ISSUE NUMBER 35

WINTER 2006

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Market Leader
Winter 2006, Issue 35

Market Leader
THE JOURNAL OF
THE MARKETING SOCIETY
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Interactivity is as old as Gutenberg – it's just never had a voice before

Jeremy Bullmore

There seems to be a widely held and virtually unchallenged belief that, thanks to the internet, the nature of mass communication has changed both radically and irrevocably. Well, yes, it has. And there again, no, it hasn't.

This, in only slightly exaggerated form, is how the argument seems to go.

Starting in 1440 with the invention of the printing press by Johannes Gutenberg, all significant power has been in the hands of the publisher, the transmitter, the controllers of media. For the next 550 years, audiences were no more than impotent and passive absorbers of broadcast messages. Mass communications were strictly one-way streets and every advance in technology put more and more power into the hands of the sender; not one empowered those insignificant receivers.

Newspaper magnates told their millions of mindless readers what to think, what to buy, how to vote; and the readers complied. The worldwide ratio of senders to receivers was 1: uncountable millions. Almost all mainstream advertising was based on the one-way model. Having established that if product claims were repeated relentlessly enough, people could remember them (a fact that could conveniently be measured) the model then leapt to a less solid conclusion: that simple recall of a reiterated phrase could have a beneficial effect on buying behaviour.

Underlying all this was the comforting knowledge that consumers were by and large docile creatures, almost deferentially pleased to accept advice and instruction from anyone with access to a loudhailer.

And so it remained, it is widely believed, until the advent of the internet began to redress the scandalous imbalance between sender and receiver. Only today are the first brave shoots of interactivity to be seen and welcomed, bringing a new sort of democracy to a long-deprived world.

The beady-eyed reader will have spotted immediately what I've done so far. I've elided, conflated, two totally different arguments as though they were part of the same whole. But at least I've done it deliberately, which is more than I can say for some.

Of course it's true – demonstrably, unarguably true – that for 500 years only a tiny minority of people has had access to those loudhailers: those printing presses, those transmitting stations. Indeed, it's still true.

But what has never been true is that mass communication both created and depended on an Admass: on a vast and passive homogenised audience.

Every individual receiver of every communication, irrespective of age or level of literacy, has always been an active participant in the communications process. Interactivity is no new phenomenon; it's just that the interactivity has been a private affair, taking place instinctively inside each individual head. Too often we've mistaken an enforced silence – since receivers had no access to their own loudhailers – for acceptance and compliance.

THE SERIOUS BUSINESS OF LAUGHTER

There's nothing remotely new about this observation. Arthur Koestler was writing about it at length in his strangely neglected 1960s book, *The Act of Creation.* Of all forms of communication, the one that he found most intriguing was humour. It's a brave man who sets out to explore the anatomy of humour, and Koestler was not noted for his lightness of touch. But humour attracted his attention for one excellent reason: it was the only form of communication that, if successful, elicited a demonstrable physiological response.

If we set out to move people to pity, or to understanding, or to desire we've no means of knowing whether we've succeeded or not: something may have happened inside those many receiving heads but we may never be certain. We can pretend to ourselves that we've achieved our objectives and no one can easily prove that we haven't. The professional comedian, however, is denied such comfort. The professional comedian either induces laughter – or not. There is a cruel, unequivocal finality about such judgements that is true of no other form of human communication. People laugh; or they don't laugh. No need to debate the issue.

And why do people laugh? Because 'they see the point'. It is the receiver's participation that triggers the response. Explain the point and receiver participation is thwarted; no one will laugh. Leave too wide a gap and receiver participation becomes impossible; no one will laugh. No proprietary communications research technique can begin to provide such an instant and unarguable verdict.

In one of his more memorable passages, Koestler writes: 'Language itself is never completely explicit. Words have suggestive, evocative powers; but at the same time are merely stepping stones for thought. The artist rules his subjects by turning them into accomplices.' That last sentence remains as good a job definition of the professional persuader as I know. (It's also, I think, what EH Gombrich, in *Art & Illusion* (1960) was getting at when he spoke of 'the beholder's share'.)

This is why the English language needs the word 'imply' as well as the word 'infer' – and why it's not just pedantic to groan when they're used interchangeably.

INTERACTION AND IMPLICATION

Examine those examples of marketing communications that you most admire. I bet you that none of them is totally explicit. I bet you that all of them reveal an understanding of creative receivers and make skilful use of them. I bet that all of them use implication rather than assertion – and trust their audience to make the planned, desired inference.

Of course it takes confidence. It seems to be risky because it is risky. Telling jokes is risky. When comedians fail to elicit laughter, they're said to have died. But they know that they're more likely to die by underrating their audiences than by overrating them. And the same is true for the humble marketer.

One of the many contributions that the amazing internet will make is to begin to provide loud-hailers for the hitherto deprived; so that we no longer have to guess, or rely on creaky research to discover, just exactly what's going on in those highly active and inventive minds that we spend so many millions addressing. At the very least, we shall have to stop pretending that nothing is.

FOOTNOTE

Oddly, not many people who study communications are very good communicators. It may be the translator's fault, but this is what a Spanish professor called JL Aranguren wrote in 1967: 'The emission does not always and inevitably lead to the simple, quiet and passive reception of a message, but frequently excites an active response: and for the same reason, this response may be in opposition to the emission instead of conforming with it.' No wonder his own message never got through.

Market Leader
Winter 2006, Issue 35

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THE JOURNAL OF
THE MARKETING SOCIETY
www.warc.com

Survival of the fittest

John Lovering
Chairman, Debenhams and Somerfield

The jungle that is UK retail is getting tougher. Consumer debt, stealth taxes and new necessities, such as mobiles, Sky TV and second holidays, are all taking their share of wallet. Added to these challenges are rising operating costs, minimum wages, increasing energy bills and a government seemingly committed to boosting shop theft.

These pressures are further compounded by space growth of 3–4% per annum, so 0% like vs like is the new norm, a big problem when costs are rising 4–5%.

The 'get out of jail' card of direct sourcing and the productivity of Chinese manufacturing is not such a safety valve as it was, as the yuan strengthens and Chinese costs increase.

As retailers and marketers, we know this. It's only the government that is not completely sure. All it is sure of is that regulation interference and paperwork is the cure.

So for us the question is, how can we succeed in a win or lose marketplace? Nature tells us that the survivors are flexible; they are bold and adapt to new conditions.

The three key words other than 'location' in retail are 'new', 'value' and 'exclusive to us'. They always have been and always will be key. The customer must want you to survive. Retailers have got to meet an unmet need of consumers, while avoiding the big predators.

Specialists and supermarkets attack mid-size generalists; Tesco meets a massive spread of needs, so any middle-ground specialists must be special to survive.

The internet should and will own the retail of hard goods brands for the time-stressed consumer.

Only service can save the shed operator.

In all this blood and gore, why as a retailer should you be allowed to live and flourish? What do you do that is different, better and hard to replicate that people want today and will want tomorrow? Traders must be clear who the customer is and what need they will fulfil. These may be obvious truths but they are not universal.

Here are some lessons from my experiences in the retail industry.

SOMERFIELD

Working with Somerfield identified a clear range of issues. Somerfield wanted to be like Tesco and Sainsbury's, but that was not what its customers wanted. Somerfield was a poor Tesco, but it had the potential to be a good supermarket.

The Somerfield customer has different needs to the Tesco customer. For instance, 70% of Somerfield's transactions are with empty-nesters over 45. They want smaller pack sizes, different brands, promotions that say a little bit more, not just 'two for one'.

Somerfield needed to be about local and top-up. It serves the customer who walks to the shops and the relatively leisured, not the time-stressed, multi-car, multi-person young family.

Furthermore, the Somerfield range was too fragmented. Best sellers were out of stock because of all the non-sellers on the shelves.

Recognising and fixing these issues has turned Somerfield around.

DEBENHAMS

At Debenhams, before it was taken private, duplication was mistaken for choice. The range was wide but too many items were doing the same job. Too much space was tied up by slow sellers awaiting bi-annual sales.

Progressive markdown of slower lines to allow room for the fresh and new, is now and was then the conventional wisdom in clothing retailing, but Debenhams was not doing it.

We were clustering our offer too tightly, not offering a wide price architecture for trading up or communicating super value at entry price.

The real differentiator, 'Designers at Debenhams', had been nine years reaching lift off. It is the key to the 'Exclusive to us' factor for Debenhams. Fixing the 'Designers' range three years ago, means Debenhams will be one of the winners in the jungle.

PEACOCKS

At Peacocks in 2000 we had a business that sold non-fashionable, basic products to a value-conscious mum for her family, but not for her. She wanted fashionable clothes but lacked money, not taste.

Chief executive Richard Kirk was brave. He positioned the business 15 years younger and ditched undifferentiated basics in favour of more fashionable lines.

The supply base had to be changed and the lead-time shortened. New sources of supply in the eastern Mediterranean and Balkans were critical. Because of this bold move Peacocks has trebled profits in this decade – another survivor.

HOW TO BE A RETAIL WINNER

1. *Winners do not confuse costs with productive resource.* Any fool can cut cost; the skill is maximising value between revenue and cost. Winners save where they can and spend where they should. They know a sales prevention officer and an admin 'jobsworth' at 100 metres.

2. *Delivering really great customer service* is the last frontier for most retailers. The pressure of cost ratios and the difficulty of recruiting the right people makes this tough. The easy part is understanding what customers would like and what they are prepared to pay for a given service. The real difficulty is delivery.

   Retailers know the importance of people development and training, but it is hard to be the unpaid school for shopkeepers or the teacher of last resort for the government. But services *can* be sacrificed for great value.

   For example, IKEA persuaded customers to pay for distribution costs in return for great value and instant delivery. And Freemans, the mail-order business, changed its cost structure by getting housewives to act as local delivery couriers.

3. *Expensive space means more fixture density, and fewer duplicated, slow-moving service lines.* At Homebase, for example, the mezzanine floors added 30% to space, 10% to sales, but 25% to brand contribution. Fixed costs did not grow as space did.

4. *Expensive labour requires simpler store operations* and clearer presentation of products and promotions.

5. *M&S has shown the importance of differentiated, relevant advertising* in the fight for the shopper's pound.

6. *Responding to pressures and presenting them as a plus*, such as cutting out plastic shopping bags; introducing degradable packaging are common-sense adaptations to the pressures we are under.

7. *Value for money in capital expenditure* is critical. Spend for functionality and consumers, not for prizes and designers. Debenhams cut capital expenditure per foot by 40%, Somerfield is doing even better than that. Both companies' new stores look better than their predecessors.

8. *New channels and incremental sales counter a difficult like vs like outcome.* The internet should now be 5% of a mass retailer's sales mix.

9. *Debenhams has shown the importance of international development* through ownership in Ireland and franchising in Asia, the Middle East and eastern Europe. We have also just signed for ten stores in India.

10. *A great brand can trade anywhere.* For example Fired Earth, knowing its brand was strong, moved from relatively high-cost high street locations to low-cost, large-floor-space character outlets out of town. Customers travelled long distances to get to a Fired Earth anyway, so why not get them to come somewhere cheaper to trade.

LESSONS LEARNED

The real lessons for retail survivors and winners are about culture, style, the organisation and the people you employ. Flexibility means reducing your 'break even' point, turning fixed costs into variable ones, outsourcing to generate more options and lower fixed burdens.

An innovation culture is key: creating a spirit of 'can do' not 'too frightened', 'too politically difficult' or 'can't be bothered'. Trialling, measuring and acting on new initiatives is critical.

Furthermore, winners build personal accountability, give power to the line and dismantle committees. They create a climate where everyone can put forward ideas and get a hearing if they have some facts to back them.

They value numeracy; the answer is always in the numbers. Too many retailers are uncomfortable with the numbers and are not sure how to analyse their business to get the clues to action.

So winners listen, evaluate and act. They use all the power of their people. They offer something different, relevant and hard to copy. They know 'location', 'value', 'new' and 'exclusive to us' are key. They never stand still and admire their past successes.

Speech to the Marketing Society Retail Forum 17 October 2006.

Market Leader
Winter 2006, Issue 35

Market Leader
THE JOURNAL OF
THE MARKETING SOCIETY
www.warc.com

'All great truths begin as blasphemies'

James Dyson
Dyson

Thank you for the opportunity to meet and talk with you. Especially since I'm in the wrong business and you're in the right business, at least if the current generation of graduates are to be believed. Half of all graduates say they would like to be in the media and not in manufacturing, engineering or inventing. It's clear that engineers have an identity crisis – and probably one of our own making.

The serious problem facing Britain is that we have 37,000 engineering vacancies and only 24,000 engineering graduates every year. We've become more concerned with the cerebral process of communication rather than actually making things.

Jeremy Bullmore said this of advertising: 'Who gets neglected? The inventor, that's who. The designer the engineer, the chemist, the brewer, the boffin.'

Since I'm, wrongly, thought to be anti-advertising and anti-ad agencies, this may be a rash appearance in the lion's den. If I escape unmauled, it'll be because I've convinced you to let the facts tell the story.

THREE FACTS AND A PARADOX

First, I do believe that too many marketing campaigns, too much PR, and too many ads, are misinformed or oversell.

Second, I don't think this is the fault of marketers.

Third, I do believe that the fault usually lies with the clients and their brief. Too many businesses give priority to the ad campaign rather than getting their product right. It's partly a financial problem and partly a cultural one.

We British love to live life as a contradiction. We vote Brunel the second most admired Briton (he was half-French, but let's not let details get in the way) and continue to lap up programmes like *Tomorrow's World* and the Discovery Channel. But our bank managers refuse a loan to an engineer, a loan that they'd happily give to a bookmaker or pizza parlour.

Yet we still say we are a nation that encourages inventiveness. How do we explain this paradox? Our politicians and our leader writers love to wave the flag of British inventiveness. We think we're all in favour of good old British inventiveness. In theory. But, in practice, everyone from bank managers to cartoonists disparage engineers, designers and inventors.

Wasn't the Millennium Bridge's wobble hilarious? Wasn't it yet another typical British cock-up? Not really. It was a bold design. But we seem to revel in failure and it's poisonous.

If there is praise, it's waxing nostalgic for a lost world that never existed. The popular image of invention is Eureka moments – Archimedes jumping from his bathtub or Newton under the apple tree. Such moments are rare. They're almost always the culmination of long hours of experimentation and endless mistakes, rather than a flash of inspiration.

BRITAIN VS JAPAN AND THE REST

Back in the real world, the Japanese have built the world's second largest economy by taking the opposite view. They put no faith in individualism. They have an anti-brilliance culture. The British need a hero. The Japanese don't.

Journalist Dejan Sudjik attended the launch of the original Sony Walkman. When writing up his story he called Sony and asked a simple question: who designed the Walkman? Half an hour later he received a fax with not one name but 50.

The Japanese know that quantum leaps are rare. Constant development will result, in the end, in a better product. And that is my experience too.

1978 was the year I had the idea for a vacuum cleaner that didn't clog or lose suction. I wasn't searching for it. Frustrated, I found it. The first production run of my design began in 1986. I'd licensed it in Japan and five more years passed before I produced anything in my own name. Such a long gestation is commonplace in Japan.

And the people out there running the companies are engineers, like Sony's Akio Morita and Soichiro Honda. They are the rule, not the exception.

