Praise for

THE MARKETING MAVENS

"Where companies once thrived in a climate of scarce supply, globalization introduced a breed of killer competitors ready to lure customers away at every opportunity. Dr. Noel Capon's new book *The Marketing Mavens* identifies the five key marketing imperatives that differentiate surviving market leaders enabling them to rise above the competition and dominate their respective industries. Dr. Capon further examines how these companies have managed to retain customer loyalty by integrating customer needs and values throughout its operations, making marketing everyone's business. It helps us understand how the best marketers create a slot in the consumer's mind that no other product can occupy and how a successful positioning will create a new slot or unseat an incumbent. The final result is a book that offers valuable insight into 'the internal dynamics, the thinking, and the actions that make great companies great.' It is a must read!"

—Robert Friedman, president of @radical.thinking, former president of New Line Cinema, and founding member of MTV Networks

"*The Marketing Mavens* provides accessible insight into how some of the world's iconic companies have penetrated deep into consumer psyches to develop winning strategies and brands. In fact, the mavens are all mavericks—seeing what others miss and having the conviction to invest capital, build capabilities, and create new businesses. Capon skillfully overlays a five-point framework over great narratives of how a broad range of companies—from Starbucks to Sony, from the Mayo Clinic to Virgin and Bloomberg—push the boundaries of 'marketing' into the real world of anticipating and meeting customer needs."

—Donald J. Gogel, president and CEO, Clayton, Dubilier & Rice, Inc.

"This is a terrific book, rich with anecdotes and logic. Capon makes sense of all of the marketing clutter by integrating the insights of the world's best marketers into a series of simple rules. These rules become the manifesto for market leaders and those who want to become one. This is the best marketing book I've read in a long time."

—Reed Holden, founder and CEO,
Holden Advisors

"A fascinating book with a much-needed, different point of view: One I have personally held for a very long time. This is big-picture marketing about companies whose entire orientation is 'to the market.' It's about people at vibrant and successful companies who orient themselves to the outside world of consumers, customers, and users. Everything Marketing Mavens think of and everything they do is in the context of the people who are actually buying the product and experiencing the brand. *The Marketing Mavens* is excellent. It's the right book at the right time."

—Shelly Lazarus, chairman and CEO,
Ogilvy & Mather Worldwide

"Think of this book as the Miracle-Gro for marketers. Put a little of Noel Capon's formula into your marketing root system and see your business flourish. It's time marketers dug much deeper into customer dynamics and drivers to make market understanding a real competitive advantage that can be both a differentiator and business value builder. Filled with valuable, relevant, and current brand marketing illustrations, Capon makes a compelling argument for advancing the need to architect and integrate your operations around the customer experience. Let's all make 'customer-focused action' a cultural imperative in our organizations!"

—Donovan Neale-May, executive
director, Chief Marketing Officer (CMO)
Council

“Dr. Noel Capon’s new book, *The Marketing Mavens*, is a much-needed book in the spirit of *Built to Last* by Collins, by digging deeply into the strategies, tools, and track records of leaders. Most books in this tradition treat marketing as one factor (often small) in the company’s impressive track record. This book, *The Marketing Mavens*, as the title suggests, is all about great marketing. Any marketer, any manager who needs marketing to be at their best will glean useful stuff—ideas, cases, and tools—from this timely book. The in-depth look at integrated marketing is especially valuable in today’s fragmented marketplace.”

—Joe Plummer, chief research officer, The ARF—*The Research Authority*

“While many talk about the necessity of being ‘customer-centric,’ in *The Marketing Mavens*, Noel Capon clearly identifies and illustrates the essential elements that enable companies to achieve and sustain leadership by continuously delivering value to their customers. I highly recommend this book to business leaders of all ranks regardless of whether they are looking to build a new business model, transform an existing organization, or better understand and strengthen an already thriving organization.”

—Sidney Taurel, chairman and CEO, Eli Lilly and Company

“*The Marketing Mavens* unearths the shared characteristics of customer-centric companies that consistently outperform their rivals. It defines fundamental truths that apply from Toyota to IBM, from Amazon to Alcoa. This is a ‘must read’ for business leaders and marketing executives who are committed to leading and winning the battle for growth in today’s competitive markets.”

—Gary S. Tubridy, senior vice president, The Alexander Group, Inc.

