Investment Advisor to the Business

> *"Successful investing is anticipating the anticipations of others."*
> John Maynard Keynes

For retailers, the role of marketing has been gaining in importance, moving beyond the traditional mass-marketing approach to becoming a crucial tool for developing a successful retail value proposition. Marketing strategies have changed in several ways since the 1990s: soft and hard good chains are shifting to targeted programs; food retailers are focusing on category management as a way of looking at customer groups and their buying needs; and apparel, footwear and accessory brands are building their own retail channels. The importance of monitoring these changing needs led marketing to look into a wider, customer-led business proposition. In essence, the retail marketer today is responsible both for communicating the value proposition to customers and advising the business on value enhancements that are tactically valid and strategically relevant.

These are the facts every Marketing professional understands:

- There are more and more global competitors in your market.
- Your competitors are constantly changing their business models and value propositions.
- Your customers can access massive amounts of information, making them aware of their options, tough bargainers and fickle.
- At the same time, customers' appetite for products and services continues to change and grow.

Your competition and customers will continue to increase in sophistication. Marketing must do so, too, if it is to serve the business and help it compete and win. This means its role must evolve. Marketing must become an *investment advisor* to the business. As that investment advisor, Marketing must define:

- The overall investment strategy—what is sold, where, how and to whom
- The strategic path for maximizing return on the company's assets (ROA)
- The cost justification for the operational path required to get there, i.e., support of return on investment (ROI) numbers for scarce marketing dollars.

Marketing must be present in the boardroom, offering business advice and market research coupled with financial analysis. It must connect the dots among strategic objectives, operational execution and financial criteria. It can provide the necessary alignment among strategy, operations and finance.

Marketing must overcome three important barriers to provide this alignment and become an investment advisor. Each barrier underscores the need for information sweet spots, greater accountability and more integrated decision-making.

Barrier 1: ***Defining the "size of prize" has become more complex***

In the days of simpler customer needs and homogeneous mass markets, retailers assessed value based on incremental sales, using certain products and promotions to pull customers into the store. The challenge has evolved to include targeting a range of different customer groups or "profiles," defined by their shopping behavior and profitability profile. Retailers began to include customer information in their data, for example, via loyalty cards, with the objective of mining these behavioral insights and becoming customer-centric.

Today a number of retailers have successfully developed this information sweet spot and now can group customers into meaningful segments. This trend is evolving as customer requirements and characteristics are divided into smaller and smaller micro-segments, which require organizations to become responsive to the needs of more and more customer categories.

Size-of-prize marketing requires the retailer to do two things well. First, it must pool customers into meaningful micro-segments that are cost-effective to target, acquire and retain. Second, it must determine the profitability potential of these micro-segments in order to set priorities. These profit pools allow Marketing to recommend the best investment in type of marketing campaign as well as at category, product, brand or segment levels. This is of particular relevance when considering different customer strategies: the more detailed the understanding and mapping of micro-segment profits, the more the marketing and sales propositions can be refined.

Barrier 2: ***Lack of integrated and enhanced information***

Without appropriate context (*where*, *what*, *who*, *when*), Marketing can't define or analyze a micro-segment. Without perspective (comparisons), Marketing can't define market share or track trends across channels over time at a more detailed level.

As an investment advisor, Marketing must merge three core information sources: customer (operational), market (external) and financial. To gain the full value of large volumes of customer data—point-of-sale (POS), e-commerce, catalog, loyalty card, click-stream data and feeds from ERP sources—the information must be structured thoughtfully and integrated cleanly. Marketing's judgments and assessments must be supported by the capability to categorize, group, describe, associate and otherwise enrich the raw data.

Companies need easy, fast and seamless access to typical market information such as product category trends, product share, customer segments, channels and store performance. They also need financial information from the general ledger and planning sources to allocate cost and revenue potential in order to place a value on each profit pool.

Barrier 3: ***Number-crunching versus creativity***

Retail marketers create strategies to win customer segments and the associated "prize"—loyalty, larger share of wallet, life-time value, etc. Marketing's work now really begins, and it must justify the marketing tactics it proposes, set proper budgets and demonstrate the strengths and limits of those tactics. Drilling down into greater detail and designing tactics around this information will help satisfy Finance's requirements. In the past, such detailed design has not been the marketing norm, but it is required to generate the ROI that Finance wants to see.

However, the right information is not always easy to get. And some departments contend that good ideas are constrained by such financial metrics, stifling the creativity that is the best side of Marketing.

Marketing's traditional creativity should not abandon finding the "big idea," but must expand to include formulating specific actions with a much clearer understanding of *who*, *why*, *what* and *size of prize*. This is not a loss of creativity, but simply a means to structure it within a more functional framework.

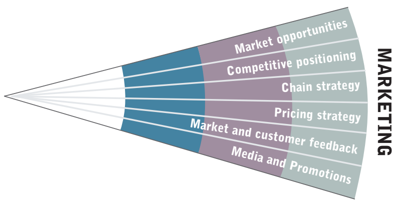
A Guidance and Early Detection System

As investment advisor, Marketing guides strategic and operational activity, which focuses on the potential of specific segments or initiatives and how the organization can meet these needs. In this role, Marketing can also be an early detection system for how changes in the market lead to changes in products and services, selling strategies, or even more far-ranging operational elements of the business.