It worries me that Britain, the nation that started the agrarian and the industrial revolutions, is slipping behind the competition in the global revolution. We accord more value to spin than to substance. We Brits pride ourselves on being inventive. But here's the reality: Britain has fallen to 11th in the league table of patent filers. We lag behind not only Japan and Germany, but also Taiwan.

And even Switzerland! Graham Greene's anti-hero Harry Lime said: 'In Switzerland, they had brotherly love, 500 years of democracy and peace, and what did that produce? The cuckoo clock.' But Swiss industry pays high salaries.

It will become true of Britain, if we continue to think media studies degrees are more valuable than engineering and technology degrees. Compare our trickle of 24,000 graduates in engineering with a mighty 300,000 a year in China and 450,000 in India.

Does it matter, you may ask, if everything is made in China, as long as it is designed in Britain? Be warned. The Chinese Minister of Education has made a simple statement: 'We aim to change the ubiquitous “Made in China” tag to “Made and designed in China”'.

If the factory is in China, it becomes a simple matter of convenience. Locate the designers next door – and maybe the marketing strategists too. Chinese and Indian firms are already buying up western brands. And design rights: MG, IBM, Vax, even Tetley tea.

MANUFACTURING VS SERVICES: MISGUIDED PRIORITIES

Go to the Institute of Civil Engineers in Whitehall. Admire the portraits of great British engineers: Isambard Kingdom Brunel, Thomas Telford. It makes you proud. Or it would, except that not one of them was born after 1900. You'd think we were turning into a museum.

Already, we run a persistent current account deficit, £7bn in the second quarter alone. In relative terms, UK manufacturing is falling off a precipice. Between the second quarter of 1997 and the same period this year, the volume of manufactured output rose by just 2.4%.

The output of services expanded by more than 38%. So that's no problem, then, is it? We have the shiny new world of service providers to redress the balance of old world oil, grease and machines. Except that's a myth too.

Ignore such modern re-eruptions of 'tulip fever', like the dotcom boom. Forgive the City's hard noses for occasionally being seduced by glamorous 'tech stocks'. They burnt £400 million buying Lastminute.com. At the time its turnover was just £195,000. Meanwhile Rolls-Royce was unable to raise £250 million to develop new engines.

Who employs most? Who exports most? Who creates the most wealth? And who is unique?

Just compare the finances of service companies and manufacturing companies. Microsoft's revenue for the latest year was $44 billion – but General Electric's was $150 billion and Toyota's $158 billion.

According to the *Fortune* Global 500, 11 of the world's 12 biggest companies are industrial. And only one is in the service sector. So, it matters for our jobs and future profits when Korea's Samsung hires 30,000 R&D engineers in one go: more than all the engineering graduates we turn out in an entire year.

It matters that British engineers are among the lowest paid, or rarely sit on boards and, when they seek finance to invent a new product or start a new business, the door is all too often slammed in their face.

And it matters to our intellectual property that the Japanese Government has injected another $125 billion into research and development. Here, the UK Government is merely talking about investing $1 billion.

According to Design Council figures, even Chile has come out ahead of us in terms of growth in R&D spend. IMF statistics show that international trade in intellectual property – that is, patents, royalties and licence fees – is rocketing towards $100 billion a year.

It's a business that matters for Britain. We're currently the second biggest earner from this 'trade in cleverness'. Second only to America. But today's earnings are based on yesterday's inventions. If we don't continue to invest in R&D, we won't look so clever tomorrow.

Labour and the Tories seem equally slow in getting the point. It was a Tory minister who told me that tax breaks were wrong because they result in 'distorted investment'. He feared people would start investing in R&D to 'get the tax breaks'. Well, exactly,' I told him.' That is just the point.'

With this sort of mindset – and no engineer in the Cabinet except, would you believe, Margaret Beckett – it's no surprise that we risk losing our appetite for big infrastructure and engineering projects.

France has maintained its appetite for large engineering projects. The TGV travels at over 200mph and serves all of France. Its modern nuclear fission programme protects its energy supply. And with Peugeot, Citroën and Renault, it makes a lot of cars too.

Would we follow France's lead and invest in large-scale beneficial projects like the TGV? Or would our decision makers prefer to divert our resources to adventures in Iraq and Afghanistan? Would they prefer to splash a billion pounds on the Dome with its Disney displays or invest it in R&D for a future? We know the answer to that.

ENGINEERS VS MARKETERS – MORE MISGUIDED PRIORITIES

No surprise, then, that when Sir Christopher Frayling, Rector of the Royal College of Art, challenged 4 to 11-year-olds to draw 'an engineer', they each produced delightful pictures. But they depicted repair men fixing washing machines or the mechanic changing tyres. No pictures of Formula One racing car designers or jet engineers. This misperception is being hardwired into the next generation.

Meanwhile, much further up the ladder, is the marketing team. The marketers have become immensely powerful, influencing what new products should be built, and what they should include.

One reason for the ascent of the marketer is that what he or she recommends is usually based on evidence. Good, scientifically based evidence: what sells and what does not. Armed with these insights, the marketing director is often the oracle.

I have no problem with market research based on evidence. But too great a swing in power from the engineer and the inventor to the marketing men would create a static society. Because, in truth, they only know what has been selling, not of the unknown breakthrough yet to be invented.

That's where the inventor comes in. The difference can be summed up in the words of Thomas Edison: 'I have not failed. I've just found 10,000 ways that won't work.'

NEW IDEAS NEED NURTURING

Let's take some examples. First, Morita, Sony's co-founder.

Akio Morita

Morita created a strange device with headphones for his personal use as he travelled: his own music, wherever and whenever he wanted. But that was all it could do. Play. So his marketers were horrified when he proposed to leave off the record button. It was after all a tape recorder, the product upon which Sony had built its empire.

There was no market data to rely on. Nothing like this had ever been seen before. But this was Sony. The engineers were in charge. Morita got his way and this strange device of limited use was launched. But he didn't get his way in everything. Against his wishes, the name chosen was: the Walkman. So engineers aren't always right.

Alec Issigonis

The fuel shortage at the time of the Suez crisis prompted Alec Issigonis to design a car for Lord Nuffield's company, BMC. Production was about to start from two lines when – disaster! – in came the market research. It revealed the small car's Achilles heel. It wouldn't sell because people thought it looked 'silly', because it had no proper, big wheels – only little ten-inch jobs.

BMC was in a quandary. Should it strangle the new baby at birth? In the end there was a good old British compromise. The car went ahead, but on one line, not two. Of course, very soon after the car hit the road the nation went crazy for: the Mini. The 'silly' car became the biggest-selling British car in history, 5.3 million rolled off the production lines.

People loved the Mini's look. They loved the price. And they loved cavernous space allowed by those silly small wheels.

So was the market research inaccurate? No. It captured exactly how people felt about cars as they currently understood them. What an inventor does is design something so good it changes the way we see things. And you can't get that from studying straw polls.

So the verdict is clear from the evidence: the engineer, the designer, the inventor, must have a place in defining what the product is not instead of the marketing team.

We sell our vacuum cleaners and hand dryers, so I know that marketing is very important in the task of selling. The engineer is not going to explain their work as succinctly and powerfully as the marketing professional. My worry, though, is that, unless properly regulated, marketing can damage new technology. I'm content for the ad industry to be self-regulated – but the regulation must be strict enough to protect the integrity of the industry.

THE DAMAGE DONE BY SPIN OVER SUBSTANCE

Let me give you an example of what can damage both the ad industry and new technology: the attempt by manufacturers, aided and abetted by their agencies, to neutralise a rival's technical advantage by pretending to have the same technology. Let's take the case of stereo.

The original inventor of genuine stereo brings out a great product for music lovers. Two or more speakers to surround the listener with sound – an orchestra in your living room.

A rival undercuts the genuine article, selling mono sound but through two speakers. The rival still calls it 'stereo'. The technological advantage has been neutralised. The winner has the cleverest marketing campaign, but not necessarily the best product.

The result of our two-drum washing machine technology was an 'A' grade wash in half the time of the best competitor. In spite of repeatedly being asked to stop by the ASA, Bosch went on and on claiming quick washes without pointing out that they got an 'H' grade or worse.

So we need truth in advertising. Regulators should prevent your clients pressing you to pretend their products have qualities they don't have. Otherwise we'll all lose in the long term. Public trust will be lost. Our trust in our political leaders and in our press, has already diminished.

Don't go down the same route. It can be very tempting to use communications skills, not exactly to lie – but to mislead. All sorts of people succumb to the temptation.

So what can you trust? Or to be more germane to this audience, what kind of ads can you trust?

The ads I trust most are comparative ads. I think that, to communicate genuine improvement, you have to do a comparative ad. That is how you get people to understand the technical differences between one product and another.

Britain and the US are healthily robust about comparative ads, provided they are truthful. Some other countries won't let you tell the truth about rivals, in case it upsets them – sensitive souls.

Belgium is a case in point. We read in St John's Gospel: 'You shall know the truth and the truth shall set you free'. Not in Brussels it won't. Comparative ads there are close to blasphemy.

We were banned from saying 'we have no bag'. So we didn't. Once again, George Bernard Shaw may have hit the nail on the head when he said: 'All great truths begin as blasphemies.'

I hope I've left you with some little truths about engineers and inventors. And not too many blasphemies against marketing and advertising.

Market Leader
Winter 2006, Issue 35

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Substance sells: accountability and sustainability

Bennett Freeman
Social Research and Policy for Calvert

From human rights and labour practices to the environment and sustainable development, corporate policy and conduct is on the public agenda. Especially now, when trust in business remains low after the battering it has taken on both sides of the Atlantic over the last few years.

Public relations and public affairs professionals have a fine line to walk in aligning private and public interests. They can walk that line and align those interests if they recognise that real commitment and performance matter most – and that only substance sells.

I am going to make this argument in three parts: first by explaining why and how corporate responsibility and corporate reputation are converging; second, by suggesting how the corporate responsibility agenda is moving towards an even more challenging one focused on accountability and sustainability linked to corporate strategy; and finally, by putting forth a series of brief propositions as to how corporate reputation can be aligned with corporate responsibility in ways that contribute to business success and a better world at the same time.

THE CONVERGENCE OF CORPORATE RESPONSIBILITY AND CORPORATE REPUTATION

This convergence is long standing and intensifying. The connection dates back several decades – perhaps crystallised most powerfully by the way Johnson & Johnson created goodwill through its handling of the Tylenol crisis or Exxon failed to do with its response to the *Exxon Valdez* disaster.

Even earlier, student and citizen activists emerged in the 1970s in Europe and North America to challenge multinationals to disinvest from apartheid South Africa and to pressure Nestlé to alter its infant formula marketing practices – both ideologically and emotionally charged issues that sent reverberations across the landscape of corporate reputation for years.

But, beginning a decade ago, the contours of that landscape shifted. Corporate social responsibility began to move from the margins to the mainstream, from its established niches in the environmental and socially responsible investment movements to the centre of public and media attention, and on to the agendas of multinational corporations.

By the mid-1990s, 'CSR' became shorthand for several concurrent developments: for those new pressures and expectations facing multinationals; for a range of new codes and initiatives addressing those issues; and for an emerging cottage industry of conferences and consultants seeking the attention of companies. The phenomenon became trans-Atlantic, and indeed global, as European and North American multinationals came under scrutiny and criticism in nearly every region of the world.

There are several major reasons for this growing convergence between corporate reputation and social responsibility.

Power of NGOs

First, the power and impact of NGOs cannot be overstated, emerging from almost nowhere to challenge multinational corporations. A decade ago, Shell was rocked by the execution of Ken Saro-Wiwa and the Ogoni Eight by the Nigerian military dictator Sani Abacha and by the *Brent Spar* oil platform debacle in the North Sea. Human rights and environmental activists mobilised, public opinion was aroused and Shell was put on the defensive.

Nike, Gap and other footwear and apparel companies were soon to follow as they stood accused by NGOs and student activists of using 'sweatshop' factories. Company after company in sector after sector has since been confronted with internet-connected and media-savvy NGO campaigns raising tough issues and posing severe challenges to their reputations and even to their fundamental social licence to operate – all at a time when the global reach of these multinationals has been widening and their economic power deepening.

These campaigns were given a further political context and narrative by the pre-9/11 anti-globalisation movement that sought to put both multinational corporations and international governance institutions on trial.

Business has gained little love but much respect for the ability of NGOs to define and drive agendas that have forced individual companies and entire industries, as well as governments and international institutions, to react. The extent to which public perceptions and company reputations have been affected are reflected in studies that continue to rate trans-Atlantic trust in the brands of Amnesty International and Oxfam ahead of that in any multinational corporate brand in the world.

Moreover, according to John Elkington of Sustainability, the international NGO sector could become 'among the most influential institutions of the 21st century' as they are 'moving beyond a culture of criticism, to one of engagement with business and other partners in search of solutions'.

I believe that NGOs are already among those 'most influential institutions' and that business should engage them – but on terms defined carefully by companies and NGOs consistent with their own interests and appropriate roles.

Pressure from Ordinary Citizens

Second, a growing proportion of stakeholders around the world think that companies share responsibility with governments across a range of social and environmental issues. Not just advocacy NGOs but rising numbers of average citizens and opinion leaders alike believe that:

- oil, gas and mining companies have a responsibility to respect human rights wherever they operate and to limit their carbon emissions and other environmental impacts

- footwear and apparel companies have a responsibility to eliminate sweatshop labour practices in their suppliers' factories; that food and beverage companies have a responsibility not only to uphold stringent guidelines on product safety and chemical use but also to curb child labour in their agricultural supply chains in the developing world

- pharmaceutical companies have a responsibility to ensure access to HIV/AIDs medicines in sub-Saharan Africa and elsewhere by cutting prices drastically and relaxing patent protections so that cheaper generics can be marketed.

Virtually every industry is being challenged to address one or more of the most important and intractable issues on the global policy agenda, in ways that are posing both problems and opportunities for nearly every major multinational corporation in the world.

Declining Levels of Trust

Third, the wave of corporate governance scandals over the last several years on both sides of the Atlantic has further diminished trust in business and put corporate accountability front and centre as never before. Corporate governance scandals have even more effectively focused public attention on corporate conduct than have social and environmental issues – even those as compelling as sweatshop labour, human rights abuses, climate change and food safety.

While 'CSR' is seen by some in North America as an elite policy agenda, the corporate governance scandals have touched the public as basic fairness issues with tangible consequences for the tens of thousands of employees and investors who have lost their jobs and savings. The scandals have also imposed, sometimes brutally, the ultimate sanction on companies – the ruin of their reputation, brand and even business altogether as with Enron, Andersen, WorldCom and others.

Business Case Breaks New Ground

Fourth, corporate responsibility is gaining traction as the business case breaks new ground on two fronts.

- One is the still more accepted defensive case for managing reputation risk, safe-guarding social licence to operate and managing stakeholder relations.

- The other is the emerging affirmative case for gaining customer and employee loyalty, building markets for innovative products and services, creating competitive advantage, and attracting socially responsible investors among individuals and public institutions controlling billions of dollars of assets alike.

Increasing Momentum of the CSR Agenda

Fifth and finally, corporate reputation and responsibility have been converging because of the momentum that the corporate responsibility agenda has achieved. Whether the full business case for corporate responsibility is accepted or not, companies are faced with implacable forces and tough issues and choices, as the following list illustrates.

- The still cluttered landscape of competing standards and initiatives, even as the UN Global Compact and the Global Reporting Initiative have emerged, respectively, as the overarching frameworks among policy and reporting models.

