

The NECG Edge

Celebrating the 20th Anniversary of NECG!

NECG was founded 20 years ago in April as a strategic marketing management consulting firm. As other marketing consulting groups have come and gone since 1981, NECG has grown consistently by remaining faithful to the Principal Principle . . . only Principals with 20+ years experience consulting for our clients.

NECG PREDICTS

New York Times (3/7/01): "Arthur Andersen announces name change within 12 months of its arbitrated split from Andersen Consulting." Arthur Andersen has dropped its first name and taken its last name, which Andersen Consulting was forced to drop.

Edge: Are you confused? We are, and we predict the marketplace is also. Is all this name swapping and changing good strategy or just big consulting egos gone AWOL? We can't even begin to predict what they will do next, but odds are, it will start with A.

Wall Street Journal (3/7/01): "P&G will use plugs in TV news stories." Further blurring the line between TV news and advertising, Procter & Gamble intends to use plugs in TV news segments offered to networks and their affiliates free from INNX Inc.

Edge: We predict that P&G is once again displaying its marketing prowess. The question isn't if, but when this type of marketing linking news/advertisers with information seeking consumers, becomes commonplace.

Business Week (3/19/01): "Repairing the Coke machine." Coke's new CEO is finding that restructuring is a much tougher

job than had been anticipated. However, he is pushing managers to think outside the box, generating everything from new products to breakthrough ads to strategic alliances like P&G.

Edge: Finally, someone who is beginning to think of Coke not just as a beverage company, but a food company. We predict that Douglas Daft may surprise many critics with a speedy turnaround of Coke.

Business 2.0 (3/20/01): "Vertical ad use spikes." Amy Collins notes that although vertically placed online ads spiked 70% during 4Q'00 despite their 2X price vs. banner ads, their future is uncertain.

Edge: Vertical, horizontal, diagonal -- who cares? We don't. We predict that the marketplace won't care either. Not until consumers get the real motion video they crave, will advertisers and their agencies be rewarded.

Business Week (3/19/01): "Amazon + Wal-Mart = Win/Win". The partnership announced between Wal-Mart and Amazon on March 4 is unlikely to materialize. However, the author believes that they should join forces because they will both win, although Amazon more so than Wal-Mart.

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Edge: We predict Wal-Mart is wasting its time pursuing the Web. Let's not forget, most Wal-Mart customers still drive 30 minutes out of town to go to their store. Not exactly convenient, which is the primary benefit of the Web. On the contrary, Wal-Mart's core benefit of EDLP has little appeal on the Web. ■

What Was Hot

1980-1985	•• Mass Customization
	•• TQM (Total Quality Management)
	•• JIT (Just in Time)
1985-1990	•• Teams
	•• Shareholder Value
	•• Matrix Organization
1990-1995	•• Reengineering
	•• Core Competence
	•• One Minute Manager
1995-2000	•• Value Migration
	•• Co-opetition
	•• Virtual Workplace
Present	•• Disruption
	•• Brand Excellence
	•• Knowledge Networks

Researching Market Research

It's a well-known marketing fact that almost 80% of all new products fail in the real world. Incidentally, about 80% of new products fail in market research too! How do all these products make it to the market? Who's to blame – the research or the decision makers?

Market research is probably the most misused function within marketing. The books say it, the professors repeat it in class, the journals reiterate it in articles, and still most marketers keep on making the same old mistakes. So, what's fundamentally wrong? Was it always this bad, or have things gotten worse?

Unfortunately, things have gotten worse over time. While the market research industry has grown in terms of 'quantity' (Exhibit A), good marketers know that 'quality' of research has indeed deteriorated. Several drivers have led to the industry's poor standing:

