other about: capability, limitations, commitment and trust. If the relationship develops, these perceptions influence the degree and clarity with which the two communicate; and also the degree to which they involve each other in their own professional network. So, for the supplier, the way in which they conduct their work influences the trust their customer develops in them and the degree to which they will be invited further into the organisation, and thus into the possibility of further work.

(ii) 'Activity links' captures the work, or other activity, which is involved in the interaction and business process. These vary with the depth of relationship. They range from simple technical projects through to two firms meshing or adapting their systems and business processes to become more efficient. The latter has created exciting business opportunities in areas such as outsourcing.

(iii) 'Resource ties' are items used by people during business interactions. Resources might include: software, intellectual capital, skilled staff, knowledge, experience and expertise. People who have resources, or control over them, have greater power in professional networks. This power is the basis of the service offer (the customer comes to the supplier because they lack one or more of these resources), but clearly the immediacy or importance of need and the scarcity of resource influences pricing and quality perceptions.

2. Constructing the model

At its very simplest the model can be used as a basis of discussion with internal colleagues to map relationships in a network. Sales people can be asked to complete formats of their customer relationships using the three levels of the model. Actions arising from discussion (e.g. creating more opportunities for non-task-related exchange or making different resources, such as knowledge, available) to strengthen relationships can be put into account plans.

However, the model can be used as a basis of detailed analysis and research. A hypothesis of the professional relationships that exist in a market, and the types of interaction, can be created using the terms of the model. The model can then be used as a guide to designing the research sample and questionnaires. A two-step, qualitative and quantitative research process is likely to reveal powerful insights into the relationships customers have with the firm and its competitors.

3. Use of the model

The thinking behind the model will seem intuitively correct to many sales people. This is its strength, capturing, as it does, the day-to-day experience of many sales staff. It allows a firm, when needed, to use a common process and terminology in its approach to client relationship management. However, it also introduces (perhaps for the first time) a reasonably robust mechanism whereby professionals can analyse and understand in detail what many recognise to be their most important approach to market: relationships with customers.

BLUEPRINTING

Application: Service Design

1. The tool

As services contain a process through which a customer must move, the proactive design of a service through the use of 'organisation and method' (O&M) techniques has been suggested by several writers. Lyn Shostack (Shostack, 1977), a practicing marketer rather than an academic, was first. She pointed out that, whereas it is relatively easy to design a product through engineering specification, there was no 'service engineering' technique to which service designers could turn. Services are therefore often poorly presented to customers.

She suggested that, as a service is a process, it can be 'blueprinted' by using the O&M techniques developed to deal with process improvement. These, she suggested, included:

- Time and motion engineering. Shostack suggested that of eight basic charts used by methods engineers, those which were most applicable were the 'operations process chart', a 'flow process chart' and the 'flow diagram'.
- 'PERT' charting. This is an accepted method of planning detailed projects.
- Systems and software design. It was suggested that many of the software design methodologies could be used to design service processes.

She argued that there needed to be more conceptual work on the application of these process design techniques to service blueprinting because the process needs:

- To show time dimensions in diagrammatic form.
- To identify all the main functions of the service.
- To precisely define tolerances of the model (i.e. the degree of variation from standards).

2. Constructing a blueprint

Shostack offered a 'blueprint for a simple shoeshine service' which is shown in the diagram below, see Figure A.5. She suggested a stepped blueprinting method:

(i) Identify the customer process and map it out.

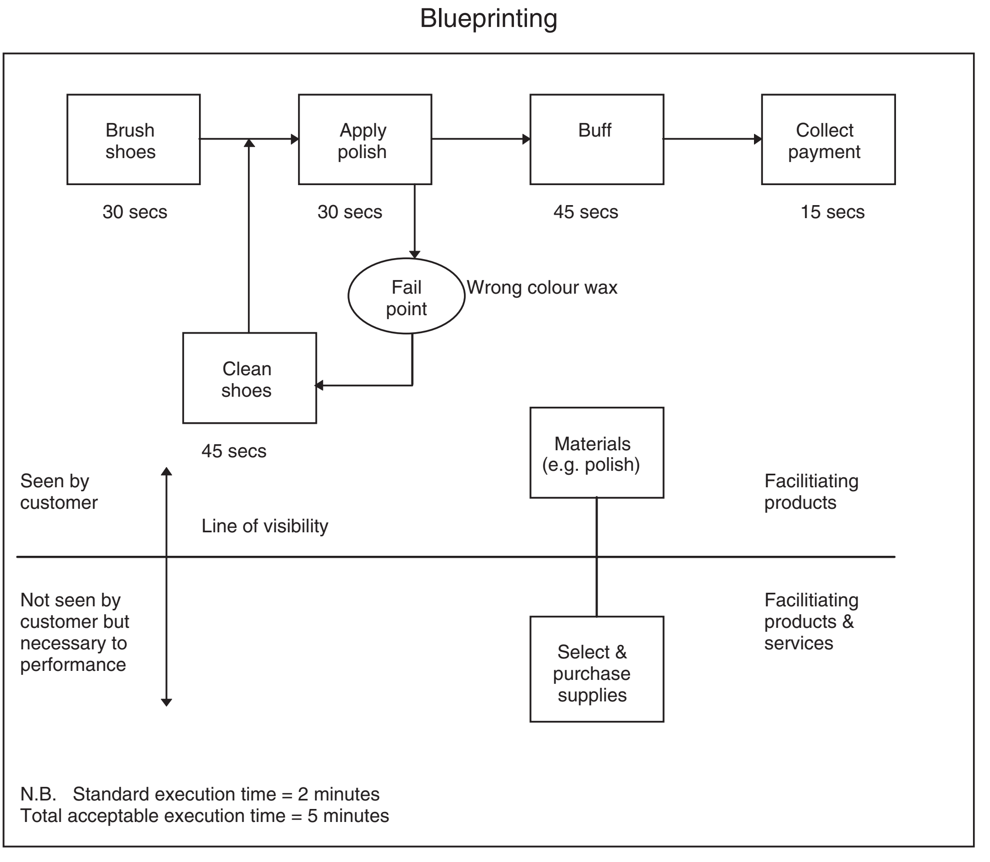

Figure A.5
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(ii) Isolate potential fail points and build in sub-processes to tackle possible errors before they occur.
(iii) Establish a time frame or a standard execution time for each task.
(iv) Distinguish between processes which are visible to the client and those which are not. Manage any implications arising from this.
(v) Analyse profitability.

3. Use of the tool

Originally, Shostack offered the concept of blueprinting alongside molecular modelling and suggested that academics develop and test both for more generic use by business. Later writers on the subject have neglected the former and not substantially developed the use of blueprinting in service design. This may be because the popularity of O&M waned somewhat in the 1980s, although the concept of process mapping has received attention because of emphasis in senior management circles on the concept of 'process re-engineering'.

Yet the process that clients experience is important to both the delivery of good service and the experience of the client. As explored in this book, it can create opportunities for new services and for new market strategies. Blueprinting is a practical and straightforward method to use in designing these aspects of a service.

'BOSTON MATRIX'

Application: Analysis of Business Portfolios

1. The tool

One of the best known, but poorly understood, portfolio management tools is the 'Boston Consulting Group's growth share matrix', which was developed by the Boston Consulting Group around the concept of the 'experience curve'. The consultancy demonstrated that, over time, companies specialising in an area of expertise became more effective in their market, reducing costs and gaining competitive advantage. A company might be at various points on the experience curve, depending on its maturity and the accumulated investment in its prime area of focus. The 'Boston matrix', shown in Figure A.6 plots relative market share against relative growth, was an attempt to give corporate strategic planners a way of evaluating different business units in different markets.

2. How to construct it

First, the annual growth rate of each business unit, in each market, is calculated. This is plotted on the matrix, depending on whether its growth is high or low. (*Note*: the horizontal axis of the matrix is not positioned at zero on the vertical axis but at 10%.) Second, the relative market share of each unit is calculated and plotted on the matrix. The turnover of each unit is then represented by appropriately sized circles.

The portfolio of business units is then categorised by the matrix into four groups:

(i) The 'question marks' (otherwise called 'problem children' or 'wild cats') have low market share in high-growth markets. A business which has just started operations would be a

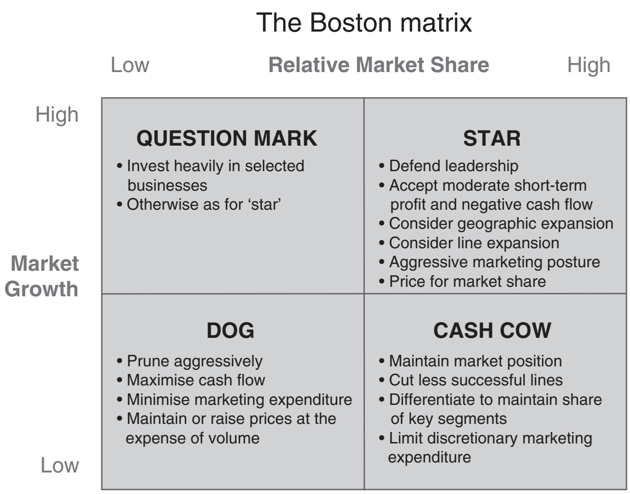

Figure A.6

'question mark' because the ability of the management team to improve on its competence would be unproven. These are businesses with long-term potential which may have been recently launched and are being bought primarily by buyers who are willing to experiment. They need large amounts of cash if they are to be developed to their full potential because the company has to keep adding plant, equipment and personnel to keep up with the fast-growing market.

(ii) The 'rising star' is a company that has established itself in the market and is beginning to thrive. It is a leader, with high share in a high-growth market. It requires significant investment in order to maintain and grow market share. It does not necessarily produce a positive cash flow but stars are usually profitable and can become 'cash cows'.

(iii) The 'cash cows' are companies that are well established and profitable. They have high share in low-growth markets. They are producing profit but were unlikely to achieve much incremental improvement. They are generally cash positive and can be used to fund other initiatives.

(iv) The final group are known as 'dogs'; they have low share in low-growth markets. These are companies that were in decline and worthy of withdrawal. They have weak market share in low-growth markets and tend to be loss-makers, providing small amounts of cash if any.

3. Use of the tool

The matrix can be used to determine strategy for major firms. A multi-business company needs a balanced portfolio of businesses or SBUs (strategic business units) which use cash from the cash cows to invest in other development issues. It is thought that an unbalanced portfolio of businesses can be classified into four areas:

(i) Too many losers causing poor cash flow.
(ii) Too many question marks requiring too much investment.
(iii) Too many profit-producers.
(iv) Too many developing winners.