- The debate over voluntary versus mandatory standards, still ideologically polarised on issues such as the UN Draft Norms on business and human rights.

- The continuing exposure to legal liability and litigation in US courts that has so alarmed extractive sector companies in particular and compelled the Bush Administration to intervene on their behalf in particular cases.

- The push for greater transparency, disclosure and materiality in reporting, with expectations continuing to grow as companies such as Gap and Nike set the bar higher with their recent reports.

- The sharpening focus on supply chains as the 'acid test' for corporate responsibility as brand reputations become indivisible from the performance of far-flung suppliers.

- The dilemma of confronting or engaging NGOs' critics, and if so on what terms and with what objectives and potential mutual benefits on the table.

- The discomfort of many in the business and NGO communities with blurred corporate roles that stretch the legitimacy, if not the capacity, of companies to solve problems and provide services that should be the primary responsibility of accountable governments.

Yet every major multinational, whether publicly supportive or privately sceptical of the contemporary corporate responsibility agenda, acknowledges that it nonetheless faces every one of these trends and issues, and that each poses a tangible risk or opportunity for the company's brand and reputation.

Even *The Economist*, in its widely read and debated 'sceptical' survey on corporate social responsibility in January 2005, still grudgingly conceded that 'the movement for corporate social responsibility has won the battle of ideas'. It forecasts that CSR will remain front and centre on corporate agendas, above all, because of its impact on companies' most valuable asset of all: their reputations.

BEYOND CSR – TOWARDS ACCOUNTABILITY AND SUSTAINABILITY

While this apparent victory of the CSR movement – or at least its growing mainstream acceptance – seems irreversible, the agenda is evolving and sharpening in ways that are already defining and redefining corporate reputations for important stakeholders. The multinationals that have demonstrated a commitment to corporate responsibility since the movement accelerated in the mid-1990s are now moving beyond CSR to embrace two sets of intertwined challenges. These will in turn help set the terms on which corporate reputations are judged for the next generation and beyond.

- The first challenge is *accountability* – the extent to which companies are transparent and accountable not only to their share holders but also to their diverse and demanding global stakeholders.

- The second challenge is *sustainability* – the extent to which companies contribute sustainable solutions to the toughest challenges, from the environment and energy to poverty and disease, which will shape the 21st-century world.

In my view, the terms 'corporate social responsibility' and its shorthand 'CSR' or even 'CR' obscure more than they illuminate the new expectations that are emerging for multinational corporations. They do so by implying that their economic functions are not positive contributions in themselves, and thereby play into the hands of critics who dismiss the entire agenda as anti-business. I believe that accountability and sustainability are concrete and measurable concepts – both for business and society.

Implications for Business

For business, accountability and sustainability are concepts that connect to the core of management discipline and strategic vision; they can safeguard brand reputation and shareholder value and become the basis of new business opportunities, markets and customers.

Implications for Society

For society, accountability and sustainability anchor business to democratic institutions and the rule of law; they can also mobilise and measure business solutions to social, economic, environmental and health problems from a local to a global scale. For both business and society alike, the concepts of accountability and sustainability can be framed in ways that are consistent with the legitimacy and capacity of companies to act in their own interest and the world's at the same time.

Yet business is weary of being the default key that is pressed in search of a solution to virtually every problem in the world. Society should be wary of expecting unelected – even if increasingly accountable – companies to take on roles and responsibilities better left to democratically elected governments or mandated to companies through legislation or regulation.

Even as they define and assume appropriate roles and responsibilities alongside governments and international institutions, NGOs and local communities, companies are testing and finding the limits as well as the possibilities of corporate responsibility. Indeed, they should acknowledge dilemmas beyond the legitimacy or capacity of a particular company or even industry to resolve on its own – provided that they are doing their part seriously and credibly.

No one company or industry can curb climate change, end sweatshop labour, eliminate poverty, eradicate HIV/AIDS or narrow the digital divide on a global basis. But every company, especially large multinationals, can lead by example in its industry and contribute solutions to these problems in the communities and countries where they operate. Leading companies make innovative commitments and deliver measurable progress, and find ways to communicate that progress even if it is imperfect and incomplete – as it almost always will be.

IMPLICATIONS FOR CORPORATE COMMUNICATIONS

Based on this analysis and my experience, I believe that the public relations and corporate responsibility worlds should share an interest in aligning corporate reputation with a post-CSR agenda that is increasingly focused on accountability and sustainability – and increasingly integrated with corporate strategy. Let me offer a list of ten maxims to help professionals, in both the corporate and agency worlds, align the reputations of their companies and clients with their social responsibility commitments and stakeholder expectations in mutually reinforcing ways.

1. *Most importantly, substance sells and 'messaging' is secondary to the substance of the message.* Corporate responsibility is fundamentally about making and delivering on substantive policy and business commitments in ways that are transparent and accountable to stakeholders – and stakeholders are satisfied only by performance that is communicated substantively and credibly.

2. *Sometimes a company needs to recognise that it does not have a PR problem – it just has a problem.* In my experience, the problem is sometimes ill diagnosed, particularly in the face of an NGO campaign or CSR-related crisis. It takes both wit and guts for public relations professionals – whether in-house or agency-based – to offer strategic solutions to substantive problems instead of tactical solutions to what are perceived to be communications problems.

3. *The perfect is the enemy of the good in this new world.* Everyone believes that 'nothing succeeds like success' – except in the CSR world, which has turned the definition of success inside-out. Corporate responsibility is not about perfect performance and final results; it is about serious commitment and continuous improvement. The companies that have done most in recent years to enhance their reputations are those that talk not just about progress and success, but about problems and mistakes. Credibility is the most precious asset that a company can build and safeguard in the corporate responsibility arena.

4. *A little humility goes a long way towards establishing credibility.* Companies that either duck the tough issues or hype their claims will not help themselves at a time when trust in business remains in short supply. A company that follows the lead of Gap and Nike by disclosing violations in its supplier factories and emphasising the challenges it faces in eliminating their causes will be credible – and commended for its forthrightness.

5. *Recognise that NGO relations are becoming almost as important as investor relations*, especially from a corporate reputation and communications perspective. View mainstream NGOs as legitimate stakeholders to engage through substantive policy dialogue – not as enemy combatants to fend off through counter-insurgency operations.

6. *Remember that brands are becoming indivisible from their supply chains* in many industries, and that serious mistakes or abuses on the part of suppliers anywhere can risk a company's reputation everywhere. The footwear and apparel industries have learned this lesson the hard way; now other sectors, from food and beverages to jewellry, gold and diamonds, are catching up.

7. *Do your job or someone else might to the company's detriment.* Do not let the legal, compliance or human resource functions take the place of public relations and public affairs professionals on issues where corporate responsibility converges with corporate reputation – especially not in a crisis. Be at the table in the executive suite when decisions are made on accountability or sustainability issues that will be judged carefully and perhaps critically by stakeholders.

8. *Do not turn over CSR and sustainability communications, including non-financial reporting, to accountants or former accountants.* Accountability is not accounting; it is aligning categories, numbers and trends with the values, policies and practices that the data should reflect. Non-financial reporting should be natural turf for public relations and public affairs professionals.

9. *Do not hide or bury the CEO.* Corporate responsibility – above all accountability and sustainability issues with a significant impact on reputation as well as performance – are too important to be delegated entirely away from the executive suite and the board room.

10. *Recognise the primary importance of communicating corporate responsibility to employees* – the most fundamental stakeholders of all. So much focus has been rightly placed on communicating the substance of accountability and sustainability commitments to non-traditional stakeholder such as NGOs. But it is no less important to communicate core values and commitments to the employees whose understanding and involvement is essential to bringing them to life.

This is an edited version of prize winning submission to the 2006 WPP Atticus Awards.

Market Leader
Winter 2006, Issue 35

Market Leader
THE JOURNAL OF
THE MARKETING SOCIETY
www.warc.com

Corporate social responsibility – who needs it?

Paul Feldwick
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> The analytical fog surrounding CSR provides a smokescreen for companies that proclaim their adherence to it while failing to adopt appropriate principles for the conduct of their core business.
>
> Sir Geoffrey Chandler, ex-Shell and Amnesty International (2003)

> Corporate leaders feel pressured by activists to take action on various social issues, and by donating money to a social issue they make friends and positive associations. The 'feelgood' of corporate philanthropy seems to be evidence enough. I disagree completely.
>
> Michael Porter, Harvard Business School (2003)

Today we are used to hearing a lot about 'corporate social responsibility' (CSR), 'sustainability' or 'corporate citizenship'. Consultancies, conferences and websites proliferate. You might suppose that a new age of 'responsible' business practice has dawned.

However, my observations over the past few years suggest that, even in companies who pride themselves on their reputation for sustainability or produce heavy 'triple bottom line' reports (economic, social and environmental), issues of responsibility seldom if ever surface in day-to-day meetings. And asking about 'CSR' is likely to be met by a blank or evasive look, or being told 'the PR department takes care of that'.

I believe the whole area is still shrouded in the 'analytical fog' that Geoffrey Chandler referred to, with particular muddle over two questions. What is 'CSR' anyway? And why should a business adopt it as a policy?

CSR, sustainability and corporate citizenship, with certain other phrases (usually containing 'ethical'), are properly not identical, but in my experience and in this context they are very often used interchangeably. Here, to keep it simple, I will describe a catch-all concept that I will call 'corporate responsibility'. I take this to mean the idea that companies have responsibilities beyond the simple growth and profitability of the business – responsibilities to the environment, to all the people affected by their activities, and to future generations.

WHAT IS CORPORATE RESPONSIBILITY?

When we look at how this principle is interpreted in practice, it appears that much of what actually goes on under these headings consists in mere variations of traditional philanthropy. Often these aim to win the PR benefits of giving, while at the same time showing a net profit to the company – as in the popular 'cause-related marketing' (CRM) promotions. (At a conference about this, I repeatedly heard speakers assure the audience that 'a good CRM programme won't cost you a penny, and will add to your bottom line'.) Charities, businesses, even consumers themselves, all collude in encouraging these schemes – though it may be asked how much credit a company really deserves for channelling someone else's money to charity, while adding to their own profits.

Be this as it may, such activities, together with employee volunteer schemes, sponsorships and other talk of 'giving something back to the community', are generally peripheral to the main activities of the company and its impacts on its stakeholders. However, it is increasingly acknowledged that corporate responsibility should mean something much bigger than this. As a group of CEOs agreed at the World Economic Forum in Davos, 2002, 'the frameworks we adopt for being a responsible business must move beyond philanthropy and be integrated into core business strategy and practice'.

On this broader view, corporate responsibility is much more than random (or strategic) acts of apparent generosity. It involves the consideration of all potential and observed impacts of the company's activities, for good or ill – impacts on the environment, on workers and suppliers, on countries and neighbourhoods, on customers, and on future generations. Many companies are now attempting this, reporting on their progress using comprehensive 'triple bottom line' formats such as the Global Reporting Initiative (GRI).

This poses a much greater challenge. There are some real, worthwhile 'win-wins' – efforts to reduce wasted energy or pollution, for instance, often lead to greater efficiency and cost savings for the business. But there will also be conflicting pressures and interests, unintended consequences, and issues over which the organisation itself may have little enough real influence. (Arguably both pressure groups and some managements overestimate the power that corporations have to solve the world's many intractable problems.)

WHY BOTHER WITH CSR?

So is it all worth it? At this point we need to consider the solidity of the arguments for adopting corporate responsibility as a core business value. I think this is much less straightforward than is often assumed, however much we may sympathise with Sir Geoffrey Chandler: '... it must be a matter of astonishment to other walks of life that for the corporate world doing good needs to be justified by monetary reward'. However, as Michael Porter (*Competitive Advantage*) has said, 'No matter what they say in public, when you get behind the scenes with executives and directors, they will ask you “Why should we invest in social initiatives?” We may all care deeply about saving the world but if we cannot answer this question properly, we have a problem.'

Why, then, should corporate responsibility matter to a board of directors or to top management? First of all, it's important to acknowledge that there is a case against it. Some argue that business should serve society only by the profitable supply of goods and services, and that the only responsibility of directors is to maximise the return to shareholders. Responsibility for society and the environment lies with civil government. This case was made by Milton Friedman and Friedrich von Hayek almost 50 years ago, when issues of global social justice and environmental degradation were much less thought of than they are today. However, the argument is by no means now obsolete. In 1981, CEOs of America's 200 largest corporations – the Business Roundtable – agreed that 'balancing the shareholder's expectations of maximum return against other priorities is one of the fundamental problems of management'. In 1997, however, the same forum changed its mind: 'The notion that the board must somehow balance the interests of stockholders against the interests of other stakeholders fundamentally misconstrues the role of directors' (Mintzberg, 2002). And as Joel Bakan's (2004) book and documentary *The Corporation* make very clear, this principle is not only enforced in US corporate law, but actively pursued by many publicly owned corporations. In Henry Mintzberg's view, far from entering a new age of responsible management we are currently living through an era of unprecedented 'selfishness', with CEOs co-opted into maximising profits at all costs by absurdly large bonuses.

What, then, from the point of view of management, is the case to be made for corporate responsibility? I will try to frame this in terms of four constituencies whose behaviours might have impacts on the long-term success of a business. These are consumers or customers; external critics, such as journalists and NGOs; shareholders and stock markets; and the management and employees of the business itself.

CONSUMERS

One case often made for corporate responsibility is the power of the new 'ethical consumer', or even the 'vigilante consumer'. Surveys are often quoted appearing to show most people ready to switch their custom on the basis of the perceived 'ethical' reputation of one brand or another. But these kinds of data ignore the more important truth that whatever people claim in surveys, they are very rarely prepared to incur increased costs or decreased satisfaction in the pursuit of social or environmental goals. Beyond certain niche marketing successes (e.g. Fairtrade coffees, the Co-operative Bank), consumer demand is not a strong incentive to increased responsibility. More people actually want cheap flights, SUVs and double-decker cheeseburgers.

CRITICS

There is certainly a great deal more public criticism of corporations today. Books like Naomi Klein's *No Logo* and Eric Schlosser's *Fast Food Nation* are bestsellers; groups such as Greenpeace raise issues, and generate media and public pressure for change. Not all criticism of corporate behaviour is well founded, but much of it is reasonable and valuable. However, it does not entirely answer the question of why companies should bother to respond to it. If directors are simply running scared of bad publicity, they must surely be waking up to the fact that even sustained boycotts rarely show any significant effect on their bottom line. McDonald's, Exxon and Nestlé have all been the subject of extreme external pressure, and yet they continue to post results that please the markets.

SHAREHOLDERS

A similar argument applies to stock markets. So-called 'ethical investment' may be fast growing, but it's still trivial at under 2% of UK investments. And whether these funds outperform or underperform the market depends on which you choose, and what time period you choose to look at. (During the last major downturn, the category that fared best for investors was tobacco stocks.) Most shareholders are institutions such as pensions funds, and their managers are interested in only one thing – again, return on investment.

EMPLOYEES

By now you may think I am a complete CSR cynic. I am not. Nor would I feel happy to see businesses pursuing profit at all costs, without concern for the dangerous and fragile and complicated global environment we all live in. I want to see more businesses that consider and care about the consequences of what they do. I believe I'm not alone in these aspirations – and it's in this belief that I think the strongest argument for corporate responsibility lies. In the words of Charles Handy (2006), 'Organisations are not machines. They are living communities of individuals. The essential task of leadership is to combine the aspirations and needs of the individuals with the purposes of the larger community to which they all belong.' A 50-year trend in management theory confirms that successful companies are consistently those that have strong cultures and shared values, which their employees can give their commitment to. The assumption should be that people want to go to work to engage in something that they believe to be in some way worthwhile. Increasingly, 'worthwhile' will include an awareness of the impacts the company has on other people and on the environment (and not the size of the CEO's bonus). If this is true, corporate responsibility needs to be a non-negotiable part of the core values of the business, part of the answer to the question 'What are we all here for as an organisation?'

