

The NECG Edge

NECG PREDICTS

New York Times (7/31/01): "Software is called capable of copying any human voice." AT&T's new 'Natural Voices' software recreates voices so perfectly that one can not tell the difference from the real thing.

Edge: We predict that more and more companies will use this software to enlist recreated celebrity voices to pitch goods and services everywhere from the TV screen to the call center. "Look out James Earl Jones, Winston Churchill is back."

.....

Wall Street Journal (7/26/01): "Shoes that morph from sneakers to skates are flying out of stores." Can Heelying Sports, the inventors of the all in one sneaker -- roller skate concept build a sustainable business? One that can out last the Razor Scooter?

Edge: A business possibly, a brand, probably not. Brands are rarely built on combination products that do not perform better than the sum of their parts, i.e., the hide-a bed, TV/VCR, all in one washer and dryer, etc.

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Wall Street Journal (8/2/01): "Macy's tries a CD-ROM to draw teen shoppers." On the eve of mailing out 500,000 CD-ROMs with pop music and models adorning teen clothing this summer, Macy's representatives said they were unaware of

Nordstrom's similar unsuccessful promotion last year.

Edge: We predict that this too will fail, and more importantly, Macy's marketing department will continue to fail to attract teens until they reinvent their teen department from the ground up, clothing, store, experience, etc.

P.S. Macy's; watch, listen and learn from your competitors, it's the easiest way to save valuable marketing funds.

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Wall Street Journal (8/10/01): "Smart fabrics function like appliances: They keep track of vital signs, hide odor." The first generation of garments that couple nanotechnology -- the science of making electronics on the tiniest of atomic scales -- with high-tech fabrics to create 'smart clothing' is beginning to roll out.

Edge: Here we go again with the 'smart fabrics'! What a waste of nanotechnology! We predict that Smart fabrics will be a minuscule share of the apparel industry at best. Wearing the same garment multiple times without washing, expanding the waistline, changing a skirt's color -- those are not things a woman aspires to when buying clothing at Wal-Mart.

.....

Business 2.0 (August 2001): "Multi-channel cross-platform synergy is fly." With help from the likes of Dave Matthews Band,

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MTV unites its Web and cable channels to net even larger audiences.

Edge: Oh, the magic of MTV! No one is more consumer-centric than MTV in the TV world. We predict that MTV's magic will travel throughout its parent CBS-Viacom, and soon people will be talking about the success of that merger instead of AOL Time Warner. ■

What's Hot, What's Not

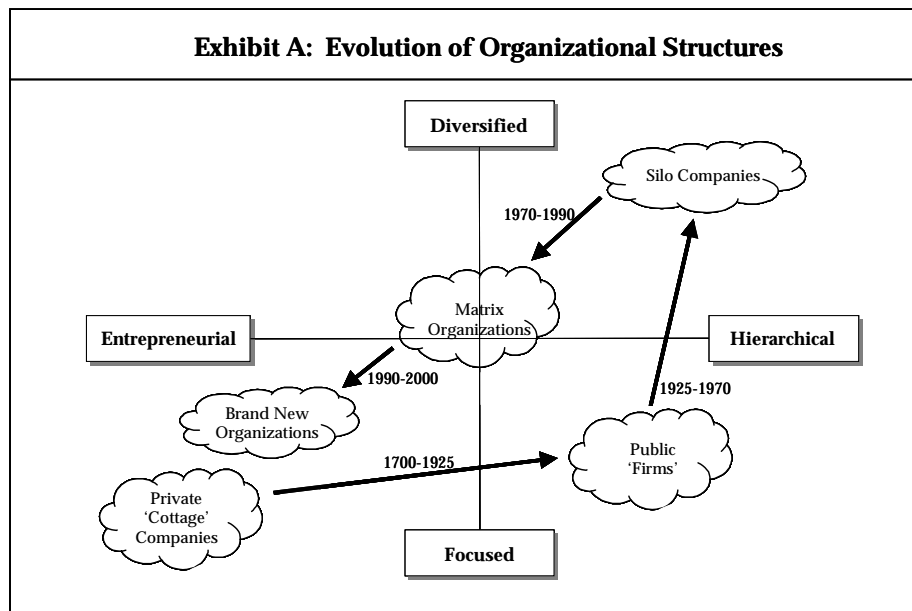
Hot!	Not!
•• Heelys	•• Razors
•• Integrated Marketing	•• Wrap-Speed Branding
•• Chico	•• Eddie Bauer
•• Health Benefits	•• Stock Options
•• 802.11b	•• Cellular
•• Simulated Models	•• Supermodels

“The Brand New Organization”

With the age of business process reengineering coming to an end, the # 1 challenge for every CEO today is top-line growth. While all of them know that the primary drivers of future growth will be branding and innovation, only a few have been successful at it so far. Why? Because they have not been able to change their company to an organization that is ‘brand new’, so that it can manage both ‘brand’ and ‘new’ together.

