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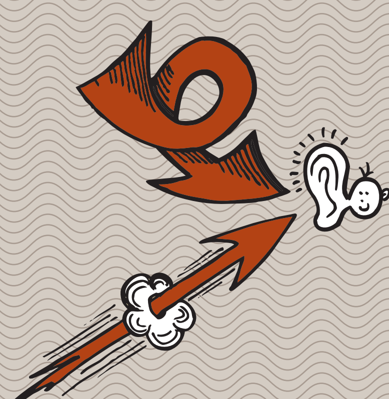

GfK Association

new!

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Vol. 2, No. 2, November 2010

EDITORIAL

Innovations rank among the most important drivers of corporate success and enhancements of national economies. More than anything, they are not just technical accomplishments of labs and R&D departments. We also or even primarily encounter marketing innovations in the sense of variations of certain marketing instruments and processes. Even technically convincing new products need a well-balanced marketing mix right from the start to be ultimately successful. However, awareness of the important role of marketing within the innovation process is not very high in many companies or among the general public.

The seven contributions in the fourth issue of our GfK Marketing Intelligence Review deal with this topic of "innovation and marketing" in a variety of ways. In their article "Does Quality Win? Competing Against an Entrenched Market Leader in High-Tech Markets", Gerard J.Tellis, Eden Yin and Rakesh Niraj investigate whether higher product quality succeeds or whether a high number of users and the corresponding network effects actually wall off markets. Their results, taken from a long-term study focusing on various high-tech markets (primarily computer software), are encouraging. Quality (inferred from ratings in computer magazines) prevails: in the long run, it pays off for marketing to invest in products of higher quality.

The innovation policy of many firms producing consumer durables entails a strategy of combining different types of devices, forming "convergent products". Existing base products are equipped with additional functionalities from different product categories (e.g., cell phones can also be used as cameras, MP3 players or to access the internet). Similar approaches are applied in added value strategies, where complementary services are more or less connected to the basic product value. Often, it remains unclear if or to what extent consumers actually value such additions. Too many functionalities can even be counterproductive if consumers feel swamped. Tripat Gill's study ("Call. Mail. Shoot. Listen. Play. But What Functionalities Add Real Value in Convergent Products?") investigates such effects. Specifically, the author analyzes differences in evaluations dependent on the match of the original consumption goal of the basic product and the new feature. Apparently it matters whether the base product and the extended utility are of hedonic or functional value and whether the quality of the brand is high or low.

Innovation efforts are further reflected in the strategic orientation towards customization. Companies aim to strengthen their competitive position by creating offers specifically designed to meet the desires and needs of individual customers. Some companies have been tremendously successful in this, but others have clearly failed. In their study "Customization: A Goldmine or a Wasteland?" Nikolaus Franke, Peter Keinz and Christoph J. Steger test whether, and in particular under what conditions, a strategy of individualized product development proves successful. In an experiment, respondents directly compared individualized and mass products. The results are clear and support marketing theory: individualized offers produce much better consumer evaluations than standardized products. However, customers must be able and willing to reflect on and articulate their preferences.

Another very common marketing innovation in previous years was Customer Relationship Management (CRM). Its objective is to make customer acquisition and care more efficient and effective. Jan U. Becker, Goetz Greve and Sönke Albers ("Left Behind Expectations: How to Prevent CRM Implementations from Failing") investigate in a comprehensive study why CRM implementations and CRM investments fail. Were the managers' expectations of CRM solutions wrong right from the beginning or were the systems poorly implemented? The results of the study indicate the latter and reveal serious management mistakes. Many companies seem to underestimate how carefully the objectives and scope of CRM systems need to be planned, as well as the necessary organizational adaptations in the course of their implementation.

The article by Don O'Sullivan and Andrew V. Abela concerning "Proving Marketing Success Pays Off! Marketing Performance Measurement and its Effects on Marketing's Stature and Company Success" focuses on a very different aspect of innovative action. In a comparative study they document that it is not enough to carry out sound marketing: it is also necessary to prove and communicate results. This would not only increase the stature of marketing departments within the company but also the overall success of the company. Marketing accounting helps to gain wide acceptance for good marketing ideas.

Besides these five articles, issue 4 of GfK-MIR contains a first example of our new "Flashlight" category, where we offer interesting insights from marketing research in a special compressed format. In this issue we report on how consumers track their spendings within a supermarket shopping trip. Interestingly enough, more motivated consumers try harder to calculate the right amount of spending but perform worse in this task. This shows that simple models of consumer behavior are not always the most suitable ones. Even consumer behavior theory needs innovation sometimes!

Finally, I would like to draw your special attention to the MIR interview with Vinita Bali. She heads the Britannia company, one of the best known brands in India, as CEO and Managing Director. The Economic Times's "Business Woman of the Year 2009" illuminates how various innovations drive growth and profitability in emerging economies. With striking examples, she illustrates the hybrid economic development of nations like India and explains how successful companies immediately adopt international marketing trends like process orientation or market segmentation. The international marketing approach of global players in the market demands brave marketing decisions guided by insights gained from systematically researching local consumer behavior.

Once again our objective for this issue of MIR is to help you gain important insights into the complex functional chains of marketing and therefore to improve the professionalism of marketing practice. Today, innovation is necessary for all of us in one way or another!

Nuremberg, October 2010

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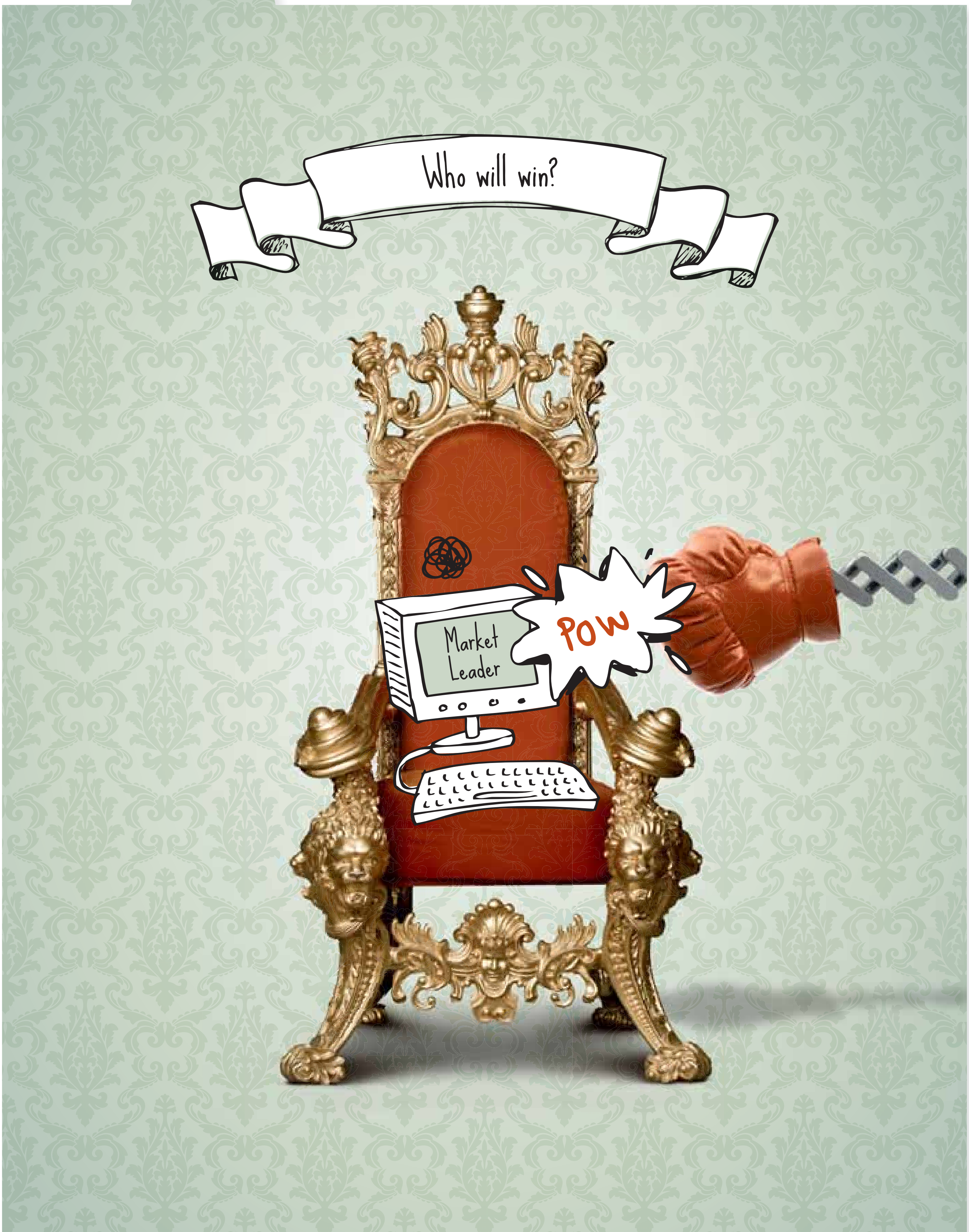

Does Quality Win?
COMPETING AGAINST AN ENTRENCHED MARKET LEADER IN HIGH-TECH MARKETS

Gerard J. Tellis, Eden Yin and Rakesh Niraj

In recent years, with some early entrants to a market commanding huge market shares, critics have wondered whether the best quality products win in the market place. Early entrants can gain a position of wide-spread acceptance among users. The fact that a critical mass already uses the product might prompt new consumers to snowball onto this early choice leading to consumer lock-in. Many economists fear that such "network effects" may enable inferior products to defend their entrenched positions even against higher quality alternatives. This article tests the validity of this premise in 19 high-tech markets including hardware, software, and services. Results indicate that contrary to the above fear, healthy market evolution occurs in most cases without regulatory intervention. Better quality entrants gain market dominance within three to five years of entry. The findings also show that it makes sense to invest in developing high quality products even if the market seems dominated by an entrenched industry leader and that network effects even increase market efficiency in some cases.

Contradictory conclusions on market evolution

Microsoft Windows. Internet Explorer. Oracle relational databases. These high-tech innovations have survived numerous challenges and dominate their respective categories. The antitrust litigation against Microsoft in the US and the European Union in the 1990s suggested great concern about whether the dominance of Microsoft was based on superior quality or abuse of market power. The question arises if market forces support inefficient products of established firms even with the entry of superior alternatives. For example, did Internet Explorer win in the market because it was superior or because of Microsoft's monopoly power? If so, should these potential problems be the focus of antitrust policy? Or can we rely on the efficiency of free markets to pick the best products even when some firms dominate their markets?

Network or quality, what prevails?

So called "network effects" may play an important role in hindering healthy market evolution. Such effects refer to the tendency of consumers to choose products depending on what other consumers do so. Technically, network effects can be explained as an increase in a consumer's utility from a product when the number of other users of that product rises. Examples would be the popularity and continual use of Facebook or Word. As a result, consumers may decide to buy and use a product not because it is superior but because their friends and colleagues use it. If most consumers in the market follow this rule of thumb, economists fear that such effects may lead to consumer inertia and lock-in in favor of established inferior products even when newer superior ones exist. Paul Krugman, winner of the Nobel Memorial Prize in

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The article is an adapted version of *Tellis, Gerald J.; Yin, Eden; Niraj, Rakesh (2009):* "Does Quality Win? Network Effects Versus Quality In High-Tech Markets", Journal of Marketing Research, Vol. 46 (April), pp. 135 – 149, and is published with permission from the American Marketing Association.

Economics in 2008, for instance, doubts that ''markets invariably lead the economy to a unique best solution''. Instead, he asserts, ''the outcome of market competition often depends crucially on historical accidents''. A technology that by chance gains an early lead in adoption may eventually corner the market of potential adopters, with the other technologies locked out even though the latter are superior.

Contrary to this position, scattered empirical research suggests that markets do respond to quality. Superior quality brands do command higher prices, market share, and profits. The key question is, does this also hold in modern markets in the presence of network effects. That is, when a large number of consumers choose brands based on which brand prior consumers chose, does the whole market converge on an inferior quality product?

Explaining the contradictions

The resolution to this problem depends critically on two conditions. First, is quality distinguishable prior to purchase? Second, are at least a small segment of consumers informed on quality? If consumers cannot distinguish the quality of the products prior to purchase, or if all consumers are uninformed on quality, then network effects are likely to dominate the market. As a result, markets will be inefficient, and a brand that first enters the market, will dominate the market even in the presence of superior, later entrants.

» Fairly frequent changes in market leadership were observed in the sample. Market leadership rarely rests with a single brand. «

On the other hand, if quality is distinguishable prior to purchase and even a small segment of consumers are informed on quality, then superior quality brands can win. How will this happen? Each period, these informed consumers will evaluate the brands in the market and will choose the best quality brands. Those who cannot evaluate quality will consult prior buyers of the brands. At least some of them will be informed consumers and would have chosen the best quality brands in the market. So every period, the set of new consumers who choose the best quality brands will increase. As further new consumers consult these informed consumers, more of them will choose the better quality brands and the market will converge on the best quality brands.

The above argument is a hypothetical one depending on certain conditions. What actually happens in practice depends on the actual number of informed consumers in the market. This is an empirical issue.

To empirically sort out whether inferior or better brands actually prevailed in the market, we conducted a study of 19 individual products and services within the personal computer industry in the 80s and 90s. The next section describes the procedure of getting the relevant measures as well as the analyses conducted to answer the open research questions.

MARKET EVOLUTION IN THE PERSONAL COMPUTER INDUSTRY

Market characteristic and relevant variables

The personal computer products and services markets were selected for the analysis since these are supposed to exhibit strong network effects. Thus, they would generally favor the received wisdom of the superiority of network effects over those of quality. A total of 19 hardware and software products as well as some services were included in the sample. Different platforms, such as PC and Mac, were treated as different product markets. However, the two PC operating platforms, DOS and Windows, which emerged sequentially, were defined as representing one market. In most of these markets, there were usually two or three major competitors at any given time, usually with one dominant brand that often kept changing. Different product categories were tracked for between 4 and 17 years. Table 1 (page 12) provides a list of included product categories as well as some summary statistics like number of brands in each category, the time period and the evolution of market leadership.

The key variables used in the analysis include market share, quality and network effects. Relative prices and market growth were also considered in some analyses.

Quality is defined as the composite of a brand's attributes, on each of which consumers prefer more to less (e.g. reliability, performance, and convenience). Networks refer to the proportion of prior users of a brand. Efficiency of markets is measured as the best quality brand (after adjusting for prices) emerges with the largest market share. Other factors such as price, advertising, distribution, and market growth might also play a role in these markets, but for most analyses they seemed uncritical in assessing the role of network versus quality. Wherever possible, price data was also collected and controlled for.

The Art of Collecting Data that Does Not Exist

The main challenges of collecting the data needed were the long time period and the qualitative and scattered characteristic of some key variables. The majority of the market share data was taken from IDC (International Data Corporation) and partly from Dataquest. However, even these firms did not have complete or adequate data on a number of categories. In those instances where the data was not available from any syndicated source, other archival sources were used to complement the data.

The quality measure was based on the ratings or reviews in the three most respected and widely circulated computer magazines: PC Magazine, PC/Computing, and PC World plus the leading magazine for Mac products, Macworld. However, since many of the magazines published reviews without numerical ratings, a content analysis of the reviews was necessary to arrive at numerical ratings. First, a set of terms was collected that reviewers often use to describe these products. Then these terms were grouped into five levels expressing increasing quality. Two specifically trained raters analyzed all reviews independently for content and converted the result into a numerical score based on the prevalence of such terms in the review (intercoder reliability 87 %).

In creating a measure for network effects, the repurchase cycle for all markets in the sample was estimated to be about three years. This assessment is based on personal experience, interviews with some senior IT managers, and interviews with some consumers. The information collected indicated that software and hardware is typically upgraded or repurchased within three years. Thus, the relevant network size was measured using the accumulated market share of a brand in the past three years.

Though pricing was not an explicit part of the study, pricing information was necessary as a control variable. The price data was scattered around each issue of magazines in either the articles/features or the ads. Two graduate students located all relevant pricing data for the brands in the sample. Then all the price data was compiled into a meaningful format by brand and averaged per year.

A series of different analyses investigated the personal computer market using the described variables. Some of the key analyses and conclusions of the study are presented below.

EFFICIENCY, QUALITY AND NETWORK EFFECTS IN THE PERSONAL COMPUTER INDUSTRY

If network effects were dominant, an early entrant would dominate a market and one would not see changes in market leadership. So a test of network effects was an answer to this question:

Were Changes in Market Leadership Observed Over the Years?

Indeed, fairly frequent changes in market leadership were observed in the sample. Market leadership rarely rests with a single brand. In a categorical analysis all switches from being sub-dominant to being dominant in either market share or quality were compared pair-wise.

- In 17 of the 19 markets, at least one switch in market share leadership occurs during an average period of 9.3 years sampled for these markets.
- The average duration of market leadership ranges from 5.5 years in operating systems to as short as 2 years in web browser. Across all categories examined in this exercise, the average duration for market leadership is only 3.8 years.
- Further, in 10 of these markets, there are multiple switches in market share.
- Overall, a total of 34 switches in market share across all the markets were observed.

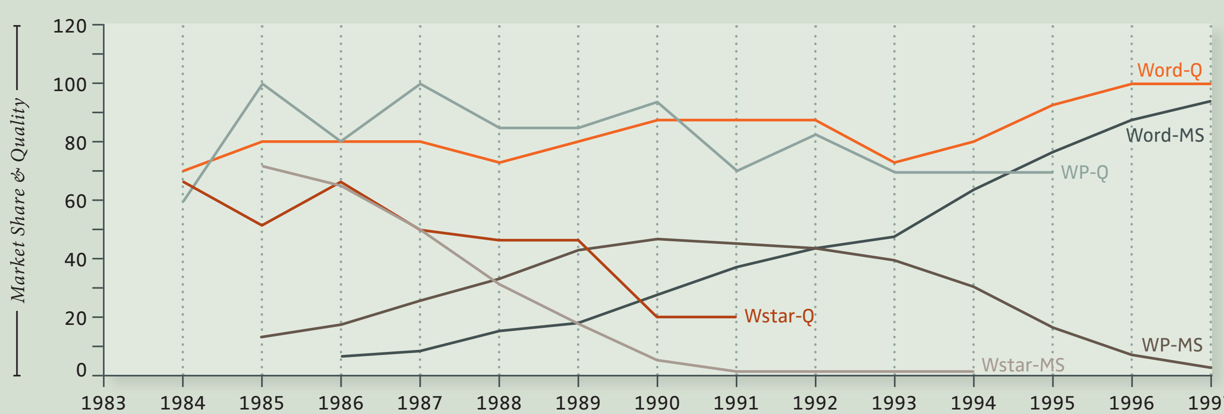
A simple graphical analysis of markets reveals the same picture: market shares are in a state of constant flux. This observation does not support the existence of simple markets where consumers care only about the network or randomly choose products ignoring network as well as quality. Figure 1 (page 12) gives an overview of these results.

TABLE 1:
Switches in Quality, Market Shares and Market Share Leadership

Markets	Number of Brands	Switches in Quality	Switches in Market Share	Years Taken to Become Market Leader After Quality Switch	Total Years	Switches in Market Share Leadership	Duration of Market Share Leadership
Word Processor	3	3	3	4	14	WordStar, WordPerfect, Word	4.7
Spreadsheet	3	2	2	4	14	Lotus, Excel	7
Internet Service Provider	3	2	3	1	8	Prodigy, CompuServe, AOL	4.2
Personal Finance	3	4	2	2	11	Managing Your Money, Quicken	5.5
Web Browser	3	1	3	1	6	Mosaic, Netscape, Explorer	2
Desktop Publishing (Mac)	3	1	1	4	9	PageMaker, QuarkExpress	4.5
Desktop Publishing (High-end)	3	5	3	0	10	Ventura, PageMaker, QuarkExpress	3.3
Desktop Publishing (Low-end)	3	0	3	No quality switch due to data censoring	7	First Pub, Express Pub, MS Publisher	2.3
Presentation Graphics	3	3	3	1	12	Freelance, Harvard, PowerPoint	4
Operating Systems (PC)	3	6	1	2	11	DOS, WIndows	5.5
Operating Systems (Network)	3	1	1	5	5	NewWare, Windows NT	2.5
Word Processor (Mac)	2	1	1	1	12	MacWord, MacWrite	6

FIGURE 1:
Share and Quality Flows in the Personal Word Processor Market

WORD PROCESSOR MARKET – PC



In the word processor market, the early leader is WordStar, which dominates the market for a number of years (Wstar-MS). However, from 1984, WordStar's quality begins a sharp and irreversible decline (Wstar-Q). WordPerfect (WP-Q) surpasses WordStar in quality in 1985 and its market share (WP-MS) rises as its quality rises. However, the market share switch between WordPerfect and WordStar does not occur until four years later, i.e., 1989. WordPerfect's market share keeps rising and maintains its market leadership until 1993 when it is surpassed by Microsoft Word (Word MS). Microsoft Word's quality rating (Word-Q) surpasses that of WordPerfect in 1991 and sustains its leadership since then. In contrast, WordPerfect's quality is consistently inferior to that of Microsoft Word after 1991 and its market share also steadily declines in this time period.