What this might mean in practice will not be driven by the pursuit of good PR, nor merely a reaction to critical comment, but will be a continuing exploration and exercise of imagination on the part of everyone in the organisation. There will continue to be conflicts, not always resolvable, but problematic issues will be openly discussed rather than swept under the carpet. Companies that follow this route will not become immune from criticism (who will?), but that won't be important because the project does not depend for its ultimate validation on extrinsic approval. They will consistently aim for openness of debate, continual possibility of change, the ability to listen and respond to critics without becoming either reactive or defensive, and congruence between the organisation's espoused values and its actual behaviours.

The results may look messy and imperfect, but these companies will stand the best chance of getting the best from their motivated and loyal staff, of staying open and responsive to the continual changes in the world around them, and perhaps, in the long run, of earning the trust and respect of their critics as well as their customers. If all those things happen, they should also prosper.

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Market Leader
Winter 2006, Issue 35

Market Leader
THE JOURNAL OF
THE MARKETING SOCIETY
www.warc.com

BT: doing well by doing good

Hugh Burkitt & John Zealley

An important element of this case study is how involved the employees became. Doing the right thing can have an impact well beyond the initial goals, a view echoed by Andrew Marsden, Category Director, Britvic:

> 'The old adage that managers are there to do things right but directors are there to do the right thing was never more applicable than to CSR. ... CRM can echo the values of the company to the benefit of the shareholder, can cement employee loyalty and commitment, and frankly do a great deal of good for the recipients: a three-way win.'

BT: PARTNERING WITH THE DISASTERS EMERGENCY COMMITTEE FOR THE TSUNAMI APPEAL

Snapshot: BT's partnership with the Disasters Emergency Committee (DEC) helped support hundreds of thousands of people in Southeast Asia affected by the tsunami in December 2004, and boosted the company's reputation and social responsibility credentials.

Key Insights

- BT's approach to corporate social responsibility highlights how developing a coherent and consistent strategy can benefit both sides of a partnership.
- It can also have a significant impact on both customer and employee perceptions.

Summary

BT is a leading provider of communications solutions serving customers throughout the world. Its principal activities include networked IT services, local, national and international telecoms services, and broadband and internet products and services. Group revenue in 2005 was £18.6 billion.

One of the major aspects of the company's CSR programme is its relationship with the Disasters Emergency Committee (DEC), a consortium of 13 UK humanitarian agencies. The value of this partnership was clearly demonstrated following the tsunami disaster.

Thanks to BT's efforts, DEC was able to keep its donation website working despite initially crashing because of the enormous number of calls. BT also supplied other forms of help, including sending skilled employees to the affected areas and helping DEC with its call centres. Over £350 million was raised (six times more than any other DEC appeal).

While not actively seeking PR coverage from the disaster, BT received record coverage worth over £7.5 million, reaching an audience of 43 million-plus – the most positive press coverage BT has ever received on a single issue. The company estimates that CSR performance accounts for over 25% of the image and reputation element of customer satisfaction.

BT and Corporate Social Responsibility

BT supports all major UK telethons, including Comic Relief, Children in Need and DEC appeals. It provides network management, telephony, call centres, volunteers, fundraising and PR. Using communications technology, BT can help raise millions of pounds through the telethons, doing so in the most efficient way possible through the telephone and online. Support of DEC is a key element of BT's CSR programme.

DEC, (supported by BT since it was established,) is a consortium of 13 UK humanitarian aid agencies. DEC disburses funds to member agencies best placed to deliver effective and timely relief to people most in need. BT's support of DEC is particularly important to the charity as it is its only strategic corporate partner.

The key objectives of this partnership are to:

- help DEC raise millions
- deliver strategic support

- set up call centres within 72 hours and recruit 120+ telephone volunteers
- enhance BT's reputation.

As the appeals are reactive to disasters, this is sporadic and so DEC's profile is not as high as that of other telethons. However, since the tsunami appeal, DEC's profile has been hugely increased. For example, in December 2004/January 2005 the tsunami appeal raised an incredible £350 million. DEC relies on broadcasters to donate air time to promote appeals, usually during or immediately after news programming.

BT has built systems to enable DEC to respond immediately to international disasters. The company is in constant contact with DEC, providing technological and strategic advice enabling appeals to run ever more efficiently.

Stakeholder research supports BT's strategy. In the autumn of 2005, for example, research found that 57% of stakeholders said they would like BT to donate products/services free to charitable causes. The three leading areas BT stakeholders believed most appropriate for BT to support are communication skills (36%), helplines (36%) and technology (34%), thus confirming BT's position in supporting telethons, and particularly DEC appeals.

BT internal audiences are also regularly updated. For example, in February 2005:

- *BT Today* (BT's internal monthly newspaper) gave over the whole paper to the tsunami appeal. This was sent to BT's 102,000 employees and 177,000 pensioners and placed in call centres reaching tens of thousands more agency people
- the intranet site included 35 items on the tsunami with 94,551 hits in December 2004 and January 2005
- *BT Today* produced a large follow-up feature in the February 2006 edition
- the support of DEC was cited in both the BT and DEC annual reports.

In addition, BT has employed its PR agency, Harrison Cowley, to coordinate the media with DEC and offer issues management. BT's partnership with DEC won the Overall Excellence Award at the Third Sector Awards 2005, in addition to winning the category of corporate sponsorship – the campaign has also been awarded a Big Tick by Business in the Community. This led to features on the partnership within marketing and national media.

A Quick Response to the Tsunami Appeal

After the tsunami appeal was launched on 30 December, BT chairman Sir Christopher Bland rang leaders at the top 20 FTSE companies while on a personal engagement abroad to encourage them to contribute, pledging a donation of £500,000 from BT. In addition, more than £100,000 was raised via internal fundraising, including payroll giving.

BT traditionally handles pledges to DEC through the telephone. The BT call centre that takes DEC pledges is usually set up within 72 hours. However, the centre for the tsunami appeal was set up in record time, within 24 hours and over a holiday period. BT also provided 150 volunteers to take calls. As BT does not profit from appeals, the company gives back monies made from each call. Given the huge volume of calls for the tsunami appeal, this involved a sizeable donation.

On the morning of the appeal launch, thousands of people logged on to the DEC website to donate. The provider that managed the site could not handle the unprecedented response and the site collapsed. BT stepped in following an urgent DEC request and within 4.5 hours had delivered an alternative robust solution, thus preventing the potential loss of millions of pounds and hundreds of thousands of donors.

The cost of this eDonate platform, now a permanent solution for DEC, was more than £100,000, excluding the time of the technical team to set up and manage the system.

BT's contribution didn't end there, however. Two teams of BT engineers were dispatched to the tsunami area, to install four satellite earth stations to provide voice and data communications. This opened vital communication channels for aid agencies, local people, and for families and friends to make contact. Over 150 BT people were involved in this initiative, with a BT press officer sent to help with communications. The total cost of installing the satellite earth stations, including people and equipment, was £1.5 million.

Finally, due to the huge public interest in the tsunami, the DEC switchboard was jammed with calls. As the BT Tower call centre had been established, BT offered to re-route calls to volunteers, who were briefed and supervised by DEC staff. Without this support, DEC would have had to pay agency staff to handle the calls.

MORE THAN THE SUM OF ITS PARTS

There were a number of benefits to both parties from this appeal.

For DEC

- Over £350 million raised (six times more than any other DEC appeal).
- Over 1.7 million calls were taken.

- The tsunami killed around 200,000 people and washed away the homes and livelihoods of millions. Monies raised saved the lives of tens of thousands, and improved the lives of 3.6 million (DEC estimate); £112 million of the DEC fund provided clean drinking water, sanitation, shelter, food and medicine.

- The rebuilding that DEC agencies under-took with the cash raised was the equivalent of rebuilding both Birmingham and Glasgow from scratch. More than £190 million was set to be spent in 2006, including building 20,000 new homes to house 100,000 people.

- The DEC site broke a Guinness World Record for the most money donated online in 24 hours. Between 30 and 31 December 2004 the DEC website received 166,936 donations, raising £10,676,836.

For BT

- The appeal enabled BT to showcase its information and communications technology capability to a mass market during an extremely high-profile event.

- Sir Christopher Bland persuaded numerous top 20 FTSE companies to pledge cash.

- While not actively seeking PR coverage from the disaster, the company received record coverage worth over £7.5 million, reaching an audience of 43 million-plus – the most positive press coverage BT has ever received on a single issue.

- Awareness of BT working with the DEC, carried out by MORI (2005), increased to 34%, an increase of 21% from 2004.

- BT estimated that CSR performance accounted for over 25% of the image and reputation element of customer satisfaction. Further statistical analysis showed that a 1% improvement in the public's perception of CSR activities meant a 0.1% increase in the company's retail customer satisfaction figures. Customer satisfaction is at the heart of BT's business strategy.

- Opinion leader research in April 2005 cited BT's involvement as a positive story, countering the adverse publicity of rogue diallers, payphone maintenance and company break-up rumours.

- Employee research in January 2006 found that over 80% of BT employees were aware of BT's support for the DEC, an increase of more than 35% since the tsunami. Over 90% of BT employees felt more positive about working for BT because of its support.

The tsunami appeal had another, more widespread and longer-term impact: it provided the catalyst for the charity sector to realise the vast opportunities and benefits of receiving pledges online in addition to traditional methods.

BT's corporate values fit well with its work with DEC:

- *trustworthy* – 'We approached BT to take over our online donations platform as a trusted partner' – Brendan Gormley, CEO, DEC

- *helpful* – 'The online team personify helpfulness. They were in constant communication identifying areas for improvement and making me aware of potential issues I could not have considered' – Pat Willson, DEC

- *inspiring* – 'This is a Herculean effort and shows BT at its best, serving customers regardless' – Ronan Miles, BT employee

- *straightforward* – 'All support planned, promised, communicated and delivered to a very exacting timeframe over the holiday period' – Beth Courtier, Head of BT's Charity Programme

- *heart* – Chairman personally endorsed this value in recognising the efforts of BT people.

CARRYING ON THE GOOD WORK

BT has continued to learn from helping with appeals, including Niger (August 2005) and the Asia earthquake appeal (October 2005), with robust and regular meetings to discuss successes and learnings. For example, the donations website for the Asia appeal was set up in 1.5 hours, three hours faster than that of the tsunami. The number of people volunteering to work in the call centres has also increased as awareness rises. People that have left the business continue to volunteer, high-lighting their commitment to the cause.

To help DEC with its targeting, the company further developed its online mechanism and is now able to track donors by English regions, as well as internationally. This has provided more management reporting information to support DEC's efforts, allowing it for the first time to write and thank donors online and request support for new appeals. As a result, donor retention can now be monitored.

BT Global Services has also agreed to support international disasters as a key element in its new CSR strategy, complementing the UK lead. It will be specifically coordinating BT personnel and communications technology to the area(s) affected. And, because DEC is a UK charity and therefore does not have international recognition, BT Global Services has been looking to complement this UK activity by working with an international charity partner with an ongoing programme of fundraising and support.

Finally, the online platform has also enabled DEC to run appeals simultaneously. For example, the Niger and Asia quake appeals crossed over and people could donate to both simultaneously. The online platform was also being trialled by call centres with volunteers directly inputting data online from phone calls. This meant no paper records and a more efficient process.

Hugh Burkitt and John Zealley's new book Marketing Excellence: Winning Companies Reveal the Secrets of Their Success *was published on 24 November 2006 by Wiley and Sons Ltd, ISBN 0-470-06027-1, £24.99*. www.wiley.com

Market Leader
Winter 2006, Issue 35

Market Leader
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Putting your marketing where your values are

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Research shows that in the UK 67% of the general public and 42% of business journalists agree that industry and commerce do not pay enough attention to their social responsibilities.[1] The research goes on to identify that, when forming a decision about buying a product or service from a particular company or organisation, 83% of the general public feel it is 'very' or 'fairly important' that a company shows a high degree of social responsibility.

These attitudes clearly impact the marketing agenda. There is a rising tide of stakeholder expectation, demonstrated not only through media investigations and coverage, but also through shareholder challenges at company AGMs and consumer boycotts – through loud protest or quietly walking away. This quiet protest is arguably far more dangerous.

The emergence of new sets of issues, such as the climate change and obesity debates and the scrutiny of the supply chain all add to the mix. Clearly marketing can ignore these changes in the business and consumer environment, but it does so at its peril.

Consumers not only vote with their feet and their purse against companies and brands they disapprove of, but evidence shows they will also actively change their behaviour in favour of those companies of which they approve.

A CHALLENGE TO MARKETING STRATEGY

There has been a paradigm shift in the marketplace in which businesses and brands are now operating. Aside from any moral or ethical beliefs that may drive corporate responsibility, it is on the political, legislative, media and consumer agenda, and therefore firmly on the boardroom agenda. This has significant ramifications for marketing strategy.

In the past, positive differentiation in price, quality and functionality was what was required for success. This is no longer enough, and barely noticeable in many sectors anyway. Often, depending on the sector, price, functionality and quality can be replicated – perhaps within weeks or a month, maybe a year – but they are no longer the tools that will maintain differentiation in the longer term.

Emotional engagement and values, on the other hand, are much harder to develop, much harder to replicate and, once established, much more embedded and harder to shift. Investing in values and a 'bank of goodwill' can therefore pay dividends. As brand management evolves, values are becoming the key differentiator.

The challenge is how does a company or brand demonstrate its values and, indeed, add value to these values in a sincere and authentic way. And, most importantly, if such a strategy is followed, does it work?

ADDING VALUE TO VALUES

A company needs to make its values visible and one of the ways of doing this – adding value to these values – is to integrate and leverage the power of marketing and use the brands to make a positive social difference. In other words, linking marketing to a cause. Cause-related marketing (CRM) is a strategy whose time has come.

Not only does this strategy support consumer and other stakeholder demands and expectations for companies to behave more responsibly, but it also supports the corporate imperative to manage its risk, and be mindful of the demands of increasing reporting requirements.

The question is does it work? Does taking such a values-led/cause-led approach deliver bottom-line benefits?

The answer is yes. Marketing related to a cause, if done sincerely and well executed provides a win:win:win. A win for the business, a win for the cause issues or charity, and a win for society.

SUCCESSFUL CAUSE-RELATED MARKETING CAMPAIGNS

There are many thousands of examples of effective CRM both in the UK and globally, addressing a plethora of issues from climate change and other environmental issues, HIV/AIDS, food aid, all manner of health issues, domestic violence, education, homelessness and many, many others. Every week new programmes and examples emerge.

Take the recent launch of RED in support of the global fund to fight HIV and AIDS involving brands such as American Express, Armani, Gap and Motorola. Or the Co-op Bank's recent launch of a new insurance product that will offset 20% of carbon emissions when purchased, or the gathering of brands around Children in Need and other fundraising events.

Cause-related marketing comes in many guises. The best known have tended to be sales promotion-led examples that trigger purchase. This of course is just a part of the picture, in the same way as sales promotion is just part of the marketing toolkit.