The matrix is used to develop different business strategies and corporate requirements for each business unit according to its position on the matrix. Objectives, profit targets, investment constraints and even management style are likely to be different according to their position. Strategies set by the leadership are likely to include:

(i) 'Build'. This means increasing the market share using cash, resources, marketing programmes and management attention.
(ii) 'Hold'. This means maintaining the market share and is appropriate for strong cash cows if they are to continue to yield cash.
(iii) 'Harvest'. This means using resources to get as much cash from a business unit as possible regardless of long-term effect. It is appropriate for weakening cash cows whose future is uncertain or dim.
(iv) 'Divest'. This means selling or liquidating the business, and is appropriate for dogs and question marks that are acting as a drag on company resources.

Due to inadequate teaching and lack of understanding, some companies have tried to use this conceptual framework to understand the positioning of their individual products or services rather than business units. Managers can be heard to talk of their offers as either being a 'cash cow' or a 'dog'. This misuse of the concept is dangerous because it muddles two different concepts (the experience curve of a business and the product lifecycle).

More worrying for service firms, though, is the fact that the tool is based on the two axes of growth and market share. It is an assumption of the matrix that growth and share are the two key success criteria of a business. However, that is not always the case in the services industry. Some pursue a strategy of margin maximisation rather than growth. This tool is unlikely to be helpful to such firms.

THE 'MARKETING CONCEPT'

The marketing concept suggests that the buyers and the market, not exclusively the operations of the firm, should be at the centre of management's attention; and that, by putting attention on the market, long-term profits can be achieved. It has been called 'market-orientated' or 'customer-led' but is the antithesis of the internal orientation of many firms. Some are sales-led, some fascinated with technology or product enhancement while others are monopolies, preoccupied with internal rivalry. These approaches can be successful for a time, generating funds for owners, until market conditions change. If new regulation is passed or an aggressive competitor changes market dynamics, firms without a market orientation can fail.

This simple concept is in all marketing textbooks and can sound like wishful thinking by marketing theorists, keen to press for greater influence for their discipline. In practice, the experience of many marketing specialists is almost the opposite; that the function is not appreciated or allowed to contribute as it might. They become absorbed with changing daily priorities, tactical rather than strategic work and the need to engage in internal politics to protect the contribution of their function. But this concept is more than an academic wish, a passing management fad or theoretical fantasy.

Numerous papers (from Professor Benson Shapiro's *Harvard Business Review* article: 'What the hell is market orientated?' to Regis McKenna's 'Marketing is everything') and long-term tracking surveys (like the PIMS database) have shown that market-orientated companies produce long-term shareholder return. Perhaps the clearest example, though, is America's GE. Under Jack Welch this huge conglomerate exceeded expectations in terms of shareholder return and, for over a decade, came top in survey after survey as the most admired company, particularly amongst CEOs. But this success was built over the long term (see M.R. Vaghefi and A.B. Huellmantel's paper: 'Strategic leadership at General Electric'). As far back as 1957, Ralph Cordiner, the then CEO, announced that 'marketing would be both the corporate philosophy and the functional discipline to implement the philosophy'. Up until then all planning had been internally orientated, focused on solving internal problems. This change set the foundation for an externally orientated culture. Evidence suggests that, since then, each CEO has chosen their successor as a means to continuing this philosophy and the consequent enduring legacy has been the foundation of GE's outstanding success.

A marketing-orientated company understands its market and anticipates future trends, exploiting emerging opportunities. It is forward-looking and intimately engaged in understanding the minds and responses of its buyers. Brand management and marketing functions are often lead functions of the business, maintaining a market perspective for all functions.

CONJOINT ANALYSIS

See entry under research.

CONTACT AUDIT

Application: Client Service and Communication

1. The tool

This practical method evolved within the direct marketing industry as it put emphasis on the effect of other interactions of the firm than advertising on the opinion of buyers. The approach of direct marketing is to identify other communications media (such as mail and email) as mechanisms by which the same message can be reinforced. Prior to the evolution of thinking around loyalty, service and integrated communications, it encouraged the thoughtful marketer to think beyond the pushing of messages through broadcast media.

2. Constructing the tool

The marketer should first list all interfaces with the customer. These range from customer service staff, through written materials to attendance at events, see Figure A.7. This, alone, causes leaders to think about the effect of some surprising items. Customers, who visit a scruffy office, are kept waiting by reception staff or who have to negotiate difficult security staff can have their confidence in the firm's services undermined; even if some of these people are clearly employed by contractors.

The tool then causes the firm to think about the frequency with which customers use a particular interface and the reason why. If it is very important or emotionally distressing to them, then the impression it forms is likely to be very influential. If the supplier neglects it, then service issues are likely to arise. Finally, the quality that customers experience and the outcomes they receive are considered. These are best completed in discussion with a sample of them. (Although internal judgement is also effective.)

Contact audit

Type	Frequency	Reasons	Quality	Outcomes
Letters				
Invoices				
Brochures				
Mailings				
Reception				
Website				
Account meetings				
Project management				
Switchboard				
Client service staff				
Security staff				
Advertising				
Hospitality				
Reports				

Figure A.7

3. Use of the tool

This simple tool is a planning mechanism which identifies improvement areas in the service interface. It emphasises all aspects of the customers' interface with the firm and prompts marketers to think beyond technical delivery alone.

DIFFUSION OF INNOVATION

1. The concept

Diffusion of innovation is the socialisation process by which societies learn of new concepts and adjust to them. It is a theory of how, why and at what rate new ideas and technology spread through cultures. Study of the phenomenon was initiated by social scientists like Beal, Bohlen and Rogers after the Second World War. It has been examined in many contexts (from First-World drug use to Third-World water sanitation). Rogers says of it:

> Information about an innovation is often sought from peers, especially information about their subjective evaluations of the innovation. This information exchange about new ideas occurs through a conversation process involving interpersonal networks. The diffusion of innovation is essentially, then, a social process in which subjectively perceived information about a new idea is communicated from person to person. The meaning of an innovation is thus gradually worked out through a process of social construction.

This is, essentially, a communication process which involves word-of-mouth, publicity and subtle forms of marketing. It is from this, not the product lifecycle, that the various groupings of people are made. Some are:

- Innovators: the first to adopt an innovation. They are willing to take risks and interested in scientific or technological ideas (gadgets).
- Early Adopters: the fastest category to adopt an innovation and, generally, a larger group.
- Early Majority: taking up the idea after a degree of time, they tend to be slower in the adoption process.
- Late Majority: adopting the innovation after the average member of the society, these tend to be more sceptical.
- Laggards: the last to adopt an innovation and can take pride in their resistance to new ideas.

2. Constructing the concept

Attitudinal research will reveal the progress of an idea amongst a population. From that the marketers can deduce the state of progress of an innovation in a given market.

3. Using the concept

Marketers need to construct different marketing strategies at different phases in the diffusion of an innovation. The marketing communication programmes to a market dominated by innovators will be different from those of one dominated by the early majority. Marketers should also come to a judgement as to those moments when the innovation can move to the next phase. A market leader that is influential in moving the phase of diffusion for, say, innovators to early majority is likely to reap a growth in sales.

The social scientists who developed this concept recommend the use of opinion leaders, experts and catalysts to help an idea spread. Marketers can adapt these ideas to help the spread of interest in their product or service amongst a market.

DIRECTIONAL POLICY MATRIX

Application: Business Portfolio Tool

1. The tool

Sometimes called the 'GE/McKinsey matrix', this was developed soon after the Boston matrix as a result of inadequacies with the latter. It was typical of several methods of 'multifactor portfolio models' which were developed at the time.

This is a way of categorising businesses against markets and is more flexible than the Boston matrix because it uses criteria created by the management team themselves. As such it is more relevant to the individual strategic position of the company in its marketplace. The grid plots 'market attractiveness' against 'business strength' (see Figure A.8) and allows management to prioritise resources accordingly.

The original GE matrix used the factors of market attractiveness and business position which are listed below in Figure A.9.

GE used these key factors because they believed that, taken together, they had the most influence on return on investment. However, this list should be modified for each company according to its own particular circumstances.

2. Constructing the matrix

There are clear steps in compiling the matrix. They are:

(i) Identify the strategic business units (SBUs).
(ii) Determine the factors contributing to market attractiveness.

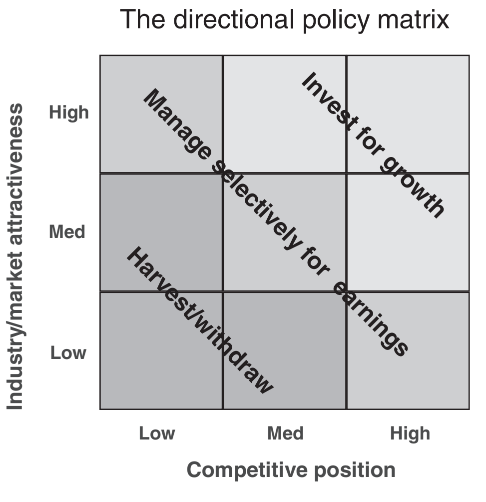

Figure A.8

Factors of market attractiveness and business strength used in the original GE matrix	
Market attractiveness	**Business strength**
Size	Size
Growth rates	Growth rate
Competitive intensity	Market share
Profitability	Profitability
Technology impacts	Margins
Social impacts	Technology position
Environmental impacts	Strengths and weaknesses
Legal impacts	Image
Human impacts	Environmental impact
	Management

Figure A.9

(iii) Determine the factors contributing to business position.
(iv) Rank and rate the market attractiveness and business position features.
(v) Rank each SBU.
(vi) Plot the SBUs on the matrix.
(vii) Represent the total size of the market and the businesses' share by a pie chart at the appropriate plot on the matrix.

Steps (iv) and (v) involve numerically rating the relative importance of each feature. Multiplying these together and totalling them for each business unit gives a composite score which enables the matrix to be compiled. The total size of each market the firm's businesses operate in and their share of it can be represented by a pie chart centred on each plot. As with the growth/share matrix, the visual presentation enables complex information to be presented in an easily understood form.

3. Use of the tool

Strategy can be deduced from the matrix as follows: where a business unit scores high or medium on business strength or market attractiveness, the firm should maintain or grow investment. Whereas those which score low/low or low/medium should have investment depleted. If possible, cash should be harvested from them. Units scoring high/low or medium/medium should be examined to see if selective investment should be made to increase earnings.

