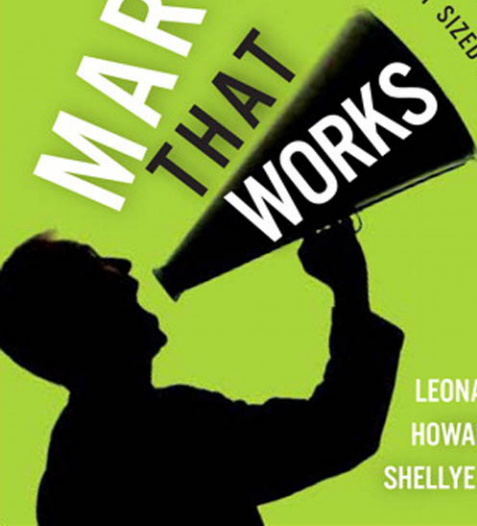


MARKETING THAT WORKS

HOW ENTREPRENEURIAL MARKETING
CAN ADD SUSTAINABLE VALUE
TO ANY SIZED COMPANY



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PRAISE FOR *MARKETING THAT WORKS*

“A comprehensive look at ways to increase enterprise results through efficient marketing.”

—**Bill Campbell, Chairman, Intuit**

“The principles and insights outlined in this highly engaging book have been invaluable to me in leading the marketing efforts at Victoria’s Secret Stores as well as on several P&G brands.”

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—**Carol Bartz, Executive Chairman and
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“Effective marketing is critical to the success of any business. This book is full of proven methods and tools to help companies of all sizes successfully compete in today’s saturated market.”

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“It’s refreshing to read a marketing book that is full of sensible concepts backed up by factual examples.”

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chains are willing to pay the full capital cost upfront, in return for much lower monthly software maintenance costs. Others prefer to not pay any capital costs, and just pay a monthly rental—in this case, Evolution’s cost of funds is taken into account, and customers often give Evolution much higher total margin (over three years) than if they had borrowed the money and paid the capital costs. A third choice—sharing the savings from loss prevention—is also offered. Here again, customers are determining the price they will pay based on their own preferences, capital availability, and risk tolerance.

While not all entrepreneurial ventures lend themselves to customer-determined pricing, when the products and services are new, and there is no established competition to overcome, it can often lead to much higher profits than the traditional price-testing methods. In addition, when the customers are determining the price themselves, something that is often a source of negative feelings (high prices) becomes the source of positive feelings, since it is truly a customer choice for what to pay, which is empowering.

CONCLUSION

We began the chapter by showing how common cost-based or competitive-based pricing rules may be “precisely wrong.” We showed that a “vaguely right” approach is to attempt to charge the price (or prices) that maximizes your profit return over your planning horizon. It also is very important to get the initial price level at a good level, because it is much more difficult to raise prices over time than it is to lower them. Next, we described methods for in-market and pre-market (concept testing) for determining the potential relationship between alternative prices and the sales revenue that those prices would produce. The Web is the perfect in-market price-testing vehicle for many products.

We then showed a number of examples of how the price you can and should charge is intertwined with all the rest of the elements of the marketing mix. The marketing mix and the product-offering bundle all affect the perceived value for the potential customer. This perceived value in turn affects the price the consumer is willing to pay. For a consumer product, we demonstrated how a change in the product description on its box would double the sales of the product. The new box described valuable consumer benefits as opposed to the older box that described product

features. We showed how perceived value in use affects the price response of business-to-business products. We showed how the SAS Institute's unique marketing mix and pricing structure captures and creates more perceived customer value than competitive software customers. Finally, we concluded the chapter by showing how it is often possible, and even desirable, to have the customers themselves determine the price dynamically. This can lead to higher gross margin, and more satisfied customers.

ENDNOTES

1. This is a disguised real example from the author's experience. The data have also been slightly altered. None of the conclusions would change because of the disguising. The disguising is to protect confidentialities.
2. Gross, Irwin, Presentation at the Wharton School, March 1999.
3. Ibid.
4. Ibid.
5. Ibid.
6. SAS Institute white paper, "SAS Institute Business Model," 1998, Cary, NC, p. 3.
7. Ibid., p. 4.
8. Ibid., p. 4.
9. Ibid., p. 4.
10. Fishman, Charles, "Sanity, Inc.," *Fast Times*, January 1999, p. 87.
11. Ibid, p. 96.