Also by Noel Capon

Corporate Strategic Planning
with John U. Farley and James M. Hulbert

The Marketing of Financial Services:
A Book of Cases

Planning the Development of Builders, Leaders,
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THE MARKETING MAVENS

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First Edition

To Deanna, Merna, Ellen, Paul, and Peter
From near and far, you are my global family

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Introduction

Why Marketing Mavens Spell Marketing with a Capital *M*

Over the past dozen or so years, globalization has turned business on its head. For almost a half century, from the late 1940s until the 1990s, the overriding factor that dominated the economic scene was scarcity of supply. Companies did not have to be all that good, much less great, and competitive innovations in another country or region presented little threat. If somebody, somewhere, found a better way to do something, there was plenty of leeway to ignore it or slowly acquiesce to change.

Companies no longer have the luxury of such behavior, and customers no longer dance to their tunes. Today, the overriding factor that dominates the economic scene is scarcity of demand. Notwithstanding dozens of bloody civil, local, and regional wars, a half century of peace in the world at large has combined with technological advances and other forces to foster substantial economic growth, not only in the United States and western Europe but also in Asia, Australasia, and South America. As a result, the next innovation, the next killer competitor may come from anywhere, anytime, to take your customers—and thus your business—away from you in the virtual blink of an eye. Today customers around the world have multiple choices for everything they want to buy. Hence, the most profitable customers in every business-to-business and consumer sector are increasingly scarce on the ground.

Mediocre companies remain mediocre, if they survive at all, because they still practice marketing with a small *m*, that is, they view marketing in its traditional roles of communications and sales.

Great companies become and remain great because they practice marketing with a capital *M*. They know that thriving despite demand scarcity means doing business differently because they understand that one of the central facts of business life today is that customers *don't* have to do business with you. Great companies are populated at every level of the organization with Marketing Mavens obsessed with the idea that everything a company does, from R&D to customer service, must be focused on anticipating and meeting customer needs.

Ensuring that scarce customers do business with you is front and center a marketing job. The chief marketing officer (CMO) usually has the responsibility for analyzing and articulating which customers you want and how you will secure and retain them. Some CMOs do this job better than others and the best of the lot are Marketing Mavens. But Marketing Mavens are not just found in marketing. In the most successful companies the Marketing Mavens include not only the CEO and all senior managers but everyone in the organization from product developers to people in the Research and Development (R&D), Sales, Finance, and Human Resources departments. Marketing Mavens in short change the ways that their companies think about and do marketing by making marketing everyone's business.

The mission of this book is to share the lessons from Marketing Mavens in a host of industries and change the way you think about and do marketing in your business.

Marketing Mavens know that everyone in a company, not just those in the Marketing Department, must help create and retain customers. Marketing cannot be a separate function—it must be the job of the business as a whole. Marketing (with a capital *M*) must be a philosophy for your entire organization. Let's face it: if you don't have customers, you don't have anything. So whether you're a marketer, a plant manager, a chief financial officer (CFO), or chief executive officer (CEO); whether you're in R&D, Information Services, or Human Resources; whether you're a senior executive, a middle manager, or have just been hired in an entry-level position; and whether you have a customer-facing role or do a job deep in the organization, you must understand how to put customers at the center of what you do on a day-by-day basis.

The late Peter Drucker sounded a prescient call for this perspective in his classic 1954 text, *The Practice of Management.*

> There is only one valid definition of business purpose: to create a customer. It is the customer who determines what a business is . . . What the business thinks it produces is not of first importance—especially not to the future of the business and to its success. What the customer thinks he is buying, what he considers "value" is decisive . . . [A business enterprise] has two—and only two—basic functions: marketing and innovation . . . Marketing is so basic that it cannot be considered a separate function . . . it is the whole business . . . seen from the customer's point of view. Concern and responsibility for marketing must, therefore, permeate all areas of the enterprise.[1]

Few companies heeded that call consistently while scarcity of supply still held sway. Now all the top companies have made marketing an organization-wide priority. For example, Michael Hines, senior vice president of Global Marketing and Communications for Prudential Financial, lately one of the more successful companies in consumer financial services, captured this dynamic in the very first interview I conducted as part of the research on which this book is based. "There is a lot of supply and a lack of demand," Hines said. "What we base our marketing on, is that people don't need to do business with us." The same is true in virtually every market and industry sector in today's economy. To put it bluntly, you need customers more than they need you. Hence, caveat emptor (buyer beware) has become caveat venditor (seller beware)!

Make no mistake, customers are your core assets—they must form the centerpiece of your activities. You will be successful with customers, you will survive and grow, and the market value of your business will increase if, and only if, your products and services deliver greater value to customers than your competitors deliver. If you fail in this task, and your competitors deliver greater value, ultimately you will go out of business. It's that simple. The problem, of course, is that competition is getting tougher. As someone working in today's business environment, you know only too well that competition comes from so many different places beyond your traditional rivals—from different industries with different technologies, from different countries, and even from your suppliers and distribution channels.

