RETHINKING THE Chain

Make marketing **leaner**, **faster** and **better**.

By Robert Shaw and Philip Kotler

Not a company in the world exists where top executives don't worry about future demand, or don't waste substantial money on ideas that were intended to boost or sustain profitable demand, but didn't. Over 100 organizations, in all sectors and sizes, took us into their confidence and spoke candidly about how they struggle to drive demand—while at the same time controlling costs. We have distilled the essence of how the best differed from the worst, and encapsulated it into a performance improvement framework that can be used by any company in any market.

Few people appreciate how much work it takes to move from an exciting new product idea to a fully realized successfully launched product. One can only imagine that it involves the company's scientists, engineers, production workers, marketers, sales people, company lawyers, purchasing personnel, financial analysts, financiers and banks, distributors, dealers and so on. The same applies to ideas for improved product designs, additional product varieties, advertising campaigns, Internet marketing and all the rest of the paraphernalia that stimulate demand. One also has to imagine all the forward and backward steps that must occur as different players interact with different ideas and agendas.

Is it possible and beneficial to design a better process? We believe that the answer is yes to both questions; most organizations have an overly complex and under-controlled process; we are moving toward a new process called the Ideas-To-Demand Chain (I2D), with less complexity and better controls.

This article provides a framework for diagnosing and rethinking your I2D. Doing this offers many benefits, to client and agency alike: It makes the process faster, transparent, reliable, cost-efficient and results oriented.

What is I2D?

The I2D process can be pictured as shown in Exhibit 1; it is the mirror image of the supply chain, and contains all the activities that result in demand being stimulated. Yet unlike the supply chain, which has successfully delivered economies of scale through process simplification and process control, marketing's demand chain is primitive and inefficient. In many firms it is fragmented, obscured by departmental boundaries, invisible and unmanaged.

Ideation. This is the starting point. Ideas come in all shapes and sizes: a trickle of big ideas for new products and a torrent of smaller ideas for advertising, promotions, mailings, packaging, brochures, etc. They bounce around, get discussed, critiqued, refined and crisscross like ping-pong balls from critic to critic—and eventually become projects.

Production. Material production involves making the project ideas more tangible, and again they zigzag through a succession of roughs and prototypes—all the time being subjected to criticisms and critiques by marketing and sales, company lawyers (i.e., the sales prevention department) and many other judges.

Distribution. This step puts the materials in front of prospective customers. Short advertising films are distributed on TV, at cinemas and on YouTube; brochures are distributed by direct mail, in branch outlets or exhibitions or events; retailers deploy labels and posters at many places in stores.

Demand. The offering's demand will hopefully be stimulated, if the ideas, the production and the distribution are all effective.

Return on ideas. This is positive in a few cases, when the extra profitable demand exceeds the costs of the ideas, production and distribution. But more often, the returns are negative.

Complex, Wasteful and Risky Chains

Few people fully understand the sheer size, complexity, wastefulness and riskiness of the processes by which ideas stimulate demand. As a company grows in size, its costs in managing ideas, production, distribution and demand explode. Management should assess these costs and work toward improving efficiency.

Idea assessment. Find out how many new products, new varieties, flavors, colors or packages are being produced: how many advertising campaigns, brochures, direct mail shots, press releases, sponsorship events and activities, telemarketing

EXECUTIVE briefing Marketing is the least efficient process in business today, and still it's vitally important. Yet within marketing, there is a business process that can be simplified and streamlined: We call it the idea-to-demand chain. This article presents a comprehensive framework for auditing and transforming the idea-to-demand chain as the basis for long-term marketing efficiency. It represents a manifesto for a new, leaner, faster and better marketing that is fit for the 21st century.

scripts and Web pages, banners, and other Internet activities, conference speeches, exhibition stands, etc. The number may be modest (perhaps less than 10 annually) for small companies, but major corporations will have thousands annually.