If there are Changes in Market Leadership, are they Related to Quality?

Again, the answer is a clear "yes". Figure 1 gives an example of the graphical analysis of the word processor market.

The other submarkets show a very similar picture. The market shares of brands appear to rise following the rise in their level of quality. Most switches in quality leadership seem related to and precede switches in market leadership. Hence, quality seems to play an important role in influencing market dynamics. Moreover, these simple graphical plots do not indicate that these markets are perverse. That is, there is no evidence that early market share leaders dominate the market for long or do so if they lose their quality edge for most markets analyzed. Categorical analyses confirmed that out of all the 34 switches in share analyzed, 18 % are related to a switch in quality in the same year, 50 % are related with a switch in quality in prior years and 20 % are related to the sub-dominant brand already having a superior quality to the dominant brand. So, in total, 88 % of the switches are related to the switches or superiority in quality of the sub-dominant brands, but only about 12 % have no relationships to quality changes. In contrast, when there is no switch in share, we see that quality of the inferior brand mostly stays inferior.

Overall, these results provide strong evidence that a superior quality or a switch in quality of a subdominant brand results in a switch in market share over the dominant brand. A *logit analysis* further confirms the link between quality and market share switches and finds the strongest effects of quality switches two years prior to the market share switch.

The results indicate that markets are responsive to quality, as is evidenced by the fact that prior switches in quality significantly increases the probability of a market share switch in the immediate subsequent years. To investigate the strength of the quality effect, a ***hazard analysis*** of time to market share leadership was also conducted for the data. It shows that the time it takes for the smaller share brand to achieve market leadership is affected positively and significantly by the improvement in quality of the smaller share brand over the larger share brand. The probability of such a switch is much higher when the gap in quality (of the lower share brand over the high share brand) is higher. The leadership duration variable has a negative and significant effect on the probability of market-share switch indicating that a switch in market leadership takes longer in inertial or slow moving markets.

{ Box 1 }

SELECTING APPROPRIATE METHODS TO REVEAL PATTERNS

Logit analysis is a technique which allows the probability of an event occurring or not occurring to be estimated. It predicts a binary outcome (in our case whether there is a switch in market share or not) from a set of independent variables. Only current or previous quality switches were considered as independent variables in this analysis. The relative role of quality and network size differences were not analyzed and differences in product category inertia was also not controlled.

A ***hazard analysis*** of time to market share leadership can reveal the relative impact of independent variables on how quickly a high quality brands becomes a market leader. The study modeled time to market leadership as a discrete time hazard process influenced by quality gap and relative network sizes while controlling for leadership duration within the market.

Do Network Effects Inhibit a Healthy Market Evolution?

Here, the answer is "no". An indication for the presence of strong network effects and a perverse market would be the absence of changes in market leadership. This, as outlined before, was not the case here. Another, softer, indication of market efficiency is whether a subdominant brand becomes a market leader within or beyond the average repurchase cycle.

The frame of reference in this study is three years, because prior research indicated that repurchase in this product category happens approximately every three years. Categorical analysis showed that, for web browser, Internet service provider, image management software, presentation graphics, and personal finance, it takes less than three years for a sub-dominant brand to become the new market leader after its quality exceeds that of the dominant brand. For products like word processor, spreadsheet, desktop publishing and network operating systems, the time to attain market leadership was usually longer, e.g., four to five years. These results demonstrate that the markets for the first group of products are highly efficient. Superior products quickly gain market leadership once their quality dominates that of rivals. The markets for the second group of products are also efficient, albeit markets settle down on superior brands more slowly than the repurchase cycle.

The case of the PC operating system seems a notable anomaly. This product category supposedly exhibits strong network effects, but a superior Windows quickly replaces DOS two years after its quality surpasses that of DOS. One reason for this result is that the quality of Windows is so much better than that of DOS. A sufficient quality gap overwhelms the power of network effects. It again shows that quality rules in these markets and network effects cannot protect the incumbent leaders from competition. However, this advantage may have been facilitated by the backward compatibility of Windows to DOS.

These results make intuitive sense because the first group of products is generally believed to exhibit weaker network effects whereas the second group of products is much more influenced by network effects due to their intrinsic communication or sharing-oriented nature. Hazard analysis confirms some influence of network size on switch in market leadership, but the effect of quality is much stronger.

{ Box 2 }

EFFICIENCY, QUALITY AND NETWORK EFFECTS IN THE PERSONAL COMPUTER INDUSTRY

Summary of Results

- Markets are efficient in general.
- Market leadership changes frequently and market leaders hold sway for an average of a mere 3.8 years.
- Change in market leadership is generally associated with a change in quality the same year or a few years earlier.
- Both network effects and quality are factors in determining market share, but quality seems more important.
- Even in the presence of network effects, the market is not inefficient.
- The presence of network effects enhances the efficiency of the market that derives from a quality conscious segment of consumers.

» Time for market leadership by the smaller share brand is affected positively and significantly by the improvement in quality of the smaller share brand over the larger share brand. «

A CHALLENGE TO PRIOR "RECEIVED WISDOM"

Even if this study is limited to one industry and a limited set of key variables, the results have some important implications for business strategy and public policy and challenge some widespread assumptions on market mechanisms. They apply whenever there is an increase in utility of a product for any one user from more users of the product. Examples are the increase in value of a cell phone, email, or a multi-person game to one person as more people own these products.

Is "rush to market" a right mantra to follow?

As previously discussed, high-tech firms spend enormous resources in rushing new products to market in an attempt to outpace their respective competitors. However, the undeniable truth is that many new products fail. One of the major reasons for these failures is the premature product launch undertaken by many high-tech managers who rush to market, encouraged by the popular myth of pioneering advantage. The results of this study suggest that superior quality appears to be a very important driver of success and market leadership changes frequently. Thus, companies may need to put a premium on quality rather than on speed to market.

Are network effects a reliable shield for existing leaders?

This study shows that switches in quality consistently result in switches in market share, albeit with a lag of some years. Network effects may delay but do not prevent superior brands taking over the market. On the contrary, even established market leaders, though they enjoy a large network of users, are vulnerable to threats from new entrants that introduce superior alternatives. A network is not a reliable shield on which an existing leader can rely. Constant quality enhancement is an effective way for existing leaders to defend their current positions.

Are network effects responsible for perverse markets?

Network effects have been blamed as the devil that causes market inefficiency, e.g., an inferior product or standard can dominate the market simply because of its large network size. This was not generally observed in this study. In some cases strong networks did slow down the switch in market leadership. However, the study also revealed that networks effects, under certain circumstances, could even make the market more efficient.

If sufficient consumers care about quality, then network effects enhance the role of quality, because other consumers also benefit from the choices of quality-conscious ones. Consequently, the entire market settles on the better products more quickly and at a higher level than it would have in the absence of network effects. In this case, network effects speed the transfer of information from the informed to the uninformed.

Should government act as a substitute for "the invisible hand"?

This study shows that quality drives the success of high-tech giants, even though network effects are present. It seems that markets do settle on the best option while remaining open to better ones. Therefore, high-tech markets are reasonably efficient and rational. Government intervention, which is intended to assume the role of "the invisible hand" in high-tech markets, may be costly and unnecessary. •

FURTHER READING

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KEYWORDS:

Competition, Product Quality, Network Effects, Market Evolution, Market Leadership, Market Efficiency, Computer Industry

{ *New Insights* }

/// *Adding new functionalities selectively increases value.*

"Call. Mail. Shoot. Listen. Play". BUT WHAT FUNCTIONALITIES ADD REAL VALUE IN CONVERGENT PRODUCTS?

Tripat Gill

It is very common to add diverse new functionalities to existing base products (e.g., adding mobile television to a cell phone or internet access to a personal digital assistant). These convergent products offer users a broad choice of potential applications. However, it is not clear what additions are actually valued by consumers, and therefore also make sense from a manufacturer's perspective. The current research addresses this very issue. It investigates the role of three factors on the evaluation of such convergent products (CPs); namely, (1) the consumption goal (utility versus fun-oriented) associated with the base product and the added functionality, (2) the prior ownership of the base product, and (3) the quality of the brand introducing the new functionality. In three experimental studies, the author explores the effect of each of the above three factors in the evaluation of CPs. On the basis of the results he presents some guidelines on how to extend existing products to create more value for consumers and manufacturers.

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It Can Do It All!

Convergence is a dominant paradigm in the contemporary high-tech electronics sector — specifically, the intersection of computers, communications, and consumer electronics industries.

It is not uncommon to watch television on a cell phone, to access the internet on a personal digital assistant (PDA) or to watch a movie on a portable gaming console. Products that are formed by adding a new functionality (from another category) to an existing base product are referred to as "convergent products" (CPs). The technical possibilities to integrate new functionalities are almost endless, but do consumers really value all new features alike? Or are there any guidelines that could aid manufactures in their decision of what to integrate into a given base product? For example, a manufacturer of PDAs may wonder whether it is a good idea to add mobile television to a PDA, which would mean adding a new functionality that is dissimilar to the existing capabilities. Conversely, it might be better to add a new functionality that is similar to the existing features of a PDA (e.g., adding more information and organizing abilities, such as electronic Yellow Pages). Similarly, a manufacturer of MP3 players (e.g., Apple's iPod) may debate the addition of satellite radio (a functionality congruent with the existing capabilities) versus adding information-associated functions, such as electronic newscasts or weather forecasts (i.e., incongruent new functionalities).

Fun Versus Utility

Consumers are known to have both utilitarian and hedonic considerations when evaluating products and functionalities. Whereas hedonic goals (and value) are associated with experiential consumption, pleasure, fun and excitement (e.g., the pleasure experienced while listening to music on an MP3 player), utilitarian goals (and value) are related to more instrumental/practical considerations (e.g., the convenience of using a PDA to keep appointments and contact addresses). In CPs, the base product and the added new functionality can each have associations with fun or utility. Thus, combining a base product with a new functionality can entail adding more fun or more utility to an existing base product. In essence, four combinations of hedonic (fun) and utilitarian (utility) goals are possible in CPs. Table 1 shows examples for each of these four combinations. The author proposes that the incremental value of an added functionality differs according to the possible combinations of fun and utility.

Understanding the Evaluation of Fun Versus Utility Combinations

To understand how the different combinations of CPs might be evaluated by consumers, two effects are expected to be at work.

1. Diminishing marginal utility

The principle of diminishing marginal utility suggests that the value of adding similar features/functionalities increases at a diminishing rate. This would apply to CPs that add congruent functionalities to a base (i.e., the "utilitarian + utilitarian" and "hedonic + hedonic" combinations).

2. Contrast effect

Prior research on innovations has shown that new products with contrasting features (i.e., differentiated) are evaluated more favorably than those with features similar to existing products. Applying this principle to the context of CPs, incongruent combinations of CPs (i.e., "hedonic + utilitarian" or "utilitarian + hedonic") should be favored over congruent combinations (i.e., "utilitarian + utilitarian" or "hedonic + hedonic").

Fun Outplays Utility: The Asymmetric Additivity Effect

The author proposes that the above-found contrast effect is not equally applicable to CPs with a utilitarian versus a hedonic base. Specifically, it is proposed that adding a fun-oriented functionality to a utilitarian base (i.e., the "hedonic + utilitarian" CP) is evaluated positively, whereas adding a utility-oriented functionality to a hedonic base (i.e., the "utilitarian + hedonic" CP) is evaluated negatively. This is termed as the "asymmetric additivity effect", and it occurs because:

> Hedonic functionalities are perceived as pleasurable/exciting and can elicit spontaneous positive reactions. Thus, when a hedonic functionality is added to a utilitarian base (e.g., the BlackBerry Pearl which added camera and music to the e-mail base) it results in the base being perceived as "more fun to use".

> On the other hand, utilitarian functionalities are perceived as cold, unexciting and less pleasurable. Thus, when a utility-oriented functionality is added to a hedonic base (e.g., adding web access to television) it results in the base being perceived as "less fun to use". Note that even though utilitarian functionalities can make a hedonic base more "useful", the ensuing loss in hedonic value (i.e., the perception that the base is "less fun to use") weighs more heavily in consumers' minds.

The above-proposed asymmetric additivity effect results in the following outcomes for CPs with a hedonic versus a utilitarian base:

> For CPs with a utilitarian base a ***"contrast effect"*** is expected. That is, adding an incongruent fun-oriented new functionality would be more favorable than adding a congruent utility-oriented functionality (e.g., a PDA with satellite radio will have more incremental value than a PDA with electronic Yellow Pages).

> For CPs with a hedonic base an ***"image consistency effect"*** should occur. Specifically, adding an incongruent utility-oriented new functionality should be less favorable than adding a congruent fun-oriented functionality (e.g., an MP3 player with electronic Yellow Pages will have less incremental value than an MP3 player with satellite radio).

Testing for the Asymmetric Effects in CPs

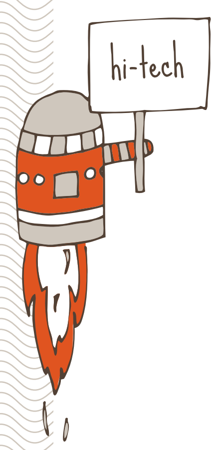
To examine the above effects, an experimental study was conducted with a large-scale, representative sample of the target market for CPs. The chosen base product categories were a PDA and an MP3 player because the former is primarily associated with utilitarian goals (i.e., organizing ability, contact addresses, and other information) and the latter is associated with relatively hedonic

TABLE 1:
Examples of CPs with New Functionalities Added to a Utilitarian or Hedonic Base

Convergent Product	Base Product	Added Functionality	Nature of Addition (Functionality + Base)
Garmin's iQue 3000	PDA	Global positioning system	Congruent (utilitarian + utilitarian)
Blackberry Pearl	Handheld email device	Camera and MP3 music	Incongruent (hedonic + utilitarian)
Video iPod	Portable MP3 music player	Video capability	Congruent (hedonic + hedonic)
Web Television	Television	Internet access	Incongruent (utilitarian + hedonic)

TABLE 2:
Four Combinations of CPs Tested in the Survey

Conditions to be tested	General description
Yellow Pages and a PDA (YEL-PDA)	utilitarian functionality added to a utilitarian base {*goal congruent*}
Satellite radio and a PDA (SAT-PDA)	hedonic functionality added to a utilitarian base {*goal incongruent*}
Satellite radio and a MP3 player (SAT-MP3)	hedonic functionality added to a hedonic base {*goal congruent*}
Yellow Pages and a MP3 Player (YEL-MP3)	utilitarian functionality added to a hedonic base {*goal incongruent*}



goals (i.e., listening to music/entertainment). In a pretest, two functionalities to be added to the base were selected from a set of eight, such that (1) one functionality was associated with utilitarian goals and the other was associated with hedonic goals; (2) one functionality was (goal) congruent with a PDA and incongruent with an MP3 player, and vice versa for the other; and (3) both functionalities were of equal perceived value. Among the eight functionalities tested, only two met the requirements for all the three criteria, namely, electronic Yellow Pages and satellite radio. Table 2 (page 19) gives an overview of the test conditions used in the survey.

Four separate online surveys were conducted (one for each of the four CPs: YEL-PDA, SAT-PDA, SAT-MP3, and YEL-MP3, all with the same questions) with a representative sample of the potential US-target market for the two base products. It was administered until 500 completed responses were obtained for each of the four surveys (overall response rate of 15 %). Respondents carefully read the description for one of the four CPs created by adding one new functionality to an existing base product (as per table 2). They then responded to several questions pertaining to the CP, the base product and the added functionality. The key dependent measure was the perceived incremental value of the CP, compared with the base product (this was measured using two variables: overall incremental value = OIV, and incremental willingness to pay = IWTP). In addition, respondents were asked to indicate whether they owned the base product corresponding to the CP they evaluated (i.e., PDA or MP3 player).

» Adding a fun-oriented functionality to a utilitarian base is evaluated positively, whereas adding a utility-oriented functionality to a hedonic base is evaluated negatively. «

Results

Table 3 shows the incremental value perceived by respondents for the four CPs for both the dependent measures (i.e., OIV and IWTP).

As predicted (and highlighted in Figure 1), an ***asymmetric additivity effect*** was observed in the evaluation of CPs with a utilitarian versus hedonic base product. Specifically, the incremental value of adding a hedonic functionality to a utilitarian base (i.e., for SAT-PDA) was significantly greater than that of adding an equally valued utilitarian functionality to a hedonic base product (i.e., for YEL-MP3) for both OIV (1.45 versus .49) and IWTP ($73.45 versus $47.43) (both these comparisons were statistically significant). Also, as proposed, the above asymmetry was driven by the incremental pleasure/fun associated with using the respective CPs. When an incongruent functionality was added, the CP with the utilitarian base (SAT-PDA) became more pleasurable to use but that with the hedonic base (YEL-MP3) became less fun to use (the incremental pleasure was rated as 1.80 versus –0.07 on a scale of –2 to +2 for these two CPs, respectively).

The individual predictions for CPs with a utilitarian versus hedonic base were also confirmed. For ***CPs with a utilitarian base a contrast effect*** was predicted: namely, adding a congruent (utility-oriented) functionality (e.g., YEL-PDA) would be subject to diminishing returns, whereas adding an incongruent (fun-oriented) functionality (e.g., SAT-PDA) would enhance the value of the base. As shown in Figure 2 (page 22), both the dependent measures support this prediction. Specifically, (1) OIV was greater for SAT-PDA than for YEL-PDA (1.45 versus 1.26) and (2) IWTP was higher for SAT-PDA than for YEL-PDA ($73.45 versus $55.38) (see Table 3).

For ***CPs with a hedonic base***, an ***image consistency effect*** was predicted. It was proposed that adding a congruent functionality (e.g., SAT-MP3) would maintain the hedonic image of the base (albeit with diminishing returns), whereas an incongruent functionality (e.g., YEL-MP3) could dilute the hedonic value of the base. Figure 2 supports this effect. Specifically, (1) OIV was greater for SAT-MP3 than for YEL-MP3 (1.83 versus 0.49), and IWTP was higher for SAT-MP3 than for YEL-MP3 ($84.26 versus $47.43) (see Table 3).