Finding the Marketing Mavens

To date there has been little in-depth study of how successful companies focus on customers throughout their operations and how they put this focus into action on a daily basis. To fill that gap and understand better how the best companies husband and grow their customer assets, I formed and led a research team at Columbia Business School in a multiyear study of top marketing companies.

To identify marketing leaders, we began our research by studying lists of top companies, such as *Fortune*'s Most Admired Companies, the *Forbes* Platinum 400, *BusinessWeek*/Interbrand's100 Most Valuable Global Brands, *Advertising Age*'s Global World's 100 Biggest Advertisers and annual Marketing 100 lists of America's best marketers, and *PROMO* magazine's 50 Best-Promoted Brands. We looked for consistent repeat appearances, especially on multiple lists, as well as dramatic recent entrants. We combined the short list that emerged with quantitative data from a rich database housed at the strategy-consulting firm DiamondCluster International, and customer satisfaction data from the University of Michigan's American Customer Satisfaction Index. (For a detailed discussion of the research methodology, see appendix 1.)

Using these data, we constructed company and brand rankings for three broadly based criteria that we developed: *market leadership*—focused on marketing and financial performance; *company/brand reputation*—focused on reputation in areas such as innovation, product quality, brand equity, and customer satisfaction; and *market power*—focused on influence among marketing professionals. We tallied the scores for each of the three criteria and then calculated a combined rank for each organization. Our final universe, spanning twenty-four industries, ranked the top 150 public companies, one hundred brands, and forty private companies.

We then interviewed fifty-seven executives from forty organizations in a broad array of businesses. Interviewees included CEOs; chief operating officers (COOs); CMOs; and other business professionals in public, private, and not-for-profit organizations spanning eighteen of twenty-four industry categories such as banking and investment; business services; industrial materials; media, entertainment, and information; health-care services; and transportation and logistics. Most organizations were based in the United States, but we also had significant representation from Asia and Europe. Many companies were global in scope, but some were purely domestic. Quite deliberately, we omitted some high-ranking enterprises so that we could show you data across a wide array of economic sectors.

This book would not exist in its present form if it were not for the participating executives' generosity with their time and insight. We did not want a snapshot of perceived excellence in a single year or a single business climate but proven excellence over time. Short-term winners may have seductive appeal—remember when Enron was, briefly, a most admired and envied company? But this book is about the lessons of long-term winners. We conducted our first interviews in 2002, usually in person, and our last follow-up interviews, more usually by telephone and e-mail, in 2006. Some of our original interviewees no longer have the same positions. Some have different jobs in their organizations; others have moved on to new challenges—after all, the market for high-quality marketing talent is increasingly vigorous. Some executives we interviewed once; others we interviewed on multiple occasions. (This book notes interviewees' titles at the time of the most recent interview.) To make sure that the views from the top accurately reflected the organization as a whole, we also conducted focus groups with marketers on the front lines, including more recent college and MBA graduates. Over the same time span, we also performed extensive secondary research on each organization that we interviewed.

In the chapters that follow, I present lessons drawn from the successes of Alcoa, Amazon, Bloomberg L. P., Dell, ESPN, ExxonMobil, L'Oréal, Mayo Clinic, Nestlé, Oracle, Pfizer, Progressive, Prudential Financial, Samsung Electronics, SAP, Starbucks, Target, The Home Depot, Toyota, UPS, and others. Despite being in disparate businesses, they share the common characteristic of a fierce company-wide focus on the customer.

For example, it will come as a surprise to many readers that Alcoa is not just an aluminum company, but manufactures and sells many composite products that do not even include aluminum. As Dick Melville, vice chairman of Alcoa Industrial Components' Aerospace Market Sector Lead Team told us, "[In general] our customer is not normally the person who actually puts the aluminum or other product to its final use. In many cases we go three, four and even five customer levels deeper to reach the end market and gauge trends, assess our positioning, and analyze how we can pull value through the chain."

Nestlé Prepared Foods has seen substantial organic growth with its Stouffer's and Lean Cuisine brands by digging deep into the different needs of key market segments. President Stephen Cunliffe said, "We recognize that product requirements are different at different life stages. What does a teenager want to eat? What do a young married couple, both working long hours, want to eat? What does a working mother want to feed her family? What do empty nesters want to eat?" By forming segments based on customers' needs and their attitudes toward food, and precisely positioning its products at target segments, Nestlé has come to dominate the prepared-foods business.