Marks & Spencer's award-winning partnership with Breakthrough Breast Cancer[2] featured the sales promotion element through which it raised £1.45m, but included much more than that. This partnership saw the development of a whole new range of bras, which were developed by and for those living with or having survived breast cancer. This is just one example of how Marks & Spencer has adopted a marketing strategy linked to a cause.

The highly successful 'Look behind the label' programme is another very different example. It goes to the heart of the corporate brand as opposed to product, and its values. Significant sales and impact on trust and reputation have been reported.

Unilever's Dove Self-Esteem programme is a different approach, which has seen highly innovative marketing deliver success where the strategy is intrinsically linked to a cause.

A CRM CAMPAIGN CAN IMPACT BEHAVIOUR, NOT JUST ATTITUDES

At Business in the Community through our CRM work over the last 12 years we have run an extensive research programme supported by Research International, dunnhumby, BMRB and Lightspeed.[3] We have seen CRM evolve and develop both in terms of the way it has manifested itself in the marketplace, its role in marketing strategy and its impact on the business and the consumer.

This has been very specific work, and it complements and is complemented by the findings of Ipsos Mori, the Co-op Bank research, and others in the UK and around the world.

This bank of research identifies increasing corporate understanding of the importance of social responsibility and CRM, and provides insights into consumer understanding and expectations. Evidence to date clearly makes the business case for cause-related marketing as evidenced from key findings from Business in the Community Brand Benefits research.

The research aimed to understand whether there was a link between cause-related marketing, brand affinity and equity, and actual customer perception, loyalty and buying behaviour. There was.

Conducted amongst over 6,000 American and UK consumers, the Business in the Community Brand Benefits research showed that there is a universal appeal for cause-related marketing, with a 98% awareness and over 80% participation.

Over 71% of consumers claimed to be influenced at point of purchase or point of decision making, and over half said they trialled new products, increased usage or switched brands. There was also a significant impact on loyalty, and more than two in three people thought more companies should be involved.

More significantly, however, using retail databases to examine the purchase patterns of specific brands before and after a cause-related campaign showed clearly that people were changing their behaviour.

With this level of evidence, it begs the question that if your business and brand are not involved, why aren't they? The fact that companies in all sectors have successfully partnered causes, issues and charities through their marketing strategies, providing mutual benefit, and in many cases have developed and continue to run these programmes for years, also goes to prove the case.

INCREASING BRAND AFFINITY

Cause-related marketing helps make a company's values tangible and meaningful to stakeholders.

In terms of the impact of CRM on brand affinity and therefore on brand equity the evidence is stark. Business in the Community Brand Benefits research shows that awareness of a company's CRM leads to the brand having consistently higher affinity scores. For the purposes of the research, affinity statements related to trust, bonding, innovation and endorsement were used to measure a consumer's affinity towards the brand.

The figure above right illustrates the impact; this pattern was consistent over more that 15 partnerships in different sectors.

IN CONCLUSION

- Values-led marketing and marketing related to a cause fits the demands of consumers and the needs of business to help demonstrate their authenticity.
- Cause-related marketing enables the business to take its customer relationship well beyond purely transaction-based relationships built on functionality and price.
- Values-led marketing creates a deeper level of relationship and engages the customer on an emotional basis. It reflects stakeholder demands and expectations and it is shown to pay dividends (see Figure 1).
- Like any other form of marketing, however, values-led marketing can backfire. It needs to come out of the business values, be built into the business and not bolted on.
- It needs to be authentic and based on integrity, sincerity, transparency, mutual respect, partnership and mutual benefit.[4] There is both an opportunity and challenge; the stakes are high.
- Do it badly and the consequences could be disastrous, but do it well and success will follow.

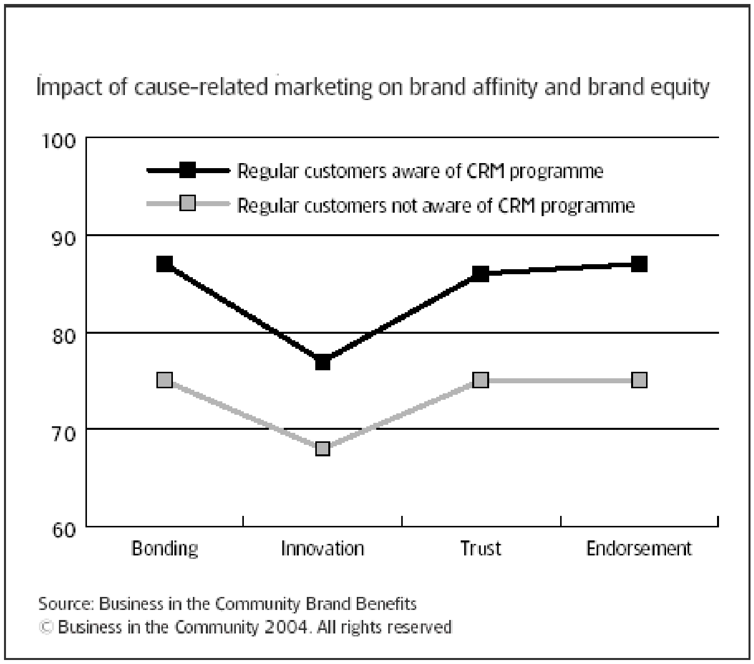
ENDNOTES

1. Ipsos MORI Corporate Responsibility 2006. Attitudes of the British Public.
2. Winner of the Business in the Community Cause Related Marketing Awards 2005. See www.crm.org.uk for details.
3. See www.crm.org.uk for further information.

4. *Business in the Community Cause Related Marketing Guidelines* ISBN 9480 6307-6.

NOTES & EXHIBITS

FIGURE 1: BUSINESS IN THE COMMUNITY BRAND BENEFITS RESEARCH (FINANCIAL COMPANY)



Market Leader
Winter 2006, Issue 35

Market Leader
THE JOURNAL OF
THE MARKETING SOCIETY
www.warc.com

Travelling without toothpaste – learning from the Kings of Customer Service

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Of all marketing concepts, customer service remains perhaps the easiest to grasp yet hardest to deliver. The business case is self-evident and well documented. Repeat purchase costs less than a conquest sale. Happy customers pay more, turn a blind eye to competitors, may even nourish the direction of a product or brand if given due voice. Good service experiences can become folklore. Bad ones do, and do so more quickly. Both are now catalysed by email and the web.

Us modern marketers understand this. We're all in the service business now, we say. We write mission statements, hold workshops, propose metrics, conduct surveys. Generally assert 'Just How Seriously This Company Takes You! Our Customer!' And yet ...

This is an everyday story of travel plans undone by circumstances beyond anyone's control, and the impoverished response of the service businesses involved. It is committed to paper partly as instant therapy, partly because deeper truths for marketers lie beneath the surface observations. And partly because the depressing familiarity of events makes as insistent a case for change as any more extraordinary episode. (The brands involved just happen to be the ones that stumbled into my path this time around.)

THE END OF A LONG DAY

I recently returned from a trip to Fallon's parent agency in Minneapolis. America is, of course, the self-appointed Home of Customer Service. (Except that they would prefer a term like Kings of Customer Service. They've got a funny thing about royalty; I guess they never had their own.)

'Have a nice day!'

'Good job!'

'You got it!'

'You're welcome!'

Exclamation marks trail you out of every Starbucks, every hotel lobby. Minnesota does the niceties as well as anywhere.

Visiting Brits are obliged to check in their cynicism on arrival. I'm getting better at it. In transit in Chicago, my old friend Sam Adams lures me to 'The Prairie Tap'. I ask a fellow drinker whether he is leaving (it's unclear).

'It's all yours, buddy. Been keeping it warm for you this last half an hour.'

Really? For me? How kind. If you say that sort of thing in London you can start a fight.

I'm soon enjoying the casual intimacy Americans enjoy with one another as they transact. I even join in:

'How you doing today, sir?'

'I'm good!'

I'm thinking: they, and only they, get the service gig. Every smoothie, burger, beer and breakfast on offer – and there are plenty – is hand tooled for me. Yes, me! Laurence! If they knew my name they'd be using it on pack, like those overfamiliar direct mail pieces you get from strangers. I'm reminded how few British companies are good at this stuff. John Lewis, yes. Tesco, perhaps. Innocent in its own way.

In truth I'm probably also enjoying the afterglow of an outbound upgrade from Aer Lingus. *'You're not wearing runners are you sir?'* I had been asked at Dublin Airport. Now I knew my connection was tight but this was ridiculous. Turns out I simply needed to swap trainers for loafers and I'd be welcome to fly Premier. (I'm a New Age Businessman. I fly economy because I detest hierarchies and status. And because there's no client to cover this one. But I crave an upgrade as much as the next man.)

Service expectations suitably buoyed I embark on what is to become a 32-hour return trip to London. Our American Eagle so-small-it's-almost-private jet sits on the tarmac. And sits. Bad storms at Chicago, runways closed, planes stacking, more when we know it. But right now I'm feeling informed and, therefore, well serviced.

MILE HIGH HYSTERIA

We take off only half an hour or so behind schedule. I might still make my connection at Chicago. (I'm back in my trainers after all.) But half an hour into our flight we're told we've been asked to join one of several stacks, as O'Hare is still operating only one runway. Silence largely ensues onboard; we yield to events, as one must at 33,000 feet.

When we next hear from the pilot it is not to ask Mary to prepare for landing. He has requested permission to land not at O'Hare (from which my London flight leaves) but at Chicago Midway. Sounds sensible, albeit problematic from there on. He wants to do so because of the plane's 'fuel situation'. Now, I guess if you choose to fly you surrender control to others and are obliged to treat news like this with equanimity.

The pilot apologises for what he understands are 'anxious moments'. Well, actually, they weren't. Not until you mentioned it. Corporate America has made its first slip on the service-o-meter.

We land soon enough – fuel situations can expedite that kind of stuff – but closer to midnight than planned and most definitely at the wrong airport. But I've got no monopoly on that, I tell myself.

The pilot once more punctures my little bubble of calm. We're going to be here for a while. We're going to be here for a while because American surrendered its slots at Midway some years ago, so has no ground crew to either disembark us or sanction refuelling. There is only one person who can help and they're trying to get hold of him. (Cut to images of Cary Grant or similar sleeping next to beautiful wife in full uniform. Him, that is, not her. The big bedside phone rings. He's needed at Midway.)

Another hour passes and I have managed to restore some semblance of serenity. Our predicament is, on reflection, unremarkable: the Stateside equivalent of a forced BA landing at Luton, Willie Walsh calling Michael O'Leary to negotiate some fuel. But around me others are fractious. Mary gives out raisins like a mum who has raided the glove compartment to pacify the kids in the backseat. I'd have made a different gesture I have to say. Though isn't the raisin a cousin of the grape? If we pool our raisins and squeeze hard enough, might we create alcohol?

The pilot has news! We are going to refuel and fly to O'Hare. The flight will take five minutes. As we take off, I reflect that I have at least learnt one thing while I sat at Midway: that 'Million Air' is a brilliant name for a business that charters private jets. At O'Hare we will be met by agents at the gate. It is midnight but I am in America. I am in the safe hands of the Kings of Customer Service!

SAFE AT LAST?

There is no one at the gate. Indeed, there is virtually nobody in the airport. Well it is midnight, I guess. It's OK, I've seen the films, I know what we need. I raise a posse. The wheelie-bag posse finds someone with an American badge. In fairness, the airline has booked us all onto its first available flights tomorrow. They had just neglected to let us know. They aren't sure what'll happen to our bags, but they should be on those flights too.

I brace myself for the service I am about to receive. News of the hotel they have booked. The car waiting outside. How sorry they are. Er, actually, no. After some negotiation I am offered a distressed passenger discount at a choice of three (yes, three!) airport hotels. I choose the most expensive one (the Hyatt) as I remember from my marketing textbooks that price is often a symbol of quality. I am left to find the airport shuttle bus. It transpires that you need a shuttle bus (and ideally a Native American tracker) to get to the shuttle bus.

The bus pulls up just as I do. You see! They're the Kings all right. It drops me off at the Hyatt for my five hours of shut-eye.

The queue is longer than any I have ever seen in a hotel lobby. (Did they not hear the thunder? Not hear about the disruption to everyone's schedules? Not hear from American and others that legions of passengers were on the way, tired and in need of if not pampering then at least the basic courtesies of a timely check-in?)

When I get to the front of the queue, check-in boy is all smiles. Badly judged. I have been rehearsing my requests so that I don't wilt under pressure and have to go back to the end of the queue.

'Can I have an alarm call at 6.30, please?'

'No problem!'

'And can I have some toothpaste and a toothbrush please?' (Mine are on their way to the big carousel in the sky.)

'I'm sorry sir, we don't have any.'

I must look like I'm about to punch him.

'Just call '56' when you get in your room and we'll get some sent right up.' Eh? By this point I am too dazed to argue.

'You're in 2317. Take the lobby elevator to L2, turn left after Knuckles sports bar, follow the corridor round until you find the elevators. If you get lost, the directions are with your key card. Have a good stay, sir!'

Oh fuck off. How difficult can it be?

I am lost. I get out the directions. This is what they say:

Go to the 2nd Floor (L2).

Turn Right at the Garden Terrace Restaurant (Opposite the escalators).

Turn Left at Knuckles Sport Bar 'blue neon sign'.

Follow track lighting-lined corridor to Elevators.

(For the 20th floor, go behind the elevators.)

They score highly in terms of accuracy. But they drive my impressions of Hyatt down to a new low. I am just a wallet wandering their corridors, adjusting to their stupid floorplan.

Let's say there was no other way to design the hotel. You're asked to write the directions for your customers, many of whom – by definition – are jetlagged. Mightn't you say: 'We apologise for the short walk to your room'? Chuck in a: 'Chin up, there's a chocolate on your pillow when you get there'?

Perhaps I'm being unreasonable. It's late, I'm tired.

'PERFECT STAY'

Let's brush those teeth and get to bed. Button '56' on my phone is labelled 'Perfect Stay'. That looks encouraging, well done marketing! I ask for some toothpaste and a toothbrush.

'It'll be right up sir!'

It never arrives.

Against my better judgement I decide to have a glass of wine to chill a little and help myself to sleep. Chardonnay? Whatever. But where's the corkscrew? I rummage around the minibar to no effect. Correction. I rummage around 'The Refresh-ment Center' to no effect. (How many salaries, workshops and groups were sacrificed on the altar of that pointless branding exercise?)

I am now someone-who-needs-a-toothbrush-and-can't-get-one and someone-who-wants-a-glass-of-wine-but-can't-get-one.

Has the Department of Homeland Security seized all corkscrews from America's airport hotels? Shouldn't they have taken the wine too? Take it from me, that's dangerous liquid.

Music can be a balm at moments like this, so I overpower the remote control and select a Dave Matthews track. (He's a kind of diet Springsteen, exuding a general sense of disappointment with life and America specifically. It felt right.) After two minutes of 'Dodo', Dave is interrupted by a voice alerting me to the fact that I have one minute left of my 'free preview' but the opportunity to hear the rest of the album for only $9.99.

There really is no such thing as a free lunch in this country. For all the service platitudes you are a cash mountain waiting to be mined. No more, no less.

I set the alarm on my mobile phone since something tells me my wake-up call is going to go the way of my luggage, the toothpaste, the wine and Dave Matthews.