There has been some critical evaluation of the GE matrix. Many people consider the fact that it uses several dimensions to assess business units instead of two, and because it is based on ROI rather than cash flow, it is a substantial improvement on the Boston matrix. However, it is criticised because:

(i) It offers only broad strategy guidelines with no indication as to precisely what needs to be done to achieve strategy.
(ii) There is no indication of how to weight the scoring of market attractiveness and business strengths. As such it is highly subjective.
(iii) Evaluation of the scoring is also subjective.
(iv) The technique is more complex than the Boston matrix and requires much more extensive data gathering.
(v) The approach does not take account of interrelationships between business units.
(vi) It is not supported by empirical research or evidence. For instance, there does not seem to be evidence that market attractiveness and business position are related to ROI.
(vii) It pays little attention to business environment.

It is really powerful, however, as a tool to reach consensus amongst a group of leaders. The definition of business units, the agreement of common criteria and, particularly, the joint scoring exercise stimulate debate which is very valuable.

EXPERIENCE CURVES

Application: New Service Development, Competitive Strategy

1. The tool

This concept, pioneered particularly by the Boston Consulting Group during the early 1960s, suggests that unit costs of a firm fall with experience of operating in an industry and with a company's cumulative volume of production, as shown in Figure A.10. The consultancy invested substantial time over many industries (including service industries) and used 'the

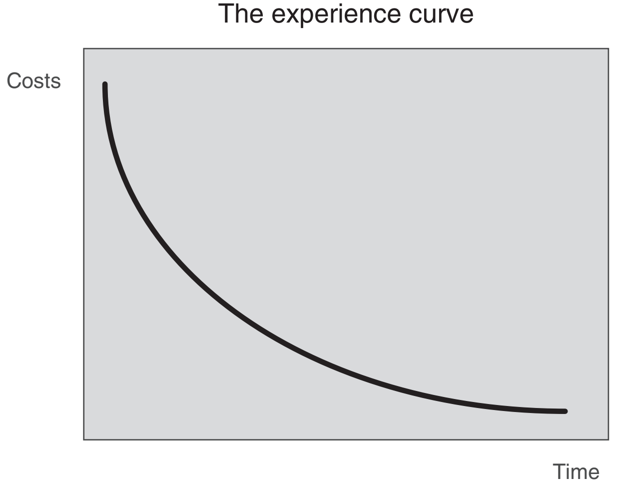

Figure A.10

scientific method' to validate the concept. Although appearing deceptively simple, and intuitively right, the concept can be used to set exhilarating strategic objectives.

Costs decline due to a combination of: economies of scale, a learning curve and the substitution of technology for labour. The cost decline gives competitive advantage because new competitors can face higher costs if not entering with a major innovative advantage. Some have argued that the advantage is so great that established leaders should drive to gain further advantage through actions such as price cutting.

2. Constructing the tool

Plot the firm's prices or costs against unit volume; projecting back in time as far as is sensible. The resultant curve should reveal the accumulated gains by the firm. In service markets it is also normally possible to obtain estimates of number of employees in competitor firms, so a comparison with competitor gains should be possible.

For the analytically minded, the Boston consulting team recommended using double logarithmic scales because they show percentage gain as a constant distance:

> A straight line . . . means, then, that a given percentage change in one factor results in a corresponding percentage change in the other . . . reflecting the relationship between experience and costs and experience and prices. (Henderson, 1972)

3. Use of the tool

The tool can be used to identify cost gains and advantages compared to competitors. As a result it can become a benchmark by which the firm can set strategy for business units to improve costs. It can also be used to predict and set prices by giving a directional indication of industry costs and likely competitive responses.

The tool can also be used to plan and sell outsourcing concepts. As illustrated below in Figure A.11, a firm whose business is focused on a particular function is likely to be further down

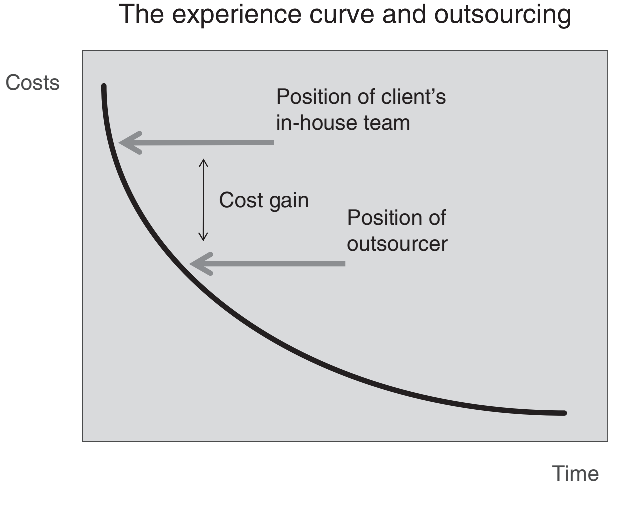

Figure A.11

the experience curve than a client's in-house team. If the in-house operations are passed to the supplier, the client gains advantage of the supplier's 'experience'. When the UK government's audit office first reviewed (in 1990) public sector outsourcing deals initiated by the Thatcher government in the 1980s, gains of up to 20% were found. This sparked the outsourcing trend in much of Europe. Note though that further dramatic gains are unlikely and continuing success depends on the nature of the relationship between the two parties. If the relationship breaks down, the client loses the supplier's experience and begins to build cost back into its business.

FEATURES ANALYSIS

Application: Service Design

Features analysis is a concept used in product design to proactively plan the content of the offer. It is a development of the suggestion by leading marketing thinker Phillip Kotler (Kotler, 2003) that products and services are propositions augmented by intangible marketing concepts such as brand and design.

It suggests that each offer (product or service) comprises three sets of features, see Figure A.12. They are:

- 'The core feature'. This is the hub of the offer and is the prime benefit to buyers. In the case of a briefcase it will be to 'carry documents', in the case of a car it will be 'personal transportation'. Experience shows this to be one of the most difficult aspects of product and service design; it is inordinately difficult to settle on the core proposition.
- 'Augmented features'. These are the physical components of the offer which the product manager chooses to use to represent the core feature. In the case of a briefcase it would include the choice of leather, latches, nature of stitching, internal construction, etc. In the case of a car it would include the engine, the bodywork, the colour and the physical layout of

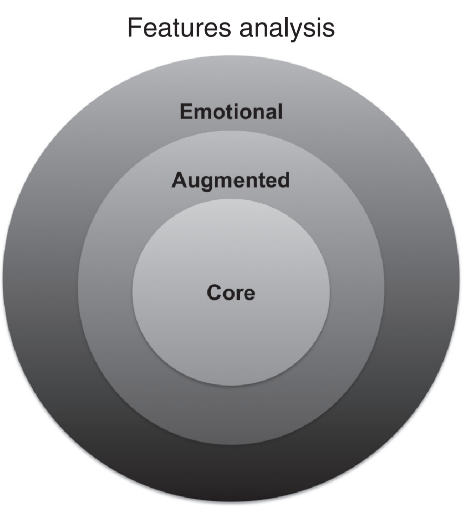

Figure A.12

the car. This is very much the design and assembly of physical components around identified customer need.

- ‘Emotional features’. These are designed to appeal to the buyers’ underlying, often unknown and unarticulated, emotional requirements. These are often the most influential aspects of the appeal of the proposition to the buyer and particularly affect perceptions of value. Without them many offers become commodities. Although these are actually offered through the physical (augmented) features, the emotional ring of the planning tool is there to remind designers to proactively plan their presence. They are particularly tied to the firm’s brand values. For example, the emotional promise of a briefcase that is labelled ‘Gucci’ will give a different message than one which is labelled ‘Woolworth’.

It is the proactive management of this mix of features that allows managers to design increasingly sophisticated versions of their offer in the light of feedback from markets. This allows evolution of real choice and the ability to create profit through the evolution of differentiated offers. In service businesses, this technique needs to be adjusted to take on board the observation by Lynne Shostack (Shostack, 1977) that propositions from companies are neither all product or all service. Using her goods/services spectrum of offers (see the diagram below, Figure A.13), the subsequent four models can be used with real precision.

Model 1

This represents a proposition where service is primarily an emotional reassurance to a product offer. The core proposition is a product that has been augmented by physical features. However, the supplier has accepted, generally because it is based on new technology, that faults will occur in their product. Service, like warranty, has to be provided as an emotional reassurance to the purchaser of the enduring provision of those benefits, as shown in Figure A.14. Service is therefore an emotional feature of the product. This has been in evidence with

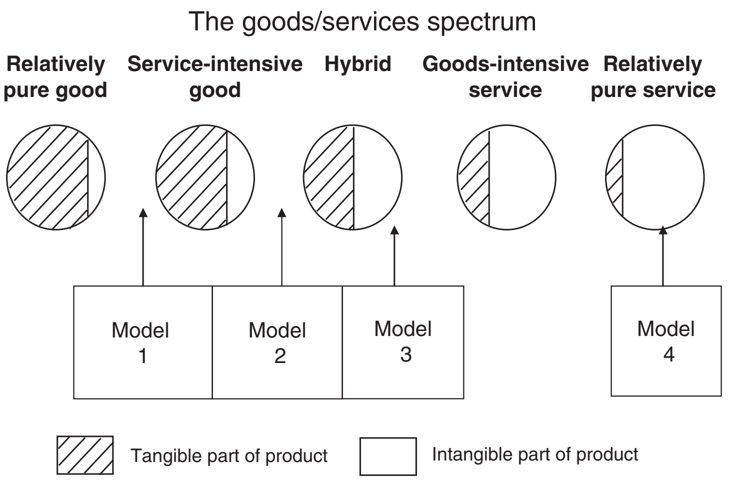

Figure A.13
Reprinted with permission from *The Journal of Marketing*, published by the American Marketing Association, G.L. Shostack, April 1977.

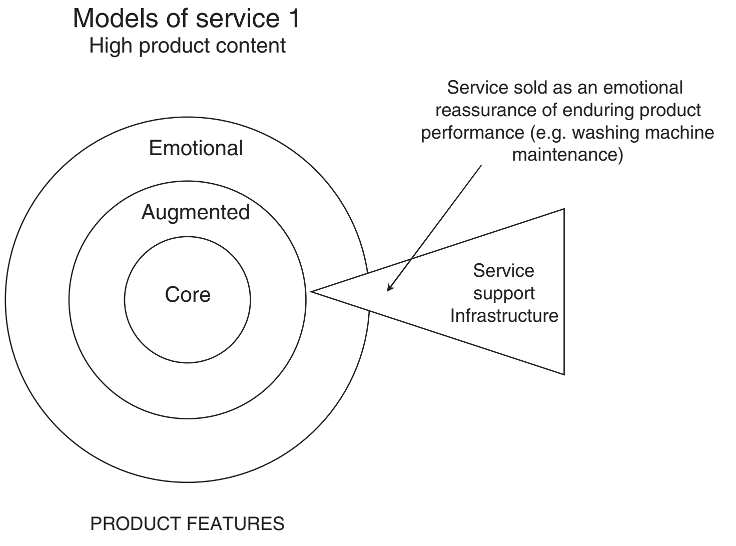

Figure A.14

many product offers over the years, from washing machines and cars through to computers and elevators.