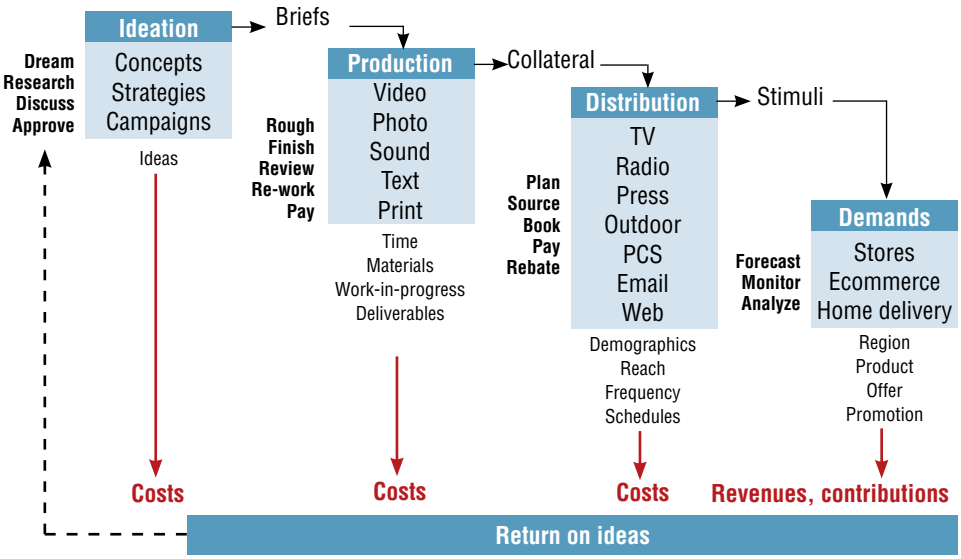
Production assessment. Map out the steps from beginning to end of your production projects. At the simplest, all that occurs is the brief, the supplier-selection and a final signoff. But usually it is much more complex. Ask how many people have the power to delay, obstruct or veto: lawyers, sales people, procurement officers, senior exaecutives, board directors and sometimes external regulators and civil servants. Discover how many external suppliers are involved in the production process: agencies, printers, Internet firms, designers, photographers, etc. Ask how many image and text files are created and saved, and how many more are licensed from image libraries. Even a simple brochure may contain 20 images, and 1,000 or more words stored in a text file. Annually, a big firm may require as many as 10,000 images and text files—or more.

Distribution assessment. Find out how many media spots you purchase annually, and check how carefully they are selected and whether all the spots are really on target. Find out how many sales staff and managers are responsible for distribution of brochures, promotional materials, sales kits, exhibitions, events and conferences—then investigate how much material is effective and what is wasted. If you work through a channel, a retailer or intermediary, there may be a collision of ideas between you and the channel, as shown in Exhibit 2. For example, an insurance firm provides ideas to its channel partners to stimulate the production of collateral that the channel distributes: letters, sales guides, Web site ideas. How much of your material really gets distributed?

Demand assessment. Ask how many demand streams—products, markets, segments, regions and locations—have to be monitored and tracked. Combine them as a matrix and you may be looking at millions of little streams of demand, all needing to be monitored. Find out who owns the responsibility of stimulating these demand streams, and ask who can tell you how much growth has come from their ideas. What methods are they using to analyze demand? Are they doing it rigorously, taking into account all the key factors, or do they make excuses and say it's impossible to analyze?

Exhibit 1

The idea-to-demand chain



Rethinking It

What exactly does it mean to rethink I2D? Here are some suggestions.

Embrace new roles and beliefs. Arts and humanities graduates that conventionally seek marketing jobs widely believe ideas "thrive on chaos"; they put up with mountains of waste, delays and cost overruns. They say, "If we are more efficient, finance will take away our budget." No they won't. They say, "Marketing is too complicated to measure." It isn't. Marketing has to embrace the continual improvement agenda, and the first step is to challenge the myths of chaos.

Companies must rethink roles, attitudes and development of marketing staff. Anyone with real quantitative orientation gets easily turned off by

marketing. MBAs in particular tend not to gravitate towards marketing jobs; marketing departments and agencies have to make a special effort to attract them, by emphasizing the commercial skills and numeracy expected in the modern marketing manager.