I don't sleep well that night. In the event, neither alarm is needed. Which is lucky for the Hyatt as no call came next morning.

In the bathroom there is Clarifying Shampoo and Renewing Body Lotion. Great adjectives, marketing guys! That'll make up for the complete dereliction of your duty as a hospitality brand. I consider sending the Clarifying Shampoo to American Airlines and the Renewing Body Lotion to Hyatt's Head Offices.

I cannot get out of the Hyatt fast enough. Happily, there is an 'Express Self-Service Checkout'. That's another good customer-facing adjective right there! Cool!

Though it does seem contrary for a hotel to foist even this basic responsibility on its customers and then dare to present it as a benefit. Why don't they just hand us bedlinen at reception? It'll keep the costs down so big, mindless tick there. Hey, we could even present it as a new concept in pared-down accommodation. We're the IKEA of the short-stay hotel category! Maybe our first customers could make their beds, literally?

I swipe my credit card to identify myself. It would appear that I have drunk the entire contents of the Refreshment Center. For a moment I am tempted to pay anyway just to get out. Either that or start clawing the walls, *Truman Show*-style. Happily my sense of natural justice asserts itself. I join the queue (yes) and ask the girl with face set to smile:

'Can you explain my bill please?'

I'm looking for: 'Oh yes, that doesn't look quite right'.

I'm hearing: *'You had one bottle of wine, two bottles of water, another unspecified beverage ...'*

'Do I look like someone who's drunk the entire contents of my minibar?'

Actually, don't answer that. It's day two in the same clothes. I'm unslept, unshaven, unbrushed, unflossed.

Pray, madam, how has the Hyatt reached these conclusions? X-ray vision, oompah loompahs with clipboards while customers shower?

'The minibar works on a sensor system. As soon as anything is removed, the cost is charged to your room.'

It transpires that I have been charged tens of dollars for my (failed) corkscrew hunt. Why not wire the bed and bathroom up too? Market yourselves as the world's first on-demand hotel chain?

The phantom costs are waived, but there's no waiving the taste left in my mouth by this no-toothpaste-big-brother-is-watching-you everything-you-want-comes-at-a-price establishment.

'Have a good day, sir!'

Perfect Stay? I don't think so. The Hyatt wants feedback at wecare@hyatt.com. Yeah, right.

A cheery driver almost raises my spirits. It's seven in the morning but he's full of beans:

'Good morning. Thank you for choosing Hyatt, we'll be at the airport in about 10 minutes. Enjoy the ride!'

Get that man off the bus and into the CEO's seat. Or have I just been suckered again?

TOWARDS HOME AT LAST

You can buy any foodstuff you can think of at O'Hare. Right now many people are doing just that. But you can't buy a change of clothes. And you can't buy toothpaste. I am surprised to learn that it is 'company policy' for American not to offer complimentary upgrades. (I had enquired very tentatively. A simple 'no' would have sufficed.)

The flight that follows passes relatively event-free, albeit in coach and somewhat mustily. A week or so after the latest terrorist scare I guess I'll take that. An hour before landing at Heathrow a drink is offered. Yes, I'll take that much overdue glass of wine, thank you very much.

'That'll be $5.'

Now I can indulge the shorthaul boys this as they've made the new low-fare contract clear and I've paid tens of pounds not hundreds to fly, and sometimes less. But sorry American, I ain't buying it. Literally.

LESSONS LEARNED

I've found lessons in this for me, and for marketing. For me: always pack a change of clothes in your hand luggage; don't presume that airport hotels will have toothpaste; travel with your iPod; fly Aer Lingus when you can. Oh, and to reboot my old cynical self. Have a nice day? Yeah, whatever.

For marketing, I hope, the implications are more profound. Obvious, in many ways, yet still largely unpractised by most organisations.

1 More than any other Promise You Make, You cannot Talk Customer Service and then not Walk it

Either cut the platitudes and lower expectations to a level that you can meet or – better – dedicate yourselves to delivering your promises. If you say there will be help at the gate it must be there. If you say toothpaste is coming it had better do so. Early-morning call? Same rules. It's counterproductive to claim 'We Care' if every ounce of evidence is to the contrary.

2 Don't Paint Customer Service onto Your Organisation

No one needs more brands like Refreshment Center or Perfect Stay. Instead, create a customer service culture. Reward good behaviour. Punish the bad. Keep standing in the customer's shoes. Don't delegate responsibility for this.

3 Exploit Crises as Service Opportunities

The Chinese word for crisis comprises two symbols – 'danger' and 'opportunity'. Pour champagne rather than giving out raisins. Be apologetic, clear and helpful.

4 Be Careful what You Say, and how You Say it

'Anxious moments' is not helpful language from a pilot; complex directions minus a streak of humility do not good communication make. Being told 'no upgrades' is company policy does not endear you to that company (the policy is one thing, taking pride in it quite another).

5 Don't get Greedy

Sensors on minibars may prevent 'shrinkage' in the short term; they guarantee shrinkage in the long term because they denigrate your customers. Unabashed 'on-pricing' is sleazy; either shout 'no-frills' or set prices higher and stress they're all-inclusive (leave a chocolate on the pillow).

6 Don't Outsource Customer Service to the Customer

It might look good in an ops meeting, but it will steadily reduce the value they/we place on what you do.

More generally? If you're in the hospitability business, be hospitable. It's time to look beyond America for inspiration.

Market Leader
Winter 2006, Issue 35

Market Leader
THE JOURNAL OF
THE MARKETING SOCIETY
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Marketing and urban myths

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One of the most successful marketing strategies that the world has seen, which has been employed by professional service firms across the world for about 100 years, is called 'Thought Leadership'. Yet, because it's not an fmcg strategy, neither the agencies nor the marketing academics have really studied it. As a result, it has not been generally used by the marketing industry, despite its staggering success.

Thought leadership is a vast, influential and diverse range of activities, which, at its best, produces systematic, iconic work like the *McKinsey Quarterly* or Interbrand's annual publication with *BusinessWeek.* The worst, though, was mocked by *The Economist* and called 'Thought Followship', because it is frequently just the erratic, whimsical jottings of partners from different disciplines tying to 'market' themselves between projects.

Professional service firms are probably worth about $700 billion worldwide and it has been estimated that, in the developed economies, about one in five people work for them. Looking at just one of the firms in this country, Deloitte UK, demonstrates how successful they are. They bill just under £1.5 billion per year from their clients for various advice and accountancy projects. On that revenue, they earn higher net margins than many of their clients and that profit is divided every year between about 600 people, who are called partners, giving them around £700,000 each (Source: Deloitte Annual Report).

Although there are many reasons for this success, thought leadership is one powerful tool used to build income, enhance reputation, create new services and exert influence.

It works because it influences management thinking throughout the western business world, marketing specialists included. But, at the same time, it generates the business equivalent of 'urban myths', causing, in some cases, immense damage.

SOME FAMILIAR 'URBAN MYTHS'

Most thinking business people would have heard, for instance, *'50% of my advertising budget is wasted, I don't know which 50%'.* Many would recognise: *'It costs more to recruit a new customer than retain an existing customer'.* And, hundreds have heard conference presentations that say: *'The average dissatisfied customer tells 13 other people if they have a difficulty or experience bad service'.*

Yet these are manufactured ideas, which, like urban myths, circulate among management networks, gaining influence. In a busy job where people don't get time to think, they make decisions, policy, arguments and presentations, with these ideas clustered in the back of their minds. They become de facto strategies. Real professionalism in marketing is standing back from this mighty machine and saying, 'Does that make sense here?'

Here are some examples.

Globalisation

We have been told that *'Everything is becoming more global'* and this is a typical quotation to illustrate it:

> 'And then in London, a man could order by his telephone, sipping his morning tea in bed, the various products of the earth, in various quantities that he might see fit, and reasonably expect their early delivery upon his doorstep.'

Interestingly, though, this quotation is from John Maynard Keynes, talking in 1920, about his life in London during 1914. Maybe globalisation is not such a new concept. Like many of these ideas, it is older, multi-faceted and frequently re-hashed. It can also cause damage.

Now obviously in the political arena, the great trading blocs of the world mean that the nation state is probably becoming less important, and global interdependence is an issue for politicians to handle. There is also freer movement of money across the world and that will probably increase further through the electronic age. Also the volume of international trade has increased dramatically over the past few years.

Yet I think that Theodore Levitt went too far in his 1983 article on 'Globalisation in marketing' in the *Harvard Business Review.* He suggested that international trade would soon be dominated by 'global brands', entities that everyone across the world would buy. As a result, we, in the marketing profession, should move towards common global marketing, ignoring any variation due to local taste or culture. Which would mean that:

> 'Those marketers who are recognising local cultures are being lazy ... that every person across the world, has the same aspirations, they want their children to be educated, they want people to be healthy ...'

And so within 20 years of 1983, there would be a number of global entities in each of the leading product categories, which would be recognised across the world. He said that:

> 'Different cultural preferences, national tastes and standards are vestiges of the past. Some die, and some, like Italian food, become global propositions.'

In fact, the opposite has happened in the years since. We have seen a re-emergence of national cultures and the failure of many bland global offerings. Nevertheless, when this was first argued, some companies were damaged. For instance, when I was at PWC, we advised a leading consumer goods company. Its share price had been marked down because its competitor had three or four 'global brands' while it had none. As a result, it was losing investors, it was being criticised heavily in the business press and the CEO's job was threatened. In response, he said he would acquire, and yet the industry analysts knew that there were no global brands open to him. Most were owned by families that wouldn't sell.

So this company was suffering because it had no global brands. We analysed its worldwide portfolio and found, amongst its thousands of products, several with real potential. For example, in Venezuela, a product that had been launched with no real marketing or sales support had become a hugely successful market leader. There were more: in China, in Hong Kong and in Germany.

We called these 'cultural icons', because the firm could turn the Venezuelan product into a Hispanic brand. It could then be taken across the whole of South America, up into Miami and across into Spain. A product in Germany could become a Germanic brand in Austria, Serbia and down through Hungary. A Chinese brand, from Hong Kong, could move into mainland China and down through Southeast Asia.

It was much more effective in terms of return on investment for this company to create a portfolio where marketing and sales costs were invested in cultural icons rather than to bet the whole company on the acquisition or the natural growth of one global brand. In this instance, globalisation was the wrong strategy.

Let's look at a few more of these ideas.

The Communication Challenge

We've been told *'Global communications is challenging the world order'*. For instance, the Queen sent the world an instant message by global communications to celebrate her anniversary. It said: 'Thank my beloved people, may God bless them.'

Yet, this was Queen Victoria in 1897. By contrast, in 1760, the then Prime Minister, Pitt, talked to his foreign secretary about the fact that they hadn't heard from their American Ambassador for a year, and 'if we haven't heard from him next year, I'll send him a note'. What a difference between 1760 and 1897. By then, Victoria was ruling the largest land mass controlled by any human being ever and could send this message instantaneously across her empire through a dramatic new technology called telegraphy. It was a major innovation.

We've also been told that the rate of technology change is accelerating; this is a typical quote:

> 'It was only yesterday, but what a gulf between now and then. Then was the old world ...
>
> 'But this technology starts a new era ... We who lived before it and survive out the ancient world, are like Father Noah and his family out of the Ark.'

Yet this was William Makepeace Thackeray in 1863. He was talking about the vast range of innovation that was introduced in his century, including the steam engine (1814) and the railroad, the electric motor (1831) and the first fax machine (1843). The next 40 years would also see: the first telephone call (1876), the electric light bulb (1879), the first motor car (1895), movies (1895) and the first aeroplane flight (1903).

Much of this technology revolutionised life and grew very fast. Take the steam train. This was the first time in human history that mankind could travel faster than a galloping horse. Created in the first half of the 19th century, there were 100,000 miles of track in America alone by the end of it.

It created new concepts like 'the holiday' and introduced, as a small byproduct, standard time in the UK (before that there was a different time in Bristol and London). Across America, it created new cities and new jobs. Also, I have to say, there was some misunderstanding about this new technology, just as in the dotcom boom. For instance *The Times* published an article mid-century suggesting that ladies should not go on a train going faster than 50 miles an hour because their brains were more delicate than a man's and it would cause them damage!

My point is that technology was changing as fast during this period of time as we've experienced it. In fact, I'd argue that some of this technology was much more revolutionary to life and well-being than an extra feature on Windows.

Price Sensitivity

We've been told that *'Everything is becoming a price-sensitive commodity'*. This is a very strong belief in the IT industry in particular. For instance, IBM has recently run a television advert that is part of its Thought Leadership campaign around innovation: *'A product you launch on Monday becomes a commodity by Wednesday'*. There's an assumption that suppliers have to reduce prices. Yet marketers consistently create brands that buck this commoditising force; and it's the best thing we do.

Most leading brands command a healthy price premium and do so for many years. Like the 29p per can that Heinz Baked Beans command over 'own brand' in my local Tesco and the day rates a 'magic circle' law firm partner can command against a single practitioner.

The ad on the previous page is for the oldest brand I could find, Pears. I understand that this product was created in 1789 by Andrew Pears, a hairdresser in Soho. In that age you couldn't get the same product produced the same time every time. Your clothes would all be individually made, you couldn't trust the food that you ate or the water you drank. Yet he found a way to create this consistent, reliable product, and that's what brands do for the world today.

This brand has been around for 200 years. In fact, many of today's brands were created before 1900. It is simply not true that everything is becoming price sensitive, that 'it's all a commodity by Wednesday'. Nor is it impossible to produce enduring value.

Back to the Famous Three

Turning briefly back to my opening examples. *'It costs more to gain a new customer than to keep an existing one'* came from a book by Frederick Reichheld called *The Loyalty Effect*, published in 1996 before the dotcom boom. Yet, when I joined PWC its main product was the financial audit and it cost a lot of money to service a major audit client. However, all the time I was there, companies were coming in through the door saying: please advise me. In those circumstances, it was much cheaper to serve a new customer than to service an existing customer.

'The average dissatisfied customer tells 13 people' was made famous by Tom Peters in his presentations in connection with his book *In Search of Excellence.* It's quoting TARP Research, part of an American government programme in consumer supermarkets across the mid-west of America. But how is the experience of supermarket shoppers in the mid-west in the 1980s relevant to your business in the modern Europe of the 21st century? *50% of my marketing budget is wasted, I don't know which 50%'* was attributed to the Victorian marketer Lord Lever, by David Ogilvy in his famous 1962 book, *Confessions of an Advertising Man.* It may have been Thought Leadership 100 years ago, but now most of our work can be measured.

These are modern myths and may not be relevant to your market today. They are manufactured ideas peddled by people with a stake in them, with something to sell.

PROCESS RE-ENGINEERING: A CASE STUDY IN HOW TO CREATE INFLUENTIAL IDEAS

A few years ago, a thought called 'process re-engineering' came to prominence, which demonstrates how to generate wealth from a Thought Leadership marketing programme. It introduced efficiency gains and unforeseen productivity improvements to many companies, en route making many consultancies very wealthy. This fad started in the 1990s and can, I believe, be originally credited to a consultancy, the Computer Science Corporation of America. One summer it met with people from MIT and developed the hypothesis that middle management could be cut out of many organisations and replaced with computers if top management streamlined the operational processes of their business in a structured way.

It then produced a book (*Re-engineering the Corporation*) and, as a result of this, the idea began to take off. For a period of time, the early adopters of this idea, which always happen to be the same companies, became enthusiastic. It was presented at conferences and if you were unfortunate enough to be with a company whose CEO supported it, you could not challenge it. For a period of time, we were all re-engineering the corporation.