Model 2

This represents an evolution in a market where suppliers begin to build service into the product concept. It occurred, for example, in the computer industry during the latter half of the 20th century. Suppliers began to provide preventative maintenance through a monitored service involving people, procedures and technology. It was sold as part of the product offer so that computers failed less due to self-diagnostic technology and preventative maintenance. (This was an entirely different proposition to the previous maintenance contracts which promised 'Don't worry, if it goes wrong we'll repair it quickly'). In this model, service has become an augmented component of the product offer, see Figure A.15.

Model 3

This, a hybrid, represents a position where people are buying a mix of service and product, as shown in Figure A.16. It is common in industries which offer a high-volume, low-margin product. The fast-food industry, for example, uses service to sell a cheap product. The brand, environmental design, product range, technology support, people behaviour, method of accessing the service and the process through which the service is provided are all integrated into a holistic experience which people buy. This is the core service of fast-food retailers and has evolved over a long period of time.

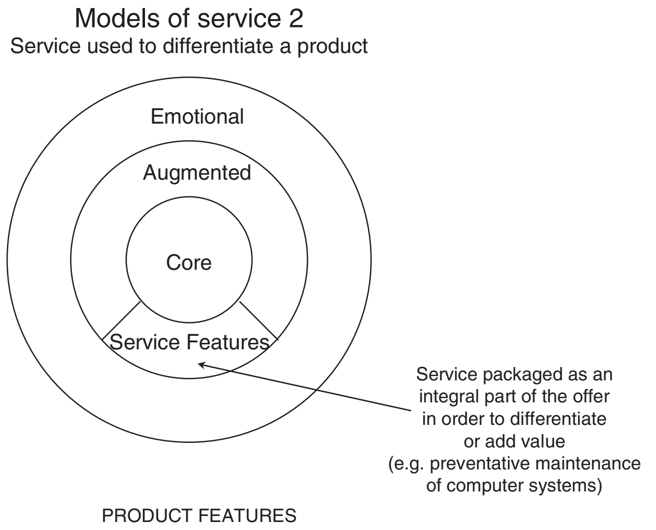

Figure A.15

Model 4

This represents a service offer which applies to many consultancy firms, see Figure A.17. It has almost no physical or product content. Any physical components (e.g. slides or bound reports) are merely an emotional reassurance to the buyer that good quality and high value exist in the offer. The tangible elements are a reassurance of the intangible benefit.

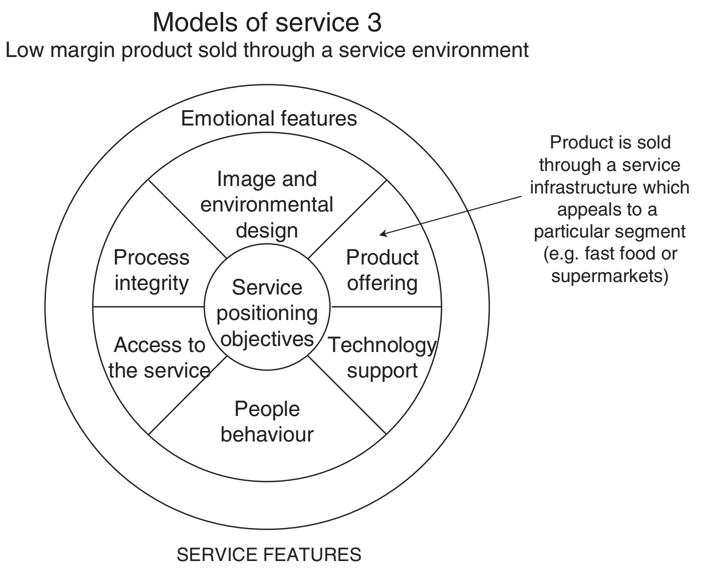

Figure A.16

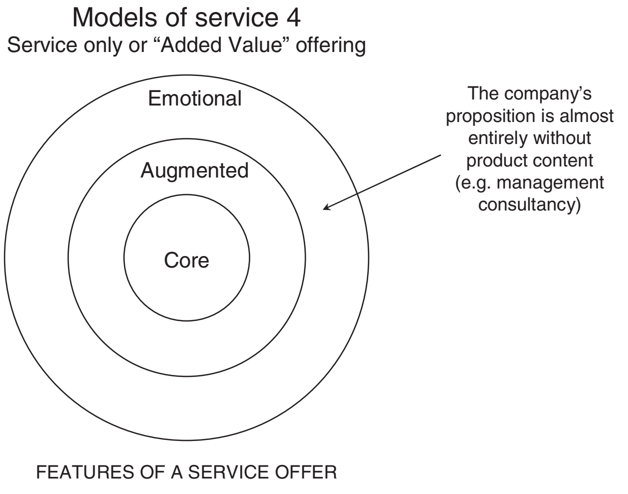

Figure A.17

If a service designer chooses to use features analysis, it is essential that they use the correct design model. It may be, for example, that market conditions have changed and a service which was once associated with a product offer (model 1) can be positioned as an entity which has value in its own right (model 4). In this case, a different features mix must be used.

GAP MODEL

Application: Diagnosis of Client Service Issues, Development of Service Strategy

1. The tool

This model, shown in Figure A.18, was designed and proposed by a group of academics (Parasuraman *et al.*, 1985) who specialise in service marketing studies. It acknowledges that:

- Buyers find service quality more difficult to evaluate than product quality. They have few tangible clues as to quality so must rely on other clues.
- Quality is a comparison between expectation and actual performance. Satisfaction depends on the degree to which the two match or not.
- Quality evaluation by buyers depends on outcomes and processes. Quality can be influenced by technical outcomes and functional or service outcomes. It can also be influenced by physical aspects of the service and by company image as much as by the interaction with client service staff.

The original investigation to substantiate the model was conducted in financial services and product repair services. It has, however, been widely tested and developed since.

The model focuses upon five 'gaps':

- The management perception gap. This is any difference between management's views and those of the customers or the market in general.

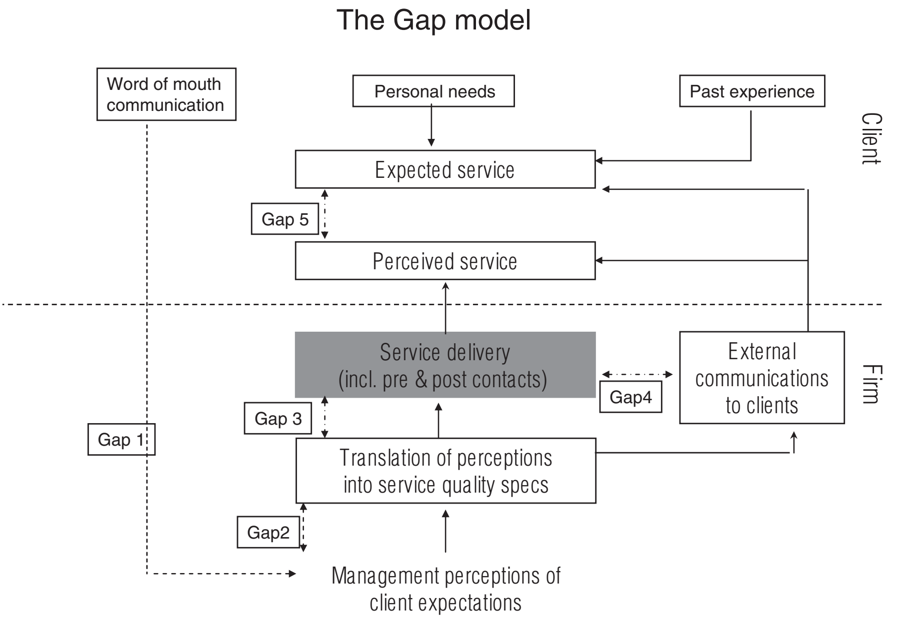

Figure A.18

- The quality specification gap. This exists when quality standards, strategy or plans do not reflect management objectives or views.
- The service delivery gap. This exists if there is a difference between quality strategy or plans and the firm's delivery to customers.
- The market communications gap. This tracks any difference between marketing communications and service delivery.
- The perceived service gap. This exists if there is a difference between the service delivery perceived to be experienced by customers and their expectations. Note the emphasis on perception of experience. What they think they experience may not be reality and might be addressed through marketing campaigns.

2. Constructing the tool

The representation of the tool above is used as a format for analysis, representing as it does major parts of the firm. Research and data collection needs to be undertaken at the point of each gap to compare and contrast opinion or experience.

3. Using the tool

In actual business the tool is best used as a diagnostic for the improvement of service strategy. Its analysis brings into sharp relief the differences between various perceptions and experiences. It allows the leadership to construct very specific improvement programmes in all relevant areas of business.

CULTURAL DIMENSIONS FOR MANAGEMENT AND PLANNING

Application: International Marketing

1. The tool

In the 1980s, Geert Hofstede researched (Hofstede, 1984), developed and published a number of dimensions of cultural difference. He grouped, tested and demonstrated the effect of these dimensions on management practice. They can be used to guide international strategy and planning.

The dimensions were:

(i) Individualism versus collectivism. Some societies are loosely knit, where individuals are supposed to take care of themselves and their immediate families. Work, career, economic provision and progress are centred around the individual. Others are more collective. Individuals can expect their relatives, clan or gang to look after them in exchange for unquestioning loyalty.

(ii) Power distance. This is the extent to which members of a society accept that power in its institutions is distributed unequally. This attitude affects the behaviour of those with and without power. Large power distance cultures accept hierarchical order in which everyone has a place, small power distance cultures strive for equalisation. This issue affects how societies handle inequalities when they occur.

(iii) Uncertainty avoidance. This is the degree to which members of a society feel uncomfortable with risk, ambiguity and uncertainty. Uncertainty avoidance cultures maintain rigid codes of belief and behaviour. They are intolerant towards deviants. Weak uncertainty cultures are the opposite.

(iv) Masculinity versus femininity. In Hofstede's view, masculine cultures prefer achievement, heroism and material success whereas feminine cultures stand for relationships, modesty, caring for the weak and quality of life.

This work shows how different cultures cluster and are similar under different dimensions. The diagram below, Figure A.19, represents just one set of pairings (individualism/collectivism with masculinity/femininity). This clearly shows the clustering of the 'Anglo-Saxon'-influenced cultures of the USA, UK, Australia, New Zealand and Canada. A proposition built on the assumptions of individualistic masculinity (like high-end executive search) is likely to succeed in this group.

