

The NECG Edge

NECG PREDICTS

Business 2.0 (Feb. '02): "The Buzz must go on." The article quotes a recent survey that reports some 42% of U.S. executives have had or expect to have their budgets slashed this year. The article suggests that this is the time to get creative.

Edge: NECG predicts that marketers will be faced with increasing pressure to prove the ROI of their marketing budgets, regardless of the economy. This pressure will also stimulate new marketing innovations to create 'buzz' more efficiently.

Forbes (1/14/02): "Starbucks is crazy about plastic." Starbucks launched a store-value card during the holidays, which turned out to be a roaring success. More than 2.3MM cards with an average \$20 face value were sold within a month, without a purchase incentive.

Edge: We predict that this could do to Starbucks what the Speed Pass did to Mobil -- enhance loyalty, while reducing the cost of serving customers. Starbucks stands to gain even more because, while a car would only take so much gas, a stomach may fit another high-priced latté or two.

USA Today (2/4/02): "Bud Light rules Super Bowl." Four of the beermaker's ads ranked in the top five in a night filled with laughs. In a Super Bowl surrounded by images of patriotism and flag-

waving, it was humor with a twist in advertising that ultimately won most viewers' appreciation.

Edge: True: Anheuser-Busch has obviously bottled its success for creating effective advertising. Year-after-year it continues to push the envelope and create breakthrough advertising. However, that may be easy given that it was up against such poor advertising as Quizno's Subs and Blockbuster's Gotta Dance.

Time (01/21/02): "Reinventing the Radio." Upstarts XM and Sirius are offering to change the way we listen to the radio for \$10/month. Next year, consumers will be able to buy most new cars with digital receivers built in. The radio revolution has begun!

Edge: NECG predicts that both XM and Sirius have the potential to win in the short-term, but it will be a name like Microsoft, AOL, or Motorola that will win in the end with a mobile digital service hub offering radio, Internet, and communications.

Wall Street Journal (02/07/02): "PepsiCo net income declines 4.4% on costs of Quaker Oats purchase." Analysts had expected Gatorade to post volume growth of more than 5% for the quarter. Although the final figure was 4%, Gatorade lost 2.5% of its share of the sports drink market, while Coke's Powerade gained 2.5%.

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Edge: We predict that this is only a temporary bump in the road for PepsiCo as it incorporates Gatorade into the Pepsi Generation. ■

What's Hot, What's Not

Hot!	Not!
.. Drama	.. Reality Shows
.. Insurance	.. Stocks
.. MVNO's (Mobile Virtual Network Operators)	.. Bluetooth
.. Comfort Foods	.. Dining Out
.. Veggie Tales	.. Blue's Clues
.. Staind	.. Limp Bizkit

“Is Strategic Planning Dead?”

Many executives cringe when they hear the words strategic planning. Why is it that the breakthrough management tool of the last quarter century has lost its popularity? Is strategic planning dead, or does it just need to become more market driven to address today's realities?

Most companies practice strategic planning in one form or another with varying degrees of success. At GE, it is the management system of the corporation, and is so important to their culture that it is explained in GE's annual report. At the other extreme, strategic planning is a high-level staff function that focuses only on futures, e.g., technology trends, and has little or no linkage to annual operating plans. Another example is the 'template-gone-crazy' model in which managers are forced to spend inordinate amounts of time filling out templates that they never see again.

Furthermore, being on staff in strategic planning can often be 'career challenging'. Planners are often pigeon-holed as staffers who can't run a business or deliver a bottom line.

As a result, strategic planning has lost the commitment of top management in many companies, or is often relegated to a 'business development' role. 'Business development' usually means special projects, corporate ventures, and even acquisitions.

What are the Issues?

There are several reasons why strategic planning is broken at many companies:

- Strategic plans are often too complex, making them difficult to understand or execute.
- They are often developed in a strategic planning silo and lack business unit input and buy-in.
- As a result, strategic plans are often not integrated or linked with business unit plans.
- Many objectives are too generic, e.g., improve shareholder value, with little insight into how to achieve the objective.

- The strategic planning process can also overwhelm or dilute strategic thinking.
- Strategic plans are often not connected with a performance scorecard leaving accountabilities vague.
- The process can be inflexible and sequential, thus reducing the opportunity for breakthrough strategies that might evolve from a more open, iterative process.

The dilemma in most companies is also exacerbated by the overwhelming focus on short-term results. Why bother planning 2 to 3 years out if you are only accountable for the next quarter.

