

Time to Reengineer Your Marketing Model

By Dave Reibstein

Originally published in *CMO Magazine*, June 2005



The major assumptions you make about your business, when combined with your marketing investments and how you plan to “make money,” comprise your marketing model. At one level, the model reflects where you place your bets to drive growth. From their first day on the job, at any level, marketers learn that the components of the marketing model are the tools that grow the business.

Most consumer packaged goods (CPG) companies, for example, have a marketing model that allocates funds across retail trade, consumer promotion, advertising, PR, packaging and graphics, market research and new products. For companies in other industries, the elements may differ, but the model certainly exists.

Ironically, many marketers who agonize over how to differentiate their products or services feel perfectly content to use the same marketing model year after year. Most of a CMO’s energy is focused on optimizing marketing spend across well-established categories. Rarely are these allocations based on the ability to connect investments to interim metrics, and then to specific financial outcomes.

Marketers who think about straying from convention run into resistance from the established network of agencies and service providers that reinforce the existing marketing model. Most of these entities have a vested interest in sustaining the status quo, regardless of the outcome.

Despite the challenges, reengineering the marketing model should be a priority for any CMO. In his keynote address to an American Association of Advertising Agencies conference last year, Procter & Gamble CMO Jim Stengel called out the elephant in the room: “I believe today’s marketing model is broken. We’re applying antiquated thinking and work systems to a new world of possibilities.”

Stengel was referring to the advertising and broadcasting industry, but there is compelling evidence that his comments apply well beyond that universe. Just ask the millions of consumers who registered in the first months of the national Do Not Call list.

Recent research conducted by Yankelovich reinforces three important consumer trends:

- Consumers are actively looking for ways to control marketing messages.
- They are far less interested in advertising than they used to be.
- They have higher expectations for how they receive marketing messages.

This shift in consumer attitudes is prominent among segments such as teenagers, who are getting increasingly harder to reach through traditional methods. Combined with new vehicles for media

consumption (iPod, Web, e-mail) and advertising avoidance (TiVo), one can hear the death knell for marketing models across many industries.

First step: Admit there's a problem. By not challenging your existing business model, you risk becoming vulnerable to new competitors or those who are adapting faster to this new world order. Consider Costco's impact on traditional retailers. Costco operates with a limited number of SKUs. Its focus is more on selling memberships than selling products. Over the past several years, Costco's annual profit has been almost identical to its total membership revenue. Product sales are a means to drive membership.

Where does the issue of reengineering the marketing model stand on the CMO's agenda? In our "CMO of the Future" research, conducted last fall with more than 350 CMOs and CEOs, we asked respondents to rate the importance of key marketing issues. Forty-two percent cited the need to address a declining marketing model as very or extremely important to their organization's effectiveness. It is, at least, on their radar screen.

And while it's encouraging that 42 percent of the respondents feel this is a vital issue, we should note that it ranked below issues such as leading new product development, connecting marketing across the enterprise, measuring marketing ROI and investing in technology (see chart). P&G has made the reengineering of the marketing model a priority. We think it would be wise for others to follow.

Second step: Change your mind-set. How, then, to address the problem? Tweaking around the edges of your existing model won't lead to dramatic improvements. Major change requires more radical thinking.

We described the first step of that radical thinking last month ("Connect the Dots"): connecting marketing investments to metrics that in turn are linked to financial outcomes. Any changes that you make in your marketing model without a firm understanding of the metrics that drive financial outcomes will be little more than guesses.

In order to challenge the status quo, you must be able to make some sense of which marketing investments are having an impact on metrics that deliver desired outcomes, and which ones are not. Rest assured, the status quo isn't going to give up without a fight.

Priorities

Percentage of respondents who indicated the following issues were extremely or very important



SOURCE: "CMO OF THE FUTURE" SURVEY

Third step: Make the business connection. Your marketing model is an extension of your business design. You have a set of assumptions for how your business operates or “goes to market.” By first evaluating how your organization’s business design is changing (or is under attack), you can determine the implications for your marketing model.

To illustrate, let’s look at the CPG market, which is in the midst of a shift in power from CPG manufacturers to the retail trade. Every CPG company in the past 20 years has struggled with the retail trade’s increased influence. That’s a business design issue. For CPG marketers, this shift has manifested itself in increased trade promotion spending, which is usually at the expense of consumer and brand-building investments.

We know of one large CPG manufacturer that set out to evolve its marketing model to address this strategic business issue and, in doing so, developed consumer metrics its executives never dreamed possible.

Reengineering in Action

To combat the steady rise in the retail trade’s power, along with a low-growth market and increased uncertainty about the value of traditional marketing investments in areas such as broadcast media, the CPG company resolved to change its marketing model. The new weapon in the company’s arsenal: direct-to-consumer marketing. (At one time, it would have been inconceivable for a large CPG manufacturer to reach out directly to consumers, bypassing its trade partners.)

To succeed in this effort, the CMO had to:

- Develop an entirely new marketing approach that would deliver a compelling value proposition to consumers.
- Hire and integrate marketing executives with deep expertise in direct marketing.
- Test and refine the value proposition in a small market.
- Sell the large investment to senior management. Building a robust direct marketing capability would require cuts of nearly 20 percent to all other marketing investments, including trade promotion.

Over a three-year period, the marketing team conceived, tested and rolled out nationally its direct-to-consumer initiative. Consumer marketing at this CPG giant will never be the same.

Unlike many of the old marketing campaigns, the new direct-marketing investments can be clearly measured and tracked. Marketers know precisely what consumers are doing with their offers, and as a result, they can measure the impact that the direct marketing investments have on consumer behavior. The CMO now can argue for marketing investments based on a set of consumer and financial metrics that most CPG manufacturers can only dream about.

This case illustrates the power of looking at fundamental opportunities in your business design for inspiration and insight into how to reengineer your marketing model. Hoping that the next new product or advertising cycle will deliver break-from-the-pack results is not enough to guarantee success. As consumers become less accepting of traditional forms of communication, the CMO must take increasingly bold steps.

For the CMO of the future, reengineering of the marketing model represents a smart, disciplined way to ensure that marketing makes a clean break with the past.