2. Constructing the model

Determine the dimensions that have the most profound association with the product service or strategy. Group the firm's existing international operations and any target countries using the clustering on the relevant dimensions. Adjust the programmes to fit key clusters.

3. Use of the model

The model can be used as an aid to almost any international marketing function. It can be used to develop growth and acquisition strategy. It readily reveals compatible cultures that will be low-risk targets. It also shows how communications and product or services need to be adapted to penetrate different cultures.

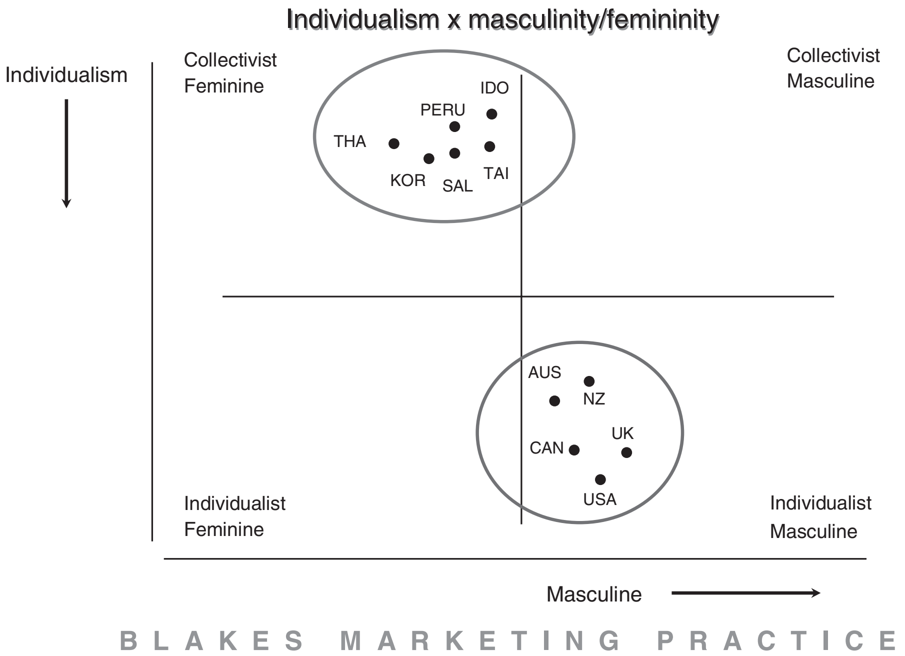

Figure A.19
Reproduced by permission of Geert Hofstede.

INDUSTRY MATURITY

Application: Strategic Insight into Market Development

1. The concept

The industry maturity curve is often mistakenly referred to as the 'product lifecycle concept'. Yet the phenomenon occurs in the sales volume of product groups over time, not individual products. There must be multiple suppliers and multiple buyers in markets that develop over time for it to be observed. (Individual products rarely go through the sales history represented in Figure A.20. Most die soon after launch.)

The concept draws an analogy between biological lifecycles and the sales growth of successful product groups, by suggesting that they are born, introduced to the market, grow in sales, mature (sales growth stops) and then decline (sales fall). In fact, it represents an iterative learning process between the buyers and suppliers in a market.

At 'birth' (the first introduction of the proposition to the world) a new product concept sells poorly. Buyers are unaware of its existence, suspicious of the new idea or experience problems when ordering (with production capacity, effective distribution or product quality). 'Bold' or 'innovative' people buy the new product during this stage as a substitute for an existing product or to meet a newly identified need. Profits may well be low or non-existent because of the high cost of sale.

In phase two, sales growth develops as a consequence of 'word-of-mouth' communication. Early buyers pass on the good experience of the product to others, or re-purchase it. Producers and distributors (whether new to the market or well established) recognise the opportunity and

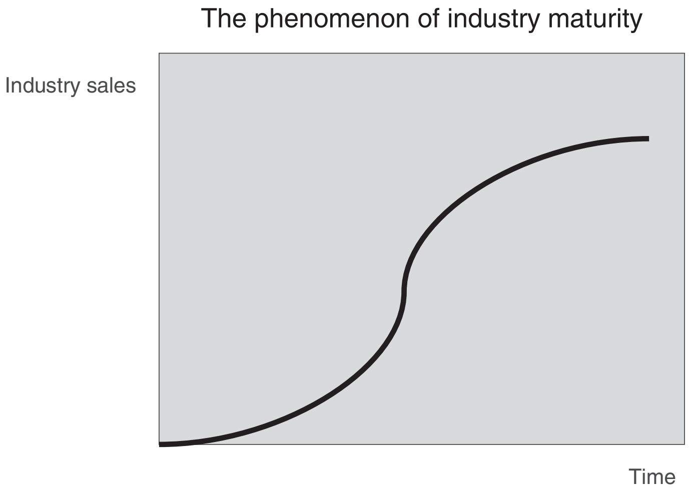

Figure A.20

switch over to produce their own version. The market broadens through policies of product differentiation and market segmentation. Profit margins peak as experience reduces unit costs and promotional expenditure is spread over a larger sales volume.

Maturity occurs because all markets are ultimately finite (in time, volume and geography), and the market becomes saturated. Sales growth becomes more or less flat as sales settle down to a level which reflects the regular volume of new buyers entering the market plus re-purchase rates. Profits decline because of the number of competitive offerings, cost reductions become more difficult and smaller, specialist competitors enter the market.

Decline occurs as buyers switch to new offers which offer advantages or benefits not present in the existing product. Producers therefore initiate a new curve, bringing to an end that of the product group to be displaced. Declining sales are accompanied by falling profit margins as too many competitors fight for the remaining market. Price-cutting is prevalent and marginal competitors move out of the market.

This is a basic description of the industry maturity concept that has been tested, examined, criticised and developed over the past four decades. It was first observed by an economist and then brought to prominence by leading marketing writers. It is also clearly related to the sociological phenomenon: the diffusion of innovations. The history of its development gives clues to its usefulness today, especially in service markets.

2. Constructing the curve

Industry sales figures are often difficult to obtain for service markets. It is often easier to obtain government or industry figures on the number of firms operating in a particular market. By making a judgement about average industry project size and case load, the volume of sales of a type of service can be estimated. If this analysis is backdated, the category's sales curve will be observed. The diagram below, Figure A.21, shows an actual version for the UK executive search market.

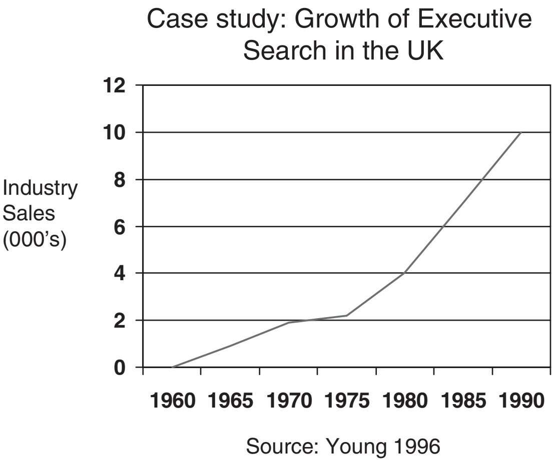

Figure A.21

3. Use of the concept

As the phenomenon occurs when there are independent variables (i.e. groups of suppliers and buyers), and rarely applies to individual products, it can be used to create marketing strategy. Many have found that the concept can be used to form a judgement about movements in the category's sales growth curve. They can develop marketing strategies appropriate to each stage in the lifecycle.

The concept is also useful in indicating the maturity of a market (i.e. the relationship of the group of customers to the group of suppliers, and the level of maturity of the understanding of the concept). An individual product being offered into that marketplace can then be adjusted in the light and understanding of that relationship. The likely strategies in each phase are summarised in Table A.1 below.

Table A.1 Strategic implications of different phases of industry maturity

Characteristics	Introduction	Growth	Maturity	Decline
Sales	Low	Fast growth	Slow growth	Decline
Profits	Negligible	Peak levels	Declining	Low or zero
Cash flow	Negative	Moderate	High	Low
Customers	Innovative	Mass market	Mass market	Laggards
Competitors	Few	Growing	Many rivals	Declining
Responses				
Strategic focus	Expand market	Penetration	Defend share	Efficiency
Marketing spend	High	Declining	Falling	Low
Marketing emphasis	Product awareness	Brand preference	Brand loyalty	Selective
Distribution	Patchy	Intensive	Intensity	Selective
Price	High	Lower	Lowest	Rising
Product	Basic	Improved	Differentiated	Rationalised

Source: Doyle (1976).

Service firms can, therefore, use this concept to understand the position of their firm and service in the light of a total market's evolution. Business strategy for their business should be developed in the light of it.

MARKET AUDIT

1. The tool

The market audit is an attempt to conduct dispassionate, objective and logical analysis of a market. The aim is to think through a number of aspects of a market. As each step is completed, 'insights' from that analysis are distilled into a summary of market perspective. This, in turn, can be used as a basis for the development of marketing strategy.

2. Constructing the tool

The analysis is conducted in the following steps. Not all need to be started sequentially but each yields insights that supplement others and may cause some to be re-evaluated. Analysis of the macro market and a lack of good data might, for instance, prompt the need for detailed customer or competitor research, unforeseen at the start of the process.

Step 1. Analysis of external forces affecting the market

This helps the firm to understand the macro-economic forces shaping markets and which are creating or destroying opportunities within them. They include:

- Understanding the raw forces affecting the market. Changes in economics, social demography and technology affect the prosperity of the market and there is little the firm can do to influence them.
- Understanding 'moderating forces'. Politics, law and industry-specific regulation moderate the impact of raw forces on the market. These can be influenced by the firm.

By trawling through published data on these issues and drawing them into a perspective on change, surprisingly powerful insights can be found. They could, for instance, highlight an issue on which firms might need to lobby regulators.

These external forces are often remembered with the mnemonic 'PESTEL'.

Step 2. Understand market structure

- Decide the market's definition.
- Plot the maturity of the market.
- Determine purchasing power. What is the balance of power between suppliers and buyers?
- Examine the competition. Who are they and what are their strategies?
- Analyse substitutes. Can buyers get the benefits of the service in any other way?
- Segment the market.

Step 3. Detailed buyer analysis and research

This involves analysis of research into the needs and aspirations of existing and intended buyers. It is wise to start by collecting all published research and previously conducted research projects in order to identify gaps in knowledge. The team may then come to the conclusion that a specific research study is needed to fill important gaps in knowledge. If so, this is likely to be the most costly and longest aspect of the audit, yet the most valuable. Reassess segmentation, the service offer, pricing and communication approaches in the light of this research.