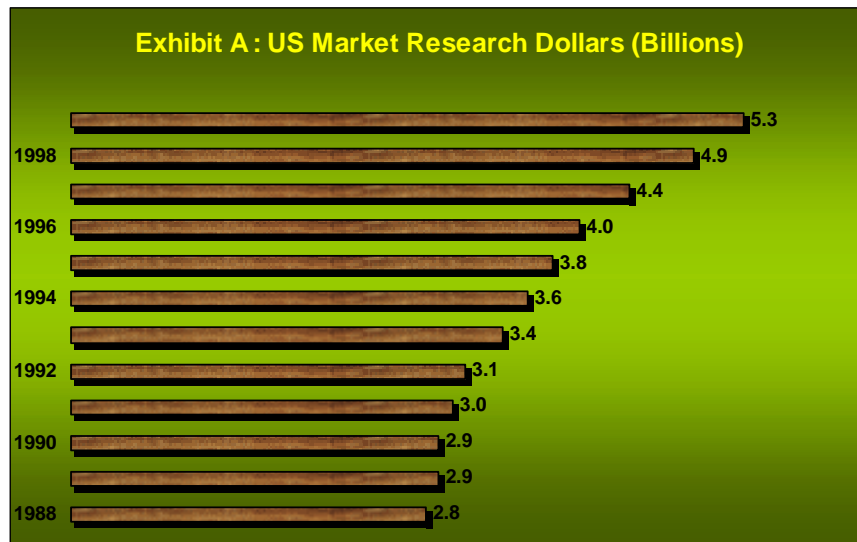
1. **Research planning and execution time has shortened considerably.** As companies have increasingly faced more pressure from Wall Street to achieve higher growth, there has been an urgency to make decisions quickly, without enough time for conducting appropriate market research.
2. **The market research industry's ability to hire talent has reduced dramatically.** While the industry has many excellent researchers, influx of new talent has been slow due to negative job perceptions.
3. **Internal market research departments have increasingly been outsourced to suppliers.** With fewer in-house market researchers, marketers have lost consistency of research and have been forced to

work with outside suppliers who don't have in-depth knowledge of their products.

4. **The researchable consumer universe has fundamentally changed over time.** Fewer consumers are at home or visiting malls today, and when they are, they don't want to answer surveys.

The net effect is a double whammy. Not only are more marketers spending more money on research, they are getting little new learning, or worse still, wrong learning from it.

There are two reasons marketers fail to make research work to their advantage.



First, many of them don't know enough about market research to differentiate right design/protocol from wrong. Market research suppliers often inundate marketers with proprietary research models, which makes it very easy to lose sight of the original research objectives. Second, many marketers don't know how to interpret research findings. Good marketers know that research is not always right and needs to be complemented with experienced marketing judgement before making decisions.

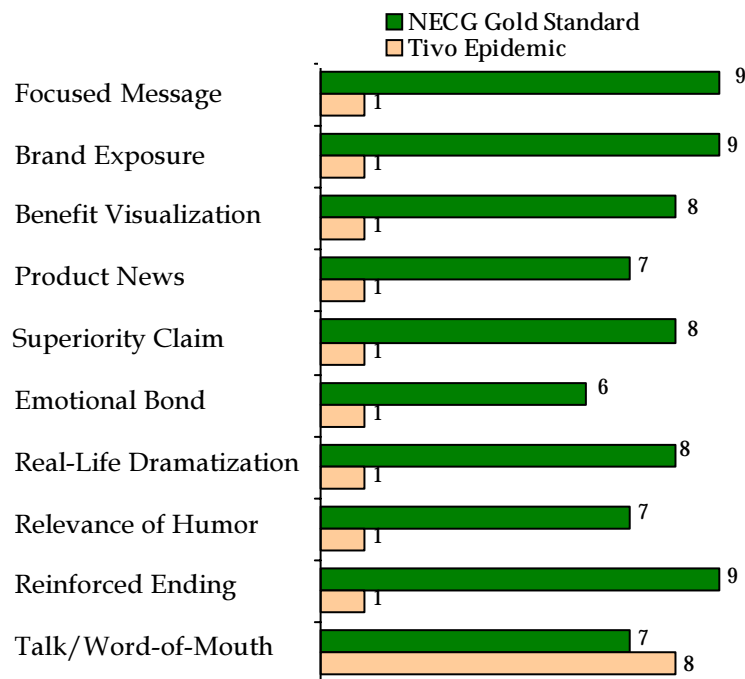
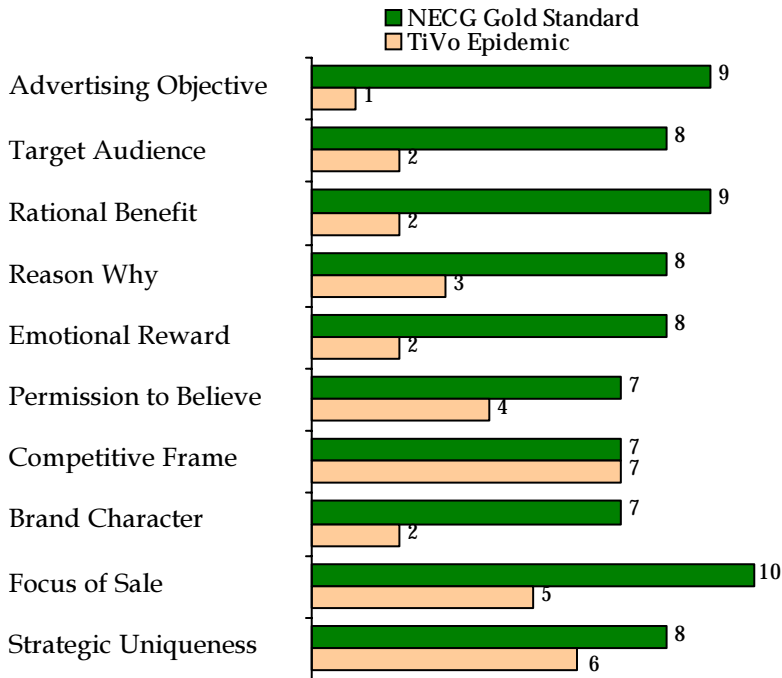
The New England Consulting Group recently conducted a large study to benchmark market research practices of leading global marketing oriented companies and found that even the best companies fall short of excellence when it comes to research.