The Rules Have Changed

In today's economy you have to do both because the rules have changed. Shareholders have moved to a zero tolerance zone for poor results. As a result, the CEO turnstile continues to accelerate, while business conditions sour so quickly it seems impossible to plan for.

There are no easy answers and anyone who tells you the contrary is either a charlatan or a fool. So what role should strategic planning play going forward?

Strategic Planning's Role

We believe strategic planning's role should be four-fold:

- Challenge current business models
- Stimulate strategic thinking
- Drive operating plans
- Champion the vision

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ARS' View on Advertising Effectiveness

This issue carries a special Advertising Edge column, which features a thought piece from Meg Blair, President of ARS, on advertising effectiveness.

In their 1992 Harvard Business Review article, Stalk, Evans, and Shulman stated, "The building blocks of corporate strategy are not products and markets but business processes." Given the huge sums spent on advertising, the processes and practices used in this discipline deserve the focus of corporate management. The Best Practices described in this article have been proven to increase advertising's performance and return on investment across categories, countries, and creative approaches. Following are the five pivotal stages during the advertising-development and airing process at which The ARS® Group can help you win.

1. Test for a strong selling proposition

Identifying a sales-effective selling proposition dramatically increases your likelihood of attaining sales-effective advertising; ARS Group data indicates that starting with a strong selling proposition leads to strong advertising 70 percent of the time. If your advertising is not producing the desired sales effects, improving the strength of your selling proposition is an efficient and powerful way to help you improve performance dramatically.

2. Check proposed advertising executions

Proposed advertising, such as storyboards or rough ads, should be checked against the proven selling proposition to ensure that it carries the proposition forward and avoids executional content known to distract from the message. Doing so increases the likelihood of strong advertising to over 80 percent.

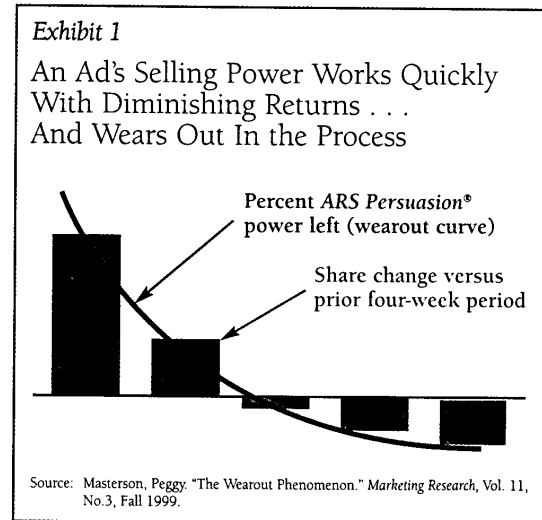
3. Determine which executions are strongest

To ensure that your advertising will produce the desired return, ARS® is a proven and accurate predictor of advertising's ability to increase sales and to measure the magnitude of that impact which will help you do the following:

- Identify which ads are the strongest and will do the best job of building your brands
- Allocate weight behind the most sales-effective ones
- Project the quarterly return on your advertising activity

4. Plan airing and refreshment

The selling power of each ad wears out -- and much faster than you may think (Exhibit 1). Given this phenomenon, airing decisions should be based on a scientific model of advertising wearout. Our empirically based *outlook®* planning software is useful for the following marketing actions:



- Planning the number of ads needed based on your business objectives (during the pre-production stage)
- Allocating media weight behind each commercial, spending more behind executions with greater sales impact.
- Replacing ads with new, sales-effective ones when they have done their job and have worn down
- Conducting "what-if" scenarios to identify the plan adjustments needed to meet your business objectives

5. Understand the competition

Your company's marketing efforts do not take place in a vacuum. Tracking the competition's advertising (and testing its selling power) provides you with direction for sound tactical and strategic practices while determining "best in class" advertising.

Conclusions

Adopting the Best Practices outlined in this article has helped ARS Group customers achieve significant growth and competitive advantage. Their brands consistently outperform their competitors. In an increasingly competitive global marketplace, The ARS Group's Best Practice tools can help improve your market position and advertising ROI. ■

Using Information to Make Better Decisions

by Steve Schmidt, President, The Americas, ACNielsen

On-the-Edge Accomplishments

- ☞ Steve Schmidt, President, The Americas oversees ACNielsen's North, Central and South American Operations.
- ☞ As an ACNielsen Board Member, he is responsible for developing and overseeing corporate policy and direction.



NECG: With all the new sources of information available today, how are companies organizing to use information to make better decisions?