Managing brands and innovation together is difficult for many companies because they require different skill sets, cultures, and organizational structures. For example, technology and pharmaceutical companies have a core competence in innovation, but struggle in creating and managing strong brands. Consumer packaged goods companies, on the other hand, are masters of branding, but find it hard to achieve breakthrough innovation, and often find themselves falling in the trap of incrementalism.

To that extent, it is a worthwhile lesson for everyone to understand the evolution of organizational structures over time, because they hold the key to the organization of the future, the ‘brand new’ organization.



As shown in Exhibit A, while organizational structures have morphed significantly over the last 300 years, they have completed a circular loop and today’s ‘brand new’ organization shows many similarities to the first company ever created. Both are equally focused on select categories/brands and

Among all the variables that affect companies’ ability to manage brands and innovation together, organizational structure is critically important. CEOs are constantly struggling for ways to organize for most optimal management of brands and innovation. Specifically, they are searching for appropriate organizational systems to:

- Develop and capture BIG ideas
- Reduce the risk of BIG mistakes
- Increase the speed to market for new products/ideas
- Make the innovation process more cost efficient
- Manage existing brands for sustained market performance and profitability
- Keep brand equities both timely and timeless

operate with a lean organizational structure and centralized decision making.

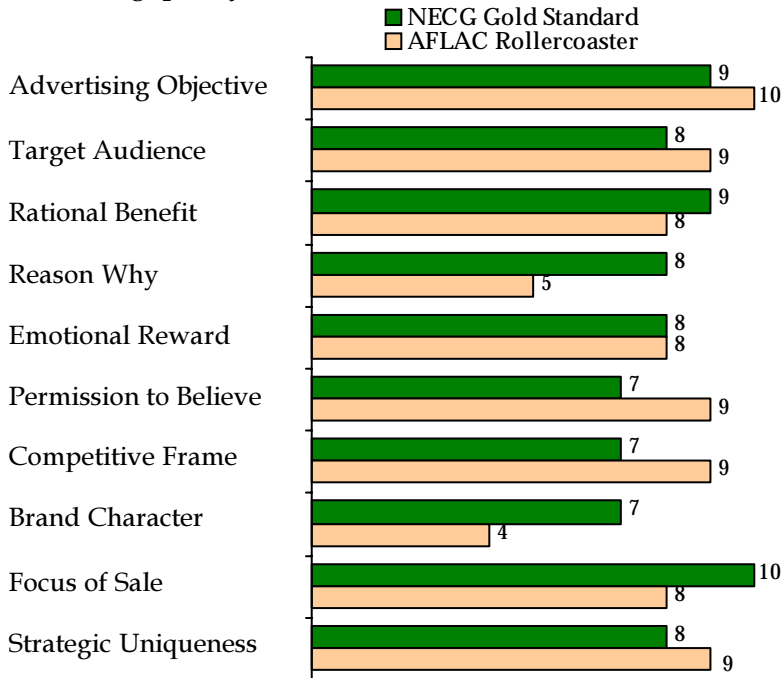
Cottage Companies

Business started with cottage companies like farming, textiles, retailing etc. Most of these businesses were family owned and very focused on specific market segments. They were excellent at managing cash flows, sometimes, doing it even on a day-to-day basis. They were also very flexible and could react to change in their market instantaneously.

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AFLAC Roller Coaster

In this issue, Gary Stibel and Bob Lepre evaluate the 'AFLAC Roller Coaster' spot, which can be seen on AdCritic's Web site. The spot begins with a young couple on a roller coaster ready to go down. The woman reassures the man that there is nothing to fear because they have supplemental insurance with AFLAC and if something happened to them during the ride, AFLAC would cover all their expenses in cash. While she explains all this to him, the roller coaster falls several times, he screams out of terror, and the AFLAC duck, who is sitting behind them, screams AFLAC!! The commercial ends with the ride coming to an end and the duck wobbling off the cart and feeling queasy.