(Continued on page 9)



TiVo Epidemic Campaign

In this issue, Gary Stibel and Bob Lepre rate a TiVo commercial called 'Epidemic' (you can watch it on www.adcritic.com). The ad is based on the theme that TV is causing a widespread epidemic in our society -- it is hurting people, in turn, making people hurt TVs. The spot shows a hospital filled with hundreds of patients with their hands, heads, and other body parts stuck in TVs because they smashed the units. The VO says that TiVo was invented so that people can watch any show of their choice, any time, so that there is never 'bad TV'.



STIBEL ON STRATEGY

"It's hard to remember such bad advertising for such a good product, but then, it's hard to remember this advertising at all."



NECG Gold Standard = 81/100
TiVo Epidemic Campaign = 34/100

LEPRE ON EXECUTION

"We have now established a new low for the Advertising Edge! This TiVo spot has no redeeming executional or creative value. It portrays people hurting 'bad TV' by hurting themselves. It offers no product information or news, no reason to buy, no emotional bond, no superiority claim ... no nothing! A ground breaking product is driven underground by this silly, high production cost ditty. TiVo sets a new low!"



NECG Gold Standard = 78/100
TiVo Epidemic Campaign = 17/100

Adapting Marketing Strategies Globally

-- by Wes Bray

Wes Bray is a former CEO of Marketing Drive Worldwide, a global marketing services company. In this interview, Wes lays out the different approaches used by companies to adapt their brand globally.



NECG: Have you seen a lot of companies recently attempting to adapt their marketing strategies globally?

WB: Yes. A lot of companies are trying to adapt their marketing strategies globally. However, many different approaches are being used. I would categorize them into three segments.

The first approach is what I call **Brand Imperialism**.

This is the imposition of the US brand benefit bundle and brand image on the offshore market. It either assumes an ultimate universality of brand appeal to humanity, or a lack of appreciation for cultural/geographic differences between consumers. It is also the least challenging and easiest to execute, which in dealing with global marketing, is a real consideration.

Brands that have a strong cultural interaction (such as fashion and luxury items) are most often successful in using this strategy. These companies are not known for having significant corporate and marketing infra-

structures in place to be able to modify messages on a local basis, even if they wanted to. There are numerous examples of this strategy not being successful, particularly in categories in which the brand is less of a badge, such as HBA and FMCG.

NECG: What is the second approach to adapting marketing strategies globally?