Mayo Clinic has been providing exemplary medical care for over a hundred years and is the most well-known and powerful health-care brand in the world. Mayo's excellence is based on two simple yet powerful operating principles: "The best interest of the patient is the only interest to be considered" and "Two heads are better than one, and three are even better." Operating with these principles overcomes the interfunctional and interdepartmental tensions that are present in so many organizations.

Starbucks' success is legendary; chairman Howard Schultz credits that success to a company-wide, customer-focused marketing culture. "[T]he culture of our company allows our people to feel so positively about Starbucks that, without being asked to, they want to convey the attributes, the characteristics, the aspirational qualities of what we do for the customer."

In the past few years, Sony has faced tough times from competitors but even so has managed to improve its position on the 2006 *BusinessWeek*/Interbrand rankings of the top one hundred global brands. Sony spends enormous effort on measurement, driven by the mantra "If you can't measure it, you can't manage it." Ron Boire, president of sales for consumer electronics, told us how Sony's metrics for its major accounts became customer focused, and in this regard abandoned small *m* marketing for Marketing with a capital *M*: "We used to do classic sales compensation: budget versus sell-in. If you had a budget target of a million dollars for a category and you sold at $1.1 million, you did a great job, you made a good bonus. Regardless of what was stuck in the barn at the end of the month or the end of the year. Regardless of whether or not they could pay for it. Regardless of whether you delivered it to them on time." Sony shifted to customer-focused metrics. Said Boire, "[We] ask each customer, 'What's important to you? What are your targets? What are your strategic concerns?' . . . and our salespeople are given bonus compensation twice a year based on their customer scorecards."

Just like Sony, some of the other companies highlighted in this book have stumbled. Even great companies must sometimes go through rough times. Their resilience in adversity goes hand in hand with their consistent pursuit of excellence and resistance to complacency in good times. One or more of these companies may be facing rough weather as you read this book, but I believe that their collective best practices will continue to stand the test of time.[2]

It was fascinating to hear these stories of marketing achievement directly from the Marketing Mavens themselves, and I have tried to preserve the immediacy of the interviews by quoting extensively from them. But vividness and entertainment value are not the main reason for sharing so much of what we learned from winning companies in their executives' own words. Paraphrase simply cannot always capture the internal dynamics, the thinking, and the actions that make great companies great. The qualitative research data we obtained from our interviews offer a window through the income statement, balance sheet, and stock price to the interactions between a company and its customers that ultimately produce the sales increases and declines, the profits and losses, and the rises and falls in shareholder value.

The evidence from the combined qualitative and quantitative data my research team amassed points again and again to a simple—and for many—a radical message. Marketing is not just about sales and communications, nor even about that old chestnut of the "4 Ps" marketing mix: product, price, placement, promotion. Marketing is about focusing all of the firm's energy on meeting five linked challenges that place customers at the center of strategic and tactical decision making. Indeed, these challenges form a new system of five linked imperatives that companies and businesses must follow if they are to be successful in the increasingly challenging environments of the twenty-first century:

- Pick markets that matter
- Select segments to dominate
- Design the market offer to create customer value and secure differential advantage
- Integrate to serve the customer
- Measure what matters

Toyota is now the number two automobile firm in North America with a market value ten times that of General Motors. It didn't achieve its position overnight but has been on a long, steady climb. Toyota is all about systems and has long drawn praise for its quality manufacturing system, which delivers high perceived value in reliability and performance to customers across the full Toyota, Lexus, and Scion ranges. But Toyota's increasingly strong lead over the rest of the global car industry also depends on excellence in several other systems that allow it to deliver superior design, dealer management, and customer service and communications.

Toyota adheres closely to all five imperatives and its consistent excellence in fulfilling one customer-focused imperative leads to excellence in fulfilling the others in a virtuous iterative cycle. Designing and making cars better suited to customers' needs enables Toyota to promote the cars more efficiently. This in turn enables it to direct resources to *pick markets that matter* and segment them well, as it has done better than any rival; integrate operations in a company-wide marketing culture; and assiduously measure what matters, from defects on the assembly line to customers' satisfaction with their ownership experience.

The bottom line of business survival and growth is that next year's profits do not depend on this year's numbers—they depend on next year's customers. If you want to know how the world's leading companies identify future customers, figure out what they need, and then deliver greater customer value than their competitors, please read on. If these issues do not concern you, then pick up a novel instead!