FIGURE 1:
Asymmetric Additivity Effects in CPs

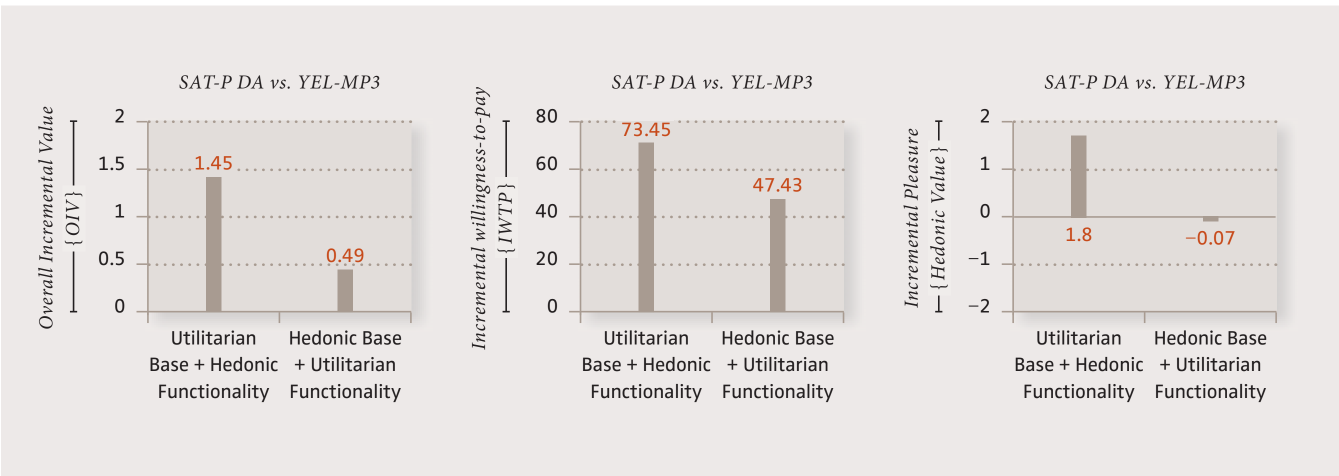
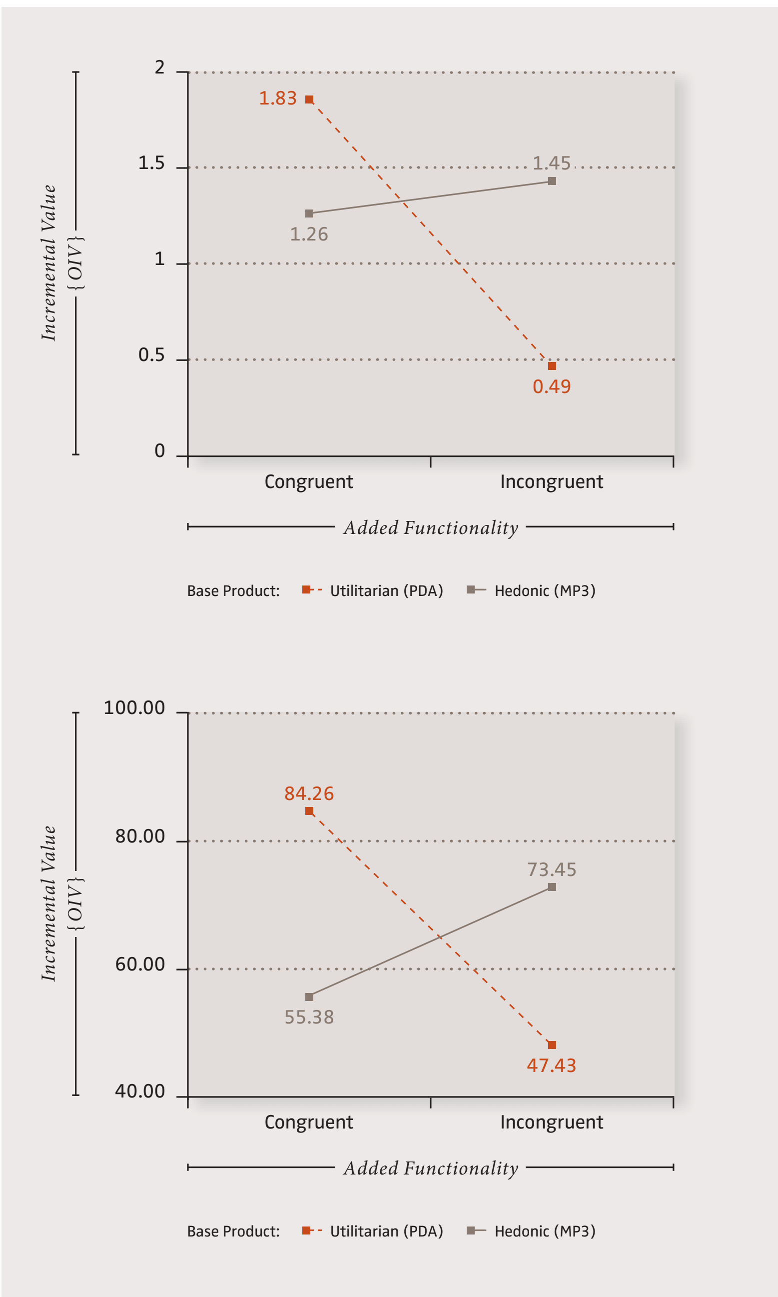


TABLE 3:
The Incremental Value of CPs with (congruent/incongruent)
New Functionalities Added to a Utilitarian versus Hedonic Base

	Utilitarian base product (PDA)		Hedonic base product (MP3 Player)	
	Congruent (utilitarian) functionality (YEL-PDA)	Incongruent (hedonic) functionality (SAT-PDA)	Congruent (hedonic) functionality (SAT-MP3)	Incongruent (utilitarian) functionality (YEL-MP3)
Overall incremental value (OIV)	1.26	1.45	1.83	0.49
Incremental willingness to pay (IWTP)	$55.38	$73.45	$84.26	$47.43
Incremental pleasure (hedonic value)	0.64	1.80	1.84	−0.07
Respondents	499	500	500	500

FIGURE 2:
The Incremental Value of CPs with a Utilitarian versus Hedonic Base



In summary, the results show that CPs with a utilitarian base gain more from an incongruent (fun-oriented) addition than from a congruent one, whereas the opposite is true for CPs with a hedonic base. They gain less from an incongruent (utility-oriented) addition than from a congruent one.

Does Prior Ownership Matter?

Prior ownership is relevant because it is a commonly used variable for segmentation, and distinguishes the purchase of a CP into an upgrade (for owners of the base) versus a new purchase (for non-owners of the base). The decision to upgrade is qualitatively different from that of making a new purchase.

It was predicted that ownership effects would occur, but only in the case of CPs with a hedonic base. This is because hedonic products are more symbolic and experiential, and owners are more likely to form an attachment/relationship to hedonic possessions than to utilitarian ones. As a result, owners would be more sensitive (than non-owners) to any change (dilution) in the image of the hedonic base. The results of the study support this assertion. Specifically, for CPs with a hedonic base the proposed image consistency effect (i.e., adding a congruent – fun-oriented – functionality is favored over an incongruent addition) was stronger for owners than for non-owners of the base. However, there was no such ownership effect for CPs with a utilitarian base.

Brand Quality and its Effects on the Evaluation of CPs

The effects of brand quality on CPs were explored in two additional studies with a smaller sample of the target market. The base product used in the first study was a MP3 music player. The two functionalities added were "listen to radio via satellite (SAT)", and "get directions via a Global Positioning System (GPS)". Each of these functionalities was either congruent or incongruent with the base (SAT was congruent and GPS was incongruent with the base MP3 player). The brand quality of the products was manipulated by changing the quality level for the common features of the base product. Specifically, the level of sound quality, battery life, ease of use, size of display, and screen resolution was manipulated as high or low for the high versus lower quality brand, respectively, of the base MP3 player. In the second study, a PDA was used as the base product.

Prior research on new product adoption has found that the impact of a new feature is mainly influenced by two factors: (1) the ***value*** (or benefits) accrued by adding new features to existing products; and (2) the ***performance uncertainty*** associated with the added feature. It was proposed that when a ***congruent functionality*** is added the evaluation of high versus lower quality brands is based more on the value added by the new feature than on the performance uncertainty (as it is congruent with the base). In such a case, the new feature is assimilated into the overall evaluation of the product. Since a high quality base already has a high evaluation it has less to gain from a congruent feature addition, as compared to a lower quality base. Therefore a high quality (base) brand has less incremental gain than a lower quality one from the addition of a congruent new functionality.

In contrast, when adding an ***incongruent new functionality*** the situation might be different. Consumers may be uncertain about the performance of the added functionality. In such cases high quality brands could serve as a stronger signal for product performance than lower quality ones. Thus, a high quality base brand would gain more than a lower quality one from the addition of an incongruent new functionality.

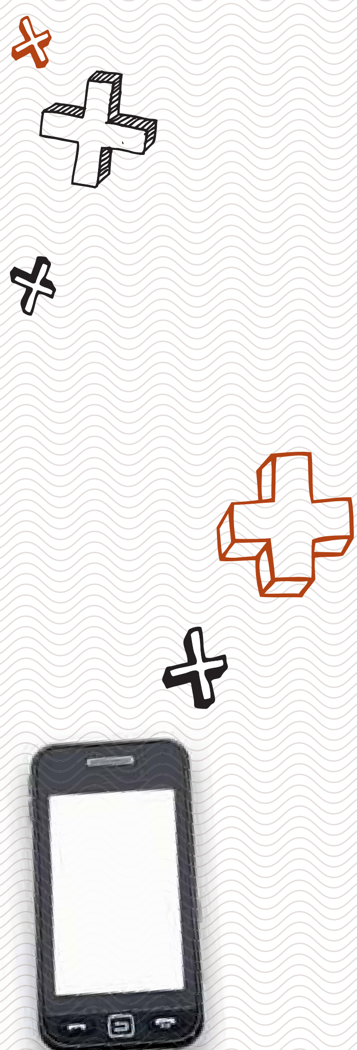
The results of the first study supported the assumption pertaining to a congruent addition (i.e., when SAT was added to an MP3 player, the gain was significantly higher for the lower quality brand as compared to the high quality one). However, in the case of the incongruent condition there was no significant difference between the value added to the lower and high quality brands.

The latter outcome was contrary to what was expected. It was suspected that since the perceived value of the base product (i.e., the MP3 player) may already be very high, adding an incongruent new functionality may not provide significantly more value to the base (akin to a "ceiling effect"). Therefore the same effect was tested in a follow-up study using a base product with a relatively modest perceived value: a PDA. A subsequent measure confirmed the above difference in value between the two base products (i.e., the perceived value, in the study sample, was indeed very high for the MP3 player and only moderate for the PDA). The follow-up study with a PDA solely investigated the relative gains to high versus lower quality brands when an incongruent functionality was added (i.e., SAT added to a PDA).

It was found that in this case participants did indeed perceive lower performance uncertainty when the incongruent functionality was added to a high quality base brand rather than to the lower quality brand. Accordingly, a marginally (but not significantly) higher value gain was observed for the high quality brand. So, when a moderately valued base was used (i.e., PDA) the incremental gain from an incongruent functionality was directionally higher for the high quality brand as compared to the lower quality one.

» Convergent products with a utilitarian base gain more from an incongruent (fun-oriented) addition than from a congruent one, whereas the opposite is true for convergent products with a hedonic base. «

» Since a high quality base already has a high evaluation it has less to gain from a congruent feature addition, as compared to a lower quality base. «



GUIDELINES FOR MANAGERS

Balance capability and usability

Adding new functionalities from different categories has become a widely used (and often fashionable) means to innovate and launch new CPs. Prior research has shown that adding more features may in fact increase the perceived capability (i.e., the number of benefits provided) of a product, but it simultaneously reduces its perceived usability (i.e., the ease of use). This reduction in usability could eventually have a detrimental effect on the long-term satisfaction with the feature-loaded product (referred to as "feature fatigue"). The current research shows that not all new functionalities will increase perceived capability of the CP equally.

Feature fatigue depends on the nature of the added functionality

The incremental value depends on the nature of the base product and the added functionality (i.e., whether they are hedonic or utilitarian). For utilitarian base products a goal incongruent hedonic (fun-oriented) addition is valued more than a congruent one. For hedonic base products, on the other hand, it seems more advisable to add congruent (hedonic) new functionalities rather than utilitarian ones, which might harm the products' fun image. Taken together, it appears that the perceived feature fatigue should be lower for hedonic than for utilitarian additions in CPs.

Applying the findings to products and services

Some examples highlight the applicability of these findings. In the context of cell phones (a relatively utilitarian base product), the addition of cameras (a relatively hedonic, incongruent functionality) has rapidly increased in popularity (in terms of adoptio/usage) than the addition of email/GPS systems (relatively utilitarian, congruent functionalities). A similar example can be observed in the context of hedonic products: whereas video iPods (a hedonic addition to a hedonic base product) were an instant success, the concept of web television (i.e., internet access on a television) — a utilitarian addition to a hedonic base — has not been successful, despite many attempts by a reputable manufacturer.

The current findings may also be applicable in the context of services. For instance, adding more utility-oriented (congruent) services to a relatively utilitarian base service (e.g., offering self-defense lessons at a fitness centre) may be valued less than a hedonic addition (e.g., offering dance lessons at a fitness center) (assuming they are equally-valued). On the other hand, for a relatively hedonic base service, adding more hedonic elements (e.g., adding music kiosks in a movie theatre complex) may be valued more than equally-valued utilitarian additions (e.g., adding email access kiosks in a movie theatre complex).

Prior owners are more sensitive to changes

Ownership effects found in the context of CPs have implications for targeting these new products to specific segments. On the basis of the findings, it can be said that for CPs with a utilitarian base, both segments (prior owners and non-owners) value incongruent, fun-enhancements more than congruent, utilitarian ones. However, for CPs with a hedonic base, prior owners are more sensitive than non-owners to the changes in the hedonic image of the base. Current owners of existing hedonic products (e.g., iPods and handheld games) may be particularly resistant to additions of utilitarian functionalities. Any such additions may actually harm the existing image and dilute the value of the base products among their prior owners.

The quality level of the brand makes a difference

Last but not least, the current research offers practical insights for predicting the relative gain to different brands that introduce CPs. The evaluation of such new products is influenced not only by their added (technical) functionalities but also by the quality of the base product. The studies reported here suggest that a lower quality brand would benefit more from adding a congruent functionality, whereas a high quality brand is likely to gain more from an incongruent addition.

These findings may also apply when managers decide what kind of functionalities should be added to different models of the same base brand. For instance, a high-end model may gain more from adding an incongruent functionality, whereas a low-end model would gain more from adding a congruent feature. That said, the nature of the base brand and the added functionality (i.e., utilitarian vs. hedonic) should always be a consideration. •

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KEYWORDS:

Product Innovations, Convergent Products, Product Features, Consumer Value, Consumption Goals, Utilitarian, Hedonic

/// ... if consumers understand and communicate their preferences

CUSTOMIZATION: A GOLDMINE OR A WASTELAND?

Nikolaus Franke, Peter Keinz and Christoph J. Steger

Should firms invest in customization strategies? Customization is a "hot" topic advocated in many popular books and articles. On the other hand, spectacular failures in the recent past have raised doubts. We experimentally tested the value customization generates for customers in the diverse product categories of newspapers, fountain pens, kitchens, skis, and cereals. The findings are clear: customization by far outperforms the more traditional strategies of segmentation and mass marketing.

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This article is an adapted version of *Franke, Nikolaus; Keinz, Peter and Steger, Christoph J. (2009):* "Testing the Value of Customization: When Customers Really Prefer Products Tailored to Their Preferences?", Journal of Marketing, 73 (5), pp. 103 – 121, and is published with the permission of the American Marketing Association.

The Promise of Customization

"Giving the customers what they want" has been the mantra of marketing professionals for many years. However, it is not what most companies have been doing in recent decades. Instead they have been dividing the market into segments and tailoring the products to the ***average preferences*** of one or more of those segments — which means that the individual customer does not get exactly what he or she wants. Instead, the benefits from individual offerings are balanced with the benefits of large-scale production processes. This "segmentation" idea was first described in 1956 and quickly became one of the most powerful marketing methods in theory and practice. Until today, it has been considered an essential part of the body of knowledge in marketing, and it is discussed in virtually every marketing textbook and routinely applied by most companies in most markets.

However, two major developments have increasingly challenged segmentation in recent years. First, there is a constantly increasing supply of technology that facilitates small lot sizes and customization. As a result, the production costs for individualized offerings are declining, and the internet has brought about a dramatic reduction in the costs of communication with customers. Second, customer preferences have become increasingly heterogeneous in many markets. In turn, the customers' demand for individualized products has clearly increased.

Thus, scholars and practitioners alike have developed high expectations regarding the potential of customization. It has been assumed in recent years that the age-old practice of targeting market segments is dominated and will be displaced by individual marketing. Practitioners also praise the merits of customization, and companies such as Adidas, BMW, Puma, General Electric, Lego, Nike, Procter&Gamble, IKEA and many others have begun to experiment with customization.

Opposition to Customization

However, spectacular failures in customization, such as Levi Strauss' "Original Spin" jeans and Mattel's "My Design Barbie", have raised doubts as to whether the "promise of customization" is not a false promise. Indeed, there are arguments against customization beyond increased production costs. Offering customers products tailored to their individual stated preferences might actually be misleading.

> First, ***customization requires us to specify precisely what we want*** — and in many situations we might not be willing to do so. We love (pleasant) surprises. For example, many people do not find it satisfying to get a present they have specified in detail beforehand, and we usually prefer to listen to jokes we do not know over jokes we do know, let alone to jokes we devised ourselves (of course, most of us will know some painful exceptions). One could argue that these cases are somewhat special.

> But there is a second and potentially much more important argument: ***customers might not be able to specify their preferences correctly.*** Research on consumer decision-making suggests that preference systems are often ill-defined, and many people have a hard time stating what they really want. If they are forced to do so, they are largely influenced by the "framing" of the situation and the way the question is asked. Therefore the individual preference statement may contain a large error term. One can argue that given such arbitrary preference statements, it is questionable whether products customized on the basis of those preferences are more beneficial to customers than standard products.

> In extreme cases, ***an adept segmentation strategy might even yield higher benefits for customers than customization.*** If the segments identified capture the (common) essence of preferences within the segment and eliminate random error through aggregation, the true component of preferences is revealed — and the segment-specific products will lead to a higher preference fit than products customized on the basis of erroneous individual preference statements. Such a phenomenon is sometimes called the "wisdom of the crowd" effect. The most famous anecdote illustrating this point is about a county fair at which a crowd of people were able to guess the weight of an ox much more accurately when their individual guesses were averaged than separate estimates made by cattle experts.

These arguments are not purely theoretical. Recent research shows that there are consumers who do prefer products based on the aggregated preferences of other consumers over products based on their own individual preferences. Such customers prefer the default configurations provided by the producer and fail to see the opportunities offered.

The Experiment:
A Competition between Newspapers

In this study, therefore, we decided to carry out an experiment in which we would let the two marketing principles of customization and segmentation compete directly. We selected newspapers as the product category for our experiment. This category allowed us to employ concrete and relatively realistic experimental stimuli, namely by using newspapers that were actually tailored to the subjects' preferences (with varying proximity). As most consumers are at least somewhat interested in some sort of newspaper, it was possible to draw a truly representative sample of 1,279 Austrian citizens. The rationale underlying this study is simple: we simulate the strategies of customization, segmentation, and mass marketing, and we measure the resulting benefits for customers. As opposed to customization, "mass marketing" means that every customer gets the same product. This strategy is rarely employed nowadays, but it certainly used to be the norm. Recall the famous dictum of Henry Ford: "Any customer can have a car painted any color that he wants so long as it is black". We have included mass marketing in order to provide an additional comparison.

In the first step, we captured the preferences of subjects with regard to a collection of 90 newspaper headlines. The headlines included two introductory lines in order to give subjects an idea of what each article was about. We randomly selected them from 4,964 real articles released by the Austrian News Agency (APA), and the articles covered the topics of foreign affairs, domestic affairs, current events, culture, economics, science, education, media and sports. Subjects revealed their preferences on five-point rating scales ranging from 1 ("I would really like to read this article") to 5 ("I would definitely not read this article "). In the second step, we performed some calculations.

Calculating Preferences

> Group 1 was to receive a ***mass marketing product.*** Therefore, we calculated the mean preference rating for each of the 90 headlines and ranked them on that basis. The ten best-rated headlines constitute our "mass marketing newspaper", the one standard product that comes closest to the subjects' preferences on average.

> Group 2 received a ***segment-specific newspaper.*** Using the preference ratings as a basis, we conducted latent class analysis, which can be considered state-of-the-art for segmentation purposes. We calculated the optimum number of segments using the Bayesian Information Criterion and found that ten segments were best suited to our study. The ten best-rated headlines in each segment defined the respective segment-specific newspapers, that is, the product which is best adapted to the average preferences of each segment. Each subject was provided with the segment-specific newspaper that came closest to personal preferences (measured using the minimum squared Euclidian distance).

> Defining the ***customized newspapers*** for group 3 was easy. For each subject, we ranked the 90 headlines according to the individual's preferences and selected the ten highest-rated headlines. In cases where ties precluded an exact solution (e.g., when 12 headlines were assigned a rating of 1), we randomly selected the headlines from those which were tied.