Quantify, don't beautify. Beautiful ideas or aesthetically elegant ones are often favored by marketing. There is a willingness to suspend belief about numerical tests and experiments if an idea is attractive; and there is a tendency to bury dead ideas and not learn from past mistakes.

Diageo, the £10 billion global drinks company, has introduced a firm-wide process—known as Activity Evaluation—to ensure that all ideas deliver a positive return. Managers must forecast the cost and outturn of an idea before they implement it, and must include in the proposal a description of how the return will be measured. Successful ideas are then measured and actual results compared with predictions. This learning process has the added benefits of making everyone more results-focused ,and also continually improving forecast accuracy.

Companies must rethink the way they allocate money and resources to creative ideas, and how they evaluate them. Money should be allocated to maximize profitable incremental demand. Yet from our discussions with dozens of organizations, it became very clear that budgets were not being allocated in this way: "What did we spend last year" was the commonest criterion. And profit increases led to budget increases (not vice versa) and pet projects would be funded in the face of contradictory factual evidence. The best solution is to use quantitative optimization techniques to make a cold, objective assessment of the profit-maximizing allocation.

BP, the global oil and gas company, spends many hundreds of millions of dollars on marketing in more than 60 countries and in multiple markets and products. The annual budget allocation process was dominated by strong personalities and little science. It resolved to change this by adopting scientific analysis methods to quantify the "saturation curves" linking marketing activity to incremental demand, and optimization techniques to hunt down the allocation that maximizes profitable demand. It now has a scientific process that maximizes the payback from their considerable investment in demand generation.

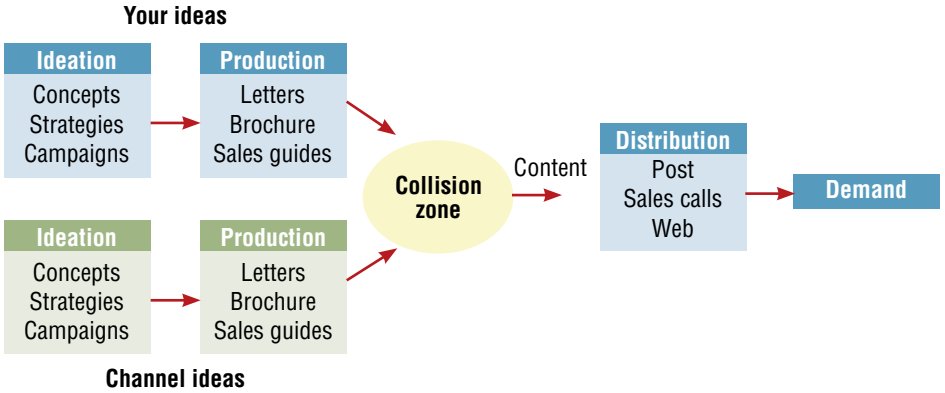
Rethinking Ideas

Manage ideas as a portfolio. Conventional organizations usually have a stage gate process for managing individual ideas. Yet managing individual ideas effectively does not ensure that resources will be allocated effectively. In the case of Unilever, creating new ideas is central to its strategy; but it is also systematically cutting its portfolio of brands, products and stock keeping units. One of the key processes that keeps creation and cutting in balance is portfolio management. Not only do managers have to make predictions for each idea (in a similar way to Diageo), they also review the entire set of ideas as a portfolio. The portfolio is assessed by scoring ideas in terms of consumer attractiveness and technical difficulty. And the portfolio managers constantly reallocate resources to ensure big ideas are resourced effectively, while cutting back the portfolio in other areas.

Share ideas and encourage collaboration. Ideas that are being worked on by different departments, locations and business units are shared, to disseminate them faster around the organization and to reduce the reinvention of the wheel. This has been done at Motorola, the $37 billion global company with a long history of creating innovative products and services. Its innovative ideas were scattered across regions, countries and business units. And they were stored in e-mails, Microsoft Word documents and spreadsheets, without any easy way of sharing and collaborating. Today, Motorola has implemented a common "ideas bank," so that managers share ideas and encourage collaboration. Local managers record information on the system about the technology, customer needs and financial information for each new product; this is accessible to managers in other countries, who can make informed decisions about launching similar products in their areas.