Then the computer industry got in on the act because it realised it could sell computers through re-engineering projects by introducing system-analysis techniques. And I remember people taking the case studies they used as examples of the effectiveness of the previous fad, called 'Total Quality Management' and re-packaging them as 'Process Re-engineering' because it would sell computers. So they did presentations at conferences and wrote articles as if it had been happening for years, adding to the cacophony of voices.

Then a really disastrous thing happened: City people become involved in the idea. They were convinced of it by the professions and started to mark down the shares of companies that had not 're-engineered'. This prompted yet more companies to take on the idea, damaging some.

At the height of the bubble two things happened. First, academics started getting good research budgets to investigate using proper methodologies. (Now most business schools tend to teach 'process management' rather than the fad.) Second, sceptics wrote articles like 'Has process re-engineering damaged corporate America?' These iconoclasts make money by challenging the idea and saying that it is not a panacea that will change the whole of business.

How do these Ideas Gain such Influence?

The point is this: Thought Leadership is a vast propaganda machine. The big consultancies, like Deloitte, PWC and Accenture, have dedicated groups of people that they call their Thought Leadership team. These can be up to 20 strong and headed by very skilful professors. Their job is to 'look across the work in the firm and create new concepts that will help clients create value in their business'.

In other words, they make up ideas to sell to you and me; and they do it very well. Somebody calculated recently that the number of 'white papers' produced by this industry every month is around 10,000. They promoted: TQM, process re-engineering, the millennium bug, shareholder value, the dotcom revolution, CRM, customer loyalty and many others. And they do it to make money.

So What to do with these Ideas When Confronted with them?

You can go along with them. Some consultants adopt each one with glee. Some keep a sensible perspective and others kick against them. Are you going to produce the latest book? Are you going to run courses on the subject? Are you, as they say in America, going to lead the 'next thing'. Be careful, though, it can compromise your integrity if you ride on the latest bandwagon. It may not be appropriate for all your clients.

If you work inside a company try not to be a corporate flea, jumping from idea to idea. Is it relevant to shareholder return and wealth for your firm? Are you going to invest in thought leadership as a marketing tool, supporting your claim to the market? Marketing professionals should keep perspective and use judgement about the effect and value of these fads.

SO IS MARKETING TRAINING THE ANSWER?

Yes, and no. When writing my latest book (*Marketing the Professional Services Firm*) I wanted to put the techniques currently taught at the back in an appendix, so as not to pad it out unnecessarily. I tried to create a 'marketer's toolkit' and trace them back to source. What I found was fascinating. Some, for instance, were the result of long forgotten Thought Leadership fads rather than well worked academic analysis.

Take, for example, 'AIDA' (Attention Interest Desire Action), which is taught as a mechanism to measure the effect of 21st-century marketing communications. Kotler cites its source as EK Strong, in his 1925 book *The Psychology of Selling.* Yet, this was before radio or TV were invented. Is this really appropriate for 21st-century multimedia?

Another is the Ansoff Matrix: new markets, existing markets; new products, existing products; producing a strategy matrix of which 'market penetration' is the least risky one. When did Ansoff do his work? It was published in 1946 and it was based on analysis of a manufacturing company's acquisition strategies in Chicago, America, during the 1930s. It was nothing to do with marketing in the first place. More importantly, though, the experience of American manufacturing companies in and around Chicago in the 1930s is surely not a powerful strategic insight for 21st-century Britain or Europe, economies dominated by services.

True marketing professionalism is applying unique judgement to each situation. You have to know marketing techniques in depth and have the experience to know when they apply.

Market Leader
Winter 2006, Issue 35

Market Leader
THE JOURNAL OF
THE MARKETING SOCIETY
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A new approach to loyalty reveals hidden opportunities

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Vanguard Strategy

Being a global brand creates great pressure on marketing teams to maintain the core brand's market position, or indeed achieve growth. With consumers becoming increasingly discriminating about brands, companies must look constantly for new kinds of insight into consumer attitudes and behaviours, and fresh ways of achieving and sustaining growth.

There's been a general growth in the sophistication of tools for understanding customer data. This is paralleled by improved methods for collecting that data, managing a continuing relationship with consumers and smarter segmentation – all in the context of the multiplication of communication channels. Technology underpins this multiplication. But just as Moore's Law (suggesting that computing power would roughly double every 18 months) has applied to marketing sophistication, so it is true of consumer expectations, which continue to be transformed by new possibilities for interaction and communication.

Generating and sustaining real competitive advantage resides in a company's ability to push the boundaries of conventional thinking and to set more ambitious standards. Any such advantage depends on the ability to think harder about the available data, to question its relevance or validity, and to innovate in the ways insight is extracted and applied.

With the market pressures that come with leadership, the concept of insight excellence must be at the top of the agenda (see Figure 1). This may have profound repercussions for how brands are managed. In a recent case this has for instance led to a fundamental re-evaluation of how the idea of customer loyalty should be researched, and how this is managed for future growth. This article will describe why this matters.

WHY LOYALTY MATTERS

Loyalty is different from customer satisfaction. In fmcg in particular, customer satisfaction may be a prerequisite for future consumption, but not a good predictor. Loyal customers are extremely valuable and a brand generating higher levels of consumer loyalty will typically be more profitable, less at the mercy of competitors' actions, and will have more reliable cash flows and brighter long-term prospects. Understanding how to generate and sustain loyalty is, in most contexts, the holy grail of marketing.

Loyalty in fmcg is far more fraught than it is in sectors like telecoms or cars: consumers will choose between competing brands frequently, and in some cases several times a day. They are likely to have a portfolio of brands to which they are loyal, and which they choose between depending on mood or even time of day. There's an increasing number of brands competing to break into these personal portfolios, and marketers must understand the factors determining choice even within the portfolio.

At the same time, the relatively stable demographics of developed countries such as the UK mean that many categories are experiencing low growth. This implies that, in order to grow, brands must compete for a higher share of the same overall number of available 'consumption occasions'. Winning loyalty in this environment is a challenging task, and yet it is more important than ever.

LOYALTY AND TIME

By definition loyalty is about consumption decisions made over time. Over the years and in pursuit of insight excellence brand managers exploit different consumer segmentations and explore various psychological and behavioural dimensions. The objective is usually to develop a clearer holistic map of consumers' choice as they mature through life. By challenging established views, it became apparent that the time dimension was missing from the way companies normally track consumer choice.

This is not quite so surprising as it might seem at first glance. Of course time has always been considered as a factor in brand choice. The gap lies in the way such data are usually collected and interpreted.

There is a contradiction between commonly agreed definitions of loyalty and the way it is generally measured in fmcg. This contradiction is not just a matter of sorting out a conceptual confusion: it has significant strategic implications for brand management.

Many market research studies that are set up to track consumers' behaviour over time do this based on more or less random samples of respondents. These studies collect data mostly from 'rolling' samples of consumers at set time intervals (for example, quarterly). Even in the most sophisticated consumer panels, only a small fraction of the panellists stay on the panel year on year. Although there are practical reasons for doing things this way, the result is that the behaviour of each individual consumer is not, in fact, tracked over time.

You might be able to spot broad shifts in brand attitudes from this research. But because the individuals responding are different from sample to sample, you can't track allegiance (or shifts in allegiance) over time in the same individuals – the only way to quantify this important dimension of consumer loyalty.

Varying the sample means that at best you are collecting information on respondents' past preferences and future purchase intent, without testing that this matches actual behaviour.

Thus a longitudinal view on loyalty is needed to better quantify and understand true brand loyals: those consumers that 'stick' with your brand over time – the 'sticky' consumers. Interestingly, even market research studies that are based on the same sample of respondents either do not or cannot explore this dimension of consumer behaviour – for example, purchase panels based on scan data tend to have more stable panellists, but do not provide information on actual consumption (on who consumes what is being purchased).

By exploring ways to reprocess their existing data to apply a longitudinal perspective on consumers' behaviour, brands can quantify and understand who their truly sticky consumers are, and the implications of this on brand strategy.

STRATEGIC INSIGHTS FROM STICKY CONSUMERS

Quantifying and understanding sticky consumers has already yielded significant strategic insight in real situations. For instance, standard metrics for loyalty, based on stated 'favourite brand', may point at a specific segment as a demographic group with high levels of brand loyalty. However, quantifying the sticky consumers in this group may tell a completely different story, revealing that seemingly high levels of loyalty could be the result of effective recruitment initiatives, masking high consumer churn and volatility.

It is clearly vital for any brand to distinguish between loyalty and churn. But the two factors are easily confused if you are looking only at stated brand preference and at behaviour at one point in time. High churn may seem acceptable while the inflow of new consumers matches the outflow, but for established brands, that inflow may be too easily interrupted by external factors.

In essence, quantifying and understanding sticky consumers delivers new insights for growth, both for a single brand and for a portfolio of brands. Confidentiality reasons prevent us from sharing details on how these insights, coupled with scenario and dynamic modelling techniques, have influenced brand strategy and marketing initiatives in real cases.

I have however summarised below how quantifying brand stickiness can help marketers make better decisions. In order to make this more tangible, I have also provided two hypothetical scenarios to illustrate how this improved understanding could have an impact on strategy in a real business situation, for a brand like Guinness and for a portfolio of brands like Kellogg's.

BRAND MANAGEMENT

Although a brand's customer base may seem stable over time, consumers churn in and out of the brand continuously.

Quantifying the stickiness of a brand in the various consumer segments allows one to quantify the consumer 'leaks' in the brand system, which is essential to evaluate the importance of customer retention versus acquisition and to realise when a shift in focus is needed. It will also provide marketers with a new dimension to articulate robust marketing strategies to achieve better retention rates and will inform a more accurate quantification of likely impact of alternative initiatives on overall brand growth.

Case Study: Guinness

Guinness was the first nitrogenated draught beer when it was introduced in 1958. The brand has recently achieved a new peak in market share (7% in value according to Nielsen) in an increasingly challenging and mature category, which is expected to decline with the introduction of the pub smoking ban in the UK. One of the strengths of the brand is that its consumers tend to be frequent drinkers, and that they generally are not portfolio consumers: when they drink a beer it is almost certainly Guinness. But these consumers are ageing with the brand, and there is little that the brand can do to prolong their permanence in the category.

One challenge that Diageo is likely to be facing is how to ensure that the brand enjoys a healthy continuous stream of new young consumers (see Figure 2) entering the drinking age and that it extracts the same value from them as from those consumers that are exiting the category.

With this objective in mind, Diageo is now considering two major brand extensions in the UK: Guinness Mid Strength, with reduced alcohol by volume (ABV 2.8% compared to 4.1% in the standard beer), and Guinness Red, with a distinctive red body made from lightly roasted barley.

Managing brand extensions

A rigorous quantification of the brands' ability to generate 'sticky' consumers, in the various consumer segments, and of how this varies for its existing brand variants Draught, Original and Foreign Extra Stout, would allow Diageo to quantify in which segments customer losses are occurring, at what rate and to what competing brands.

This information would provide a different perspective on the brand's strengths and weaknesses and on how the new brand extensions can help address them. In this illustrative case, better information on consumer loyalty, or stickiness, could lead Diageo to reassess the importance of customer acquisition over customer retention. Significantly, though, it would add an important new dimension to evaluate strategic trade-offs involving, for instance, sequence of new product launches, marketing budget allocation, on-trade versus off-trade presence, and brand positioning.

Furthermore, by providing information on the likely impact of these new brand extensions on overall brand retention rates, it would enable a more robust quantification of anticipated growth and sales targets from two brand extensions.

BRAND PORTFOLIO MANAGEMENT

Consumers can migrate between brands that are under the same 'umbrella' brand. Quantifying the destination of the non-sticky consumers provides information on how well each brand in the portfolio keeps consumers within the franchise. This will provide insights on where to focus in order to achieve higher growth for the entire portfolio.

Case Study: Kellogg's

Kellogg's is the world's leading producer of cereals. Established 100 years ago, it is often cited as an example of excellence in understanding and addressing consumer needs. This continuous focus has led over time to the development of a very robust portfolio of cereal brands.

As an example, the Crunchy Nut brand constitutes a tastier, although more expensive, alternative to the iconic brand Kellogg's Cornflakes; Special K addresses the need of the consumer concerned with fat intake; Coco Pops attracts children through the promise of an experience rather than just a tasty cereal through the creation of its imaginary 'Coco Island', while the cholesterol-reducing properties of Optivita address the concerns of the more adult consumer.

These brands complement each other and create synergies by addressing different consumer segments, minimising cannibalisation and ensuring maximum penetration.

Keeping customers in the portfolio

This sophisticated, but rather 'static' view of how these brands form a robust portfolio, is made more complex by the fact that consumers are likely to undergo important changes in their lives – for instance, as they mature through life. These changes are likely to generate new consumption preferences and behaviours.

There is little that Kellogg's can do to prevent consumers from switching segments, and the critical challenge is therefore to ensure that consumer choice still goes to a Kellogg's brand after the change; for instance, it will want to ensure that the majority of its Coco Pops consumers switch to Kellogg's Cornflakes or to Crunchy Nut as they become teenagers, and that the majority of consumers switching out of Crunchy Nut because of concern with fat intake will choose Special K as their favourite cereal brand.

Quantifying consumers' 'stickiness' for each Kellogg's brand and the destination of the non-sticky consumers is essential to understand how many consumers are not 'captured' during their transition to a new segment. This can have important strategic implications.

We can speculate on possible scenarios. For instance, traditional measures may indicate that Special K enjoys high levels of consumer loyalty and is effectively exploiting its growth potential. But new data on 'stickiness' may reveal that Special K is mostly recruiting consumers who are not satisfied with their current 'fat free' cereal brand, while a majority of consumers switching from Crunchy Nut to fat free cereals do not choose Special K.

Further analysis may then reveal that, for instance, this is particularly true for female consumers and for a specific socio-demographic segment. This information would suddenly reveal a new growth opportunity for the portfolio, with actionable strategic implications in terms of, for example, brand positioning for Special K or of need of NPD needed to improve the portfolio.

LOOKING AT EXISTING DATA DIFFERENTLY

Understanding loyalty or customer 'stickiness' is only one example of how insight excellence can support an advantageous market position. For iconic brands the adoption of insight excellence reflects a cultural restlessness, a habit of necessary, constant self-scrutiny because anything less would quickly undermine the brand's pre-eminence.

If that sounds daunting there is a comforting lesson: many insights can come from a more intelligent use of consumer data already held, without significant investments in new research.

This is the real significance of insight excellence: it is not about some new (and costly) field of research, but more a matter of re-examining the things you are already doing, and asking what else you could learn from them.

It is about challenging established views and exploring new techniques to generate new knowledge. By pursuing this excellence into the fundamental concept of brand loyalty, some brands have already been able to make strategic adjustments to their marketing, which have helped them stay ahead of the market.