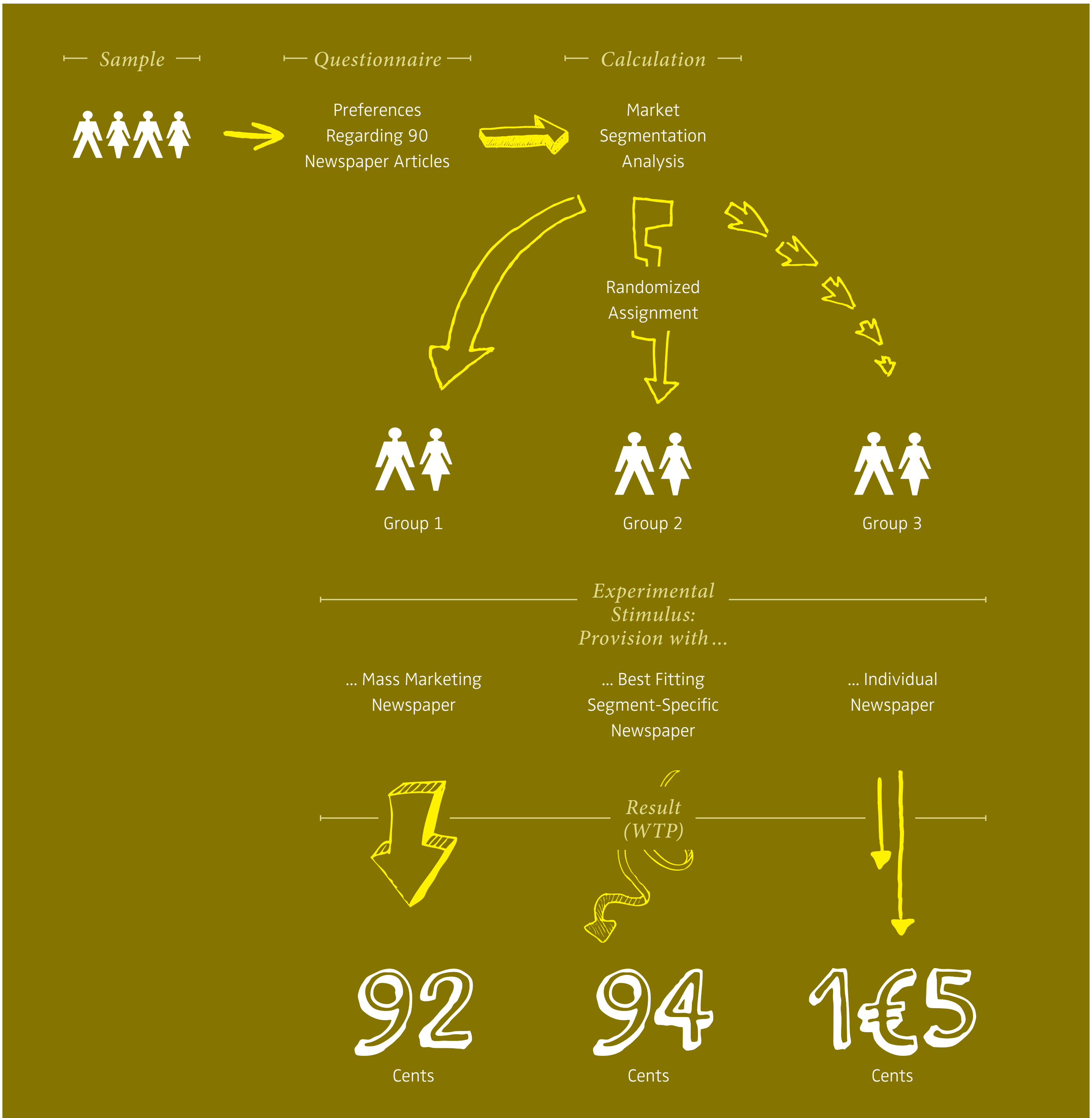
Calculating Value and Willingness to Pay (WTP)

In the third step, we confronted the subjects with the experimental stimuli, namely the simulated "newspapers", each of which comprised a selection of ten headlines in random order. We then measured the value these newspapers generated for the subjects. The key measure was the participants' willingness to pay for the newspapers offered.

Before turning to the results, let us reflect on the conservative nature of this experiment. We first have to note that the potential effects of customization are heavily constrained. The simulated newspapers only consisted of ten headlines taken from a set of 90 (in order to ensure that the task remained manageable for subjects). In reality, most newspapers consist of approximately 100 to 300 articles, and the pool of possible news is also considerably larger (e.g. the Austrian Press Agency releases about 600 articles, the German Press Agency about 800, and the Associated Press releases about 20 million words of news per day). In addition, our stimuli had no other content such as advertisements, weather forecasts, movie schedules or other features of potential value to some consumers. Thus, the participants in our experiment were only able to customize their newspapers to a very limited degree. The segmentation strategy, by contrast, enjoyed a far better starting position due to the considerable number of segments defined. Segmentation in real life and in much larger populations is more parsimonious. Second, we provided each individual with their "optimum" segment, that is, the segment we knew came closest to their preferences. However, in real life companies do not enjoy the privilege of such pervasive knowledge. In sum, the contest was designed in such a way that it was quite challenging for customization to outperform its rivals.

» Customers might not be able to communicate their preferences correctly. Therefore the individual preference statement may contain a large error term. «

Figure 1:
THE EXPERIMENT ON PREFERENCE FIT



(adapted from Franke, Keinz, Steger, 2009)

The Customized Newspaper Wins

The results were highly significant. The clear finding is that newspapers customized on the basis of the customers' stated preferences won the contest. The average willingness to pay was highest for this group at 1.05 euros on average, suggesting that the above-mentioned arguments against customization can be refuted. Segmentation came in second at 94 cents, and mass marketing lost the race with 92 cents. (Figure 1)

As argued above, we could not expect huge differences in this heavily constrained setting. Against this background, the value increment of 12 % achieved by customization relative to segmentation is remarkable. For comparison purposes, consider the difference between the willingness to pay for the "so long as it is black" mass marketing newspaper and for the segment-specific newspaper. It is only 2 %. In reality, however, we can be reasonably sure that a single uniform newspaper would not fit the different preferences of the readers of USA Today, the New York Post and the Washington Post in the US market or the readers of Frankfurter Allgemeine Zeitung, Bild, and Main Echo in the German market particularly well. Seen in this light, 12 % is a large difference. It means that the benefit gain from customization relative to segmentation is ***six times higher*** than the gain from segmentation relative to mass marketing — which is already considerable.

Generalization into Other Markets

Is this finding — that customization outperforms segmentation so clearly — specific to newspapers, or does it point to a general pattern? In order to analyze this question, we conducted another study using a separate sample. We confronted each subject with two stimuli: one was a standard product in the relevant product category, while the other was a (simulated) customization configurator that would allow the subject to tailor the respective product to specific personal preferences. We then measured the willingness to pay each subject associated with the two products. The study was conducted independently in the product categories of fountain pens, kitchens, skis, and breakfast cereals. These products differ in terms of price level, hedonic value, and privacy of consumption. Again, we used a representative sample with a total of 1,039 subjects answering the questionnaire completely.

» Our findings show that customization also creates higher benefits than segmentation strategies in other markets — thus indicating that the superiority of customization over segmentation is independent of the specific market. «

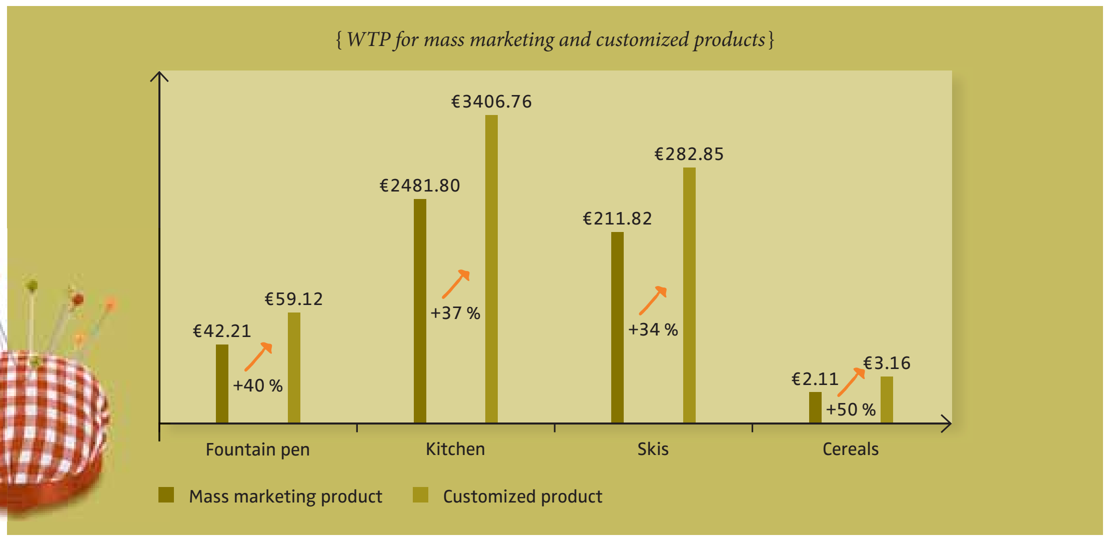
Our findings show that customization also creates higher benefits than segmentation strategies in other markets — thus indicating that the superiority of customization over segmentation is independent of the specific market. (see Figure 2 on page 32)

Is Customization the Best Strategy for any Customer?

Despite these clear differences, the "customization effect" depends on specific conditional variables. Customization is not the best strategy for any customer in any situation. We subjected the findings described above to statistical moderator analyses in which we examined the WTP of specific sub-groups. Based on the findings (which we do not report here), we can formulate three conditions for the value of customization:

1. Customers must have sufficient preference insight.
The measurement of preferences (which forms the basis for customization) can only be effective if consumers actually have reasonably well-defined preferences and are sufficiently aware of them. If consumers do not really know what they want, they will be more inclined to construct preferences based on situational cues when asked to specify product requirements — which will bring about a high error term in their preference measurements. A product constructed on the basis of this

FIGURE 2:
Generalizing Findings to Other Markets



measurement will be of less value to the customer than in cases where a customer has clear insight into her preferences. Furthermore, a customer with low preference insight might also be less able to evaluate whether an offering truly fits her preferences.

2. Customers must be able to reveal their preference information to the company.
The famous dictum "We know more than we can tell" points to the problem that communication is not always an easy task. An individual who has difficulties expressing her preferences will again create a potentially high measurement error. Preference insight and the ability to reveal one's preferences might be positively correlated, as both refer to the clarity of the preference system. However, these dimensions might differ in many cases, for example when an individual's verbal skills or communication technology skills are particularly high or low.

3. The customer must exhibit high involvement in the product category.
Even if two individuals have an identical level of insight into their preferences and identical abilities to express them to the manufacturer, the benefit they derive from customization can be very different. Individuals with high product involvement put far more effort (in terms of time, ambition, and cognitive effort) into the product definition task than those with low involvement. Hence, the preferences they express might contain a smaller error term, which in turn results in higher benefits from customization. Individuals with high product involvement might also respond more negatively (i.e., experience higher disutility) if the product does not fit their preferences.

Conclusion

> ***Customized products may deliver clear consumer benefits***
In our two studies, we found that products customized on the basis of measured customer preferences deliver clear benefits to the customer. This finding is highly relevant as it provides evidence of a critical relationship which has only been assumed up to now and can be regarded as the foundation of management concepts such as mass customization, one-to-one marketing, customer relationship management, personalization, and smart agents. The relatively large increase in derived benefit (despite identical technical quality) suggests that there is a great deal of "money on the table" — customers are willing to pay far more for products that fit their preferences.

> ***Cost reduction for customized production is a hot topic***
This finding underscores the high relevance of research on ways to reduce the costs of customization and indicates that such efforts are indeed highly promising.

Cost reductions can come in various forms, including further improvements in flexible production technologies, lower process costs for customers through design toolkits which are easier to use, and through more effective recommender systems. Given further progress, this suggests that individual marketing will indeed gain considerable importance relative to the traditional practices of segmentation and mass marketing, as several scholars have predicted.

> ***Success depends on consumer characteristics***

However, we also show that the benefits of customization are contingent upon characteristics of the customer, namely the level of insight into personal preferences, the ability to express those preferences, and product involvement. This challenges the tendency in the popular press to advocate customization as the best possible strategy for any consumer in any situation. If customers have difficulties conveying preference information to the company (either because they are unaware of what they want or because they are not able to express their preferences properly) or they have a low level of involvement, the benefits of customization will be considerably lower.

> ***Facilitating preference articulation should help***

Our finding that customization is particularly beneficial to customers with clear preference systems does not necessarily mean that customization strategies do not make sense in the opposite case. However, it does indicate that customization processes should be designed differently. In our studies, we focused on a customer-active means of preference transmission in which customers had to actively specify what they wanted. At the same time, there are alternatives which require less skill and effort from the customer than a laborious self-design process, such as smart agents or recommender systems (which require little or no customer effort). The extent to which these systems provide benefits in such situations remains a question for future empirical research. In addition, it is important to bear in mind that interaction with a customization toolkit might actually help the consumer understand and articulate personal preferences better, as it involves trial-and-error learning with simulated feedback on the outcome. •

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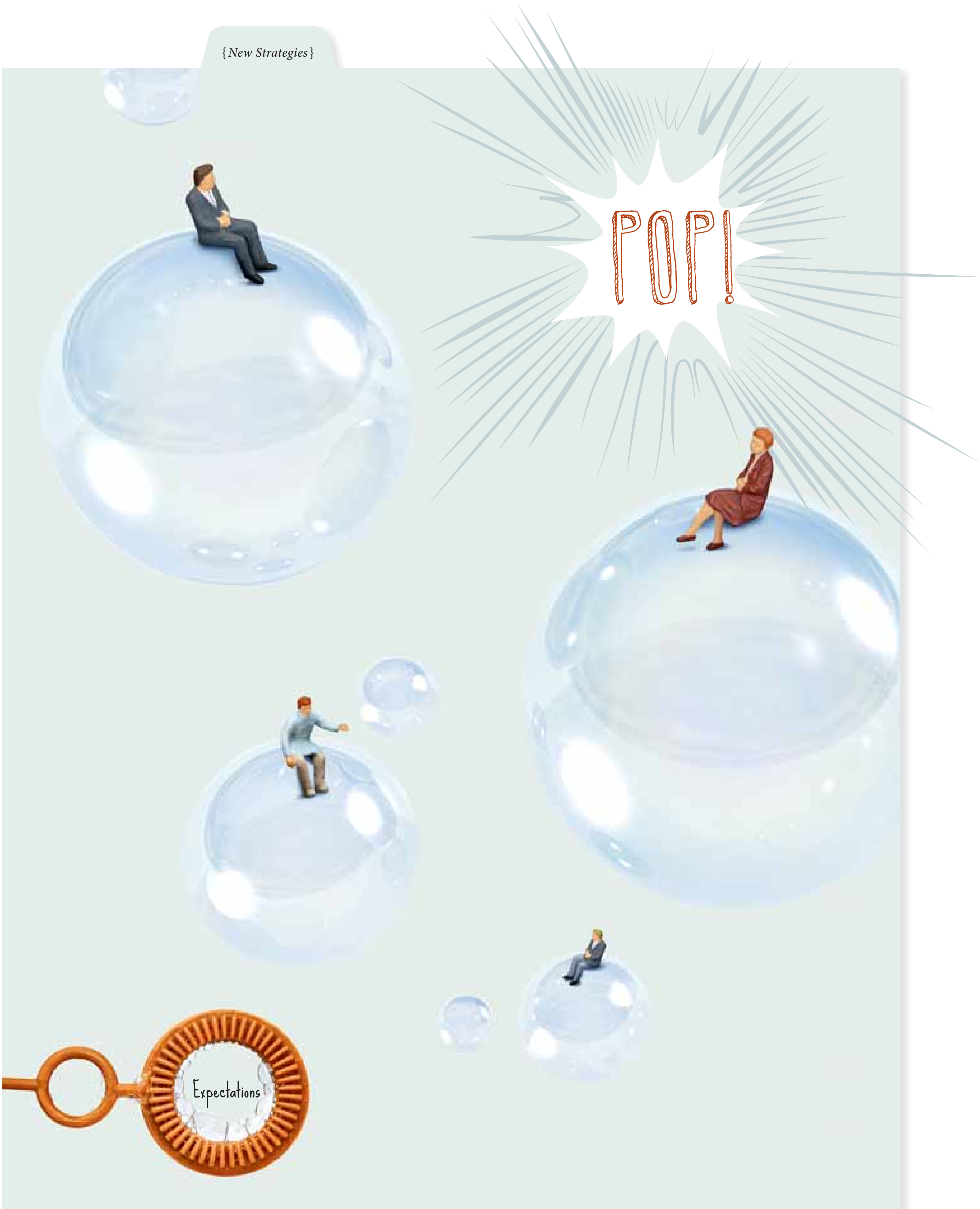
http://www.userinnovation.at

KEYWORDS:

Individualization, Mass Customization, Segmentation, Innovation, Design, Customer Integration

{ *New Strategies* }



Left Behind Expectations
HOW TO PREVENT CRM IMPLEMENTATIONS FROM FAILING

Jan U. Becker, Goetz Greve and Sönke Albers

This article discusses performance drivers of CRM projects and is particularly relevant for managers seeking to optimize their companies CRM efforts. Despite the billions of dollars that have been spent on the implementation of customer relationship management (CRM) systems, many of the adopting companies are unhappy with the results. This can be due to two reasons: first, either the CRM projects are poorly implemented and thus do not perform accordingly, or, second, companies expect too much from CRM systems. This research examines how technological and organizational implementations as well as internal support affect the objectives of CRM with regard to initiating, maintaining, and retaining customer relationships. The results indicate that internal support is an important factor for the performance of CRM implementation. Further, it helps to have a clear focus for a CRM system to specifically address diverse functions such as the acquisition, maintenance, and retention of customers and to tailor implementation effort to the needs of the major functions.

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Not Up to Managements' Expectations!

Over the past two decades, customer relationship management (CRM) has become one of the most promising yet controversial concepts in business. Considered to be an effective means of managing and nurturing the interactions of enterprises with extant and prospective customers, companies have invested billions of dollars in CRM implementations. For example, in 2008, the worldwide revenues for CRM software solutions were $9.15 billion (Gartner Group, 2009). Since this figure does not include investments in CRM consulting or in-house solutions, one can assume that the total CRM-related investments are, in reality, much higher.

The prospects are also quite promising: CRM implementations are supposed to analyze and organize sales activities, foster marketing automation, and facilitate customer service and support. Consequently, CRM enables companies to boost revenues and reduce costs of marketing and client services. Lately, however, companies have become increasingly displeased with CRM implementations, as the majority of them are falling short of performance expectations and are therefore considered failures. More specifically, studies report that only one third of all CRM projects experience significant improvements in performance. That means that two thirds of the companies that started a CRM initiative either suffered losses or had no bottom-line improvement in company performance. Even worse, one in five CRM initiatives damaged long-standing customer relationships.

Why Can CRM Implementations Fail?

How can initiatives involving so many resources with regard to financial and intellectual capital and offering so much potential deviate from expectations and leave the CRM project managers so utterly disappointed?

There are two possible reasons: either CRM projects are poorly implemented, or the managers' expectations were too high to begin with. These possible reasons are investigated in more detail below.

Reasons behind Poor Implementation of CRM Projects

Given the common definition that CRM requires a cross-functional integration of processes, people, operations, and marketing capabilities that focuses on initiating, maintaining, and retaining long-term customer relationships and is enabled through information, technology, and applications, there are obviously many possible reasons for CRM implementation failure. Here, we present two of the most prevalent ones:

Limited Scope

Most obvious, and for many synonymous with CRM, are ***technological implementations*** involving IT systems and software solutions that organize, automate, and synchronize marketing processes. When set up and configured correctly, such IT systems provide for the acquisition, storage, and accessibility of customer information, as well as its analysis. These technologies are readily available and easily implemented by specialized software and consulting firms. However, investments in soft- and hardware are not sufficient since technological implementations must be accompanied by changes in organizational structures and processes as well. For example, customer-facing departments might need to be restructured to specifically serve certain customer segments. Such organizational changes are equally important for the success of CRM implementations since technological systems often involve customer databases with information that is used for different management functions — e.g., marketing, sales, or service. In order to disseminate customer knowledge and customer orientation within the organization, ***organizational implementations*** need to provide whatever changes are necessary to the organizational structure, such as relevant training and rewards for employees who engage in CRM-related activities. However, in contrast to technological implementations, the return on investment in organizational changes is much harder to predict. Consequently, if companies are too reluctant to pervade the CRM strategy and initiate necessary changes, CRM projects are likely to fail.