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Distribution/Channel Decisions to Solidify Sustainable Competitive Advantage

| | Products/Services | Equity/Shares | Image |
|-----------------------------------|-------------------|---------------|-------|
| Customers | | | |
| Users | | | |
| Investors | | | |
| Supply Chain/ Channel Partners | | | |
| Employees | | | |

Nowhere has technology had a bigger potential impact than in the standard functions that used to be considered under “distribution decisions.” Distribution encompasses all of the activities that need to be performed so that your product’s “offering bundle” is transferred productively from you, the entrepreneurial marketer, to the customers and users who will buy and benefit from the offering. The “offering bundle” includes not only your product or service, but all of the ancillary parts of the bundle that help to mold the perception of the end customer. Packaging, how the product is placed on the shelf, what the clerk says and knows about the product, the end user price, how the end customer is treated when she has a problem or a question before or after purchase, and how easy it is

for the end customer to evaluate alternative product offerings, are all just some examples of ancillary parts of the “offering bundle.” The choice of which intermediaries are involved between the entrepreneurial firm and its final customers and how these intermediaries are managed has a big impact on the “offering bundle.”

The distribution decisions are now much more complex than they were even 10 or 15 years ago. The alternative ways for the different parts of the offering bundle to be “distributed” have been increasing at a very rapid rate. In this chapter, we give the entrepreneurial marketer some conceptual structure to generate new, creative, and possibly productive distribution options. We describe a number of options that other entrepreneurial firms have been able to use effectively. We also show methods for evaluating the options in terms of their impact on the perceived offering bundle to the entrepreneur’s target segment(s). Figure 4-1 puts the macro logic of distribution channel decisions covered in this chapter in perspective.

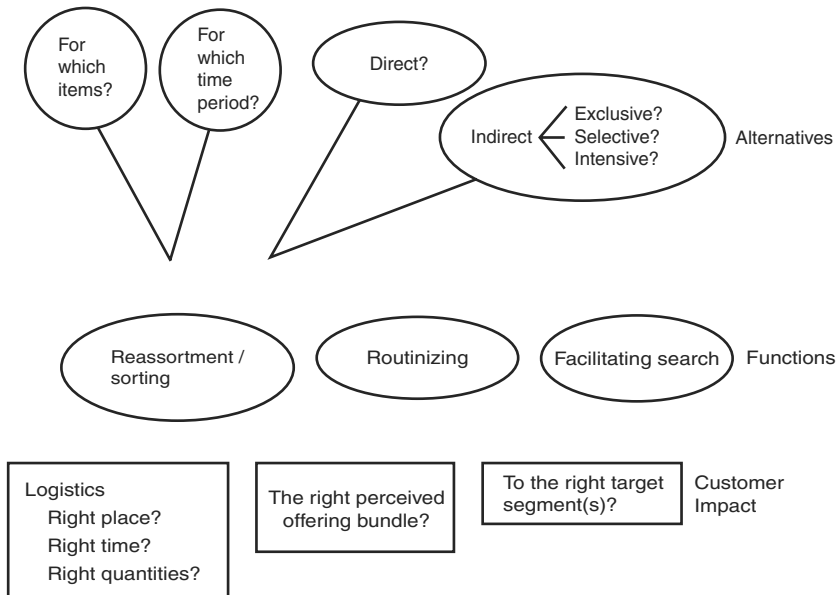


Figure 4-1 Entrepreneurial distribution channel decisions

In order to help the entrepreneur make some good distribution decisions, we first look at the required functions any distribution system must

perform. We then look at additional options that need to be considered as part of the effect of the distribution channel decisions on the perceived offering bundle.

REQUIRED FUNCTIONS OF ANY DISTRIBUTION SYSTEM

First, physical distribution will almost always need to be performed. The product or service somehow has to get to the end customer or end consumer. It should be the right *product or service* at the right *place* at the right *time* in the right *quantities*. Along with physical distribution, distribution strategy also impacts the “offering bundle” that the end consumer sees. As described previously, the offering bundle can be a critical element of your success. Who the consumer is and what the consumer perceives when she is making her evaluation and purchasing decision should be the embodiment of your positioning and segmentation strategy.

Intermediaries possibly can be used to perform some of the required functions more efficiently and/or more profitably to the firm. Pitt, Berthon, and Berthon outline three basic functions that intermediaries can perform to improve the productivity of a distribution channel.¹ The functions are as follows:

1. Reassortment/Sorting
2. Routinizing Transactions
3. Facilitating Search

We outline each in turn.

Reassortment/Sorting refers to all of the typical intermediary activities that need to happen for physical distribution from a producer that likes to supply relatively large quantities of a relatively small assortment to an end consumer who will typically want relatively small quantities of a large assortment of “offering bundles.” These activities may include arranging the products, sorting them into groups that are relevant to consumers, aggregating goods from different suppliers, “breaking bulk” by providing the right smaller quantities to the end customer, and putting together new packages of goods or services from different suppliers.

Routinizing Transactions are activities that standardize products and services and automate transactions so that bargaining is not needed for each small transaction; it makes it easier for the end customer to compare