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NOTES & EXHIBITS

FIGURE 1: DISCOVERING INSIGHT EXCELLENCE

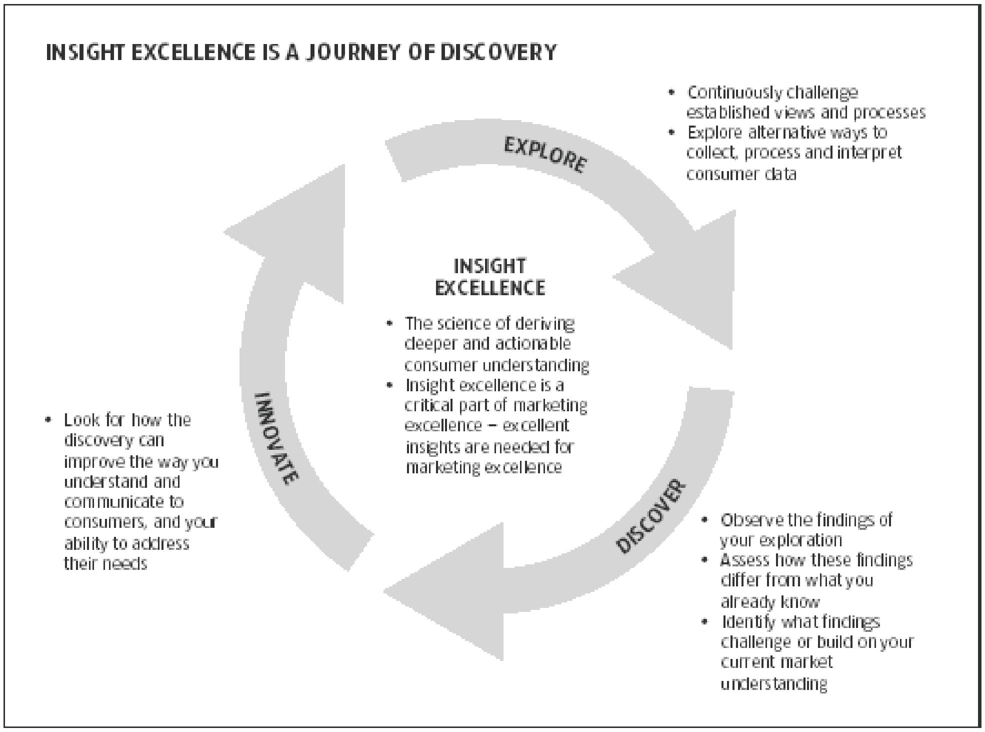

FIGURE 2: GUINNESS ADVERTISING. GUINNESS IS A POPULAR BRAND WITH OLDER CONSUMERS, BUT IS ALSO WORKING TO ATTRACT YOUNGER DRINKERS

Market Leader
Winter 2006, Issue 35

Market Leader
THE JOURNAL OF
THE MARKETING SOCIETY
www.warc.com

Case study: word-of-mouth marketing

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White Stone

A leading high-street retailer wanted to expand its branch network into individual towns. But first it needed to resolve a conundrum: why were some of its branches welcomed by the local community while others encountered fierce resistance?

The experiences of two branch managers were instructive. One, who was leading a branch opening, approached the local vicar. He told him about the store opening plans and asked his advice about where he might make his own home in the area, including the best estate agents and schools. The vicar spread the word and a week later the manager was met by an enthusiastic group of people who knew his name and had answers for many of his questions. The branch opening was ultimately widely supported.

The other manager, who was expanding an existing branch, simply submitted his plans to the Town Council. Yet from the moment the application was received, it encountered hostility from a small number of leading citizens as well as the local press. The expansion had to be postponed for months and the issue became a sore spot within the community and the company.

It was clear that certain individuals in the community held great influence over others and that certain messages worked while others did not. Recent research has confirmed that:

- the opinion of friends, family and trusted sources is the most important factor influencing any individual's decision
- 10% of the population have the greatest influence over the other 90%
- messages with a strong emotional connection and independence from the marketer are most likely to get through.

The retailer wanted to determine how word-of-mouth marketing could help the expansion of the branch network into individual towns. Specifically, the challenge was to illuminate the social networks of local communities, identify the influencers and determine how best to get people talking – and buying.

SOLUTION

To combine strategic control with practical impact, we developed a conceptual model and translated this across a range of initiatives. Each addressed a specific challenge – such as reaching a niche audience, combating local competitor entry, or tapping into a new growth area within the retailer's service and product range.

Conceptual Model

The central components of effective word-of-mouth marketing were defined and brought together in a rigorous and systematic approach that could be applied to a range of challenges, yet targeted the strongest influence points. The model considers:

1. objectives
2. audiences and hubs
3. hot buttons
4. brand/business attributes
5. initiatives
6. implementation
7. measuring success.

Implementation

To demonstrate how the model works in practice, one of the eight initiatives is described here. It was designed to accelerate online and retail sales to new or expectant mothers.

New mothers represent a uniquely valuable segment: playing an important role for the first time, they are keen to canvass opinions and engage in conversations with others. In fact, women speak an average of 15,000 words per day in the UK, compared with a man's 7,000, and first-time mothers are probably the most communicative of all women.

We mapped the networks of audiences and their inter-relationships (e.g. mothers are often connected to the National Childbirth Trust, new mothers' groups, children's schools, previous employers and community organisations) and set priorities according to specific criteria, such as the relative strength of any group's influence and the retailer's ability to reach them.

We identified 'hot buttons' – the local and individual issues that people care and talk about the most (e.g. for mothers, improving the well-being of their family and better managing their time) – before selecting the most buzz-worthy features of the brand (e.g. new healthy living range and time-saving services).

This formed the basis of a powerful word-of-mouth marketing programme, which included surprising mothers at the school gate and creating an ongoing dialogue with new mothers' groups. Implementation involved compiling a list of influencers (the most connected mothers) from a variety of sources and lining up the resources to engage them. Finally, we defined criteria for measuring success (e.g. seeing how much people talked and how swiftly they signed up).

IMPACT

This work gave the retailer better understanding of the dynamics of networks and influencers within a local community. It enabled them to penetrate those networks and be more confident of the reception their branch expansion would receive. It also gave them a vehicle for extending the brand beyond the retail branch and online distribution channels, engaging audiences in fresh ways.

The solution was powerful for the following reasons:

- it created a robust platform for addressing a range of potential issues
- it targeted the strongest influence points for stimulating word of mouth
- its effectiveness was not judged solely on a single initiative, but on an overall approach.

The work also demonstrated how word-of-mouth marketing is an important yet complementary marketing vehicle – one capable of providing a better return on investment than traditional vehicles. While most marketing concentrates on mega hubs (e.g. mass media) because they are easy to identify and have obvious influence, the real opportunities are within the local community and informal grass-roots hubs that fall below the radar screen.

Importantly, the work enabled the retailer to make sense of the original conundrum about the two branch managers' relative experiences. It became clear that the first branch manager's efforts had worked because he reached an influencer at the centre of a community (the vicar) who was able to persuade local people to view the company's plans sympathetically. The second manager had not fully considered the influence of indirect audiences (e.g. vocal community citizens and the press) on Town Council decisions, and had failed to consult key influencers before moving forward with his plans.

Overall, word-of-mouth marketing gave the retailer a much fuller strategic grasp of its own marketing efforts, while actively promoting the brand through a series of carefully targeted initiatives.

Market Leader
Winter 2006, Issue 35

Market Leader
THE JOURNAL OF
THE MARKETING SOCIETY
www.warc.com

I want my agency to make a profit

David Wethey
Agency Assessments International

We work for advertisers, advising them on all aspects of their agency relationships. Whether we are working on a pitch or a relationship management assignment, agency compensation is always a factor. Over the 18 years of Agency Assessments International (AAI) we must have helped negotiate well over 100 deals. Nearly all our clients (and all the ones we would like to work with again) say something along the lines of the title of this piece. Despite endless cost-cutting. Despite the attentions of an ever more powerful procurement function, the marketers who hire advertising and marketing communications agencies want their account to be profitable. But we find that relatively few clients – and sadly even some of their agencies – have a grasp of what it takes to be profitable in these tough times.

Historically agencies benefited from those non-identical twins, media commission and production commission (the latter being a bit of a misnomer, because it was effectively a 15% mark-up on all third-party costs). The more the agency grew and the more clients spent, the more money the agency made. Then came the triple whammy.

1. The Monopolies & Mergers Commission ruling that ended media recognition, stimulated the rise of the media independent, and caused the splitting off of media departments from full-service agencies.
2. The advent of split commission and commission rebates, and the eventual demise of commission and its replacement by people hours fees.
3. The rejection by most clients of the principle of production mark-up and the move to 'decoupling' or outsourcing.

Fast forward to today where fees predominate but are closely challenged by procurement, and the only significant additional revenue possibility is from payment by results (PBR). How can agencies prosper and make decent profits in this unpromising environment? Here are ten ideas, in the hope that even one or two might make a difference for a beleaguered agency and its sympathetic client.

1. CUT COSTS AND HEADCOUNT

I know it's obvious. But in any business profits grow just as surely from reducing costs as increasing revenue. Cost control has not traditionally been a strong suit in agencies – but that is changing, even to the extent of some setting up their own procurement function.

Elementary exercises like the '10% rule' (tasking all major cost heads and challenging managers to save 10% without losing quality or competence), settling only for 'must haves', and putting off the 'nice to haves' will make a real difference.

Also the availability of a talented freelance pool means that reducing headcount need not mean any loss of resource and capability. I also believe that sharing the philosophy and practice of an economy drive with clients will not only increase respect, but make fee negotiation easier.

2. APPLY BUSINESS PROCESS RE-ENGINEERING (BPR) PRINCIPLES TO THE WAY AGENCIES WORK

BPR was one of the major management fads of the early 1990s. Tom Peters, Michael Hammer and James Champy became household names as they preached the breaking down of departments in order to form teams, thereby slashing steps and transfers.

Relatively few agencies tried it for themselves, and I recall some of the problems encountered by JWT in Hong Kong and the ill-fated Wells Rich Greene in New York. But there were outstanding success stories, including the intrepid Tony Bucci at the Marc agency in Pittsburgh. I believe the time has now come for more agency managers – and indeed their clients – to revisit process re-engineering. In the 1990s it was unusual for clients to concern themselves too closely with how their agencies worked.

Now that people-hours fees have become the default setting for remuneration, and most companies have a competent marketing procurement function, it is very much the client's business how an important partner's process enmeshes with its own. The agencies that take the initiative here will not only be more efficient, they will make more money.

3. REPOSITION THE AGENCY AS 'MARKETING INVESTMENT MANAGERS'

As long as marketing, advertising and marketing communications are seen purely as costs, a defensive battle is inevitable. But advertising (and its marcoms family) does work, as effectiveness awards schemes throughout the world remind us. If marketing communications deliver commercial results, then the spend and the agencies responsible are investments, not costs. How much more convincing to make a case for an investment than to defend a cost.

Talking about managing marketing investment isn't just a semantic improvement on the normal promotional vocabulary of ad agencies. It gives those agencies a much more serious positioning and purpose, and two other major plusses: an association with metrics, and the longer term focus that is necessary to judge return on investment.

4. SELL MORE SERVICES

Integration and 360° are the new clichés. The demand-side equation is taken for granted. All clients are looking for service along the line, as well as above and below it. The agencies I grew up in 30 and 40 years ago offered what in those days we called 'full service'. Now we have myriad specialist agencies. But for the surviving creative agencies there are surely major opportunities to market a whole range of additional resources and skill sets, thus creating more revenue.

5. THINK FIRST MOMENT OF TRUTH (FMOT) AS WELL AS AIDA

FMOT is what P&G calls the point of purchase. The second moment of truth (SMOT) is when you use, eat, drive the product. The world's biggest advertiser has substantially increased its spend at and near the purchase point. Is it right? Is this going to be a major trend? What does it mean for advertisers and agencies?

Traditionally we start months – even years – ahead, planning for the target consumer to buy our clients' products. If everyone has done their job well, people will buy the product and sales will rise: advertising works. Ad people didn't worry much about the checkout.

The FMOT focus threatens this comforting theory. Classical advertising is still important for many brands – promoting FMOA (first moment of awareness) and FMOD (first moment of desire). But thousands of other brands need the new orthodoxy of FMOT-inspired, back-to-front thinking. They respond to impulse stimulus at the decision point.

This 11th-hour activity can produce a substantially greater return on investment. But it will happen only if clients and agencies are alive to the opportunity – and prepared to change the habits of a lifetime.

6. SELL DELIVERABLES – NOT JUST TIME

People hours. Resource package fees. Full-time equivalents. We now take fees as the norm. Give an agency a marketing challenge and a scope of work, and two days later you receive a spreadsheet explaining why so many people, at such and such percentage of their time, and factoring in overhead and margin, add up to a fee of £785,000 a year.

Does this really make sense? Is it commercially attractive to the client? Is it transparent? The answer is 'no' to all these questions.

Agencies will be profitable in the long term only if they are aligned with their clients' profitability. People hours are the input. The output can be expressed only in deliverables.

The deliverables are valuable only if they result in positive outcomes in the marketplace. Agencies will find it much easier to sell outputs and outcomes. Packaging and pricing deliverables is the way forward.

7. TAKE PAYMENT BY RESULTS (PBR) REALLY SERIOUSLY

PBR is a strange phenomenon. All agencies say they want to work that way. More than 50% of clients have some form of PBR in their compensation arrangements. It makes undeniable logic. Yet enthusiasm – in both camps – tends to be on the luke side of warm. Why? I will give you three reasons.

- Most schemes are too complicated to encourage any real uplift in agency behaviour or performance. Most people will only respond to clear KPI's.
- There is not normally enough money on the table. The more skin in the game for the agency, the harder they will work, and the higher priority that account will become.
- There is less gain if there is no pain. Agencies should not expect rich rewards if there is no risk attached in terms of downside penalties if they do not deliver.

8. LOOK AT WORKING 24/7 TO SWEAT THE OVERHEAD

Some agencies are there already. It is rumoured that Sir Martin Sorrell does it personally using three assistants in the process! Broadcasters, news organisations and, famously, the internet work round the clock. Why not forget the gentlemanly traditions of the 40-hour week (or less) and have the agency on active service 24/7? As you turn off your computer tonight, someone on the other side of the world will be booting up theirs. Keep your computer on. Share projects. Generate more ideas. Amortise the overhead.

9. RUN PITCHES DIFFERENTLY

Agencies need to pitch on their capabilities and achievements, rather than give away their best ideas.

Marketing the agency and pitching account for 20–25% of most agencies' time. It's a high percentage by comparison with most service businesses, but obviously justified if every year sees the addition of prestigious clients. The flaw in the argument is that, despite the IPA and ISBA's best practice guidelines, the new 'tradition' of pitching requires four to five agencies to give away ideas in the final shoot-out.

Is that likely to be a profitable strategy? Absolutely not. Agencies should work out the street price of the last five big ideas they gave away in terms of potential creative and consulting fees. Subtract the non-manpower revenue of any accounts they actually won by dangling these ideas in front of the client. The cash difference (and there will nearly always be one) is the profit sacrificed at the altar of pitching tradition.

10. GIVE CREATIVE THE SAME PRIORITY IN AGENCIES THAT FOOD GETS IN A GREAT RESTAURANT

Some questions for agency heads:

- Just how much creation is going on in your agency this week?
- What is the ratio between input and output?
- What creative quality control process is in place?
- Do creative teams get rewarded for IPA Effectiveness wins as well as D&AD or Cannes?
- Hot agencies produce idea after idea. How can you make your agency hot again?

Many agencies just do short-order cooking. Go back to the restaurant analogy. Think great chefs. Do Gordon, Marco Pierre and the rest spend hours with customers listening to their vision of what food they want? Do they hell! They put their energies into creating new ideas, and then selling them. Who said that wouldn't work in marketing communications? Who believes that wouldn't make agencies more profitable?