Limited Support

The definition also conveys that CRM implementations rely on compliance at both the managerial and employee levels, since CRM success does not come from the sum of single activities, but rather from interactions between activities. This especially applies to interactions between support activities within the company — i.e., top management providing strategic support and employees' actually using CRM systems.

One role of management is to support CRM implementations by creating a corporate environment that embraces CRM as a vital element of business strategy and engaging in activities that demonstrate their commitment to CRM implementation. Therefore, top management needs to effectively communicate that CRM is the company's strategic orientation, and not merely a fad. Knowing that ***top management supports*** the CRM strategy will most likely affect employees' behavior as well. This is crucial as ***employee support*** is not only regarded as a key driver of organizational success but also of CRM technology success. Unfortunately, studies indicate that despite the fact that CRM technology would increase individual performance, employees are often reluctant to adopt it; especially sales persons are often sensitive in regards to their tacit knowledge about customers and are therefore unwilling to feed personal knowledge into a company database. In such cases, neither top management nor employees actively engage in the CRM strategy, and CRM projects are likely to fail.

» CRM success does not come from the sum of single activities, but rather from interactions between activities. «

Could Managers' Expectations be Wrong?

Even companies that implement proper technological systems, initiate appropriate organizational changes, and have all employees onboard with the CRM strategy may experience disappointments if the expectations placed on CRM implementations are too high.

Provided that CRM is a cross-functional process that focuses on initiating, maintaining, and retaining long-term customer relationships, CRM implementations need to capture the different objectives of each of the process phases. More specifically, in the ***initiation phase***, CRM implementations are designed to help companies acquire new customers. In the ***maintenance phase***, companies expect to develop and intensify customer relationships such that they result in higher customer satisfaction, expanded relationships (e.g., through cross- and up-selling activities), and increased customer revenues. However, relationships show decreasing returns at the end of the customer life cycle. Therefore in the ***retention phase***, companies need to identify previously profitable but currently inactive customers and initiate appropriate activities to reactivate those customers. Considering that customers are not homogeneous with regard to the relationship stage, the evaluation of a CRM project's performance is likely to depend on a company's customer base and on the CRM system's ability to serve the objectives to initiate, maintain, and retain long-term customer relationships.

Since CRM systems consist of the implementation of technological systems that acquire, store, and evaluate customer information and the alignment of companies' organizations and structures (see Figure 1), it is not obvious that those systems serve all phases' objectives identically. Hence, companies' expectations are not met if CRM implementations do not match the customer base's specifications. For example, since the knowledge base of customer information increases with the length of the relationship, and the effectiveness of CRM systems is heavily reliant on the quantity and quality of the data input, technological implementations should perform better in the maintenance and retention phases. Also, organizational implementations should have their maximum impact in the early stages of the customer life cycle since the existence of appropriate organizational structures and well-trained, motivated sales personnel should facilitate the acquisition of customers.

FIGURE 1:
Performance Drivers of CRM Systems

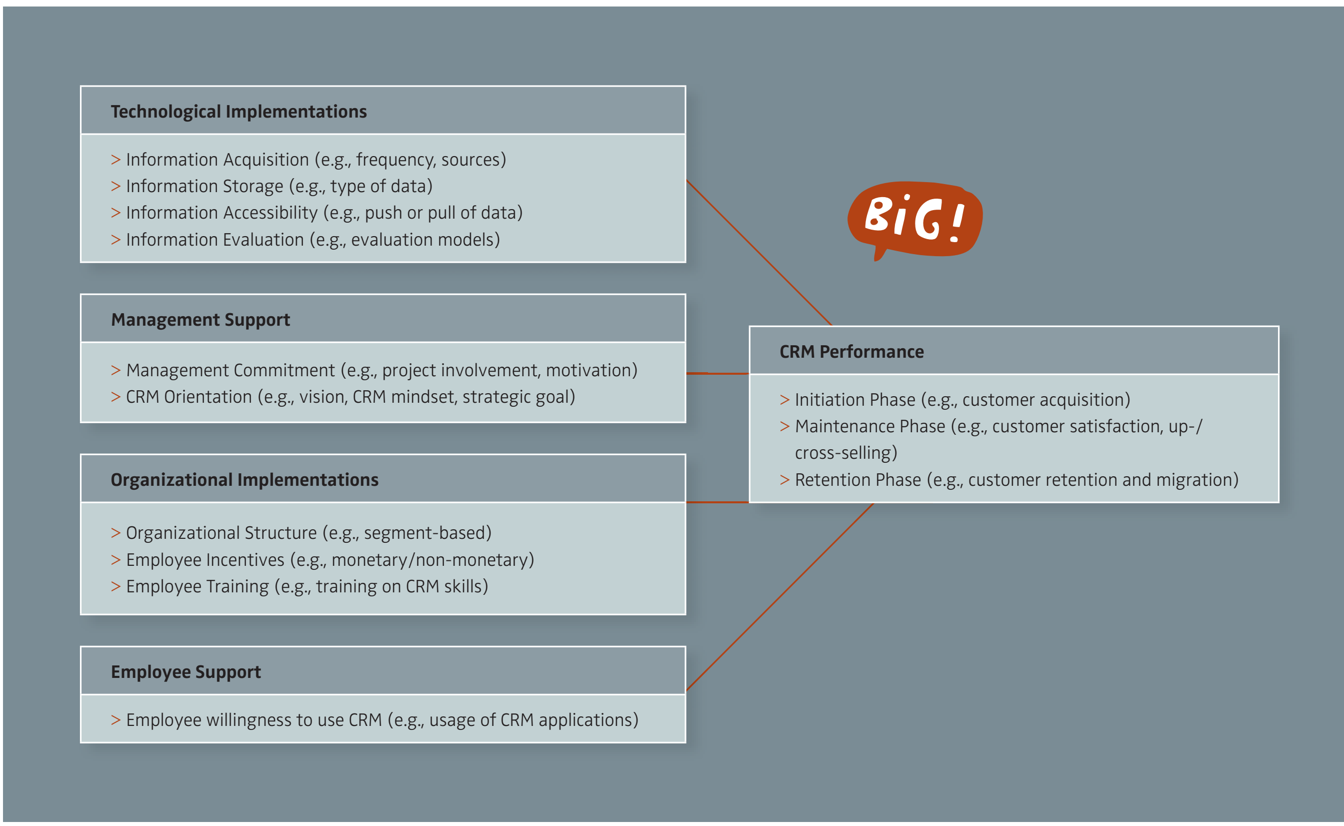

FIGURE 2:
Impact of CRM Implementations and Support on Performance

	Initiation Phase	Maintenance Phase	Retention Phase
Technological Implementation	moderate impact	moderate impact	insignificant impact
Organizational Implementation	insignificant impact	insignificant impact	insignificant impact
Management Support	insignificant impact	insignificant impact	strong impact
Employee Support	insignificant impact	moderate impact	strong impact
Organizational Implementation & Management Support	strong impact	insignificant impact	insignificant impact
Technological Implementation & Employee Support	strong impact	strong impact	insignificant impact

strong impact · moderate impact · insignificant impact

Obviously, there are many reasons why CRM implementations can fail to meet expectations. Depending on the company's strategic goal to acquire, maintain, or retain customers, companies run the risk of selecting the wrong type or degree of implementation (technological and/or organizational), or providing insufficient management and employee support.

Study and Data Source

In order to understand what factors influence the success of CRM implementations, we collected data with the help of an international consulting company, whis is well known for conducting CRM projects (including the implementation of technological systems and executing organizational changes) for clients. We randomly selected 400 companies with substantial experience in CRM in ten European countries from the consulting firm's client database. Addressing a questionnaire to the responsible CRM project managers of the selected companies, we collected a total of 90 usable responses. Altogether, the respondents were mainly large companies with more than 5,000 employees where either top management or the marketing and sales division were responsible for CRM issues. In more than 69 % of the cases, senior executives from top management or the marketing and sales departments responded to the questions addressing which CRM systems were actually implemented, and assessed the company's performance development with regard to the CRM process-related aspects.

Drivers of CRM Performance

Based on the magnitude of technological and organizational changes that the companies experienced (e.g., degree of applications to analyze and evaluate customers or provision of employee training) and their outcome (e.g., degree of improvement with regard to customer acquisition, maintenance or retention), we examined whether CRM implementations are able to meet the phase-specific objectives. Furthermore, we analyzed what impact employee and management support have on CRM performance. The analysis provides insights as to what kind of implementations influence performance in which phase and, therefore, what companies can realistically expect from CRM systems. Figure 2 shows the results and demonstrates the impact of the key factors on performance.

Whereas technological implementations moderately impact initiation (i.e., customer acquisition) and maintenance performance (i.e., customer satisfaction, up-/cross-selling), the components of organizational implementations do not significantly influence performance in any phase. However, appropriate organizational structures, and motivated, well-trained sales personnel do in fact affect performance if managerial support for CRM exists. Similarly, technological implementations unfold a much stronger impact when employees accept and support the CRM systems. However, neither kind of implementation shows any significant impact for customer retention.

» Judging from the results, it is the combination of poorly implemented CRM projects and overly high expectations that may result in (perceived) failures of CRM systems. «

Table 1:

PERFORMANCE OF CRM IMPLEMENTATIONS

Please assess the success of your company in the following areas since introducing CRM	Difference
Initiation performance	
> Improvement of customer acquisition	+ 18.7 %
> Improvement in regaining lost customers	+ 12.2 %
Maintenance performance	
> Improvement of customer satisfaction	+ 20.1 %
> Improvement in the expansion of customer relationships	+ 19.0 %
> Improvement of total return per customer	+ 11.8 %
Retention performance	
> Improvement in customer retention	+ 24.9 %
> Reduction of customer migration	+ 13.9 %

WHAT CAN MANAGERS LEARN?

CRM Systems Cannot Merely be "Bought Off the Shelf"

Judging from the results, it is the combination of poorly implemented CRM projects and overly high expectations that may result in (perceived) failures of CRM systems. First, with regard to the quality of implementations, the study shows that CRM systems cannot merely be "bought off the shelf". Hence, the mere implementation of CRM activities of organizational and/or technological nature and hoping for effects on the acquisition, maintenance, or retention of customer relationships is insufficient and unrealistic. Interactions between people and processes need to be considered as well since they represent the degree to which management and employees embrace CRM and support its implementation. This finding helps firms understand that successful CRM projects depend on support from within the companies and stresses the need to actively and intensively involve employees and management in the implementation process.

Specify the Focus of CRM and Adapt Resources

CRM implementations are not capable of equally serving customer initiation, maintenance, and retention goals. In order to avoid overly high expectations and the resulting discontent, companies should carefully consider the aspects for which CRM implementations may be efficient. For example, many companies still emphasize the acquisition of new customers over developing existing customer relationships and, therefore, align employee training and incentives accordingly. Consequently, changes in organizational structures only affect initiation performance and have no effect on the objectives regarding the maintenance and retention of customer relationships. The role of technological implementation across the CRM process remains quite constant — systems and information used to acquire new customers work as well as those employed for the purpose of cross- and up-selling activities. Judging from the moderate impact of technological implementations alone, one apparently does not need the most sophisticated technological systems to perform successfully. Hence, the majority of responding companies operate with one-dimensional models for customer analysis and evaluation (e.g., customer satisfaction analyses) using only socio-demographic characteristics to distinguish between their customers.

The finding that neither technological nor organizational forms of implementation are able to fulfill all CRM process-related objectives gives companies an indication of what to expect from CRM projects: whereas companies whose customer portfolio management strategy focuses on initiating customer relationships may well be advised to allocate their CRM investments to technological and (especially) organizational implementations, those investments alone would not have an effect on customer retention. However as shown in Table 1, a common strategic vision shared by management and employees can lead to similar increases in performance levels for customer retention. •

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KEYWORDS:

Customer Relationship Management, CRM Implementation, CRM Process, CRM Success, Customer Life cycle


{ New Theories }
influence?
success?
excellence?
satisfaction?
MARKETING PERFORMANCE
impact?
results?
benefit?

Proving Marketing Success Pays Off!

MARKETING PERFORMANCE MEASUREMENT AND ITS EFFECTS ON MARKETING'S STATURE AND FIRM SUCCESS

Don O'Sullivan and Andrew V. Abela

It has been widely argued that an inability to account for marketing's contribution has undermined its standing within the company. Furthermore, the effect of marketing activities on business success is underestimated. To respond to this pressure, marketers are investing in the development of performance measurement abilities. In this study of senior marketing managers in high-tech firms, the effect of the ability to measure marketing performance against business performance is examined. The authors also explore the effect of the ability to measure marketing against marketing's status within the company. Results indicate that this ability is essential given that it has a significant impact on company performance, profitability, stock returns, and marketing's stature within the company. Considering these effects, the closing managerial implications are highly relevant for marketing professionals.

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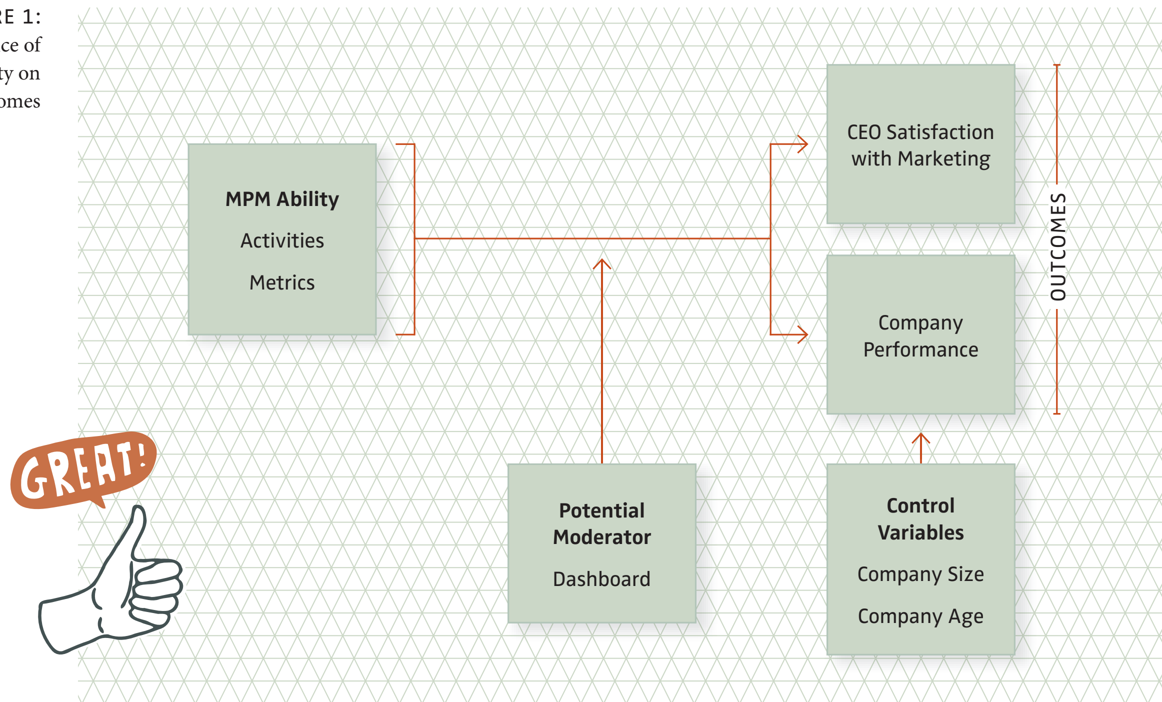
Marketing's Contribution to Business Performance is Questioned by Top Management

Marketing budgets in many companies are currently under threat as they look to minimize discretionary spending in response to growing economic uncertainty. Marketing is seen as unaccountable and thus a discretionary expenditure. Marketing has failed to provide CEOs, CFOs and other senior executives with useful information on marketing's effectiveness, efficiency and contribution to the value of the company. As a consequence, top management tends to see the cost side rather than positive outcomes of marketing activities and seems to hope that reducing marketing spending will go unnoticed by the market and will hardly affect business.

Marketers' inability to account for the function's contribution to business performance is further recognized as a key factor in marketing's loss of status within organizations. Senior management teams in most companies spend less than 10 % of their time discussing marketing issues and are often dissatisfied with marketing's contribution.

Greater marketing accountability is assumed to help in this situation. Measuring and documenting marketing success should clarify its impact on firm performance. Underlying the demand for greater accountability is the assumption that improvements in marketing's ability to document results will actually raise the company's per-

FIGURE 1:
Assumed Influence of MPM Ability on Different Outcomes



formance. Consequently, marketers should also benefit from higher levels of respect gained for the marketing function among senior management.

How Marketing Performance Measurement (MPM) is Expected to Help

Marketing performance measurement can be qualified as the assessment of the relationship between marketing activities and business performance. Figure 1 outlines the basic model which illustrates how MPM is assumed to work.

It can be summarized as follows:
If marketers learn to account better for their contribution to the company (MPM ability — a term that is discussed in detail further down)

> marketers will benefit from higher levels of respect for the function among senior management (first outcome) and
> firm performance will actually be raised (second outcome)

Based on this model, seven interrelated assumptions (propositions) are presented. They reflect existing knowledge on the ability to measure marketing performance. In a second step, the assumed relationships are tested in the study presented below. Given the considerable effects of MPM, managerial implications are highly relevant to marketing professionals who are interested in having an impact within their companies. Implications are discussed in the final section.

MPM Raises Firm Performance

Several arguments link MPM to improvements in marketing and firm performance. First, the mere fact that some output will be measured has a positive effect on results. It encourages greater attention to the activities to be measured ("what gets measured gets done"). Second, it has been suggested that marketing's contribution to the achievement of strategic goals is underrepresented in firms that do not measure marketing performance. Performance of such firms may suffer as a result. Third, it has been argued that MPM should lead to learning, which should enable improved marketing decisions and, consequently, improved performance. Fourth, MPM offers performance feedback, which has consistently been found to influence both managerial attitudes and behavior, in a manner that is favorable to the specific subject. ***Therefore MPM ability should positively influence firm performance.***

MPM Increases Ceo Satisfaction with Marketing

It has long been recognized that the marketing function generally plays a limited role in the process of strategy formulation. An important reason for this is that marketers struggle to measure and communicate to top management the impact of marketing activities on firm performance. Elsewhere, researchers have observed that marketing has the greatest influence and stature in companies with clear measures of marketing's contribution. ***Thus, MPM ability is expected to be positively associated with CEO satisfaction with marketing.***

Criteria for developing Successful Measurement Systems (MPM ability)

An assumption underlying much of the current interest in the accountability of marketing is that the choice of the measures employed matters. Of course there are many ways to document marketing performance and it is likely that the extent and method of measurement have an impact on the expected outcomes. Therefore it makes sense to also apply differentiated basic approaches to performance measurement. Specifically the ability to measure performance across a ***wide range of marketing activities*** and the ability to assess marketing performance using ***a comprehensive set of metrics*** are of interest.

» If marketers learn to better account for their contribution to the company, they will benefit from higher levels of respect and business performance will be raised. «

While the two aspects are clearly related, in that they both contribute to a company's MPM ability, they are also distinctly different. For example, one firm may be able to measure the performance of direct selling or online marketing activities but advertising effects are not documented. The next firm does survey the performance of its advertising or public relations (activities) only in terms of changes in awareness (nonfinancial metric), whereas yet another company may be able to measure them in terms of revenue change (financial metric) and against specific goals and competitor performance (benchmark metric).

The study investigates both aspects separately. The relevance of measuring disparate marketing activities is well documented in marketing literature. On the other hand consultants, researchers and practicing marketers have concluded that in their choice of metrics, firms should employ both financial and nonfinancial metrics and compare these against goals and competitors.

The following assumptions focus on the impact of the range of activities (e.g. advertising, direct selling, PR) that are measured: ***the ability to measure performance across a wide range of marketing activities is expected to positively influence firm performance and CEO satisfaction with marketing.***

The next assumptions focus on the comprehensiveness of the metrics aspect. Companies that are able to assess marketing performance using a broad set of metrics (financial and nonfinancial, in relation to goals, and in relation to competitors) should therefore outperform those that lack this ability. More specifically, ***a comprehensive set of measures is expected to positively influence company performance and CEO satisfaction with marketing.***

What about Dashboards and their Effect on Performance and CEO Satisfaction?