WB: The second approach is **Brand Tribalism**. This strategy is not really a global strategy as much as it is a global default. In this case, HQ in the U.S. will send out a

marketing plan, usually with creative materials. The local office will then either create their own, adapt the US materials, or use the US materials as is. The end result is a brand which has widely different positioning and creative messages around the globe—in some cases, even different logos and brand names!

NECG: What is the rationale for this strategy?

WB: The rationale is that the local office knows the consumer in their market the best. Since there is no cross-border consumer conscious-



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ness, positioning differences do not weaken the brand, and execution is easier. Typically we see this strategy employed by established multinational consumer goods companies that have the infrastructure in place to be able to execute this strategy (i.e., marketing offices and agency support in each market).

NECG: What is the third and final approach?

WB: The third is **Brand Globalism**. This is the most recent strategy to emerge and I feel is the most valid of the three.

This strategy is a hybrid of the first two, in the sense that the core brand strategy is HQ-developed and imposed globally, but there is careful construction of locally customized elements. I think of it as the 'X + Y' brand benefit bundle, where 'X' is the core positioning of the brand and 'Y' are the elements that are unique to local market consumers.

NECG: How would you describe brand globalism?

WB: It is based on the understanding that there is a core brand positioning for consumers, no matter where they are located.

For example, let's take a fictional brand, 'Wes Brand' personal computers. The positioning statement for this business might be: **"To business professionals and IT purchase managers, Wes Brand computer is the brand of laptop computer that best helps you do your job on the go."** This positioning statement is above geographic or cultural boundaries; if this positioning is right for the 'Wes Brand', then it is right for the brand everywhere.

However, there are clearly geographical and cultural differences that must be addressed on a local basis, particularly in the areas of sales, service, pricing, etc. For example, retail channels differ significantly between countries.

The consumer that wants to buy a Wes Brand computer in England behaves very differently from a comparable consumer in Brazil, Japan, or Israel. So, the core positioning ('X') needs to be communicated with directions on how the consumer can purchase ('Y') in any particular market.

Obviously I've grossly oversimplified my example for purposes of clarity, but this is the essence of brand globalism. Companies that are doing it are the more sophisticated and seasoned global marketers, particularly in the technology, automotive and electronics categories.

NECG: What are the keys to success in global marketing?

WB: There are 4 keys to success: 1) A clear vision and the discipline to arrive at the core brand positioning at HQ; 2) A strong enough management structure, budget control system and company culture to be able to require global adoption of this positioning by all regions; 3) Agency partners and other support partners that are also global, to help reduce the 'NIH' syndrome in local market execution; and 4) A sufficiently broad-based global infrastructure to be able to execute locally. ■

Retail IdeaBeat



Buy Order for Consumer Direct

Glen Terbeek writes about the vital role of online grocery shopping.

While the dot-com retail world has experienced more than its share of difficulties, there remains a vital role for online grocery shopping. The key is not to follow old models or to create connectivity between the virtual and physical experiences. eBay is noted as an example of the true consumer direct model of the future.

Read the rest of the article at www.idealbeat.com

Exploit Your Competitors' Marriage

When your competitors merge, the entire playing field can change dramatically. Are you prepared to survive and exploit the new rules of the game? This article outlines a five step M&A guide to capitalize on the weaknesses of your competitors' marriage.

Whether you are a CEO of a Fortune 100 global electronics company, or the marketing manager of the second largest U.S. branded shaving lotion, the nightmare is the same.

You wake up to a Wall Street Journal front page that reads, "Competitors unite to form new powerhouse in your businesses". After choking on your coffee, you quickly turn to all the negative opinions that reassure you that between 70-80% of all mergers and acquisitions in the last decade have performed below expectations. A ray of hope, you quickly get your consultants on the phone.

"Get me 10 examples of recent M&A failures, not the little ones either; we want to see the mega-failures." (See Exhibit A). You have taken action, you feel better, you have a nice drive to the office. You deflect internal questions by employees throughout the day by saying, "don't worry, we will be fine, the consultants are already on it".

By the end of the day, you have your list of 10 recent mega-failures on your desk. This is great, now you know who has done it wrong. Now what? Congratulations -- you have just wasted at least 24 hours of very valuable strike time that you can't get back.