ONE

The New Market Model

For decades, IBM was the world's leading computer manufacturer and widely considered the best-managed company in the world. It averaged over $6 billion in profits per year from 1981 to 1990. Earnings in 1990 were over $6 billion. In 1993 the profit number exceeded $8 billion. There was just one little problem: it was negative—a $14 billion profit swing in just a couple of years![1]

When Lou Gerstner became CEO in 1993 he was given plenty of advice on how to turn around this once all-powerful, but then floundering, computer giant. The prevailing view, inside and outside IBM was almost unanimous: break it up. The emerging new information technology (IT) industry was so fragmented by smaller specialized companies, the argument went, that a fully integrated product line was passé. IT customers wanted the freedom to pick and choose the best products and services for their needs from an ever-growing universe of suppliers—mainframes here, servers there, software somewhere else.

This model was based on what many people *imagined* were the needs of IT customers. Certainly, as Gerstner observed, a lot of customers wanted to "break IBM's grip on the economics of the industry," achieved through bundled prices. They also wanted the distributed computing that PCs offered but which IBM had been painfully slow to deliver. As IBM was preparing for a breakup, it was "rocketing down a path that would have made it a virtual mirror image of the rest of the industry."[2]

But this conventional wisdom was based on a superficial reading of the IT marketplace. Gerstner had a radically different view. As CEO of American Express, he had seen IBM from the *customer's* viewpoint. Restructuring the IT industry had indeed delivered more choices and lower prices. But Gerstner understood that the new model left customers struggling to integrate their diverse hardware and software choices. This task was hugely complicated by a lack of uniform standards.

Gerstner was convinced that companies did not want to be their own general contractors. "I knew firsthand that integration was becoming a gigantic problem," Gerstner wrote. "So when I arrived at IBM in 1993, I believed there was a very important role for some company to be able to integrate all of the pieces and deliver a working solution to the customer."

Gerstner also took exception to another prevalent myth—that the IT industry would continue to move toward totally distributed computing. "Even before I crossed the threshold at IBM, I knew that promise was empty. I'd spent too long on the other side. The idea that all this complicated, difficult-to-integrate, proprietary collection of technologies was going to be purchased by customers who would be willing to be their own general contractors made no sense."

Gerstner's view was right, and the conventional wisdom wrong. The decision to keep IBM together was the cornerstone of its historic turnaround and, said Gerstner, "the most important decision I ever made—not just at IBM, but in my entire business career." It formed the basis for IBM's corporate strategy for the next decade and ushered in IBM's highly successful migration from providing big boxes of equipment to delivering integrated value-added solutions in which services play an increasingly critical role.

On April 1, 1993, the day Gerstner became IBM's CEO, the company's market capitalization was just under $30 billion. On December 31, 2002, the day he left IBM, market capitalization was just over $130 billion. The numbers prove the soundness of IBM's customer-focused strategy and execution under Gerstner's leadership.

How could so many pundits—academics, securities analysts, business leaders, financial journalists—have been so wrong? The high-concept notion of distributed computing and a distributed IT industry captured the imagination of many observers. But those observers lacked one element that Gerstner possessed: *the vantage point of the customer.*

Bringing Strategy Down to Earth

The problems IBM faced in the early to mid-1990s have since become commonplace. The ground-level reality of competitive forces has made the rules for creating workable strategies tougher and more complex. Competitive intensity has never been greater. And it comes from everywhere, not just from within your industry. For the sea change in your competitive environment, you have to thank tectonic shifts in technology; demographics; customer preferences; economic and political realities, including transitions in government regulation and deregulation; and the financial markets—all in an increasingly globalized context. The cumulative result has been a shift from a commodity-based economy to an information economy, exemplified by the Internet. Increasingly, you acquire advantage over competitors not by controlling material resources but by doing a better job of amassing and deploying knowledge resources, especially strategic insights into changing customer needs.

In this new environment, formulating realistic strategies is an increasingly difficult task. And translating strategic thinking into marketplace actions requires a heightened willingness to take risks. But it also demands a much sharper focus on the real-world details of execution. Looking down from thirty thousand feet, planners see one kind of landscape. Leaders sighting customers at ground level, as Gerstner did at IBM, see a different reality. If you don't understand your marketplace options from the ground up, and if the people in your business don't systematically dedicate themselves to fulfilling customer wants and needs, you will lose out to competitors who do.