Many marketing metrics are important indicators for an organization scorecard. Sudden drops in customer conversion or basket size for traditionally successful marketing efforts could mean competitive pressure, market shifts and/or execution issues. Good marketing departments see the big picture. They notice and interpret trends that are not readily apparent on the front line and provide the business context for what is being sold, or not, and the associated value proposition.

Marketing has the responsibility for defining, understanding and leading five core areas of the company's decision-making:

- **Market opportunities** ➔ What is the profit opportunity?
- **Competitive positioning** ➔ What are the competitive risks to achieving it?
- **Chain strategy** ➔ What is our value proposition?
- **Pricing strategy** ➔ What is it worth?
- **Market and customer feedback** ➔ What external verification process will enhance and confirm performance expectations?
- **Media and Promotions** ➔ How do we reach and communicate value to customers?



Marketing Opportunities

Making decisions about marketing opportunities is a balancing act between targeting the possibility and managing the probability, while recognizing the absence of certainty. This decision area is fundamentally strategic and concerned with the longer term. It manages the upfront investment and prioritizes the most promising profit pools while dealing with a time lag in results.

Understanding the profit potential in opportunities requires a detailed assessment of pricing, cost to serve, distribution and logistics requirements, merchandise range and quality, point-of-purchase execution and more. The most obvious market opportunities have already been identified, whether by you or the competition. You are looking for the hidden gems buried in the data missed by others. These are the strategic initiatives that make you unique and need to be identified, analyzed and understood.

GOALS	METRICS	DIMENSIONS
Retailer Share (%) Market Growth Rate (%) Market Revenue ($)	Market Growth ($) Market Profit ($) Market Unit Volume (#) Profit ($) Sales ($) Unit Volume Sales (#) Consumers (#) Marketing Potential Score (#) Population (#) Qualified Consumers (#) Penetration (#/%)	Fiscal Month Year Quarter Month Marketing Areas Region Area Marketing Segment Market Segment Micro-Segment Product Hierachy Product Category

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing				
	Executives	•		
	Professionals	•		
Store/Channel				
	Executives			•
	Professionals		•	
Merchandising				
	Executives			•
	Professionals		•	
Customer Service				
	Executives			•
	Professionals		•	
Finance				
	Executives			•

Competitive Positioning

Effective competitive positioning means truly understanding what you offer as merchandise, services and convenience to the customer segments you target, and how they compare with those of other organizations. As an investment advisor, Marketing must clearly define the business and competitive proposition: *In which channels are you competing, with what value proposition, and how is this differentiated versus competitors?*

Marketing must define and invest in specific information sweet spots that give it insight into how its customer targeting criteria compare with those of its competitors. Marketing must understand the customer-relevant differentiators in its offerings and the life span of those differentiators based on, for example, how difficult they are to copy. It also needs to understand the pricing and communication implications of this information.

- Are our price points below or above those of key competitors, and by how much?
- If below, is this sustainable given our cost profile, or is cost a future threat?
- What premium will customers pay for value-added propositions?
- How effective is the communication strategy compared to the competition?

GOALS	METRICS	DIMENSIONS
Competitor Growth (%) Competitor Price Change (%) Competitor Share (%)	Competitors (#) Competitor Price Change ($) Competitor Sales ($) Competitor Penetration (#/%) Market Growth ($) Market Profit ($) Market Revenue ($) Sales ($) Time to market/competitor (#)	Competitor Competitor Type Competitor Company Fiscal Month Year Quarter Month Marketing Areas Region Area Marketing Segment Market Segment Micro-Segment Product Hierachy Product Category

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing	Executives	•		
	Professionals	•		
Store/Channel	Executives			•
	Professionals		•	
Merchandising	Executives			•
	Professionals		•	
Customer Service	Executives			•
	Professionals		•	
Finance	Executives			•

Chain Strategy

The go-to-market positioning of the business needs not only to be clear, but also to evolve with the ebb and flow of customer life styles and needs. The Marketing function must manage this positioning along a number of dimensions which, in essence, also defines the retail brand. *What is the value proposition in terms of quality, reputation, value for money, product range, convenience, level of service and location options?*

For example, the chain strategy may be based on being a low-price leader focused on a certain socio-demographic customer segment, with clear implications regarding the types of merchandise and channels that will be offered. Targeting a lower disposable income group will impact the average transaction or basket purchase available and, therefore, also influence the product range and level of service offered. *How is this customer segment ideally served in terms of store size, location and assortment? Is the positioning sufficiently differentiated versus the competition's?*

Chain strategy builds on the process of competitive positioning and market opportunity definition. Marketing should understand how to build a differentiated value proposition that is sustainable. As an investment advisor, Marketing is in a position to counsel the retail operation regarding the what, how and why of this uniqueness. As demographics, shopping behavior and competitors change, Marketing must interpret and communicate the impacts. In-depth analysis helps Marketing better understand how quickly these changes are occurring and whether the chain business model needs to re-evaluated.