SS: The Internet has given companies access to people you could never afford to reach or provide information to before . . . and they can "pay by the drink." We have frequent shopper programs that are providing an incredible amount of information today that's causing us to think about organizing ourselves around individual retailers. Mining the real consumer insights from loyalty programs offers countless opportunities to truly deliver value to clients.

Store level is another area of focus as we try to bring execution down to the store level. We also now have e-panels at ACNielsen BASES where we're using the Internet to conduct the majority of our new product concept testing research, which also affords us the ability to look at new business opportunities.

These are areas that involve new technologies which will require companies to recruit people with new skill sets. In order to successfully pursue new business opportunities, we all will need people who understand applications, and understand the use of information from a much more granular level than ever before.

Internally, we're hiring people with Internet strategy backgrounds who can horizontally integrate across the organization, and then are able to link our different businesses together.

NECG: What are some of the growing uses/applications of information?

SS: ROI is absolutely our #1 priority and should be for everyone. I maintain that data without action is overhead. We need to do everything we can to not only present a solution to a client, but to tell them how to execute against that solution and then to measure its performance. Everything we do around pricing, assortment, category management, new products, distribution, etc., has to include an execution capability as well as measuring ROI. There's not a CEO who wouldn't find money for us if we could demonstrate a 5 to 1, or even prove a 10 to 1 return. Store level syndicated data is clearly an area of growth.

Additionally, through our Spectra Marketing organization, we can target demographic clusters by using demographic similarities from the census data. We can leverage huge databases that are available through frequent shopper programs and/or other large database companies, so we can then score our household data against those databases to create similar consumer buying characteristics . . . "who's most likely to buy, etc." kind of analysis.

NECG: Can you give examples of companies or categories that leverage information for competitive advantage?

SS: Within our manufacturer clients, Kraft, General Mills, Unilever and Coca-Cola are near the top. On the retailer front, Kroger, Wegmans, Safeway and HEB are leaders in this arena. Similarly, companies such as Yahoo and AOL are looking at this as an opportunity as well. Additionally, ACNielsen,

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BASES, and Spectra are spending a lot of time focusing on how to best implement and integrate different data sources.

NECG: How is VNU/ACNielsen assisting companies in making better management decisions?

- SS:**
- First, our focus is on demand side applications and leveraging our world class data content to give our clients better coverage. Today, we are able to measure classes of trade in industries and services that we could never measure before with the idea of measuring 100% of consumer consumption as it relates to major categories.
 - Second, we leverage our household panel data that gives us the ability to link attitude and behavioral research and to be able to score consumer behavior relative to our household panel against huge databases, such as frequent shopper programs.
 - Furthermore, as we shift to demand side applications, we are really helping our clients understand pricing, new product introductions, marketing mix, category management, process and distribution.
 - Trade Dimensions, which has a listing of every single store and distribution center, helps our clients with promotion activities and promotion effectiveness.
 - BASES' worldclass new product forecasting is providing clients with exceptional insights with regard to the performance of new products before they are launched.
 - And finally, our Media business, led by ACNielsen Media Research, provides an incredible insight into what consumers are doing around television viewing, which again improves clients' ROI. The list goes on and on.

NECG: Are there new technologies on the horizon that will revolutionize the use of information?

SS: The one area of technology that could potentially be very interesting is the Auto-ID initia-

tive (sponsored by MIT) in which an individual chip is available on every product. This opens up an incredible array of opportunities that we are exploring along with many other companies.

Excluding new technology, I think the real transformation of information comes from leveraging existing technology in software and capabilities. We've barely scratched the surface in this arena:

- First, I believe one of the areas of opportunity is to significantly increase the use of data mining software techniques. From there, we have the ability to use analytical capabilities to bring information out of disparate databases and to harmonize that information complete with insights.
- Second, people are moving aggressively away from closed, proprietary software and operating systems to an open relational environment, which give us the ability to again integrate the different data sources.
- From an enterprise resource planning (ERP) perspective, businesses are implementing end-to-end software applications utilizing companies such as SAP to be able to link different information sources together. While all of these are not new, a company's ability to leverage these can pay huge dividends.

NECG: What are the future skills that executives will need to make better decisions?

SS: Clearly, understanding technology. Understanding the Internet. Understanding how to leverage knowledge management as a core competency and a competitive point of differentiation. Understanding data mining and how software can be used to provide integrated solutions to clients.

All of this comes back to human resource skills and communications abilities that will be critical to success. These are all skill sets that more senior executives today weren't trained in and have had to learn on the fly. ■

"ROI is absolutely our #1 priority and should be for everyone. I maintain that data without action is overhead".