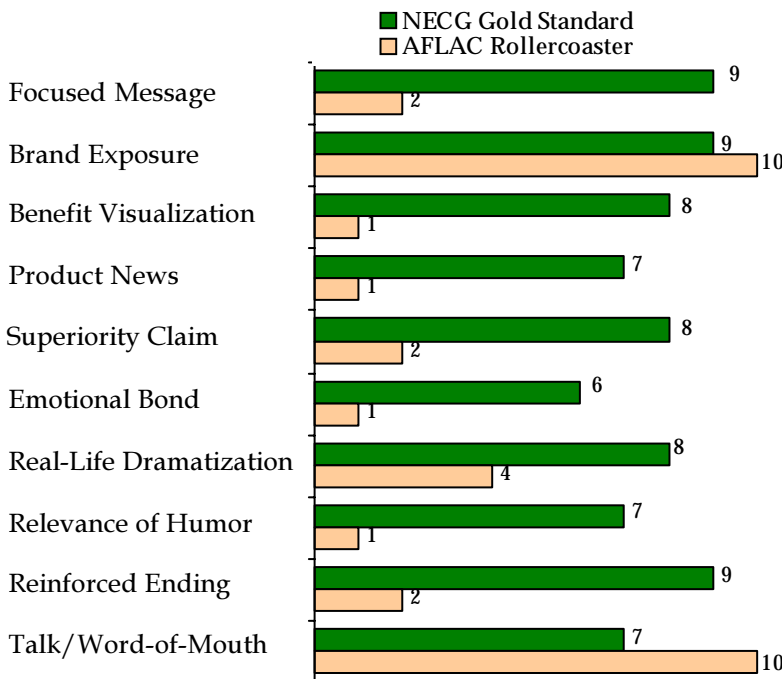


STIBEL ON STRATEGY

“Good advertising that could/should be better. Brand and category recognition is excellent but call to action and reason why to believe AFLAC can deliver is weak and, unfortunately, silly brand character does not fit serious insurance product.”




NECG Gold Standard = 81/100
AFLAC Roller Coaster Campaign = 79/100



LEPRE ON EXECUTION

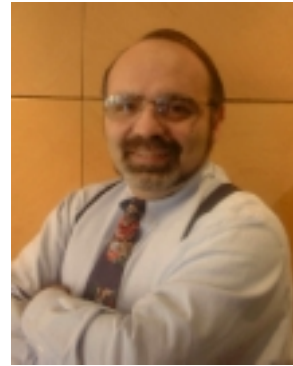
“If you walk like a duck, talk like a duck, and act like a duck, you’re a duck! This spot is all about a duck who quacks out AFLAC. But the quacks don’t add up to a hill of duck food under which is buried the message. Just remember, a quacking duck gathers no benefit promise.”



NECG Gold Standard = 78/100
AFLAC Roller Coaster Campaign = 34/100

Recruiting Marketing Talent

by Ed Tazzia, Managing Director at Gundersen Partners



On-the-Edge Accomplishments

- ☞ 25+ years marketing experience with P&G, Campbell's Soup, and IBM.
- ☞ Since 1997, MD at Gundersen Partners, a corporate marketing search firm.

NECG: How should companies think of recruiting marketing talent?

NECG: As a starting point, the question that a lot of companies have to ask, is where and what benefit they could get out of classic marketing skills in their firm. Companies that are technology, sales, operations, manufacturing, or financially driven often end up creating an industry, not just a company, that's very commodity like, where price is the only leverage.

For example, technology firms invent things because they can, and then go see if someone wants them. While it may work once, it's like catching lightning in a bottle because they don't start with the market need first. Thinking about needs is certainly not limited to companies that have consumer offerings, and the discipline translates very nicely from selling Tide to commercial paper, jet engines, or laser printers. The key is understanding who the customers are, how they segment, how their needs vary from one segment to another.

Those are classic questions, but you'd be amazed how many people don't ask. Or if they do ask them, it is directly of who they're calling on. So, the salesperson goes in and says, "Charlie, what do you want?", and often times when Charlie answers, it is in the context of today, e.g., he may want a certain technology or capability, but there's some time required for invention. If your focal length is too short because of the salesman,

you fall in the trap of solving immediate problems, as opposed to long-term needs which is the focus of a marketer.