Exhibit 2

The linking of supplier and channel I2D



Rethinking Production

Outlaw wasteful production. The production process itself is very wasteful. Agencies rework roughs and rewrite copy over and over until it satisfies the critics in the marketing department, the sales team, general management and the corporate lawyers—at each stage, losing some of its originality and meaning. And the more waste generated, the more agencies are paid, so they seldom draw clients' attention to the issue. The

answer is to monitor rework and scrap, analyze the root causes and outlaw working practices that are generating high waste levels.

Reduce and simplify production checks and controls. Multiple production checks and controls are useful only when the risks are high. Yet conventional production processes for advertising, direct marketing and other activities are replete with checking and control steps. And dozens of people spend time and energy critiquing work in progress, from junior marketing staff to the CEO. While its objective may be commendable, many organizations fail to recognize the costs associated with strict checks and controls. They consume time and labor and, in the worst cases, the cost of checking and rework may even exceed the cost of the collateral being produced. The answer is to map out the processes, find out who are signatories and reviewers, check the legal implications of checkpoints, and then robustly cut any checks and controls that are not absolutely essential. One company that did this discovered its production process had more than 100 checkers, reviewers and signatories; they were able to cut it back to fewer than 25, without introducing any compliance or regulatory risks.

Reallocate work to where it's done most effectively. Production work is often parcelled up around a few powerful agencies (WPP, Publicis, Omnicom, etc.), who monopolize the entire chain for key activities—such as advertising or design. But they seldom provide consistent support across all parts of the chain, for all brands and products. Consequently many clients are renegotiating agency contracts to split away any activities where agencies are providing weak support—media, production or ideas—and they are finding alternative new suppliers who can do a better job than the dominant agency. Conversely, there are examples of the opposite problem (i.e., large companies that have hundreds of advertising and other marketing services agencies, which are unmanaged and inefficient). This can lead to consolidation into fewer larger agencies. Both of these are examples of the key point: Reallocate work to where it's done most effectively.

Production specialists can offer cost-effective solutions, because of their investment in the latest technologies for workflow management, project management and digital asset management; offshored arrangements to cut costs; translation specialists in 40 languages; special terms and technology integration with local production houses; multilingual local supervisory teams; sophisticated project reporting for clients and transparent job costing and billing practices. Compared with them, most general marketing agencies are dinosaurs.

Rethinking Distribution

Monitor and control media selection and buying. Another common practice is for media selection and buying to have lax supervision. Prices and value for media are in constant flux. This can cause numerous problems: media bought at double or triple the going rate, excessive cancellation and late booking charges, selection of media that do not deliver the target audience, credits and rebates retained by the agency, paying for media spots that were not run, and risk of failing Sarbanes-Oxley Section 404 compliance. The solution is to demand much greater transparency from the media buyers and owners: clear media briefs, rolling media plans, reviewing final media buys against planned buys, media invoices and proof. Already it is becoming common practice for media auditors to carry out annual reviews, but companies are also beginning to recognize that bringing the monitoring and control in-house is a more satisfactory solution.

Outlaw wasteful distribution. The distribution process generates yet more mountains of waste. Promotional kits, brochures, leaflets, gifts, etc. all enter the distribution chain. They are distributed to sales people, intermediaries, stores, bars and other points of distribution with this message: "Please see that this is used effectively." And from then onwards, they are neglected. Huge amounts are just dumped without ever going near customers. The answer is to monitor waste and scrap, analyze root causes and change working practices that are generating high waste levels.

Rethinking Demand

Attribute demand patterns scientifically. Attribution of demand patterns to their underlying causes may be difficult, but it's possible with scientific tools and analyses. Demand patterns rise and fall, oscillate, vacillate and jitter in ways that are baffling to the casual observer. They are nudged and bumped and pushed and pulled by many forces and factors, many of which are not reported in detail to management. Environmental factors such as daytime temperature, rainfall, consumer confidence and disposable income all have an effect; prices, offers and promotions, display and visibility and advertising all can stimulate demand.