Figure 1 also shows dashboards as a variable that might influence the relationship between MPM ability and its potential findings. Dashboards are a variation of a balanced scorecard and are used as a means to report key metrics to senior management. Generated by corporate information systems, dashboards provide a refined set of marketing performance data and communicate an overview of strategic performance. Two important elements of dashboards are that they provide automated or (close to) real-time reporting and that they enable users to "drill down" to program-level details. Dashboards are viewed as a means by which information can be summarized and readily communicated to senior decision makers. It is argued that this distilling of data increases the perceived value and managerial use of information, which in turn creates a closer link between marketing activities and company goals. Therefore, the use of a marketing dashboard is proposed to act as a moderator in the relationships between ability to measure and performance and CEO satisfaction as stated: ***the greater the use of a marketing dashboard, the more positively MPM will influence company performance and CEO satisfaction.***

According to previous studies, company size and company age do have an impact on performance. Therefore they are also included in Figure 1 and were controlled in the study (any effect from these variables was isolated allowing the effects identified before to be observed).

INVESTIGATING MPM EFFECTS

A Study of High-Tech Companies

An online survey of senior marketers in high-tech companies in North America covering MPM ability, CEO satisfaction with marketing and firm performance provided the primary data for the research. High-tech companies were considered suitable because, within this sector, marketing has been under intense pressure to demonstrate its contribution to firm performance. Responses from 312 senior marketers (members of a U.S. based marketing organization and a Business Week research panel, response rate of 26.4 %) were used. In addition to collecting subjective measures of business performance from key informants, objective performance data on company profitability and stock returns was used to crosscheck the results. The objective measures were ROA and size-adjusted stock returns. Data was available only for public companies. Therefore the sample size for this part of the analysis was smaller (94 for ROA and 82 for stock returns compared with 312 for the primary analysis).

» The development of MPM ability requires marketers to divert part of their budget and attention away from actual marketing programs and toward measurement efforts. «

Online Questionnaire

The questionnaire was developed on the basis of a thorough literature review on MPM. Additionally, preliminary in-depth interviews with 17 chief marketing officers were conducted to gain a better understanding of motivations for measuring marketing performance. The final questionnaire contained 19 items covering the company's ability to measure MPM (range of activities and set of metrics). Seven-point scales anchored by verbal descriptions from "poor" to "excellent" were used. Outcome measures on firm performance and CEO satisfaction and on the potential moderator variable "dashboards" were collected comparably.

Data Analysis and Results

In order to test relationships, ***hierarchical moderated regression models*** were calculated. ***Regression analysis*** was used to describe relationships between dependent (firm performance and CEO satisfaction in our case) and independent variables (MPM ability). The ***moderated*** version allowed for analyzing effects of the assumed moderator variable "dashboard". ***Hierarchical*** analysis permitted the evaluation of the relative importance of single variables. It can explain how much an additional variable adds to the prediction of a criterion, over and above other predictors. Here, for instance, it was applied to isolate the effect of using either a wide range of activities or a variety of measures in MPM as well as the effect of the control variables (company size and age). Table 1 gives an overview of the results of the analysis.

As proposed, MPM ability was significantly and positively associated with both firm performance and CEO satisfaction with marketing. When looking at different forms of MPM measurement the results were slightly mixed. The use of a wide range of activities had a positive impact on both firm performance and CEO satisfaction with marketing in the analysis of the primary data. The entry of metrics into the equation had a significant impact on CEO satisfaction with marketing but not on performance.

	Performance		CEO Satisfaction		ROA		Stock Returns	
MPM Activities	Prediction	Supported	Prediction	Supported	Prediction	Supported	Prediction	Supported
MPM	+	Yes	+	Yes	+	Yes	+	Yes
Activities	+	Yes	+	Yes	+	Yes	+	No
Metrics	+	No	+	Yes	+	No	+	No
MPM × dashboard	+	No	+	No	+	No	+	No
Activities × dashboard	+	No	+	No	+	No	+	No
Metrics × dashboard	+	No	+	No	+	No	+	No

Notes: + = a positive predicted relationship. Yes = the prediction was supported. No = the prediction was not supported.

TABLE 1:
Summary of Results

When analyzing the effect of the independent variables on secondary data outcomes, MPM ability also had a significant impact on both ROA and stock returns. This is consistent with findings from the primary data. Activities proved to have a positive impact on ROA, but the results are not significant for stock returns (partial support for primary data analysis).

A prior ***factor analysis*** of the items measuring MPM activities produced four factors that were also integrated in the regression equations. One factor referred to abilities to measure direct activities (below-the-line and online marketing). The second factor referred to management and analysis activities. The third factor contained PR and stakeholder relations measurement abilities and the fourth factor comprised items referring to brand and advertising performance measurement.

For company performance, the entry of the PR factor into the model with firm size and firm age explained a significant level of additional variance in business performance. For CEO satisfaction, the entry of the management and brand factors into the model explained significant levels of additional variance. However, the impact of individual factors was rather limited. It suggests that a focus on individual dimensions is unwarranted and that a consideration of the full spectrum of activities provides a greater impact. When related to the secondary output data, none of the four factors or metrics had a significant impact on stock returns, but the entry of metrics into the model with firm size and firm age explained a significant level of additional variance. Again, ***the limited impact of individual factors indicates that consideration of the full set of activities may offer the greatest benefit as a driver of firm performance.***

All relations were further tested for moderating effects of dashboards. Contradictory to the assumption, no significant levels of variance were explained in any case. The data provided no evidence that the use of marketing dashboard is positively related to MPM ability or business performance and CEO satisfaction.

IMPLICATIONS FOR MARKETING MANAGERS

Invest in Marketing Performance Measurement

The development of MPM ability requires marketers to divert part of their budget and attention away from actual marketing programs and towards measurement efforts. This would be counterproductive if it did not improve performance. The study provides support for just such a diversion of resources, indicating that it can positively affect both firm performance and marketing's status within the organization.

Measure Performance across the Entire Range of Marketing Activities

Given that MPM ability offers demonstrable benefits, the question arises as to what should be measured and how. Although this study clearly identifies four factors that make up the activities aspect of the ability to measure performance (direct marketing, public relations, brand, and management), it is noteworthy that each factor alone has relatively weak relationships to company performance and CEO satisfaction with marketing. This implies that efforts to drive improvement in ability to measure a single marketing activity, no matter how important the activity is to the company, are less valuable. Instead, a comprehensive effort to develop the ability to measure performance across the entire range of marketing activities should be employed. In addition, the results suggest that the ability to use a comprehensive set of metrics is associated with higher CEO satisfaction. Even if no separate impact on company performance attributable to metrics was found it might still be helpful in CEO relations. However, measuring a wide range of marketing activities seems to be more crucial.

Monitor the Value of any Marketing Dashboards Used

The study questions the merit of the current high level of practitioner enthusiasm for marketing performance dashboards. Such dashboards have been presented as a means to communicate performance data more effectively. However, no moderating effect of dashboards on the relationship between MPM and company performance or CEO satisfaction with marketing could be observed here. Because this is one of the first studies to explore the impact of performance dashboards in marketing and, given that their adoption and functionality continue to evolve, the findings on their effects are not definitive. Researchers and managers alike need to continue to explore this emerging field.

Do not Lose Track Of Long-Term Marketing Objectives

While clear benefits are underscored to both companies and marketers who enhance marketing performance measurement abilities, it is appropriate to end with a word of caution. Marketing performance measurement requires a matching of outcomes with specific marketing input. In recent years, marketers have focused on

{ *Box 1* }

CONCLUSION

Proving Marketing Success Pays Off

This research provides compelling evidence that where marketing is capable of providing meaningful performance measures, it commands significantly higher board level respect. More compelling again is the strong impact that marketing has on the company's financial performance in companies that are successful in capturing marketing's contribution.

Measuring marketing success ensures marketing budgets

Faced with the demand for greater levels of accountability, marketers can either respond by providing more comprehensive and meaningful measures of return on investment or wait for budgets to be cut. Further, the success of marketers in demonstrating marketing's contribution will, in large part, determine the future influence of marketing within organizations.

those activities that have the most readily identifiable return. Ultimately, it appears to be easier to obtain funding for those activities that are most measurable. Lead generation, direct marketing and other below-the-line activities have benefited from this trend, most noticeably at the expense of awareness and brand building activities. Nevertheless, it is important to develop measures for long term, strategic marketing aspects. Marketing activities frequently deliver results across multiple periods which constitute crucial elements of marketing success. Therefore ways to integrate such long term effects need to be developed. Avoiding the fact that the easily measurable dominates the important strategic and longer term objectives is favorable both to marketing as a discipline and its possible scope of impact. •

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KEYWORDS:

Marketing Function, Marketing Abilities, Marketing-Accounting, Performance Measurement

Trying Harder and Doing Worse: HOW GROCERY SHOPPERS TRACK IN-STORE SPENDING

Shopping on a Budget

All over the world the economic crisis has raised the number of households which are below the poverty line. A careful tracking of expenditures has become increasingly necessary to avoid financial distress. Models of spending behavior often implicitly assume that budget shoppers know how much they spend while shopping. As demonstrated here, this assumption is the exception rather than the rule.

How Shoppers Actually Keep Track of In-Store Spending

Two field studies and two laboratory shopping simulations offer new insights on strategies used to keep track of spending and their consequences. The number one reason for trying to keep track of the spending is clearly a constrained budget. Most shoppers use computational estimation strategies. Those who aim to be particularly accurate in their estimations either use calculators or try to calculate exact numbers. The computational strategies include (1) rounding prices down, (2) rounding prices up, (3) rounding prices to close denominations, (4) combining compatible prices, and (5) multiplying a central price. In the field survey, rounding prices up proved to be the dominant strategy for estimating the total prices (the grocery shopping baskets of the participants contained the very common dominant price endings from \$.51–.99). In the experiments the endings were manipulated according to four different conditions (traditional from \$.51 to \$.99, price endings ranging from \$.01 to \$.49, the full range of price endings from \$.01 to \$.99 and compatible numbers such as \$.02 and \$.98). Participants were aware of these and the majority simplified their calculations by choosing the most appropriate computation strategy for the specific endings. However, the most common approach of rounding up produced the least accuracy compared to the other computational approaches.

» Respondents who tried to calculate the exact total price of the basket were unable to do so effectively and suffered the worst accuracy. «

Budget Shoppers Try Harder to be Accurate but Do Worse

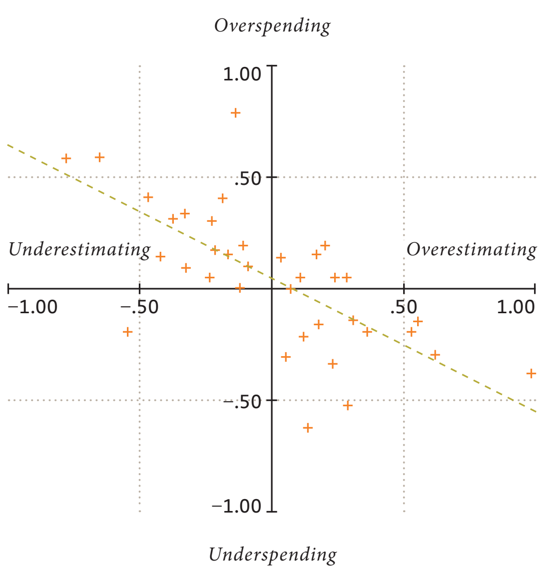
An exploratory field survey compared results from two different supermarkets in areas with differing poverty rates and average household incomes. Shoppers in the lower income area were more likely to keep track than those in the higher income area. They were also more likely to add the exact prices of all items and round prices to close denominations, whereas they were less likely to round prices down or up. These results suggest that shoppers in the lower income area try harder to be more accurate. In addition, the field survey indicated that respondents who tried to calculate the exact total price of the basket were unable to do so effectively and were the least accurate. The effect of ''trying harder'' was analyzed more closely in a laboratory setting. Half of the participant were given financial incentives depending on the accuracy of their estimation (high motivation condition). The participants in the low motivation condition received no cash incentive. The results confirmed that more motivated shoppers are more inclined to calculate the exact total basket price than less motivated shoppers (48.9 % versus 9.8 %). Again, despite their willingness to be accurate, the estimation performance of more motivated shoppers ended up being poorer. A second field survey underlined these findings and also revealed that the more shoppers underestimate their total basket price, the more they overspend relative to their budget (see Figure 1). When overspending happens, shoppers tend to hold the retailer responsible and feel dissatisfied with the store. On the other hand, when they pay less than expected, the benefit is primarily attributed to themselves and their level of store satisfaction remains unaffected.

Helping Shoppers to be Accurate Is Favorable for Retailers and Consumers Alike

Incorrect estimations have implications for not just consumer welfare but also retail performance. Shoppers who overestimate the total basket price are likely to spend less than they budgeted for — that is, they do not maximize their own utility under the budget constraints. Furthermore, they might reallocate the "saved" money to other budgets, which could entail a financial loss for the retailer. Shoppers who underestimate the total basket price are more likely to spend more than their grocery budget and to unintentionally reallocate more money to the "grocery account". This reallocation may trigger a chain of budget and spending decisions that could cause significant financial distress for budget shoppers and entail negative store satisfaction.

Therefore helping budget shoppers to be more accurate may represent a win-win solution, enhancing consumer welfare and retail performance. Educating shoppers about computational estimation strategies may enable them to become more informed shoppers. Alternatively new technologies could be offered, enabling them to accurately track their in-store spending (for example shopping cart scanners). Consumer welfare should improve, because shoppers can maximize their utility given their budget while minimizing the likelihood of spending more than planned and consequently store satisfaction remains undamaged. •

FIGURE 1:
Underestimation of Basket Prices Entails Overspending



FULL ARTICLE

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KEYWORDS:

Shopping Behavior, Budget Shoppers, In-store Spending Behavior, Mental Computation, Basket Estimation, Retail Price Setting, Odd Prices

{ Vinita Bali }

ABOUT BRITANNIA INDUSTRIES LTD.

Britannia might not be famous all around the globe but in India it has certainly gained the status of being a "superbrand". Founded in 1892 as a small biscuit company in Calcutta, it grew continuously over the decades. In 1997 Britannia entered the dairy market and has expanded its dairy business successfully every year since then. Britannia strode into the 21st century as one of India's largest brands and the pre-eminent food brand of the country. It was equally recognized for its innovative approach to products and marketing. In recognition of its vision and accelerating graph, Forbes Global rated Britannia, now headquartered in Bangalore, "one of the top 200 small companies of the world", and The Economic Times pegged Britannia India's second most trusted brand in 2002. The company's offerings are spread across a wide spectrum of products, ranging from healthy and economical biscuits to the more lifestyle-oriented bakery and dairy products. Almost one-third of India's one billion-strong population trusts in the brands and products provided by Britannia.

THE INTERVIEWER

This interview was conducted in Bangalore, India, on June 28, 2010 by *Srinivas Reddy,* Professor of Marketing at the Singapore Management University, Singapore, and member of the editorial board of MIR.

ABOUT VINITA BALI

Vinita completed her MBA in India and pursued postgraduate studies in Business & Economics at Michigan State University on a scholarship from the Rotary International.

She started her career in India and worked in senior roles with Cadbury confectionery in India, the UK, Nigeria and South Africa. She also served on the boards of Cadbury Nigeria and Cadbury South Africa as Sales and Marketing Director.

In 1994 she joined The Coca-Cola Company as its Worldwide Marketing Director, based in Atlanta, and was later appointed President of the Andean Division, based in Chile. In 2001, she became a Corporate Officer of the company and was appointed Vice President of Corporate Strategy, reporting to the Chairman.

In January 2005, following 16 years of overseas assignments in a variety of marketing and general management positions in different countries, Vinita Bali was hired as the Managing Director & CEO of Britannia Industries, India's publicly listed, premier food company with revenue in excess of USD 750 million.

In the five years that Vinita has been at Britannia, she has steered the Company on the Health and Nutrition course and delivered its highest ever growth rate. Britannia is engaged with GAIN (Global Alliance for Improved Nutrition), UNWFP (United Nations World Food Program) and CGI (Clinton Global Initiative).

Vinita is also an Independent Director on the boards of several companies in India and serves on the Global Diversity and Advisory Council of Novartis International.

A transformational leader, Vinita has won several awards and accolades for her business acumen and leadership and most recently was named "Business Woman of the Year — 2009" by The Economic Times and ranked 22nd among the world's top 50 business women by The Financial Times. She also featured among the "33 women who have done India proud". •

MIR TALKS TO VINITA BALI, MANAGING DIRECTOR AND CEO OF BRITANNIA INDUSTRIES

Interview by Srinivas K. Reddy

Today we live in a truly global economy, no matter whether we talk about goods, services or manpower. Whereas economic growth rates in Europe and North America remain moderate, many Asian countries are booming despite last year´s economic downturn. This is reason enough for MIR to take a closer look at one of the rising stars: India. In June 2010, MIR talked to Vinita Bali, one of the few female CEOs of leading companies, who has worked in influential marketing positions on five continents. In describing how Britannia, one of the most famous Indian brands, handles everyday business and marketing challenges, she delivers a bright picture of the Indian economic situation.

MIR: *Vinita, it's a pleasure to meet you. Let's start off with an inevitable question in light of recent events: how has the economic crisis affected Britannia?*

VINITA BALI: Let me take a slightly wider perspective because how Britannia has been affected is really a direct result of how India has been affected. Here, even in the worst case scenario, growth was between 6.5 % and 7.5 %. Britannia's historical compound annual growth rate (CAGR) in the last four years has been 21 % but in the past year it has come down to a little over 10 %. This is partly due to the market conditions. I think what has been happening in India really is that the buoyancy which the country witnessed for the last seven or eight years has declined a little. But if you ask most Indians, unless you are in a few sectors which are largely dependent on exports, the going has been reasonably good. If you look at corporate earnings releases, there were one or two quarters last year where the automotive sector, textiles sector and a few other sectors that are dependent on exports didn't really do well. But by and large, certainly in the FMCG sector, we are seeing very good top line growth. I think the reason for that is also quite peculiar to India and has to do with the diversity of packs and price points and the sheer factor of availability at more points of purchase. I've studied this with some interest because it's both a challenge for us as well as something that bogs down our performance.

MIR: *So for Britannia it's both a challenge and a threat?*

VINITA BALI: Whilst I talk about 20 % plus top line growth, our profitability has been under severe pressure for two reasons. One is an external factor which is the runaway inflation in commodities that we've seen, not just all over the world but also in India. So even today when you pick up the newspaper here, you will find reports of food inflation being 16 % or 17 %.

We used to talk about the CPI (consumer price index) not exceeding 3.5 % or 4 % in our country. A majority of people's disposable income is spent on food and India's shine is diminished because many people can't afford to buy the basics that they were used to or they should be entitled to. So, that's a very critical external factor.

The second reason really has to do with the nature and composition of the particular industry that we operate in. So if I were to look at the business of Britannia, I would broadly break it up into two areas. There is the cereal and cereal-based business, which is the bakery business — characterized by a large number of local, privately owned players. And then there is the milk and milk-based business, which is our dairy business — dominated by cooperatives. Dairy, of course, is quite small. Right now it's less than 10 % but it's actually growing rapidly. Last year, our dairy growth was about double that of the bakery business.

MIR: *Why is the fact that most of your competitors in the bakery business are privately owned such a challenge?*

VINITA BALI: Well, one of the things that characterizes the Indian business person is that things like operating margins are less critical than the absolute money that the business ends up making. So, if my company is family-owned my concerns are different: if I'm making a billion rupees this year, and it drops to 700 million next year, it's okay. I can take the volatility because the profit pool is just shared amongst five of my cousins and so on.

For us, this situation poses the question: do we want to be the tallest midget in terms of operating margins? And our answer is no. So that's why I sometimes wish I was competing with some of the multi-nationals operating in this market because I think multi-nationals do understand the importance of margins.