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Challenge Current Business Models -- The demise of so many Internet companies has proven that you must continuously challenge the soundness of your current business model. Furthermore, you need to have a clear vision as to how you might adapt or transform that model in case of disruptive changes in your business environment, similar to what the airline industry experienced after 9/11. It appears that only Southwest Airlines has a business model that could weather such disruptions.

Stimulate Strategic Thinking -- Stimulating strategic thinking might sound trite, but we have found that strategic planning, as a process, is often mistaken for strategic thinking. Strategic thinking synthesizes market insights into strategies for success.

Operational Imperatives

Regardless of the roles of strategic planning, we believe that the following operating principles (shown below) should always apply:

These principles do not guarantee successful strategies, but they can improve your batting average. Even more important, however, is to have the right talent running the process. They must be highly disciplined to project manage and facilitate worksessions. They must be market driven and creative to be able to identify and build on strategic insights as they emerge. And finally, they must have the commitment of top management and the respect of business unit managers.

Operating Principles	
Market Driven Strategic Insights	The process must challenge business unit management to provide the market insights needed for credible plans.
Clear Business Mission/Vision	Business unit managers cannot be held accountable to implementing a strategic plan if they don't understand their business mission.
Simple, Collaborative Process	The process must be simple to optimize participation, and collaborative to drive ownership down to the business unit level.
Scenario Screening	The process must allow for the evaluation of several scenarios before selecting the best strategies.
Actionable Plans	Strategic plans must be closely linked to business plans that the business units know are doable.
Clear Accountabilities	The planning process must spell out accountabilities on balanced scorecards.

Drive Operating Plans -- In addition, strategic plans are worthless if they don't drive operating plans that managers are held accountable for. Therefore, strategic planning needs to be clearly integrated into the annual operating planning cycle, or be synonymous with it.

Champion the Vision -- Finally, the toughest, yet most critical role, is to champion the vision. This means constantly educating and cajoling line managers to be accountable for executing the vision.

What is the Process?

We have broadly outlined a process (next page), that demonstrates the sequence of activities. However, the process will never be as sequential, or as neat and organized as shown, nor should it be. The goal is effective strategies, based on strategic insights, not a long and perfect document that may be buried under its own weight.

Although breakthrough strategies do not always emerge from a strategic planning process, the more tools and

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techniques you can incorporate for stimulating strategic insights, the better the strategic alternatives that emerge.

The process shown starts simply with a statement of the business mission followed by an analysis of the environment you compete in and your performance in that environment.

Next is the synthesis phase that utilizes techniques such as segmentation, value proposition modeling and scenario building. The deliverables in this phase include strategic insights that are used to test the viability of your current business model going forward, and the business plans in place to make it happen.

At this point, it makes sense to revisit your business mission to determine if it needs to change.

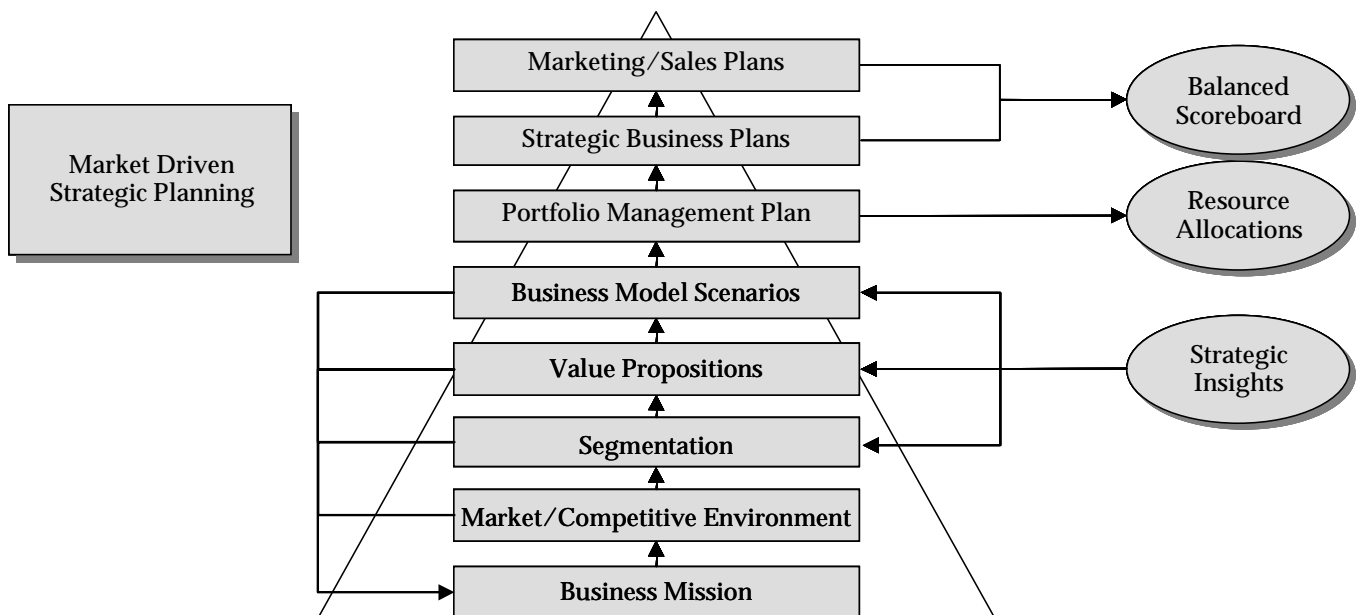
The next step is to gain business unit buy-in so that you can enforce the plans in place. The balanced scorecard is a very useful tool to hold people accountable. Without these accountabilities you run a higher risk of missing your plan targets.