Exhibit A - 10 Recent M&A Failures

Company	Outcome
Union Pacific and Southern Pacific	The \$4B deal was to have created a "seamless" rail network from the Midwest to the West Coast. The reality was complete gridlock.
HFS and CUC International	This \$14B deal to create Cendant was intended to build a marketing powerhouse. But accounting irregularities at CUC sent Cendant's share price down 46% in one day.
Conseco and Green Tree Financial	With the \$7.6B acquisition of lender Green Tree, insurer Conseco foresaw a bonanza. But Green Tree was hit by huge charges on bad loans.
Daimler-Benz and Chrysler	Daimler paid \$36B for Chrysler - then the hottest U.S. automaker. But huge losses, failed new products, and a demoralized workforce wiped out \$60B in market value.
Aetna and Prudential	Aetna hoped that the \$1B deal would make it the No. 1 HMO. But a string of troubled mergers led to the ouster of Aetna's CEO. Today they plan to split into two firms.
AT&T, TCI and Mediaone	The combined \$90B conglomerate backfired on CEO C. Michael Armstrong. He tried to sell consumers on packaged telecom services, but AT&T's core businesses dried up. Now, with its shares in the tank, AT&T is breaking up again.
Mattel and Learning Company	Mattel hoped to break into the CD-ROM game market with the \$3.5B purchase. But then the Internet caught on, drying up the CD-ROM market. Mattel's stock crashed, and CEO Jill E. Barad was ousted.
AlliedSignal and Honeywell	AlliedSignal hoped to combine its efficiency with Honeywell's product innovation. Instead, the \$14B was hurt by oil prices, a plunging euro, and management problems.
Federal Department Stores and Fingerhut	Federated paid \$1.7B to apply Fingerhut's direct-marketing skills to Macy's and Bloomingdale's. But Fingerhut's focus on low-end consumers led to huge write-offs.
McKesson and HBO & Company	The \$12B merger of No. 1 drug wholesaler McKesson and medical software maker HBO & Co. ran into a buzz saw. Auditors uncovered an accounting scandal at HBO, leading to resignations and criminal charges. McKesson shares are off 47%.

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Mergers and acquisitions are realities in the global economy. Financial services, transportation, e-commerce, technology, consumer packaged goods, manufacturing, service, retailer or a supplier, no one industry, company, or brand is safe.

The reality is, as in war, you will not win every battle, but if you do not find opportunities in your defeats, you should raise your white flag now, because you will never win the war.

The New England Consulting Group has spent years reviewing research, analyzing historical data, and interviewing industry leaders to identify the 10 key reasons mergers underperform. (See Exhibit B)

Out of this learning has evolved **NECG's 5 Step Guide** to surviving the marriage of your competitors.

Step One: Develop Contingency Plans

Take the time to bring a cross section of your top people together to identify, evaluate, and develop contingency plans for the 5 most significant M&A candidates annually. Note not just the most obvious, but the marriages that would have the greatest impact on your business.

Step Two: Create a PR Plan

Your competitors will be pushing hard to define not only the impact of their merger, but they will also be working to define the playing field to thwart any anti-trust violation claims.

A recent example of this strategy in action can be seen in Nestlé's PR releases announcing its acquisition of Ralston Purina. Nestlé referred to the pet food and pet treats segment as the pet care segment/business. Why?

Because their future market share of this business would pass antitrust review with little problem, whereas if one viewed the merger separately in light of cat food, dog food and treats segments, the deal could face significant antitrust hurdles.

With a good PR plan, your organization can not only act swiftly to combat your competitors, but you can use the spotlight to emerge as an industry leader worth watching, listening, supporting, and buying.

But remember, sometimes, to say nothing and stay on the sidelines may be the best course of action. Thus, a good PR plan can assist you in not only taking the right step, but avoiding costly missteps.

Step Three: Communicate Internally

M&A rumors run fast and furious throughout organizations and they can quickly consume and divert your troops' focus.

Quick and effective internal communication will not only help to thwart many of the rumors before they even begin, it will also assist in keeping everyone focused on the business.

Exhibit B: Top 10 Reasons for M&A Failures



Step Four: Opportunity Time - Focus on the game while they have their eye off the ball.