MIR: *And how do you handle this situation: how are you guiding Britannia through the crisis?*

VINITA BALI: Britannia represents only one third of the market, so two-thirds of the market is still dominated by a large number of truly local players. In fact, there is only one local player that is national. If you go to the East, which is a very competitive market, there are about 350 manufacturers of biscuits. So our challenge really has been to continue to drive profitable growth, which means achieving a healthy increase in our top line, consolidated market share and generating a high operating margin. I can tell you, our operating margin is twice that of the industry profit pool. But to refer again to my analogy of midgets: we are the tallest midget but we don't want to be a midget at all.

Our focus therefore is really on two things. One is to drive innovation and margin enhancement through innovative and differentiated products, and the second is to really work on becoming a lean machine when it comes to cost. We have launched a pretty ambitious initiative on cost reduction and this year we have set a target, which is significantly ahead of what we've delivered in the last three to four years.

MIR: *How are you able to do that?*

VINITA BALI: We are looking at our procurement and our procurement strategy, our manufacturing footprint and how we are structured there, and we're also looking at our go-to-market approach, distribution, freight, logistics, warehousing… I mean the full works. Over the last four years, we have set a cost reduction target every year which is 2 % of our NSV (net sales value). And we have more or less delivered on that. But in future we want to reduce costs even more, which is quite a tall order. What this means is that there are no sacred cows. We are looking at everything that needs to be changed.

MIR: *So, what I am hearing is that the economic crisis has given you a reason to look harder at your cost structure and improve on things. Is that fair to say?*

VINITA BALI: Yes, I would say that the crisis is one more reason to streamline our business. It created more impetus than there would have been otherwise.

MIR: *You have been able to create a very strong brand with Britannia. I hear that Britannia is the ninth most trusted brand in India.*

VINITA BALI: Seventh, actually! Across all brands and all categories. We were the number one food brand in India and became the number two food brand last year, when we were overtaken by a brand of salt, which is classified as food. In a consumer democracy we accept that verdict!

MIR: *So you created one of India's most iconic brands. What are the challenges of holding on and maintaining the stature of the brand?*

VINITA BALI: I'm certainly not going to take all the credit for the brand Britannia. I think Britannia has been reasonably well-managed over the years. It is a brand which is about 93 years old. And I think the affiliation and affinity that people have with the brand is to a large extent also due to the kind of products we make. We make products for the belly of India. We are not the Dean and Deluca of India.

MIR: *Are you addressing specific target groups or would you describe Britannia as a brand for all Indians alike?*

VINITA BALI: We certainly have products that cater to the middle of India, the uppermost, and the base of the pyramid. We also operate in categories where consumers make decisions quite frequently so our products have a high velocity. Take, for example, our bread business: the reason I want this in my portfolio is because it is something that consumers buy every day and if I make a conscious choice every morning when I wake up that I want Britannia bread rather than any other bread, that's great in terms of brand building. It's a bit of an unconventional way of thinking about brand building. It's not about advertising and hoardings/billboards and so on. But that is our promise to the consumer. And we've kind of added to that through a string of products that we've launched not just in the bakery portfolio but also in the dairy portfolio. The second thing that makes our brand so special is that no matter what they are, our products are affordable, hugely accessible, and of a consistently high quality.

MIR: *Could you explain why affordability and accessibility are so important?*

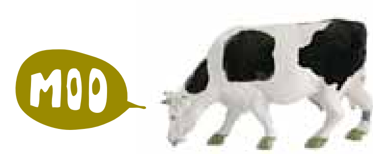
VINITA BALI: Let me take accessibility first. You could buy a Britannia product today in about three million outlets across the country, which is a lot. I think the only other category that would have a higher distribution would be loose tea and cigarettes. So that's on the one hand. On the other hand, we've got an entry price, even today, of two rupees (five cents). The price goes up to 350 rupees (USD 8) for some products, but at two rupees, you get four biscuits. They are hygienically packed and can be consumed anywhere, at home or out of the house. They can be enjoyed by themselves or with a cup of tea or even a glass of water. Added to this, for two rupees, they are reasonably nutritious and fortified with micro-nutrients.

MIR: *So your brand is about being accessible and affordable and… nutritious?*

VINITA BALI: Well, our company credo is that we care about healthy eating and healthy lifestyles. In Hindi, the encapsulation is really good; it is ''Swasth Khao Tan Man Jagao'', which means something like ''Eat healthily — and add life to life''. We were the first company and actually we are still the only company in India, to have removed trans fats from all our biscuit products. There is a large part of India that doesn't have enough food and there is a part of India that has enough food but it is not healthy food. Through work that we carried out for the United Nations as part of the World Food Programme we realized that biscuits are an excellent means of providing nutrition. So we fortified our range with micro-nutrients. And the result is that 50 % of what we sell today is fortified with micro-nutrients: which is a different way of saying that, when you buy a two-rupee biscuit, you're getting something which is good for you … and there aren't very many other products that you can buy for two rupees that taste good and offer this nutritional value!

MIR: *You mentioned innovation at Britannia earlier. How important is innovation to Britannia and what are the mechanisms that you use to promote innovative culture at Britannia?*

» There are no sacred cows. We are looking at everything that needs to be changed. «



VINITA BALI: Innovation has been a huge area for us and, as I mentioned earlier, I look at innovation with a capital ''I'': For us, innovation is anything that is capable of producing new value. So I don't have to struggle with new product inventions.

Let me give you an example: we asked ''how can we change biscuits from grocery items that a mother buys to an individual consumption item that a child, teenager or young adult would buy with their pocket money?''. When you buy a 100 g pack with about 17 biscuits it is not a personal consumption pack. So we had to do something with the basic packaging. We created a format which has three or four biscuits. The moment you put in three or four biscuits, you are completely changing the look and feel of a biscuit. If confectionary can be presented as an impulse purchase product by putting it in jars or merchandising units, so can biscuits. So we started doing that for biscuits.

It's a slightly unconventional way of thinking about innovation. But the yardstick we use is anything that is capable of generating new value.

MIR: *This is very interesting. Do you have some more examples of innovations for the Indian market?*

VINITA BALI: There have been two or three vectors of innovation. One certainly is the product itself. So when I look at our health and nutrition range, whether it is launching a high-fiber digestive biscuit, or a five-grain biscuit, adding things like jeera (cumin) into our crackers, or fortifying them with micro-nutrients: we have taken the core essence of the brand and embellished it with something meaningful to make it even more relevant to the consumer.

I think the second part of innovation really has to do with the functionality that we've achieved with some of our products in the dairy range. I've talked a lot about biscuits so let me give you examples from dairy. In dairy, we were the first brand to say, we're not just selling milk, we're going to sell you milk which has no fat and no cholesterol. So it is doodh (milk) but it is also low fat doodh. We're the market leaders in cheese, and we offer you a 'Slimz' cheese, which has 30 % less fat than normal cheese. We've created two products that are just being introduced to the market. One is called Actimind, which is specially formulated with ingredients that are known to increase mental sharpness — like choline, iodine and B vitamins etc., because dairy is also a good carrier.

» If I make a conscious choice every morning when I wake up that I want Britannia bread rather than any other bread, that's great in terms of brand building. «

Here's another example of innovation: we've taken the big Tiger franchise that we had in biscuits, and launched a ''Tiger-Iron Zor'' milk, fortified with iron and other ingredients — which is taking an established brand in one category and extending it to a completely different category.

Then we have done a lot of work in an area that I call ''new frontiers of technology''. We've looked at how we can make biscuits with less consumption of heat and energy. So we've done a lot of work where we are capturing the heat generated during baking and re-using it in the oven. A big cost in a bakery is the oven, which is heated up to 350 degrees. And if you walk through a biscuit plant, it's like being in a sauna, because all that heat is escaping into the atmosphere.

MIR: *Who comes up with all these innovations? Is innovation centralized?*

VINITA BALI: We've got an innovation center which is based in Chennai. It has three areas: the dairy and the bakery innovation center which are all mini plants, so we can actually do a small commercial run for each of these products. And we've got a technology and design center which explores how we can use new technologies to produce better quality products at a lower cost. And if you look at our annual report, you will know that the energy we use to produce a ton of biscuits has actually fallen pretty significantly over the years.

MIR: *That sounds very progressive to me. Are there any other examples of technological innovation?*

VINITA BALI: We've looked at the application of technology by asking, ''how do I increase productivity by mechanizing a lot of what we do here?''. In India, traditionally the thinking was that labor is cheap. So if you need to put another new pack on the market, you simply hire a few more workers for that job. However, we have been mechanizing a large number of manual processes.

We have looked at areas like bringing down the amount of time that is required. Every biscuit has a design on it. So our technology guys have figured out a way of going from artwork to a biscuit in less than 48 hours. And that's the application of technology. We have mechanized a lot of the processes like bulk handling of flour and so on to reduce wastage. So, there is innovation in terms of products and packaging, innovation in technology and also some business model innovation.

MIR: *In a market like India, how important do you consider market intelligence or market research?*

VINITA BALI: I think market intelligence, information, consumer insights and interpretation of those consumer insights are very, very important, for obvious reasons, and I would just like to underscore a few. One is that we have a very competitive market out there. The second thing, really, is that the cost of failure, like in every other market, is quite high. Thirdly, I think that, if companies are going to build their future on differentiation, then driving that wedge between understanding what is generally acceptable and what can be differentiated and marketed differently becomes very important. Fourthly, some understanding of a return on marketing investment also becomes very important because media is increasingly fragmented. Communication channels are becoming more varied. The impact therefore becomes critical. And in competitive markets it becomes all the more important to understand the impact of consumer promotions in the marketplace, of a new media campaign, a new pack launch, etc.

MIR: *Could you tell us how Britannia uses market research to gather information about markets, customers and so on?*

VINITA BALI: We do a great deal of work on the basis of an innovation funnel which we call "from concept to commercialization". We go through various stages with consumers to sift through a large number of ideas and bring them down to what really matters. So there are two or three core areas of research which range from proprietary work on the one hand, to syndicated data on off-take etc., which is carried out by Nielsen, on the other.

MIR: *This data you're talking about… is it store off-take data?*

VINITA BALI: It is retail off-take data. Then there is consumer household panel data on household purchases. We carry out some continuous consumer tracking for our brands and conduct advertising effectiveness studies to evaluate the impact of new campaigns, among other things. So there is ongoing research and custom research and then there are research protocols that we've worked on over the last few years. These deal with questions like: how do we go from concept to commercialization? And what kinds of information are required? What data would support that? To get that data we use some market simulations, such as BASES tests etc.. Personally, I think it's too simplistic to rely on this, but at least it gives some indication. I'd rather go and pilot out a product in one market, because that produces real, hard core data, which is empirical.

> » In India, traditionally the thinking was that labor is cheap. So if you need to put another new pack on the market, you simply hire a few more workers for that job. However, we have been mechanizing a large number of manual processes. «

MIR: *Have you carried out such pilots or test markets?*

VINITA BALI: Oh yes! Both products I mentioned before, Actimind and Tiger Iron-Zor Milk, are in pilots. We go in and look at experience in the market, together with what we are investing in the mix and what the off-takes etc. are. To me it's a much more robust measure. As a result of that pilot, we correct what needs to be corrected — whether it is the communication or the product or the concept or the pricing or whatever, before we launch at national level. I also think it's a good way to mitigate our risk.

MIR: *What are some of the differences in conducting market research in emerging markets like India?*

VINITA BALI: I think it's more in the nuances and what people believe in. For example, we carry out pre-tracking and post-tracking measurement, so the concept is the same. But I have certainly found that in India in general, not just at Britannia, there is a greater reliance on qualitative rather than quantitative research. However, I don't want to portray a situation where there is no quant because we do place emphasis on quantification. It's also harder to conduct modeling work in India, because there is a reliance on a large number of individual kirana shops giving us information. It's not like going to a Kroger or a Sainsbury's and looking at their database, which captures almost 80 % of purchases. There's nothing like that available in India; even organized retailers are not organized enough to actually share their data. So typically, a lot of the information that we're getting on products, still comes directly from consumers.

So I think the things we attempt to measure are not different, but how we go about measuring them is different. The difference is in terms of the structure of the market, the structure of the information and what is available and what is not available.

MIR: *Can you give us some specific examples of how market research has helped you in making some important decisions, such as launching a product or a media campaign?*

» The things we attempt to measure are not different, but how we go about measuring them is different. The difference is in terms of the structure of the market, the structure of the information and what is available and what is not available. «

VINITA BALI: Oh, lots of examples … usually most of our advertising campaigns come out of pretty good research on the brand, its position, its imagery etc. Very often we take advertising concepts and test them with consumers, to either eliminate or refine the concepts. So there's a lot of pre-testing of advertising and certainly there's a huge post-evaluation, which is qualitative as well as quantitative. Especially if we're launching something which is building a new category like Actimind, there is a lot of work involved in refining the concept, including the packaging and overall communication.

We consider it important to visit consumers at home and talk to them, and this is not done by some agency. All our Brand Managers are required to spend a certain proportion of their time in the market, as well as talking to consumers at home, or at the shopping place. We're doing a lot of work right now, not just in terms of understanding consumer behavior, but also understanding shopper behavior.

MIR: *There is a lot of talk about multinational firms understanding the needs of the bottom of the pyramid. Do you see your products as addressing the bottom of the pyramid?*

VINITA BALI: Obviously in a country like India, with a population of 1.1 billion, you will attract people at every price point. Now there are Indians who are buying Lamborghinis, and there are Indians who want to buy a Tata Nano (small, inexpensive Indian car). And that's the beauty of operating in a market like India: irrespective of price points, there will always be consumers. Obviously, the lower the price point, the greater the number of consumers. And we are a country where many people buy little and often, which actually adds up to a lot.

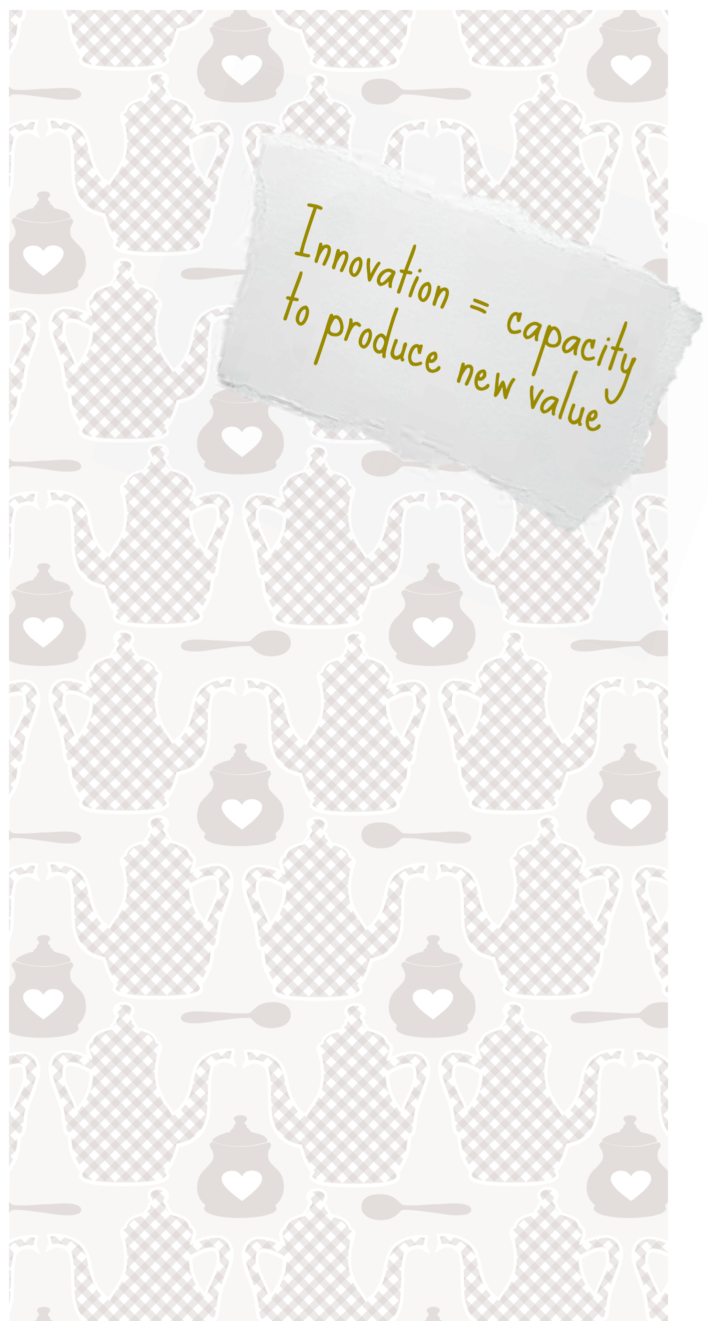
Our per capita consumption of everything is lower than that of every other country in the world, including emerging economies. So we're lower than Sri Lanka, we're lower than Vietnam. And that is because affordability is really a key issue in this country. It determines frequency of consumption, purchase and the velocity with which things move. So frankly, to me, the bottom of the pyramid is a difficult one … let's be clear, if 40 % of this country is below the poverty line, no matter what you do, they are not going to buy your sachet or anything really. The task there is to lift them above this poverty line but that is another issue. I think that's something we just need to recognize. Even if they buy, they do so infrequently and it is therefore not going to sustain the business anyway. But there are many people at the base of the pyramid too and they are very much part of our audience and user base.

MIR: *Very rarely do we meet someone who has worked in five continents. You started your career in India, then worked in England, Africa, the US, and Latin America. You have spanned the globe and run businesses in all these countries. So… how does that relate to working in an emerging market like India? Which past experiences help you on a daily basis in terms of operating in an emerging market? What are the differences in operating in an emerging market like India?*

VINITA BALI: I think it's an interesting question. I worked outside of India over two periods, for almost 18 years in total. The second time I left India was in 1991, and I returned in 2005. And for me, the biggest surprise was that the India I left and the India I came back to were two different countries in a variety of ways. Economic growth and progress have the consequence that a country becomes far more confident, optimistic and hopeful, and the people of India started to believe that the future belongs to them. There was a great deal of overt and palpable change, whether it was in the kinds of cars that people were driving, the homes they were living in or the food they were eating. When I was growing up, there were not that many brands of anything. You look at the plethora of choices that are available to people in India today. Not just in urban but also in rural India. I think India represents a microcosm of the world.

MIR: *What do you mean by that?*

VINITA BALI: On the one hand, we are moving towards what is typically referred to as organized retail: large format stores where consumers walk through the aisles picking up what they need, which is not the India I grew up in, certainly. At that time there was the kirana (small retail store) next door, where you called up and placed an order. There weren't that many brands of toothpaste or whatever you had to buy and things were delivered to the house. That still happens by the way, because in a country like India, multiple centuries exist simultaneously. You go to some of the remote villages in India and it seems as though nothing has changed. The bullock cart is still the major form of transportation although some of the owners are now talking on cell phones. Then there is the "other" India, where people are driving BMWs, and statistics claim that Ludhiana (district capital in the Indian state of Punjab) has the highest per capita ownership of Mercedes for instance. And there's something quite exciting about this picture. Right now, India is chaotic, full of opportunities and full of challenges. I draw on everything that I've seen and learnt across continents and businesses, maybe not in a very organized and overt way, but I certainly do. So if we look at organized retail, we're one of the first few companies to look



at concepts like category management, negotiating terms of trade with large format stores, and understanding shopper behavior.

MIR: *Can you think of other experiences that have helped?*

VINITA BALI: The shelf profitability which I was exposed to when I worked in the UK and in North America for example, but I was also confronted with chaos in various markets — the most chaotic market I've ever worked in was Nigeria. And I think some of the categories I've worked in have also helped. For instance, the example that I gave you, of taking our existing biscuits, putting three biscuits in a pack, and creating the context of impulse purchase... To my mind this is an adapted innovation.

MIR: *Obviously "thinking differently than before" is very important. How did you implement this new marketing approach that you learnt in your previous assignments?*

VINITA BALI: I think that during the last four years we've brought more processes and systems into this company than ever existed before. And that entire process orientation was something I learnt in the USA. A company like Coca-Cola is successful because they've got this way of operating in 200 plus countries around the world. So, what is common that can be adapted across markets, what needs to be market-specific? I think, it's almost like — what should I say — ...osmosis. You've experienced things, you know intuitively what might work. I haven't really sat down and said okay, what did I learn in Nigeria? But I know these examples and these stories keep coming back.

Another thing which I think the US does very well is differentiation in terms of people, the contribution they make and the rewards they get. So for the first time, we said: okay, if you are a super-duper performer in Britannia, you will get an increment which is three times higher than the average.