Technology alone has upended much of marketing's conventional thinking. Consider Metcalfe's law, aka the network effect, which postulates that the value of a product or service is directly related to the number of people it touches. Metcalfe's law raises the importance of achieving first-mover status. For example, the more buyers eBay has, the more valuable it is to sellers; vice versa, the more sellers eBay has, the more valuable it is to buyers. As the first mover in Internet auctioning, eBay won in the United States and many other (but not all) countries and has sustained a substantial lead that no competitor has yet come close to matching. Two other recent Internet successes that depend at least in part on network effects are PayPal, the payment system, and Skype, for making free telephone calls over the Internet. Interestingly, eBay acquired both PayPal and Skype to facilitate payment and communication on a customer-to-customer and customer-to-company basis.

Likewise, Netflix, the first nationally successful DVD lending library, secured first-mover advantage and benefited from the same kind of lead in 2005, when Wal-Mart and Blockbuster introduced competing services that copied the Netflix model: customers order DVDs online, then receive and return them in prepaid mailers for a monthly subscription fee. Wal-Mart quickly folded its tent and made a promotional deal with Netflix. Online Wal-Mart does not have the low-price advantage over competitors that it has in bricks and mortar, and it has struggled to build business in that arena. Blockbuster has been able to make some in-roads against Netflix by pairing DVDs by mail with in-store promotions and giving customers the convenience option of returning DVDs received in the mail at any Blockbuster store.

Netflix has maintained market leadership by its steady focus on customer needs. For example, the "Friends" feature on its website encourages subscribers to form groups of movie lovers who learn about each other's picks and pans through automated e-mails. And long before they are available on DVD, you can pick movies to put in your personal queue, to be sent when the release date arrives. But as the bursting of the dot-com bubble showed, first movers only waste money if they fail to deliver on customer needs with a sound business model. Etoys.com and Meals.com are just two examples of firms that failed for lack of a sound model (but later reemerged in different forms).

Another major trend is the growth of outsourcing. Spurred especially by the evolution of the information economy, major changes in organizational boundaries are being driven by reductions in transaction costs between one organization and another, and the identification of pools of skilled labor in low-wage economies.[3] What started as outsourcing of ancillary activities such as payroll, security, and food service has led managers running businesses to identify critical core competencies and to outsource other activities. Many now regularly outsource such previously fundamental functions as manufacturing and R&D. But outsourcing a problem cannot mean putting it out of mind.

For example, I am writing this book on an Apple computer that the packaging emphasizes was "designed by Apple in California," but it was manufactured in China, a fact that is buried in the small print. Whether Apple likes it or not, however, "manufactured in China" is now part of its brand identity. A globally connected information economy gives customers access to all sorts of information—and misinformation—about such "internal" matters as a company's environmental, labor, and outsourcing practices. In summer 2006 Apple was forced to respond to accusations of unsafe and exploitive labor conditions in Chinese factories producing iPods.[4] After investigation, Apple reported that the workplaces were in fact quite safe, but it had to admit that workers were coerced into working over sixty hours a week by the Chinese factory owners. Apple promised that it would no longer let this happen.

There is no single right answer to the outsourcing question. Indeed, the growth of outsourcing for everything from components to customer call centers challenges the leaders of every business to be ruthlessly honest about its capabilities versus those of outside vendors. What aspects of satisfying customer needs are best kept in-house? What aspects are best farmed out to others? For example, outsourcing your customer call center to an outside vendor halfway around the world may reduce your costs, but how sure are you that this supplier is treating your customers appropriately? Answering these questions is not a onetime decision, but another daily task of execution. Outsourcing a function may ease your headaches in the short term but may be devastating in the long term if it drains away competencies you may need later. On the other hand, a function that has historically been part of your operations and is a cherished part of your self-image may well need to be moved to an outside supplier to position your business for the future. And either way, your company will still retain the ultimate responsibility, in customers' minds, for everything the outsource provider does or does not do.

To make things more complex, what makes sense to outsource will likely change over time. For example, some top marketing companies prefer to in-source as much as possible, including bringing in-house traditional "outside functions" such as advertising production, as Prudential Financial has done. Oracle also produces its advertising copy in-house. "At the end of the day," Oracle's Mark Jarvis told us, "the people who work here have more skin in the game" and a better understanding of the customer.

Reengineering the supply chain and outsourcing a host of activities—two of the favorite recommendations of today's business consultants—can greatly help you create customer value, but they can also put your business at risk by creating new rivals. For outsourcing to work, you must build relationships and share information with suppliers and distributors. But one day these same organizations could change their strategic goals and become your competitors. Those managers who have rushed, lemminglike, to outsource key elements of their supply chains to low-cost, but increasingly sophisticated, firms in China, India, and Taiwan, take note!