NECG: So it requires thinking differently about sales too, right?

ET: Absolutely! In fact, we don't think of marketing as a function at all. Marketing is a way of thinking about the business. So, if you're looking outside in and it's a perspective that focuses on the ultimate user need, it really feeds into several different disciplines. It obviously feeds into marketing communications and the brand side of things, but it also feeds into product development, sales organization, financials, and operations.

Look at Dell, for example. The Dell idea has nothing to do with the product offering, it much more impacts the operation side of the business to be able to custom design and build. But it all came out of a way to think about marketing PCs to consumers.

NECG: But that was probably Michael Dell's intuition instead of an extensive research study by their marketing department.

ET: Oh, I completely agree. In a lot of cases, the smartest marketers do all the right steps, but they short-circuit them so badly that they can't teach anybody else how to do it. And, not being able to repeat that is where the problem lies. The discipline that comes from having learned how to do it, particularly taught in classic packaged goods firms, is

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really what we're talking about.

One of the things that we find a lot is that somebody will say, "You know what, I need a marketing person, but I need somebody who knows my industry". So, what they do is steal the person who has a marketing title from one of their competitors. Well, chances are the competitor has been making the same mistakes you have and the person in that job is an old sales guy who has no more marketing perspective than your sales guy who's got the marketing title.

You see that a lot in the technology world. You can teach enough about the technology to help a marketer, but what the marketer can bring you is a different way of thinking about the marketplace that you don't have internally.

NECG: What do good marketers who change industries successfully do well?

ET: They don't try to do it all at once or change out everybody because you lose your institutional memory. So they look at alternating layers, they bring some people in from outside, and they develop the rest internally.

I'm not a big believer in sending people off to school for development. I'm a believer in learning by doing it each day and having a boss who has enough time to spend with you; a boss who can say, "Now see how you did this, let's think about other ways to do it".

NECG: But are companies still doing that with people jumping ship more often now?

ET: Unfortunately, not much. As a result of right sizing, reorganizing, or downsizing, companies have gone from lean and mean to strapped and strained. When I was a young brand manager, literally, 50% of my job was expected to be training my people. You'd

go over that memo the 10th or 15th time and people laugh at that, but I tell you, that's where the discipline came from.

I think the moving and jumping is a little unfortunate. There was a time when there was kind of an unwritten contract between an employee and an employer. I work hard, you take care of me. Well, when everybody went through downsizing in the 70's and 80's, the contract just broke, and frankly, it's the companies' fault.

NECG: Is that why hiring/retaining talent is now on the top of every CEO's agenda?

ET: Exactly. In fact, we did a study at Gundersen a couple of years ago among senior executives in the country to identify skills needed to be a top marketing person in a corporation? The study showed that skills listed at the top are the ones you can't train for; skills like innovation, creativity, and leadership.

Also, one of the things that is common with many of those top skills is risk taking and it's very easy to kill the risk taking in anybody. So the people that can make or break companies are not just the ones who can take orders. They're the folks who have BIG ideas, who can rally the troops and make it happen.

NECG: They say there are no mature markets, only mature managers. What separates the good from the rest?

ET: It starts very early in a person's career. I think almost everybody is biased by their first job. People talk about product lifecycles, but I don't think of that. I think when a product gets to a certain point, you have to reinvent the product, because, if the consumer needs change, you change. If you define the product offering so narrow that it's a buggy whip, then you probably deserve for it to go away. Good marketers understand this difference. ■

We don't think of marketing as a function. It is a way of thinking about the business.

Gary M. Stibel

Problems with DTC Drug Marketing

Gary Stibel, founding partner of the New England Consulting Group was interviewed by Gaurav Kapoor on the state of direct-to-consumer marketing in the Rx drug industry.

Gaurav: Gary, the July 16th issue of Brandweek ran a cover story on DTC marketing, in which you talked about issues facing the entire industry -- can you elaborate?

Gary: The industry is, quite candidly, in need of Prozac. It's manic-depressive, like Jekyll and Hyde. Where else have you seen an entire industry that practices technical science so well and marketing science so poorly. It's oxymoronic that men and women who can lower cholesterol, lengthen life-span and do so much good for so many, cannot figure out how to run effective advertising, efficient promotions or otherwise create a positive return on marketing investment?

Gaurav: What can the industry do differently, then?