Step 4. Internal analysis

This is about understanding the internal position of the firm within its market by detailed analysis of both the firm's own competencies and the profile of its clients. It includes the source of business, revenue and income trends and the potential for growth. This analysis can yield surprising insights. Some firms, for example, believe that their buyers are chief executives, when analysis shows them to be lower-level specialists. Others have been surprised to find that larger corporate accounts are less profitable than mid-market, smaller customers. Such insights can yield real benefit for the firm's approach to its market.

3. Use of the tool

The market audit tends to be used in large organisations as a basis for logical, linear market planning. Done properly, it can yield profound market insights. It is, though, based on an economic view of a market, so there is a danger that behavioural insights will be missed.

MARKET MATURITY

See entry under industry maturity.

MAVENS

1. The concept

The idea of market mavens was popularised by Malcolm Gladwell (Gladwell, 2000). They are intense gatherers of information and so are often the first to pick up on new or nascent trends. Often found amongst innovators, they tend to not only enjoy gadgets and technology but also to try to sell it to others in their personal social network. They will be motivated by the belief that a particular innovation will help their friends and family.

2. How to construct it

Attitudinal research and test marketing programmes will identify mavens in any intended market.

3. How to use it

Create a specific marketing programme to test ideas on mavens and encourage them to educate others. This might take the form of a club or social group. Ideas can be tested and word-of-mouth started by pre-launching new ideas to these 'super users'.

MARKETING MIX

Application: Planning

1. The tool

This concept focuses on the aspects of marketing which need to be coordinated in order to influence the buyers. Although several academics have previously pointed out that marketing was a 'mix' of activities aimed at a buyer, it was Jerome McCarthy (McCarthy, 1960) who reduced them to the, now famous, 'four P's' of marketing, see Figure A.22. They are:

- The product; or the offer to clients.
- The price at which the product is offered.
- The promotion of the product to the target buyers.
- The placing of the product in the market through sales and distribution channels.

Classic marketing training emphasises that all these elements need to be planned in order to achieve success. However, there are two other ingredients. The first is a clear knowledge of the target market. Suppliers need to know, in detail, the attributes and benefits that the buyers will value. The second is the 'mix' of components that will most appeal to the buyers. These need to be planned and balanced carefully.

In reality, few marketers have direct-line responsibility for all the components of the mix. They therefore need to influence these other areas in order to achieve their objectives and to create value for their employers. Experience suggests that they will fail to have impact and

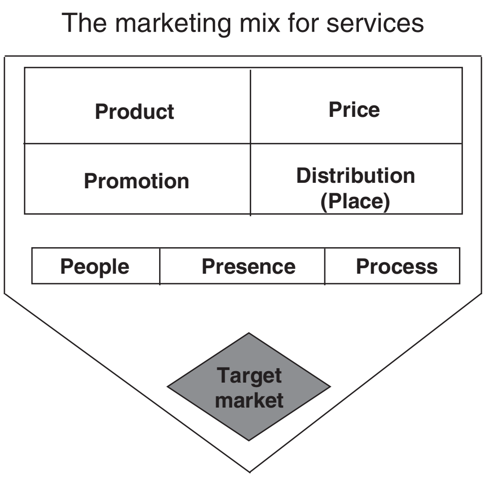

Figure A.22

their work may as well not be attempted if they are restricted to just short-term tactical aspects of one or two aspects of the mix.

Service marketing academics later demonstrated that the mix for a service business is different. Firstly, the offer is not a tangible product but a proposition which is likely to be a mix of intangibles and tangibles. This changes marketing dramatically. However, it is generally accepted that there are three further aspects of the marketing mix for services, three extra ‘P’s’. They are:

- The people who deliver the service because the buyer often cannot separate them from the value they buy.
- The physical evidence, or tangible aspects of the offer designed to help deliver perceived value to the buyer.
- The process through which the buyer moves while using or buying the service.

Again, all aspects of the mix need to be designed to match the aspirations of the intended buyers.

There is, of course, complexity behind this concept. Each ‘P’ has many detailed aspects. This book has, for example, complete chapters dedicated to the ‘P’ of promotion and that of service proposition.

2. Constructing the tool

In any planning situation simply list the elements of the mix and ensure that they have been considered for the particular target market; try to understand how each set of variables might influence their purchase intent.

3. Use of the tool

The marketing mix is most often used in management dialogue or communications. Those involved can use it as an informal checklist to ensure that all aspects of a proposition have been properly considered. However, it can also be used in detailed marketing planning. Once strategy has been decided, a full campaign which comprises all elements of the mix should be created for each target market.

MOLECULAR MODELLING

Application: Service Design

1. The tool

This is a method of planning the detailed components of product or service offers. It was suggested as a technique, based on actual experience, by Lyn Shostack (Shostack, 1977).

The technique allows planners to create a picture of the total proposition, whether service or product-dominant. It reflects the fact that propositions might have different degrees of physical or service components without diminishing the importance of either. It also allows marketers to adjust their technique according to the degree of service content in the total offer.

The method breaks down the offer into ‘tangible’ and ‘intangible’ elements. Tangible elements are represented by a firm circle whereas intangible elements are represented by dotted lines. The outer rings represent various aspects of marketing such as price, distribution

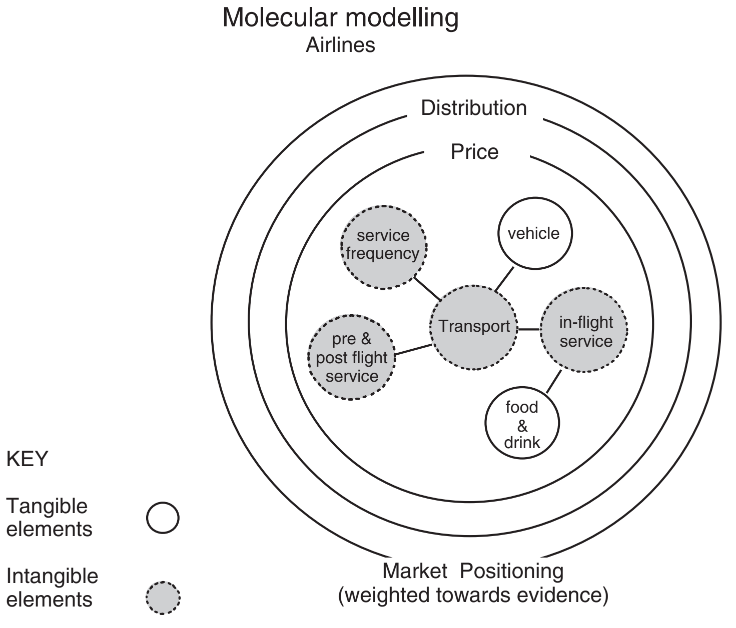

Figure A.23

and market positioning. Lines interconnecting the various elements show the interrelationship of process in delivering the service. The classic representation of the technique (for airlines) is reproduced in the diagram above, see Figure A.23.

The benefit of this technique is that it acknowledges that there are tangible and intangible elements to the offer. It allows the service designer to vary components to integrate service components into a product.

2. Constructing a molecular model

(i) Identify the ‘nucleus’ of the proposition. (In the case of cars it is personal transportation.)
(ii) Identify physical and intangible elements.
(iii) Link the elements.
(iv) Ring the total entity and define it by a set value.
(v) Circumscribe it by its distribution method, so that its relationship to the market is clarified.
(vi) Describe its brand positioning or ‘face’.

3. Use of the tool

Molecular modelling has suffered from a lack of communication rather than being an impractical or irrelevant method. Managers responsible for the creation of new services might start to use the technique with a service which is well known in their company. By breaking it down into its components they may identify new elements of the offer which need to be designed and also ways of adjusting the offer to make it more relevant to new markets or to new segments. Having experimented with the technique, and tested it in anger, they are likely to find it a practical method for the detailed design of new service offers.

PERCEPTUAL MAPS

Application: Positioning, Competitive Strategy

1. The tool

Perceptual maps are used by brand managers in many different businesses to set strategy and to gain insight. There are two axes which, in most companies' work, are a derivative of critical issues or success factors in the market. They are normally issues which are uppermost in the minds of most buyers. By understanding these and ranking the buyers' views of all the significant offers, marketers can deduce and set direction for their own offer.

The resultant diagram, Figure A.24 (adapted from Lambin, 2000), is a 'perceptual' map of buyer views because it concentrates on their perception.

The map represents buyers' views of the issues that are important to them and the way suppliers respond to them. These views may not be technically correct or factually accurate because they represent perception. It may be that there are offers which provide excellent technical performance (one version of quality) but are not perceived to be the leading offer or the best-quality offer by the majority of the market. (This insight in itself shows a supplier that they need to change perception.)

The Figure A.24 is a generic model which uses two axes: quality and price. Together they form buyers' views of value (i.e. value f price $\times$ quality). The market leader normally takes centre stage. It has the offer by which all are judged. It sets the price/quality expectations and has the power to change the whole market. The premium position (normally a heritage brand) is taken by a features-rich offer at a high price, whilst the least-cost supplier strips out all that is possible to achieve low price. Various niche providers set themselves against the market leader and survive by providing a different offer.

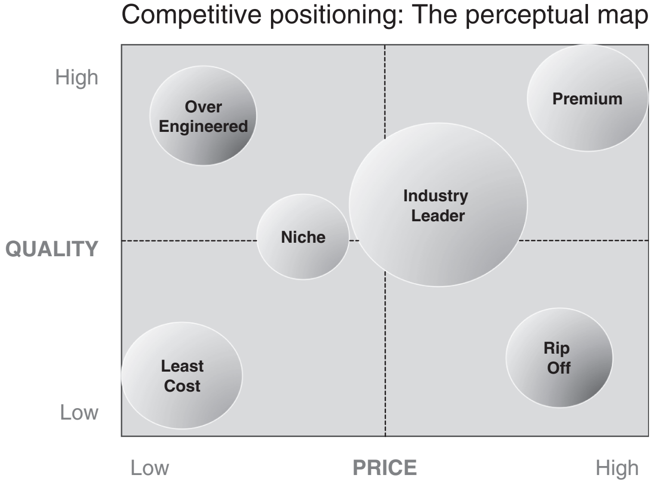

Figure A.24

There are two unsustainable positions. The 'rip off' has low quality at high price. It normally exists because of some distortion or recent trauma in the market. However, it cannot keep this position in the long term because buyers will compare offers and desert it for other suppliers with an offer nearer to their values. The 'over-engineered' supplier might be a naïve new entrant or a recently privatised or de-monopolised supplier. Again, it must move in the long term.

2. Constructing the model

The tool is best constructed using detailed conjoint research amongst representatives of all buyers in the market. Contrary to popular belief, they will not all want the cheapest offer. They will want a mix of features and price which represents value to them. Some seek a features-rich offer with a high price and some a basic offer at a low price.