A global entertainment company spends substantial sums on advertising. Although it has daily sales data, its ability to link it to the demand drivers was technically complex and it relied too much on hunch and gut-feel in placing weekly media purchases. To improve the return on marketing, the company built a dynamic demand analyzer that takes daily sales data, and links it to all the factors that are driving it. As sales bounce up and down daily in response to these myriad factors, the system filters noise and delivers a clear signal to the media buyers on which paid media spots are wearing out, and which future spots are good purchases.

Enhance demand forecasting. Demand forecasting in many organizations is remarkably crude. Drivers of demand, ideas that enter the I2D, are often neglected in demand forecasting. And supply chain managers often complain about the inaccurate demand forecasts they receive from sales and marketing.

The solution to this is to enhance forecasting by giving early warnings of all the demand-driving activities. Early warning systems that gather information from all key points on the distribution chain—media, sales, intermediary and channel activity—can be plugged into forecasting systems to give more accurate forward projections, so that the supply chain is synchronized better with the demand chain.

L'Oreal is one of the world's largest cosmetics companies, employing more than 52,000 workers in Europe and the Americas. Prior to 2005, L'Oreal USA's Luxury Products Division's forecasts suffered from all the problems mentioned. That year, it overhauled forecasting and set up an early warning system, gathering information about ideas in the pipeline—from the sales teams, marketing planners, pricing teams and sales promotions planners. This has enabled radical improvements in the accuracy of demand forecasts.

Making the Changes Stick

Most of the organizations we talked to were concerned about the costs of driving demand, and the apparent inefficiency of the process. Between 1997 and 2008, we studied and observed more than 100 organizations. These included large and small firms from various sectors and industries. Some were studied continuously over five or more years, allowing us to observe how their working practices developed and evolved with the passage of time. We used a mixture of depth interviews and group discussions. In some cases, companies shared their working practices and invited us to internal planning and review meetings, showing us plans, budgets, analyses, models and tools. All talked candidly about what worked effectively and what didn't.

Most revealing were their comments about failed attempts to transform I2D. The mistakes are all there waiting to be made, and it's important to be vigilant and avoid them. Common ones are:

- junior people in charge of reforms,
- people issues overplayed or underplayed, and
- sloppy implementation.

Junior managers, such as market researchers or procurement managers, were often given the job of transforming marketing efficiency. However, they lacked the authority and experience needed to push through widespread reforms—and were successfully resisted by the majority.

People issues tended to be either overplayed or underplayed. We saw many examples where companies focused on interpersonal relationships by adopting 360-degree reviews, and engaging in team building activity—however, interpersonal relationships did not trigger efficiency improvements. Conversely, ignoring people issues altogether allowed opposition to grow and prevail.

Sloppy implementation was another problem. We heard slogans about efficiency and return on investment, and we saw mission and vision statements—but without project plans for implementing the reforms, little progress was made. Change was optional, sloppy processes were tolerated, measurements were inaccurate or late, complexity was allowed to persist and benefits were not seized.

Yet a minority successfully implemented widespread efficiency improvements and made the changes stick. Key themes were:

- hands-on top execs
- people must change
- new or improved systems

CMOs or their deputies spent part of their working week making sure that the reforms were pushed through; they rolled up their sleeves, and poked in their noses. While junior staff organized the mechanics of the change programs, streetwise CMOs didn't leave them alone for long periods: They got actively involved in making sure that the changes were made, and that they stuck.

People knew change wasn't optional. In one case, the company decided its senior team lacked sufficient commercial skill and hired a new team with the requisite skills. Usually people were allowed time to develop, and training was made available to assist them. On the client side, it was the senior marketing people that had to display commercial skills. On the agency side, commercial sophistication became a critical success factor in client relationships.

Systems were introduced or improved in three areas: workflow-management, financial reporting and digital asset management. Although some efficiency gains could be made with no new systems, the biggest wins seemed to come with new systems.

Regardless of any potential pitfalls, we are encouraged by the successes of companies that rethought their I2Ds. Companies that approach the demand chain as an opportunity similar to the supply chain—with thoughtfulness, commitment and strong executive leadership—will succeed at it and reap substantial benefits. ■

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