Gary: Well, for starters, they can stop looking within themselves, and start learning from other marketing driven industries like consumer packaged goods.

Gaurav: But selling soap is very different from selling Rx drugs, isn't it?

Gary: Yes, but . . . selling Tide is different from selling Cheer, selling liquid Tide is different from selling powdered Tide, selling Tide in the U.S. is different from selling Ariel in the U.K. and, yes, selling soap is different from selling drugs BUT there are far more similarities between selling soap and drugs than there are differences. Both help humans, men and women, solve problems they cannot solve for themselves and selling either requires in-depth understanding of consumer needs and sound judgement of experienced marketing professionals.

First both are important, critically important! Yes, drugs save lives. So does soap. Can you imagine someone getting ready for the biggest job interview, date, etc. of their life learning that they had no soap?

Second, both compete in intensely competitive markets. Yes, there are lots of different soaps but, there are lots of different drugs and often the differences between drugs' functionality is lesser than soaps' because the law precludes many differences between alternative acetaminophen while various hand soaps, laundry soaps etc. are permitted a little more latitude.

Third, intermediaries play a major role. In the drug industry, HMOs, PBMs, doctors, nurses, chemists, mass merchants all have some influence over consumer's choice. They must be sold. In the soap industry, mothers, retailers, manufacturers of equipment such as washers all have some influence over consumers' choice. They must be sold.

Fourth, DTC advertising and promotion must attract sufficient consumer attention to be noticed, provide breakthrough compelling messages to be remembered and offer unique provocative support to be persuasive.

The differences are real, Gaurav, but the similarities are greater and the opportunity for learning is inescapable.

Gaurav: Everyone's talking about drug ads on TV. What's your point of view?

Gary: Drug ads on TV are good and bad. They are good for consumers because consumers have a right to learn and they provide an important means of communication for manufacturers and marketers to educate consumers.

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Yes, advertising on television is expensive, but it's not nearly as expensive as the cost to humanity of people who could benefit from drugs not being aware of their existence or their benefits. Can you imagine how many people's lives have been made better because they were made aware that there are products available through their doctors and chemists that can lower their cholesterol, control their allergies, alleviate pain etc.

But, unfortunately, most drug advertising is bad. Few people can remember only minutes after it is run, fewer people can remember what brand was advertised or what it was being advertised for. Many of those who remember anything at all, thanks to federal regulatory bodies, remember the harmful side effects that few people experience rather than the real benefits the drug produces.

And, yes, there is waste. For every one-dollar that is spent on effective drug advertising for brands like Claritin, Celebrex and Lipitor, many dollars are returned in healthier lifestyles, longer lives, monies for further research, etc. But for every one positive ROM (return on marketing), there are several dollars spent on ineffective advertising of poorly

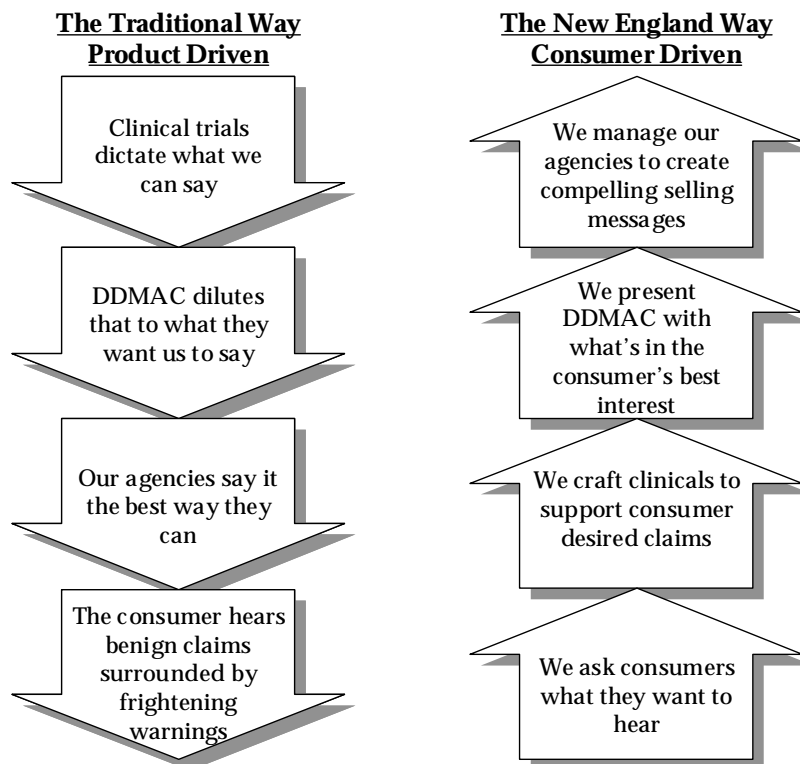
marketed drugs. Again, Gaurav, like your earlier question about soap and drugs, good advertising benefits everybody, from the soap and drug companies that advertise to their consumers and bad advertising causes waste for all as well.