When two or more organizations merge, there is an inevitable period of confusion. Employees are questioning their futures, while political maneuvering is in high gear.

Trade and customer relations are either overlooked, or simply thrown off balance. Agency and vendor reviews take place. Brands, products, divisions, and people are reviewed. Evaluations, promotions, demotions, and cuts are made.

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In no uncertain terms, it is a time of great change and uncertainty, and it starts the first day pre-M&A rumors take place and can extend to 12-18 months after the merger is consummated. At NECG, we call this **M&A OT = Opportunity Time**.

OT is the time to initiate and execute your contingency plans. Everyday is critical. Your organization must move swiftly and aggressively to take full advantage of this time of opportunity your competitors have given you. Exhibit C outlines 7 strategies that have proven to be successful at exploiting competitive mergers.

It goes without question that, left as the odd one out, your firm should actively seek all the legal remedies. But the reality is most mergers and acquisitions legally get consummated.

With a good set of M&A contingency plans in place, regularly reviewed and updated, your organization can not only exploit the opportunities that develop, but it can prosper to fight another day, and win the war over the long-term.

Yes, it requires money, time, and effort, but the rewards or consequences can be substantial.

Exhibit C: Opportunity Time Strategies

OT Strategy	Historical Example
Build trade/customer relations	Mystic Beverages did this while Quaker as acquiring Snapple. Now Mystic owns Snapple.
Raid competitive talent	When Bankers Trust and Alex. Brown merged, 6 out of 11 top executives took positions with competitors.
Redefine your marketplace	Dell redefined the PC market while Compaq and IBM were busy acquiring DEC, Altavista and Lotus.
Initiate internal change	AT&T cut \$5 billion from their cost structure when threatened with the MCI WorldCom/Sprint merger.
Create a unique positioning	Coors combated industry consolidation and built a cult following with its 'always refrigerated' beer positioning.
Form strategic alliances	Software competitors joined forces to successfully block Microsoft's acquisition of Quicken.
Grab market share	Airbus aggressively sought orders during Boeing's acquisition of McDonald Douglas to become the world leader in commercial aircraft sales.

Step Five: Actively seek out your own mergers and acquisitions.

Nothing is more humiliating and potentially damaging than having a competitor get a deal done that your own firm missed out on simply because you never searched, evaluated, or inquired.

Mergers, acquisitions, and divestitures are a fact of modern business. We can argue which ones will, or have succeeded or failed, but the fact is all of them will impact their respective competitors.

A successful set of contingency plans and strategies can only be developed with superior knowledge of both your competitive landscape and yourself.

As the ancient Chinese general Sun Tzu said, "If you know the enemy and know yourself, you need not fear the result of a hundred battles". ■

This article was written by Bill Engler, a Senior Project Manager at NECG. Feel free to e-mail him your comments at wae@thenecg.com or call him at 203-226-9200.

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Based on the study, NECG had developed a model to segment marketers on their use of market research. Exhibit B illustrates that marketers fall in a 6-cell matrix which describes their use of research and the quality of decisions based on research findings. Following is a brief qualitative description of each segment:

Segment # 1: Intuits

Intuits are marketers who make good decisions without any market research. They have an excellent understanding of their consumers’ attitudes and behaviors and don’t really need research. They feel the pulse of the consumer and go with their intuition when making decisions. Intuits tend to be entrepreneurs, but only the ones who have good intuition succeed.

Segment # 2: Egotists

Egotists are marketers who constantly make bad decisions because they never do research. They usually suffer from common syndromes such as ‘research never told us anything we didn’t know’ or ‘research is a waste of our time and money’.

Segment # 3: Luckies

Luckies are marketers who conduct bad market research, but get lucky in making good decisions. They understand the principles of marketing better than market research and while they don’t have the knowledge to choose good research protocol, they do have the acumen to make good marketing judgements.

Segment # 4: Confirmers

Confirmers are marketers who make bad decisions because they conduct bad market research. They use research not to uncover facts and insights, but to confirm their preconceived notions and hypotheses. Confirmers usually design the research so that it supports their ideas, and if it doesn’t, they ignore it.

Segment # 5: Blinders

Blinders are marketers who conduct sound market research but don’t make sound decisions based on it.