The shift from a resource-based to a knowledge-based economy, which invites competition from both upstream vendors and downstream intermediaries, fast-moving technology, changing customer needs, and a complex regulatory and political landscape create an intense Darwinian struggle for survival. Some companies will die; others will thrive. The difference maker will be a customer focus that begins with internalizing the fact that whereas companies need customers to survive, customers do not need any particular supplier. In today's world, customers always have more options than suppliers, and companies must compete for customers in the midst of global oversupply in every market sector.

The Only Business Purpose

Marketing Mavens understand that no matter what else you do—how energetically you strategize, choose and motivate your people, create your products, and control your costs—you won't succeed unless at the end of the day these efforts provide a more persuasive value proposition and more positive customer experience than your competitors. Put simply and to reiterate, you *must* put the customer at the center of your business. To revise a slogan from the 1992 U.S. presidential campaign, "It's the customer, stupid."

When you consistently operate with a customer perspective, you view the monies spent to acquire and retain customers as *investments*, not as expenses. And like Intel, Wal-Mart, Starbucks, and other marketing leaders, you continue to invest in recessionary times. Good choices with your customer investments may secure financial returns for many years into the future. You must look beyond this year's sales and profits from customers large and small to their lifetime customer value. Indeed, once you create a new customer, just consistently deliver value and then hang on for the ride—the rewards can be enormous. Consider Boeing's 1971 decision to sell a couple of Boeing 737's to a start-up airline flying intra-Texas routes among Dallas, Houston, and San Antonio. Thirty-five years later, continuously profitable Southwest Airlines now flies seventy million passengers per annum to sixty U.S. destinations, over three thousand times per day, and is the largest domestic airline of the United States. And, for thirty-five years, Boeing has been Southwest's sole airplane supplier. How's that for a return on investment in customers?

Yet time and again market-leading companies have been dethroned by complacency. As Ed Zander, Motorola's CEO says, "I think we ought to get back to putting the customer first . . . [It's something that] every corporation around the world takes for granted."[5] Hungry competitors have done better jobs of seeing their businesses from the customer's point of view: Detroit gave way to Japan's automakers; the old IBM to makers of minicomputers and PCs; Sears to Wal-Mart; Xerox and the old Kodak to Japanese companies with digital copier technologies; and the old Motorola to Nokia, Samsung, and LG. And this is just the tip of the iceberg.

All these leaders (and many more) lost ground to competitors because they did not provide (or did not provide as well as competitors) what their customers wanted. They were the best placed to understand customer needs, yet in each case they were beaten to the punch by competitors who had a better understanding. Some have recovered from their mistakes; others have not. The new EasyShare Kodak, for example, has focused so well on customers' desire for digital convenience and capability that it has regained the market lead from Japanese manufacturers in four important categories, including digital cameras, although it still has a way to go to regain profitability and become as healthy a company as it once was. And the new Motorola is giving its cell-phone competitors a run for their money.

Consider what can happen when the business isn't customer focused and practices marketing with a small *m* rather than Marketing with a capital *M*. A major corporation I consulted with recently came very close to losing one of its best customers. The salespeople had promised delivery of a special order by a certain date. But when the plant had produced the product and was preparing to ship, the plant manager realized it would only fill half a railcar. To minimize costs, he waited for a couple of weeks until he was able to fill the whole railcar, and then he shipped. The customer was furious at being kept waiting. The plant manager argued that he was just doing what he was paid for—minimizing costs. Hadn't top management made cost containment a corporate priority?

Instead of understanding their customers' needs, such companies focus attention on their products, internal processes, and balance-sheet assets such as technology and plant and equipment. They ignore the fundamental truth that in the long run, customers are an organization's most valuable assets.

Failing to recognize the centrality of customers and marketing can trap your business in the past. Back when sellers were in the saddle, marketing essentially referred to the *marketing mix*, the set of implementation programs—product, service, promotion, distribution, and price—that a business developed to address a particular market or segment. Later came the era of *strategic marketing*, as companies realized they needed to choose markets and segments, and position offerings in those markets and segments, before they designed their marketing mixes. That's essentially where we are today.

Is the marketing mix important? Of course! Should the firm strategically choose markets and segments, and position offerings in those markets and segments? No question! The more salient issue today is who makes these decisions and what influences are brought to bear on them.

The responsibility for market strategy decisions has never been clear-cut. Depending on the organization, it typically floats between business managers and senior marketing executives. As a result, the responsibility for acquiring and retaining customers is most often relegated to a silo—a marketing department whose work is essentially tactical. It never fails to amaze me how in so many well-known corporations, marketing executives spend their time on the day-to-day trivia and rarely have time to even think about market strategy, let alone develop well-researched and well-reasoned market strategies. In so many of these organizations, marketing is charged only with communications and preparing sales aids—that's why so many people mistakenly equate marketing with advertising. In this view, marketing is "overhead," just one part of that line in the income statement that lists selling, general, and administrative expenses. Does that sound like the right place to account for the central purpose of the business?