Gaurav: Where should pharmaceutical companies start if they want to change their approach to marketing?

Gary: They should start by being more consumer driven instead of being product driven (See Exhibit below). You see, the traditional way of marketing in the pharmaceutical industry has been to first identify what we can say medically and then let FDA tell us what we are allowed to say.

We believe the entire paradigm needs to be turned around. We need to first find out what the consumer wants to know, and then work with the FDA to determine how we can say it legally, effectively, and efficiently.

We have applied this approach successfully to a number of drug brands, which has helped improve their advertising effectiveness scores many-fold, while reducing their media budgets by even bigger magnitudes. ■



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Cottage companies were very customer focused and knew their likes and dislikes by heart. And, while they did not have branded products, they were a brand themselves, to which their customers were very loyal.

While their entrepreneurial and focused approach to business allowed cottage companies to grow top-and-bottom lines very rapidly, it did not last very long because they were not very innovative and lacked capital investment.

In absence of innovation and scale, it became a zero-sum game between all cottage companies. That gave birth to capital markets and the first 'public firm' was formed.

vest in innovation and since they were focused on specific market segments, their innovation efforts led to meaningful, value-added consumer products.

However, as the model gained strength, many top 'public firm' executives fell into the trap of losing focus and diversified their companies into new industries, categories, or businesses. That led to the emergence of 'Silo Companies'.

Silo Companies

Silos were very effective in managing large scale businesses, as evidenced by the success of General Motors, which is considered to be its originator.

	Brand Management		Innovation Management	
	Effectiveness	Efficiency	Effectiveness	Efficiency
Private Cottage Companies	Medium	High	Low	Medium
Public Firms	High	Medium	High	Medium
Silo Companies	High	Low	Medium	Low
Matrix Organizations	Medium	High	Medium	High
Brand New Organizations	High	High	High	High

Public Firms

Armed with capital, public firms grew in scale, but there was a trade-off. In order to manage growth, they had to add organizational layers, which replaced their entrepreneurial culture with hierarchical management systems. It increased the cost of doing business and reduced response times. Managerial intuition was replaced with organizational processes, and one-on-one customer interaction was substituted by early forms of advertising.

Creation of 'public firms' was not all bad though, and led to a step forward in many ways too. Their larger scale did allow 'public firms' to create and manage brands more effectively. The layered organization structure helped them reduce dependence on original founders of the business, thereby enhancing their long-term sustainability. Access to capital helped them in-

However, they were terribly inefficient and suffered from redundancy throughout the business system. Since each silo managed its brands separately, they competed not only for consumers' share of mind, but also the management's. There was little sharing of knowledge across the silos, which led to duplication of innovation efforts.

The collapse of the silo model was brought about by global competition. Japanese and European firms forced American silo companies to change by taking away their only 'real' leverage of scale and offering consumers breakthrough products at value prices.

Silos were eventually replaced with a hybrid system commonly known as 'Matrix Management'.

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Matrix Organizations

The 80s and 90s saw the emergence of matrix management at many companies. Functional areas outside of marketing and sales like finance, logistics, R&D etc. were pulled out of brand/business groups and centralized at the corporate level. Brands and businesses were sold off to renew the corporate focus, and management ranks were slashed to create a lean and nimble organization.

While matrix management was a necessary leap forward in the optimal management of brands and innovation, it wasn't sufficient. A centralized R&D may have been more efficient, but it was not necessarily more effective. The challenges were even tougher when globalization was involved, which required cross-border consumer differences to be reflected in both brand and innovation management.

Several market developments in the late 1990's made the limitations of matrix management more obvious. First, concentration of the retail trade reduced pricing power and brand leverage for many companies. Incremental line extensions were just not enough to impress Wal-Mart and true innovation, both in branding and R&D, became a prerequisite for market leadership.