MIR: *One final question, Vinita. You have been named The Economic Times's 2009 Business Woman of the Year. You've become a part of the breed of women leading great enterprises around the world. What advice would you give to young women aspiring to get into management?*

VINITA BALI: The advice I would give to women and men is not very different. I think my own personal experience suggests that at times, we attach too much importance to things like gender inequality. I want to be very clear — I'm not saying it doesn't exist. I've experienced it myself directly and indirectly. The way to deal with it is to say, okay, this is what it is, and to go after the things that you can influence and change and not sit on the periphery.

So, I think the whole debate on gender has to give way to a debate on competencies. And this will happen in two ways. Firstly both genders have to change. I think as far as women are concerned, we have to come in there saying, it's going to be an equal playing field. And I am going to demonstrate, through my effectiveness and my competencies, that I am the best person for the job, and my gender is less important than what I'm able to do.

Secondly, I also think we have to have what I would call some "renaissance men" in senior positions in management who will make the same call, and say that skilled people have to be given equal opportunities. Women should not get more opportunities because they are women and equally, your caste, class or color should not affect the opportunities you are offered. I think, once you equalize opportunities everything else is a matter of competence ... in other words: don't let gender or any other difference get in the way.

I think companies and managers must make those decisions. They have to take an attitude which says: I don't care where that person comes from, what their accent is, what their gender is, what their x y z is. I am looking at a certain set of competencies, both individual competencies, leadership behavior etc. and if anybody of any caste, creed, color, nationality or accent has those competencies, then there has to be equality of opportunity. Then, let meritocracy take over.

MIR: *Thank you Vinita for taking the time to share your thoughts and experiences. We wish you the best in taking Britannia to new heights.* •

{Deutsche Zusammenfassung}

Sind etablierte Marktführer mit besserer Qualität zu schlagen?
EINE STUDIE IN HIGHTECH-MÄRKTEN

Gerard J. Tellis, Eden Yin und Rakesh Niraj

In den vergangenen Jahren wurden Bedenken laut, ob es für Neuprodukte mit einer höheren Qualität als jener des bisherigen Marktführers möglich ist, Angebote, die sich mehr oder minder als Marktstandard etabliert haben, zu verdrängen. Die Tatsache, dass der Großteil der Nutzer ein bestimmtes Produkt verwendet, könnte nämlich dazu führen, dass auch neue Nutzer trotz qualitativ besserer Alternativen wegen eines Netzwerkeffektes nur dieses eine Produkt in Erwägung ziehen und damit der Markt quasi blockiert ist. Netzwerkeffekte entstehen, wenn die Größe des Nutzerkreises eines Produktes selbst zum Nutzenfaktor wird. Man befürchtet, dass dies ohne entsprechende staatliche Regulierung zu ineffizienten Märkten und Nachteilen für die Konsumenten führt.

Die Überprüfung dieser für den Wettbewerb und die Vermarktung neuer Produkte extrem wichtigen Frage erfolgte mithilfe einer Langzeitstudie. Sie untersuchte die Marktentwicklung von 19 Produkten in der Softwarebranche (z. B. Programme zur Textverarbeitung oder Tabellenkalkulation) während der 80er- und 90er-Jahre. In dieser Branche waren schon immer starke Netzwerkeffekte zu beobachten. Ziel der Studie war es, zu erheben, ob und wie schnell es neuen, besseren Technologien gelingt, die Markführerschaft von etablierten Produkten zu brechen.

Die Ergebnisse zeigen entgegen der These vom langfristigen Pioniereffekt und trotz der starken Netzwerkeffekte durchwegs effiziente Marktmechanismen. Die Markführerschaft in den einzelnen Produktmärkten dauerte durchschnittlich nur 3,8 Jahre und wechselte häufig. 88 % der beobachteten Wechsel erfolgten, weil die Qualität einer neuen Marke jene des etablierten Produktes übertraf. Höhere Qualität setzte sich letztendlich immer durch. Wenn sich ein Segment gut informierter und qualitätsbewusster Konsumenten bildete, förderte dieses sogar die Markteffizienz und führte zu einer rascheren Adoption des besseren Produktes.

Schlüsselbegriffe:
Wettbewerb, Produktqualität, Netzwerkeffekt, Marktentwicklung, Markteffizienz, Marktführerschaft, Computerindustrie

Die wichtigsten Erkenntnisse im Überblick

> *Qualität setzt sich durch*
Um in Hightech-Märkten erfolgreich zu sein, ist es nicht unbedingt notwendig, möglichst frühzeitig in einen Markt einzusteigen. Ein gut ausgereiftes, hochqualitatives Produkt kann auch zu einem späteren Zeitpunkt noch den Durchbruch schaffen.

> *Netzwerke stellen keine nachhaltige Eintrittsbarriere für gute Produkte dar*
Marktführer können sich nicht auf Netzwerkeffekte verlassen, sondern sind durch qualitativ bessere Produkte angreifbar. Nur indem sie selbst permanent die Qualität ihrer Produkte weiterentwickeln und Qualitätsführer bleiben, können sie sich gegen neue Einsteiger verteidigen.

> *Marktmechanismen funktionieren auch ohne Interventionen*
Hightech-Märkte scheinen gut zu funktionieren. Interventionen durch Regierungen zum Schutz der Konsumenten wären in diesem Bereich demnach überflüssig. •

Den ausführlichen Artikel in englischer Sprache finden Sie auf Seite …

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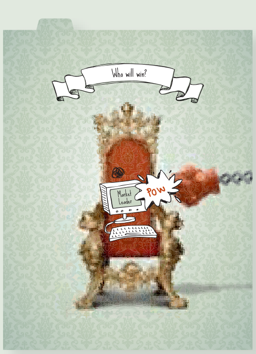

{Deutsche Zusammenfassung}

„Telefonieren. Mailen. Fotografieren. Hören. Spielen"
WELCHE ZUSATZFUNKTIONEN VON IMMER ÄHNLICHER WERDENDEN GRUNDPRODUKTEN LIEFERN TATSÄCHLICH EINEN MEHRWERT?

Tripat Gill

In einigen Industrien ist es übliche Praxis, die bestehenden Basisprodukte mit einer Vielzahl von Zusatzfunktionen auszustatten (Mobiltelefone sind z. B. gleichzeitig Kameras, dienen als MP3-Player oder ermöglichen einen direkten Internetzugang). Unterschiedliche Basisprodukte, vor allem im Hightech-Bereich, werden deshalb in Bezug auf ihre Anwendungsmöglichkeiten immer ähnlicher (= convergent products). Konsumenten sind mit einer Vielzahl an möglichen Funktionen konfrontiert. Inwieweit bzw. welche Anwendungsmöglichkeiten den Konsumenten aber tatsächlich einen Mehrwert liefern, ist häufig nicht bekannt. Zu viele Funktionen können sogar kontraproduktiv sein, weil sie den Konsumenten überfordern.

Der vorliegende Forschungsbeitrag beschäftigt sich mit genau diesem Thema. Der Autor untersucht dabei den Einfluss von unterschiedlichen Faktoren auf den wahrgenommenen Mehrwert einzelner Zusatzfunktionen. Zunächst prüft er, ob es je nach ursprünglichem Nutzenprofil von Basisprodukt und Zusatzfunktion (Vergnügen oder Nützlichkeit) Unterschiede in der Bewertung von Erweiterungen gibt. Während z. B. bei einem elektronischen Organizer (PDA) eher der Nutzenaspekt im Vordergrund steht, wird ein MP3-Player eher mit Spaß und Vergnügen assoziiert. Auch Zusatzfunktionen von Produkten können entweder mehr auf Nützlichkeit (Erweiterung eines PDA um ein GPS) oder Spaß (die Möglichkeit, am Gerät Videos zu konsumieren) ausgerichtet sein. Die unterschiedlichen Ergebnisse der verschiedenen Kombinationen von Gebrauchsnutzen versus Vergnügen helfen Produzenten, auf die richtigen Zusatzfunktionen zu setzen und einen echten Mehrwert für Konsumenten zu schaffen.

Die wichtigsten Erkenntnisse im Überblick

> *Vorsicht vor zu vielen Zusatzfunktionen*
Nicht alle liefern den Kunden tatsächlich einen Mehrwert!

> *Vergnügen schlägt die Nützlichkeit*
Erweiterungen, die primär dem Vergnügen dienen, liefern mehr Wert. Das gilt sowohl für Basisprodukte, bei denen das Vergnügen im Vordergrund steht, als auch bei „nützlichen" Basisprodukten.

> *Bestehende Nutzer reagieren empfindlicher*
Das gilt vor allem, wenn man spaßorientierte Produkte mit nützlichen Zusatzfunktionen erweitert. Solche Erweiterungen können sogar zu einer wahrgenommenen Wertminderung führen.

> *Auch das Qualitätsniveau des Basisproduktes beeinflusst die subjektive Wahrnehmung der Erweiterungen*
Marken, die für eine hohe Qualität stehen, profitieren stärker von inkongruenten Zusatzfunktionalitäten, während für Marken mit einem geringeren Qualitätsniveau eher Erweiterungen, die den ursprünglichen Nutzen verstärken, infrage kommen. •

Den ausführlichen Artikel in englischer Sprache finden Sie auf Seite …

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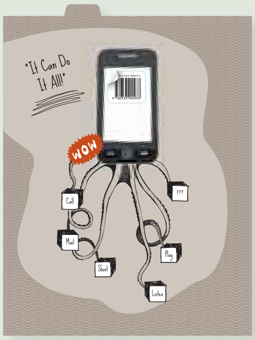


Schlüsselbegriffe:
Neuprodukt-Politik, Produktkonvergenz, Produktgestaltung, Highech-Marketing

{Deutsche Zusammenfassung}

CUSTOMIZATION: GOLDMINE ODER MINENFELD?

Nikolaus Franke, Peter Keinz und Christoph J. Steger

Customization ist die logische Fortsetzung einer immer feiner werdenden Segmentierung. Der Kunde bekommt nicht nur ein Produkt, das die durchschnittlichen Präferenzen eines Marktsegments widerspiegelt, sondern er erhält eine für ihn individuell maßgeschneiderte Leistung. Neue Technologien und Management-Systeme haben diesen Trend ermöglicht und einige Unternehmen (z. B. Dell) haben mit der konsequenten Anwendung von Customization große Erfolge erzielt. Auf der anderen Seite gibt es aber auch Unternehmen, die beim Versuch, maßgeschneiderte Produkte zu vermarkten, gescheitert und wieder zu traditionellen Segmentierungsstrategien zurückgekehrt sind (z. B. Levi's oder Mattel mit „My Design Barbie").

Um die Überprüfung von Customization statt in einzelnen Fallbeispielen im direkten Vergleich zu ermöglichen, haben die Autoren ein Testszenario entwickelt, bei dem Zeitungen und andere Produkte nach dem Muster der Segmentierung, der Customization und des Massenmarketings im Wettbewerb gegeneinander antreten. Für jede Alternative erhoben sie im Wege der Befragung Präferenzwerte und Zahlungsbereitschaften.

Die maßgeschneiderte Lösung hat dabei eindeutig gewonnen. Die durchschnittliche Zahlungsbereitschaft für das individualisierte Produkt lag bei 1,05 € gegenüber einer Zahlungsbereitschaft von 94 c für die segmentspezifische Lösung und 92 c für das Einheitsblatt. In einer weiteren Studie in anderen Produktkategorien wurden diese Ergebnisse bestätigt.

Obwohl die Resultate eine eindeutige Sprache sprechen, ist Customization nicht in jeder Situation und für alle Kunden die beste Strategie. Gewisse Voraussetzungen sollten für eine erfolgreiche Umsetzung gegeben sein.

Schlüsselbegriffe:
Mass Customization, Segmentierung, Innovation, Design, User-Integration

Die wichtigsten Erkenntnisse im Überblick

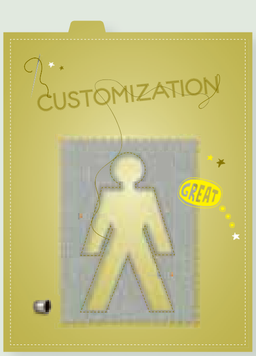
> *Kunden präferieren maßgeschneiderte Lösungen*
Sie sind auch bereit, dafür mehr zu bezahlen. Das Marktpotenzial für diese Form der Vermarktung scheint bei Weitem noch nicht ausgeschöpft.

> *Die Kunden sollten wissen, was sie wollen*
Wenn Kunden selbst nicht so genau wissen, was sie eigentlich wollen, macht es keinen Sinn, das Produkt maßzuschneidern. Der Mehrwert gegenüber einem weniger individualisierten Angebot ist fraglich.

> *Die Kundenpräferenzen sollten kommunizierbar sein*
Es kann vorkommen, dass Kunden zwar wissen, was sie wollen, aber nicht in der Lage sind, diese Präferenzen auch auszudrücken. Nur wenn sichergestellt ist, dass die Kunden die notwendigen technologischen und kommunikativen Fähigkeiten haben, ihre spezifischen Wünsche zu artikulieren, können Produkte entstehen, die den tatsächlichen Präferenzen entsprechen.

> *Hohes Involvement führt zu passenderen Produkten*
Konsumenten mit hohem Produktinvolvement setzen sich intensiver mit der Aufgabe einer klaren Produktdefinition auseinander. Die Gefahr von Fehlinterpretationen in der Umsetzung des individualisierten Produktes ist deshalb geringer und das Produkt sollte den tatsächlichen Präferenzen besser entsprechen. •

Den ausführlichen Artikel in englischer Sprache finden Sie auf Seite …



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{Deutsche Zusammenfassung}

WIE MAN DAS SCHEITERN VON CRM-SYSTEMEN VERHINDERN KANN

Jan U. Becker, Goetz Greve und Sönke Albers

Customer-Relationship-Management-(CRM-)Systeme werden in einer Vielzahl von Unternehmen eingesetzt, um die Kundenbetreuung zu optimieren. CRM-Anwendungen sollen helfen, Verkaufsaktivitäten zu analysieren und zu organisieren und durch die Standardisierung und Automatisierung von Abläufen den Kundenservice zu verbessern. Dadurch lassen sich Kostenreduktionen und Ertragssteigerungen erreichen. Allerdings haben die letzten Jahren gezeigt, dass sich diese Erwartungen oft nur mangelhaft erfüllen und CRM-Systeme sich deshalb als Fehlinvestitionen herausstellen. Studien berichten, dass nur ca. ein Drittel aller CRM-Projekte zu signifikanten Ergebnissteigerungen geführt haben und ein Fünftel sogar den langjährigen Kundenbeziehungen schadeten.

Waren nun die Erwartungen an CRM-Lösungen schlichtweg falsch oder wurden die Systeme einfach schlecht implementiert? Diese Frage stellt den Kern des vorliegenden Artikels dar. Die Autoren vermuten, dass das Ausmaß der notwendigen Veränderungen im Rahmen einer CRM-Implementierung häufig unterschätzt wird und viele CRM-Einführungen zu wenig Unterstützung durch das Top-Management erhalten. In einer Studie untersuchen sie, welche Einflussfaktoren für eine erfolgreiche Implementierung von besonderer Bedeutung sind. Die Ergebnisse zeigen, dass sich die notwendigen Ressourcen und Implementierungsschritte je nach primärem Ziel des Kundenbindungsprogramms unterscheiden (vgl. Abb. 2, S. 38).

Schlüsselbegriffe:
Customer Relationship Management, Kundenbindung, CRM-Einführung, CRM-Prozess, CRM-Erfolg

Die wichtigsten Erkenntnisse im Überblick

> *Schnelle Erfolge ohne gesamtorganisatorische Anpassungen sind unrealistisch*
Derartige Erwartungen an eine CRM-Lösung sind nicht erfüllbar. Es ist nicht ausreichend, eine Standardsoftware zu kaufen und ohne Begleitmaßnahmen zu installieren.

> *Die Implementierung eines CRM-Systems ist ein komplexer Prozess*
Die technologische Implementierung alleine ist nicht ausreichend. Alle Prozesse, die mit der CRM-Lösung zusammenhängen, müssen analysiert und teilweise verändert werden.

> *Unterstützung durch das Top-Management hilft*
Viele Bereiche des Unternehmens sind von einer CRM-Implementierung betroffen. Die Unternehmensführung sollte helfen, die Mitarbeiter auf breiter Front zu involvieren und zu motivieren.

> *Ziele sollten vorab klar definiert werden*
Je nach Unternehmen und den jeweils spezifischen Kundenstämmen können primär Kundenakquisition, Ausbau oder Festigung der Kundenbeziehungen im Vordergrund stehen. Die primären Ziele sollten vorab definiert und die Systeme sowie die gesamtorganisatorischen Implementierungsschritte und Ressourcen darauf abgestimmt werden. •

Den ausführlichen Artikel in englischer Sprache finden Sie auf Seite …

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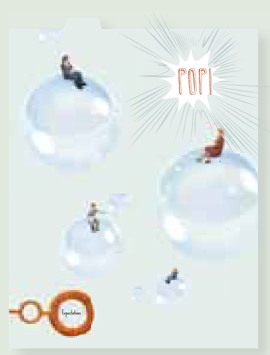

{*Deutsche Zusammenfassung*}

Es macht sich bezahlt, Marketingerfolge nachzuweisen!

AUSWIRKUNGEN DER MARKETINGBILANZIERUNG AUF DEN STATUS DES MARKETINGS UND DEN UNTERNEHMENSERFOLG

Don O'Sullivan und Andrew V. Abela

In vielen Unternehmen sind die Marketingbudgets unter Druck. Die Wirtschaftskrise hat dazu geführt, dass alle Ausgaben, die nicht unumgänglich erscheinen, minimiert werden. Davon ist auch der Marketingbereich betroffen, da häufig kein Nachweis für die Wirksamkeit von Maßnahmen erbracht wird. Marketingmanager haben es vielfach versäumt, die Unternehmensleitung mit brauchbaren Belegen über Wirkung und Effizienz von Aktivitäten und den Beitrag des Marketings zum Unternehmenswert zu versorgen. Marketing wird deshalb oft als reiner Kostenfaktor betrachtet und sein Einfluss in Unternehmen ist gefährdet.

Die Autoren gehen davon aus, dass gute und nachweisbare Marketingergebnisse die Unternehmensergebnisse positiv beeinflussen und dadurch auch ein entsprechender Status der Marketingmanager in Unternehmen gesichert werden kann. In einer Studie überprüfen sie die angenommenen Zusammenhänge und können diese weitgehend bestätigen.

Schlüsselbegriffe:
Marketingfunktion, Marketingfähigkeit, Marketingkennzahlen, Marketingbilanzierung, Marketingdokumentation, Unternehmenserfolg

Die wichtigsten Erkenntnisse im Überblick

> *Investitionen in die eigenen Fähigkeiten, Marketingerfolge zu messen, machen sich bezahlt*
Teile der vorhandenen Budgets sollten für die Messung aufgewendet werden. Die Fähigkeit, Marketingleistungen zu dokumentieren, hat positive Auswirkungen auf die Unternehmensergebnisse, auf die Zufriedenheit der Geschäftsleitung mit dem Marketingbereich und auf die Höhe der Marketingbudgets.

> *Die ganze Bandbreite der Marketingaktivitäten sollte abgedeckt werden*
Auch wenn einzelne Aktivitäten besonders wichtig sind, zeigt sich ein positiver Einfluss auf das Unternehmensergebnis nur dann, wenn alle Aktivitäten gemessen werden. Sowohl quantitative als auch qualitative Messgrößen sollten verwendet werden.

> *Auch für strategische Marketingziele sind Kennzahlen wichtig*
Obwohl taktische Ziele leichter messbar sind, sollten längerfristige und strategische Aspekte nicht ausgeklammert werden. Kennzahlen sollten auch für weniger leicht fassbare, für einen nachhaltigen Erfolg des Marketings aber wesentliche Aktivitäten entwickelt und dokumentiert werden. •

Den ausführlichen Artikel in englischer Sprache finden Sie auf Seite …

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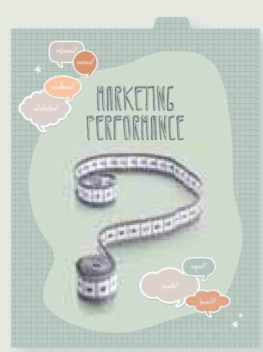

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