While Blinders do read the research without any preconceived expectations, they are blinded by the overload of data and often miss the ‘real’ insights. They put too much credibility on the data and fail to challenge the research with their own judgement, often leading to flawed decisions.

Segment # 6: Astutes

Astutes are marketers who make good decisions through good market research. They are astute about both marketing and market research. Astutes combine experienced judgment, strong consumer insight and solid market research protocol to make decisions that guarantee success.

Principles of Winning Research

Good market research is not the domain of Astutes only and all marketers can learn to be excellent researchers. The New England Consulting Group uses the following principles to help its clients produce winning research:

1. Ground yourself in the basic theory of market research – it’s

- 1. Ground yourself in the basic theory of market research – it’s painful and boring, but will pay off.
- 2. Treat market research as a source of competitive advantage – it’s an investment, not an expense.
- 3. Use research as a torch, not as a crutch – it’s a tool for making decisions, not a substitute.
- 4. Look for the action – if research does not lead to action, don’t do it.
- 5. The best research costs nothing – look within internal company sales data, consumer complaints, etc.
- 6. See the people behind the numbers – listen to the tapes, read the verbatims, etc.
- 7. Be creative – help consumers help you.
- 8. Go for the gold– look for the ‘big’ insight.

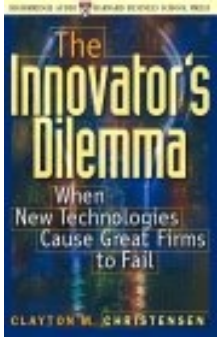
We hope that these time-tested principles will help you improve the success of your market research efforts. ■

**Exhibit B: NECG Segmentation of Marketers
Based on Research Practices**

	Good Decisions	Bad Decisions
Good Research	Astutes 10%	Blinders 30%
Bad Research	Luckies 15%	Confirmers 20%
No Research	Intuits 10%	Egotists 15%

This article was written by Gaurav Kapoor, a Managing Associate at NECG. Feel free to e-mail him your comments at gk@thenecg.com or call him at 203-226-9200.

“The Innovator’s Dilemma”



-- Clayton M. Christensen

Amazon Ranking
 ★★★★★¹/₂

NECG Edge Ranking
 ★★★★★

The Innovator’s Dilemma is a gem of a book all too rare in modern business publishing. Christensen has accomplished what he preaches -- a book that is as disruptive as the concept of disruption.

Christensen explains that there is something about the way decisions get made in successful organizations that sows the seeds of eventual failure.

Good management itself is the root cause. In their efforts to provide better products than their competitors and earn higher prices and margins, companies often overshoot their markets. They give customers more than they need, or are ultimately willing to pay for.

What are now widely accepted principles of good management are, in fact, only situationally appropriate. Disruptive technologies that may underperform today relative to what users in the market demand may be fully performance-competitive in the same market tomorrow.

Managers often don’t realize that markets that do not exist cannot be analyzed; suppliers and customers have to discover them together. In disruptive situations, action must be taken before careful plans are made. Plans

must serve a very different purpose -- they must be plans for learning rather than plans for implementation.

The four fundamental principles of disruptive technologies are:

1. Customers effectively control the patterns of resource allocation in well-run companies.
2. Small markets don’t solve the growth needs of large companies.
3. The ultimate uses for disruptive technologies are unknowable in advance; failure is an intrinsic step toward success.
4. Technology supply may not equal market demand.

How successful managers harness these principles to their advantage:

1. They implant projects to develop and commercialize disruptive technologies within an organization whose customers need them.
2. They develop disruptive technologies in organizations small enough to get excited.
3. They plan to fail early and inexpensively.
4. They find or develop new markets that value the attributes of the disruptive products, rather than searching for a technological breakthrough. ■

The Consultant

Uncontrollable macroeconomic disruptions will lead to a temporary deviation from our corporate charter.

The Client

I think he means we will miss our budget this quarter.

The NECG Edge is a monthly publication of the New England Consulting Group and is intended to provide valuable marketing insights to busy managers. The NECG Edge is published both online and in print. If you would like to subscribe to The NECG Edge, please e-mail us at necg-edge@TheNECG.com.

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