Let's take the measurement issue one stage further. Ask yourself the following two questions. First, if you were to go to your accountants and ask them the profitability of several individual products and services, would they be able to provide a decent response? For most readers, I suspect the answer will be a resounding Yes! They've been doing this for years and it's built into the financial management system, in part to evaluate product manager performance. But now for the second question. Suppose you ask these same accountants the profitability of your individual customers or even market segments—will they be able to provide a decent response to this question? For most readers the answer will be No!

Let's think about that for a second. Customers are your core assets and are central to the health and welfare of your organization, right? Yet you don't know which ones are the most profitable? Right now, you are probably losing money on some of your customers and/or market segments. The fact of the matter is that although customers are your firm's core assets, not all customers are assets—some are liabilities. You probably operate with some version of the well-known 80:20 rule—80 percent of your sales come from 20 percent of your customers. What is equally important, but less well understood, is the 20:80 rule—20 percent of your sales come from 80 percent of your customers. Question: what does it cost to serve those 80 percent of customers? Answer: a lot! That is really scary. But what is even scarier is not knowing which customers are profitable and which are not. Remember the tried-and-true maxim, "If you can't measure it, you can't manage it," and get with the program.

And just to turn things on their head a little more, consider your firm's balance sheet book value—assets less liabilities. Mostly the fixed assets are plant and equipment to make the products to sell to customers. But in today's fast-moving environment, customers' needs change and today they want different products than they wanted yesterday. What, then, about those fixed assets? For many firms they are not assets at all; rather, they are strategic liabilities. These "assets" act as an inertial force that stops or at least slows the firm from responding to customer needs. How else to explain newcomer Amazon's dominance in Internet bookselling over the previous market leader, Barnes & Noble, or IBM's conceding the personal computer space to Microsoft and Intel? Barnes & Noble and IBM had significant investments in bricks-and-mortar stores and mainframe computers, respectively. These investments operated as liabilities when it came to addressing challenges from the Internet and personal computers. Never forget that balance-sheet assets are only assets if they contribute to your goal of attracting and retaining customers—profitable ones.

Marketing Is Everybody's Job

Lately, the world's best firms have begun to put marketing at the center of their organizations. Just a few years ago, Stephan Haeckel, director of IBM's Advanced Business Institute, observed, "Marketing's future is not as *a* function of business, but as *the* function of business."[6]

A growing number of CEOs are breaking with the traditional functional view of marketing and doing their best to create cultures that do put marketing at (or near) the center of the business. Jeff Bezos at Amazon is fanatical about building a customer-focused organization. Larry Ellison, Oracle's CEO, is ultimately responsible for all the firm's key marketing decisions—he's the key contact for one of Oracle's major customers, GE, and even writes advertising copy and sets Oracle's creative policy. These CEOs are true Marketing Mavens!

In researching this book, I found increasing numbers of executives focused on "internal branding," that is, getting employees to really understand what their companies are about from the customer's point of view.

Born out of Bell Atlantic, NYNEX, and GTE, Verizon faced the challenge of establishing a new identity. It initiated a massive communications effort to brand Verizon internally. General managers in Verizon operating companies and employees in the ranks provided answers to a very simple, yet very powerful, question, "What is this company all about and what can you do about it?" The entire organization got the message—on the internal TV system, at its website, via e-mail and voice mail, and in face-to-face meetings. As senior vice president of brand management and marketing communications Jody Bilney put it, "People knew this was endorsed, and that they had permission literally and spiritually to embrace it and to really think about it. If we don't bring it to life internally—if it isn't sort of our mantra and if it isn't what we do every day—then we've missed the boat."

The evidence points to one conclusion: you can only put the customer at the center of the business if marketing is a guiding philosophy for the organization as a whole. Marketing has to be everybody's business. No matter where you sit in the organization, and no matter what your specific job responsibilities, developing satisfied and delighted customers, and getting them to return time and time again, is an integral part of your job, because customers are the *only* source of revenues, and *they pay your salary.*

Whatever their titles and job descriptions may be, from CEO and CMO on down, Marketing Mavens remember that fact and act on it every day, raising their companies to the top and keeping them there through good times and bad. Now let's see exactly how they do so and how you can become a Marketing Maven yourself and develop Marketing Mavens throughout your organization.