Second, many companies' plans to acquire innovation pipelines by buying other companies did not materialize as expected. Even worse, post-acquisition integration often added to temporary disarray within R&D, leading to loss of people, and more importantly, ideas.

The Brand New Organization

Matrix management is still alive and well in many companies, but a handful of leading firms are trying new organization models to become a 'Brand New Organization'.

While different companies are trying different approaches, most are building upon the matrix structure by redefining roles and responsibilities, creating a new culture, and developing standardized processes'

and protocols. In our benchmark of brand new organizations so far, we have identified the following developments, which can serve as a checklist of initiatives for your company as well:

1. Creation of Chief Marketing and Chief Innovation Offices, reporting to the CEO
2. Centralized control of global strategic branding and R&D decisions
3. Use of common language and protocol for marketing and brand planning across business groups and countries
4. Ubiquitous flow of knowledge between marketing and R&D
5. Constant sharing of best-practices across the company, driven equally by a new culture and use of new technologies
6. Consistent use of market research methodologies and processes across brands
7. Development of reward/compensation systems based on new product successes
8. Knowledge systems for in depth understanding of evolving consumer needs
9. Top management commitment to trying out-of-the-box, albeit risky ideas
10. Creation of an entrepreneurial culture, driven by personal involvement of top executives ■

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.

Retail IdeaBeat



Frank Badillo writes on CRM's success/failure in the retail industry.

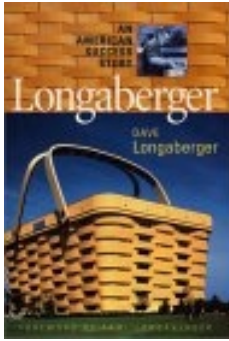
Retail Perspectives on Customer Relationship Management

Customer Relationship Management initiatives in the retail industry fail because of the myopia of their implementors -- not because the premise behind CRM is faulty . . . How to see the full spectrum of change required in terms of strategy, organization, process and technology.

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

“Longaberger: An American Success Story”

-- Dave Longaberger



Amazon Ranking

☆☆☆☆^{1/2}

NECG Edge Ranking

☆☆^{1/2}

This book is the story of Dave Longaberger who built a \$1 Billion company and made it the leading producer of hand-woven baskets in America. Based on his experiences in personal and professional life, Dave shares 18 management principles with us:

1. Personal, Creative, Technical -- Good managers should have 50% personal skills, 40% creative skills, and 10% technical skills.
2. Listen, Learn, and Lead -- Listen with sincerity.
3. Trust, Comfort, and Humor -- Trust is the most important word in the dictionary for managers.
4. Patience, Time, and Resources -- You shouldn't have to work hard at working hard.
5. Do, Doing, and Done -- Decide what you want to do, learn how to do it, do it, and move on.
6. People, Product, System -- People run the system, not the other way around.
7. Marketing, Merchandising, and Selling -- It's not just about selling customers; managers must also sell themselves to their people.
8. Labor, Material, and Cost -- You must know your business costs. It's so obvious, but few do.
9. Intelligence, Common Sense, and Mistakes -- Good managers require 15% intelligence, 35% common sense, and 50% learning from mistakes.
10. Pictures, Places, and People -- Reviewing old pictures can give you a snapshot of your past and also help you envision the future.
11. Motivate, Create, and Organize -- Motivate yourself before you motivate others.
12. Judgment, Attitude, and Relationships -- Poor employee and personal relationships can affect your business judgment.
13. Energy, Appearance, and Rest -- When 5:00 PM rolls around, we expect everyone to go home.
14. Health, Experience, and Opportunity -- Neglecting the body limits business opportunities.
15. Strong, Firm, and Fair -- A strong leader is unshakably dependable and fair.
16. Look on the Bank -- Everybody needs somebody on the bank to be there in time of need.
17. Past, Present, and Future -- The past is the present, and the present is the future.
18. Look, Think, and Do -- The greatest intentions are meaningless unless they are put into action.

Most of Dave Longaberger's management principles are intuitive to managers who already exercise them, and non-actionable to those who don't. It's not what effective managers know that separates them from others, it's how they implement it. To that extent, Longaberger doesn't quite tell you the whole story. ■

The Consultant

The intrinsic value of our business is disproportionately dependent on concurrent sources of revenue generation.

The Client

I think he means we lack innovation.

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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