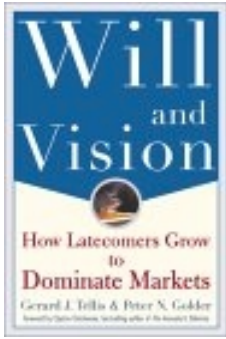
Marketing Integration

The final step is to develop marketing plans that flow from the strategic business plans. In fact, marketing should be integrated throughout the entire process as strategic plans must be market driven. We have found, for example, that in many successful companies marketing and strategic planning are either integrated functions, or they report to the same executive.

In summary, strategic planning is not dead, but it often needs resuscitation. It is worth the effort because effective strategic management can help decelerate the CEO turnstile. ■

This article was written by John Ruf, a Partner at NECG. Feel free to e-mail him your comments at jjr@thenecg.com or call him at 203-226-9200.





“Will and Vision” “How Latecomers Grow to Dominate Markets”

-- Gerard J. Tellis & Peter N. Golder

Amazon Ranking

☆☆☆☆☆

NECG Edge Ranking

☆☆1/2

Will and Vision is a book about how first mover advantage relates to market leadership. Based on a decade of in-depth research -- drawn from hundreds of books and thousands of articles -- the authors conclude that, contrary to popular wisdom, being first to market guarantees nothing -- not name recognition, not market share, and certainly not enduring market leadership.

The book starts by refuting prior research that supports the belief that first movers grow to dominate markets. It argues that most commonly supported advantages of being a first mover are not true:

- Ease of recall
- Brand loyalty
- Consumer inertia
- Patent barriers
- Economics of experience
- Resource mobilization

The book points out that past research is misleading because it only includes brands/companies that survived in the market and ignores those who failed although they were the first to market with a commercial product. For example, Pampers is considered to be the first disposable diaper, but it was launched decades after J&J's Chux, which was discontinued in 1981.

The authors claim that when failed brands/companies are included in the research, the track record of first movers or pioneers falls to a mere 36%.

The authors believe that market leaders set themselves apart from market pioneers in two ways:

1. Leaders have a vision of the mass market
 - AOL (vs. Prodigy, CompuServe)
 - Microsoft (vs. IBM mainframe)
 - Dell (vs. Tandy, Apple, IBM, Compaq)
 - HP (vs. IBM, Xerox)
2. Leaders have a stronger will to succeed
 - Persistence -- Sony transistors
 - Relentless Innovation -- Gillette
 - Financial Commitment -- Xerox
 - Asset Leverage -- IBM vs. Apple

Finally, the book shows that leaders' focus on mass markets is driven by a clear understanding of price targeting for volume, whereas many pioneers focus on niche solutions:

- VCR (\$500 vs. \$50,000)
- Ford Car (\$500)
- Pampers (3 vs. 6/unit)

Unfortunately, Will and Vision authors suffer from the same paradigm they are trying to break. Their research is based on review of published materials, which are often wrong. While their facts on many brands are precise, they are not accurate and don't tell the entire story -- maybe because the story can be told accurately only by a few people who were there when it happened, and Tellis and Golder definitely weren't there. ■

The Consultant

Lack of scrupulous, empirical, and statistical appraisal of our hypothesis may lead us to an erroneously irreversible decision.

The Client

I think he means we have to research this idea.

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