The likely output of this research, reflecting buyers' needs and requirements, is likely to be near to the diagram below, see Figure A.25. The buyers' ideal purchases will be scattered around a line (the line on which suppliers can achieve long-term position). In a market which is not distorted by monopoly or regulation, most buyers cluster around the middle, a position that the market leader can dominate.

The research will also reveal buyers' perceptions of where all suppliers are positioned.

3. Use of the tool

The prime use of the tool is to work out where the target buyers' values lie and to move the firm's offer towards them. 'Positioning' the firm in this way is a guide for NPD and NSD policy. It also leads communication and marketing programmes. The tool can be used to create both corporate and competitive strategy. The leadership can use it to reach consensus on the position that they want the firm to take in the market. It is therefore a very powerful input to strategy debate amongst leadership teams.

Figure A.25

The tool can also be used as an internal communication aid. Firstly, it is a very simple and clear summary of the market and the firm's ambitions which can be used effectively in internal meetings. Secondly, it can be used as a diagnostic tool to develop internal communications programmes. By using it as a basis for internal research of employee opinion, it can be contrasted against customers' views. Training and communications programmes can then be designed to address any gap in view.

PESTEL

See entry under market audit.

PORTER'S COMPETITIVE FORCES

Application: Competitive Analysis, Market Analysis, Strategy Development

1. The tool

Amongst Michael Porter's impressive and prodigious work on competitive strategy he offered a powerful conceptual framework (Porter, 1979) which works well as part of the market analysis and strategy development process. His 'five forces' of competition are a useful checklist for marketers to work through when analysing a market, see Figure A.26. They are:

- The power of buyers. Buyers can influence a market by forcing down prices, by demanding higher service and quality or by playing competitors off against each other. Porter suggested that there are a number of circumstances when a buyer group is powerful, including: if they

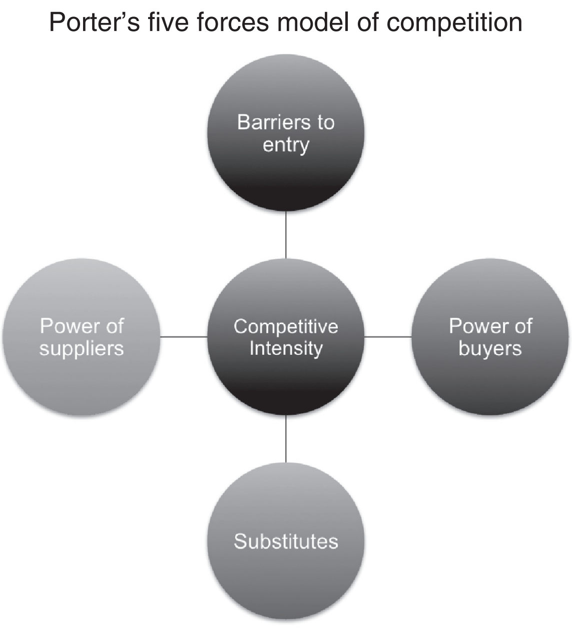

Figure A.26
Reprinted with permission from *Harvard Business Review*, Porter, March/April 1979.

are concentrated, if buying commodities, or components, if driven to get price cuts or if the purchase is unimportant to them.

- The power of suppliers. Suppliers can execute power by raising prices or reducing the quality of the offer. They can squeeze profitability out of the industry. They are powerful if: dominated by a few, have unique offers, are not obliged to compete, threaten forward integration or are not part of an important industry to the buyers.
- The threat of new entrants. These bring new capacity, the desire for market share and resources. The seriousness of the threat depends on barriers to entry which have six sources (economies of scale, product differentiation, capital requirements, cost advantages, access to distribution and government policy).
- The threat of substitute offers. These affect the profit of an industry by placing a ceiling on what it can charge through offering an alternative price/feature option.

2. Constructing the tool

The concept can simply be used as a checklist to prompt planners to cover relevant issues during market analysis and strategy development. However, it is most powerful when good analysis is put behind the thinking so that judgements can be made with the benefit of real data. Industry reports and original research can be summarised into the model and used as criteria by which to develop competitive responses or critical success factors.

3. Use of the tool

The tool can be used to guide debate and is also effective as a communications device. Its clarity summarises graphically and quickly the competitive landscape and can be used as part of the rationale for competitive programmes. It is best used, though, as a background planning tool in the market planning process.

RESEARCH

Application: Client, Competitor or Market Insight

1. The tool

Field research is familiar not only to marketers but also to many business leaders. They may have seen the results of research presented at internal meetings or read research reports. Unfortunately, familiarity can breed contempt, making the processes, the techniques and the outcomes seem deceptively simple. As a result, there are many unconvincing or poor research reports resulting from poor specification or poor use of the research industry.

Yet, undertaken properly, field research yields insights into human needs, customer views (which can be different from needs), competitor performance and market trends. It can reveal the different elements of a service which customers value and how they combine with different price points to form packages that they will buy. Moreover, it can reveal how these vary between different customer groups, creating opportunities through variation of offer in different market segments. It can also save money by stopping new service ideas or marketing initiatives which the market will reject. Yet to do all this it has to be properly specified and managed. It needs a brief and a managerial process if it is going to produce results. This needs to ensure that the sample frame, the approach, the technique and the questionnaires are appropriate.

2. Constructing research projects

There are two main types of research. The first is the qualitative or 'in-depth' approach. This involves spending time with a relatively small number of people and seeking deep answers to questions. It gives colour to views and can reveal underlying feelings and motivations that can be enormously valuable. Quantitative research, on the other hand, involves a wider number of contacts, normally to investigate trends. Both have their strengths and weaknesses.

A typical process includes:

1. Agree objectives and research needs.
2. Write brief for agencies. Briefs tend to include:
   - Research objectives.
   - Summary description of the market.
   - Description of the research problem and desired output.
   - Description of existing knowledge and previous research.
   - Budget constraints.
   - Time scales.
   - Report requirements.
   - Constraints (e.g. interviews must be arranged via client relationship managers).
3. Shortlist potential agencies.
4. Contact and invite to pitch.
5. Create selection criteria. These might include:
   - Technical skills.
   - Previous experience.
   - Interpretation of the brief.
   - Proposed approach.
   - Team fit (will the firm's people be able to work with them?)
6. Hold presentations by agencies to selection team.
7. Choose and confirm agency.
8. Negotiate contract.

Methods used to collect data vary enormously. They range from face-to-face interviews and observed discussion groups to telephone, postal or Internet surveys. All are used in the service industry.

There are, however, several different research techniques.

(i) Conjoint research. This uses questions (either in face-to-face meetings or via mail or telephone) designed to trade off different pairs of values or ideas. Interviewees are forced to choose. It mimics the thought processes of customers when considering purchase and yields the type of detailed output illustrated in the diagram on next page, see Figure A.27. It can provide powerful insight into new service needs and adjustments needed to customer service.

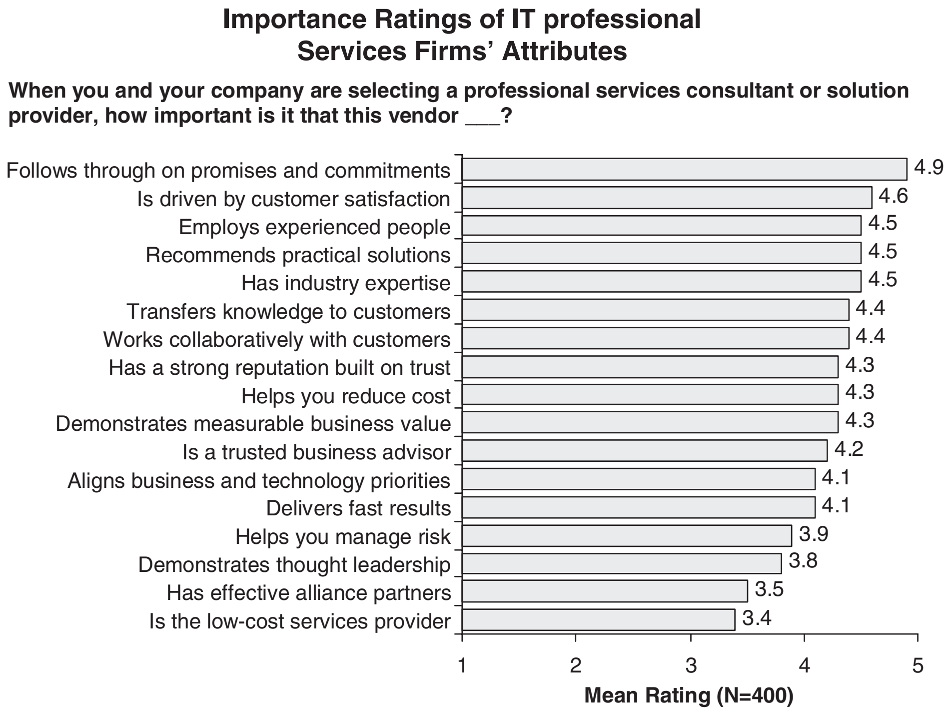

Figure A.27

(ii) Observational research. As the name suggests, this involves a researcher observing the behaviour of people. It can give real insight into behaviours which reflect customer views of service quality and future service needs.
(iii) Explorative research. This is normally used in developing a new proposition or identifying a new customer segment, this technique follows issues until a trend suggests that they are likely to be substantive. The work can be iterative, checking back and adjusting the idea as interviewees respond.
(iv) Concept testing. This involves testing ideas for new propositions or approaches with customers before launch. They are shown an idea or marketing programme and asked to comment on it in a structured way.

3. Use of the tool

Field research ought to carry an arrogance warning. Managers and leaders in all sectors of industry can be very dismissive of it. Many have been heard to remark that there is little that field research can tell them about their buyers. Yet they are almost always wrong. In fact, some very senior business leaders have been chastened by the direct comments they have heard their buyers make when sitting behind two-way mirrors watching focus groups.

Research does, however, need to be used properly. It needs to fill a gap in knowledge. It is sensible to first conduct an exhaustive 'desk review' to see if an Internet search can point to libraries, professional societies or academic institutions that have already conducted research or provided commentary on the subject in question. In fact, many people in large companies which lack a structured research library find, after a brief search, that their own company has conducted research near to the subject in question on previous occasions.

Once this preliminary work has been completed, the gap in knowledge ought to be clearly defined in a brief to a specialist research agency. This should specify the purpose of the research. It might be to test a new service idea, test segmentation dimensions, understand a new concept or identify client needs. The exercise will be confused if there are too many objectives. In particular, the information yield that is expected must be made clear to the supplier.

Once results come through, careful interpretation is needed. It is important to understand, not only the statistically valid representation of results but also their meaning. Human beings often do not know what they want and, sometimes, why they behave in a particular way. They will say they want cheapness yet spend outrageous sums on a consultancy project from a branded supplier.

There are numerous examples of mistakes due to poor interpretation. In the late 1980s, for example, one American telecoms supplier commissioned a leading consultancy firm to judge the ultimate size of the worldwide mobile phone market. The consultancy, which was not a specialist research firm, interviewed people in various parts of the world and estimated the size of the mobile phone market to 'never exceed a million handsets'. They did not understand people's social need to chat, move fast and get a grip on personal communications.

Research therefore needs careful commissioning, good execution and enlightened interpretation. Yet the expense and effort is more than worthwhile. It can lead to profitable new insights that build strong future revenue streams and it can obviate mistakes.

SEGMENTATION

1. The concept

The segmentation of markets into groups of buyers which can be easily reached by suppliers is a powerful concept which has improved the profit of many businesses. It suggests that buyers can be grouped around common needs. Then, by customising the firm's offer to meet these common needs, suppliers can both gain competitive advantage and save costs because they are only addressing a portion of the market.

There have been several methods of segmentation developed and publicised over the past few decades. They include:

Demographics and socioeconomics. The grouping of people according to physical characteristics (age, sex) or circumstances (income, occupation or education). This is commonly used in developed nations. In the USA and Europe, for example, there is currently much emphasis on the design of products for ageing populations.

Life stage. This is a more precise form of demographics. It groups buyers according to the phase they have reached in their life, such as 'married', 'home building' or 'retired'. They might become 'freedom seekers', 'dropouts' or 'traditionalists' according to their phase of life.

Psychographics. The grouping of people according to various personal characteristics such as personality or social class. In the 1980s, for instance, the British National Readership Survey categorised the population as 'A' (higher marginal), 'B' (middle class), 'C' (lower middle class) and 'D' (working class). However, this is now breaking down.

Geographic/location. Grouping people according to their country of birth or area of residence. This can focus on the region, population density and climate. It can involve county, town or even street.

Behavioural or attitudinal. Grouping according to a particular behaviour which may affect product usage or price sensitivity, or values and attitudes. A good example was created by the marketing agency McCann-Erickson in the latter half of the 20th century. It identified: 'avant guardians' (concerned with change and well-being), 'pontificators' (who have strongly held traditional views) and 'self-exploiters' (who have high self-esteem).

'Tribal'. A specific example of behavioural segmentation which groups customers according to the social groups or cultures with which they identify. For example, in the 1990s, one of Europe's premier television companies started to commission programmes for tribes in society (such as young, independent women) based on how they communicate and live.

Benefits sought. The grouping of people according to the advantages they are seeking from the product or service. For instance, as early as 1968, Russell Haley (Haley, 1968) published segmentation for the toothpaste market based on this approach. Customers were in the 'sensory' segment (seeking flavour or product appearance) or the 'sociable' segment (seeking brightness of teeth) or the 'worriers' (seeking decay prevention).

Lifestyle. Grouping customers by a common approach to life. One famous example of this type of segmentation was developed by Young & Rubican in the 1980s. It was this advertising agency which developed, among others, the famous, but now defunct term, 'YUPPIE' (Young Urban Professional). Incidentally, this also illustrates an important point about customer segmentation: it dates easily. Whereas people revelled in being a Yuppie in the early 1980s, it is now considered out-of-date and unattractive.

Context. Proposed by Dr Paul Fifield in the early 1990s (Fifield, 1992), this method groups customers according to the context in which they use a product or service. It focuses attention on things that bring people together, exploiting shared interests. For instance, one cursory glance at people on a fishing bank will show that they have little in common other than the sport itself.

Business-to-business segmentation types include:

- **Industry sector.** Grouping businesses according to the industry in which they specialise. These sectors are often formally set by government economists as a means of defining and recording activities in different areas of the economy.
- **Organisation style.** Grouping businesses according to the culture or prevailing climate of the company. They may be centralised or de-centralised or 'innovative' versus 'conservative'. The Myers Briggs organisational types ('fraternal', 'collegial', 'bureaucratic' or 'entrepreneurial') have, for example, been used as a basis for segmentation.
- **Organisation size.** Grouping businesses according to the number of employees, assets or revenue.
- **Company lifecycle.** Companies, like product groups, have a 'lifecycle' through which they evolve. They go from birth to death at different rates, struggling to get through 'inflection points' to increase revenue and margin. They have similar characteristics (e.g. management style) in each phase and this has been used as a basis for segmentation.

- **Industry maturity.** Industries also move through different phases. For instance, in developed economies, their agricultural or manufacturing industries are at a different phase of evolution to, say, biotechnology. The phase of growth affects the behaviour of suppliers in it and has also been used as a basis for segmentation.
- **Context.** As with consumers, grouping businesses according to the context in which they use the product or service.
- **Needs/benefits.** This is based on underlying needs or benefits sought by the company from its suppliers.

Clear tests have been developed to check whether a particular segmentation is appropriate for a particular company in a particular market. They include:

- **Homogeneity.** To what extent will the members of the segment act in the same way?
- **Measurability.** How big and valuable is the segment?
- **Accessibility.** Is it possible to reach the segment with marketing or sales programmes?
- **Profitability.** Is the segment substantial enough for the supplier to profit from?
- **Attractiveness or relevance.** Is the segment something customers will want to identify with?

The last point is particularly powerful. If the target group can be expanded by people who aspire to belong, demand for the proposition will be increased.

2. Constructing the tool

There appear to be few developed and well-accepted approaches to segmentation. The following process is an amalgamation of several suggested by researchers.

Step 1 – Review all known segmentation methods. A group of experienced leaders should be drawn together to discuss segmentation as a subject and the types previously created, their benefits and drawbacks.

Step 2 – Create a hypothesis. In discussion, the team will create an idea of how they think their market might segment. If they have existing customers in the market, they will need to think about how they behave. They may have to customise or examine market research or industry reports to get to the heart of this. In particular, they will need to discuss different attitudes or behaviours that they have observed. Eventually they will reach an idea of which previous segmentation type best fits their view of buyers in the market and how it might be adapted to their market. In doing this they are creating a hypothesis which can be tested.

Step 3 – Create segmentation dimensions. Segmentation dimensions are the ways in which the buyers will behave towards the firm and its services. As far as possible, they should be values, beliefs or cultural biases (whether in consumers or organisations) because they determine behaviour. If the segmentation is effective, each group will exhibit these in different ways.

Through discussion, the team should create a set of segmentation dimensions by which these differences will manifest themselves. These can then be scaled using sensible scoring of the extremes. For example, if a supplier was segmenting a business-to-business market on the basis of 'organisation style', they might hypothesise that there are centralised and de-centralised organisations. This would manifest itself in different business practices, one of which would be purchasing style and it would become a 'segmentation dimension'. For a centralised organisation, buying would be controlled by a central purchasing department, whereas in a de-centralised organisation it would be devolved to business units.

Step 4 – First test: use data to test the segment dimensions. By examining any existing customers and scoring their behaviour against segmentation dimensions, it is possible to conduct a fast, inexpensive test on the validity of the dimensions and where different clusters appear. If no clustering appears in this first test, then new dimensions, or maybe a new hypothesis, need to be created.

Step 5 – Second test: research. Any clustering should be confirmed with direct research. This is best conducted in two phases: first, a qualitative phase, testing the dimension in depth with a few potential customers; second, a large quantitative project using a trade-off technique such as conjoint research. Through this method different clusters of potential buyer groups will become evident. Again, if clustering does not appear the team should revisit its initial hypothesis.

Step 6 – Third test: test marketing programmes. Research itself is probably not sufficient to confirm such an important subject as customer segmentation. Potential segments can also be confirmed in a more practical way, imitating as far as possible the rough and tumble of the real marketplace. A number of test marketing programmes could be designed in order to ensure that the buyers identify with the proposed groups that they are in and respond to propositions specifically designed for them.

Step 7 – Create a full investment and market entry plan. Segmentation has implications for: the market proposition for each group, customer service methods for each group, the ideal method of marketing communication, sales strategy, IT systems, operational processes and pricing. Taken seriously, it affects every aspect of the way the firm approaches its intended market. Each aspect needs to be carefully thought through, costed and built into the market entry plan.

Step 8 – Gain approval for the investment. This needs to be treated like any other hard-headed investment strategy. The pros and cons, benefits and return on investment need to be assessed and drawn together into the market entry plan, which should be submitted to the appropriate leadership team for formal approval.

Step 9 – Implementation. As part of implementation of the plan, everyone in the new service organisation will eventually need to be familiar with the new segments and how they should be handled.

3. How to use the tool

Customer segmentation is one of the fundamental building blocks of marketing. It is the basis of: effective marketing communication, innovative new services and appealing brands. The human insight from deep knowledge of a group of human beings is the source of real competitive advantage. Segmentation, to some extent, is marketing.

SWOT ANALYSIS

Application: Strategy Development

1. The tool

Probably the best known of the strategy tools, this matrix helps structure discussion by summarising a firm's strategic position into: strengths, weaknesses, opportunities and threats, see Figure A.28.

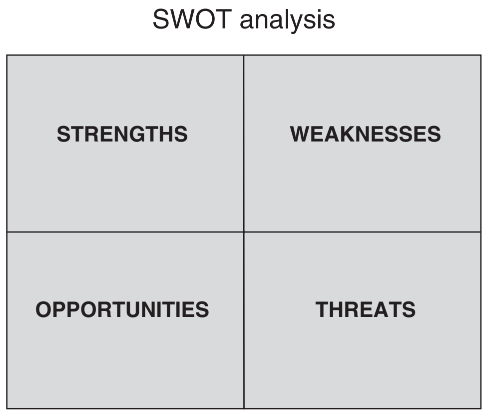

Figure A.28

2. Constructing the matrix

A SWOT analysis can easily be created during discussion amongst a management team. Valuable insight and debate can emerge from its succinct summary of the firm.

It can, however, be constructed using detailed analysis. The market analysis techniques outlined in Chapter 3 can be summarised into it. Competitive analysis will reveal 'threats', for example, and client research will give insight into 'opportunities'. On the other hand, an environmental analysis, which reviews 'PEST' factors, can contribute to both of these.

Those wishing to take a thorough, analytical approach can use the 'TOWS' method. This suggests that each item in the matrix is numbered. Then each threat is compared against each weakness and each opportunity against each strength, in a systematic search for strategic options. As the strengths and weaknesses arise from debate about the firm's competencies, the strategist is, in fact, checking these against market developments through this process.

3. Use of the tool

The tool is best used in the strategy development process to summarise analysis. It allows senior people to focus debate and decision-making.