GOALS	METRICS	DIMENSIONS	
Target Category Growth (%)	Category sales ($)	Fiscal Month	Marketing Segment
Visit frequency (#)	Transactions per visit	Year	Market Segment
Transaction value ($)	Market Growth ($)	Quarter	Micro-Segment
	Customer Score (#)	Month	Product Hierachy
	Relative Price Gap	Organization	Product Category
	Target Product Growth (%)	Division	Product Group
	Target Product Margin (%)	Channel	Product Line
	New Product Sales ($)	Store	Customer Segment
	New Product Profit ($)	Department	socio-demographic segment
	Net Price ($)	Org. Code	loyalty & spend segment
	Service Cost ($)	Marketing Areas	Project
	Store development initiatives (#)	Region	Project/Program Type
	Store Upgrades ($/#)	Area	Project
	Number of product firsts (#/$)		

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Marketing				
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Store/Channel				
	Executives			•
	Professionals		•	
Merchandising				
	Executives			•
	Professionals		•	
Customer Service				
	Executives			•
	Professionals		•	
Finance				
	Executives			•

Pricing Strategy

Pricing is a complex tool, with a maze of interconnected customer behavioral implications. Today "good value" does not necessarily imply low price, but is defined by the customer's perception of "good value." This will include intangibles such as convenience, atmosphere, selection and service. Pricing policy is therefore also a strategic concern. *How is the retail brand aligned with customer pricing perceptions? Do the product category price points reflect the targeted shopper segments and expected shopping behaviors? Is pricing policy centralized or adapted to local conditions and costs?*

The marketer needs to evaluate and define a rationale for a detailed pricing approach that is aligned with these strategic considerations. Specific price point breaks are used to differentiate the value offering of the various assortments. By analyzing customer shopping and basket purchase patterns, pricing opportunities can be identified, both increases and decreases. During intense price competition, such analysis becomes vitally important as an excessive counter response may permanently impact range differentiation, brand image and, therefore, operating margins negatively.

Smart marketers today see micro-segment markets not as a challenge, but as an opportunity to define smaller, more customized offerings that are less price-sensitive. Targeting micro-segments means modeling price implications and tracking results at many levels.

- How does price sensitivity (elasticity) vary by different customer segment, e.g., different socio-demographic profiles?
- Given inventory holding costs, how complete should the assortment range and representative price points be by channel?
- To what extent should pricing be used as a defensive versus offensive tool, and what are the relative cost benefits? For example, does it pay to be aggressive and launch a price war to keep customers when new competitors enter the market?

GOALS	METRICS	DIMENSIONS
Price Change (%)	Markdown (%)	Fiscal Month
Price Segment Growth (%)	Promotion ($/%)	Year
Price Segment Share (%)	Net Price ($)	Quarter
	Average Price ($)	Month
	Average Market Price ($)	Organization
	Price Change ($)	Division
	Price Elasticity Factor	Channel
	Price Segment Sales ($)	Store
	Price Segment Value ($)	Marketing Areas
	Sales ($)	Region
	Unit Volume Sales (#)	Area
	Price point breaks ($)	Product Hierarchy
		Product Category
		Product Group
		Product Line
		Marketing Segment
		Market Segment
		Micro-Segment
		Competitor
		Competitor Type
		Competitor Company

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	Professionals	•		
Store/Channel				
	Executives			•
	Professionals		•	
Merchandising				
	Executives			•
	Professionals		•	
Customer Service				
	Executives			•
	Professionals		•	
Purchasing				
	Executives			•
	Professionals		•	
Finance				
	Executives			•

Market and Customer Feedback

The market and customer feedback decision area combines an external reality check with internal understanding of improvements in the service and merchandise offering. It offers a gap assessment between customer expectations and the current retail proposition. *Are customer service expectations significantly higher than the in-store reality, leading to a steady attrition of customers and lower performance? If so, what needs to be improved, how, and what are the financial implications?*

Customer help desks, complaints, staff input, customer surveys and other tools offer crucial information to monitor customer views. They provide a verification mechanism that ensures the retail proposition is aligned with customer needs and expectations. The insights these feedback activities produce help the organization understand what investments are necessary. The implications may include changes in channel strategy, merchandise, store layout, staffing, store upgrades or other improvements. An information framework that uses this data effectively can support and confirm changing market opportunities and risks. Market intelligence and customer feedback, therefore, is critical in corroborating whether the retail strategy and performance are on track.

GOALS	METRICS	DIMENSIONS
Customer Satisfaction Score (#) Improvement Suggestion Cost ($) Improvement Value-Add Score (#)	Suggestions (#) Implementation Difficulty Score (#) Service Cost ($) Store development initatives (#) Store Upgrades ($/#) Competitor Satisfaction Score (#)	Fiscal Month Year Quarter Month Organization Division Channel Store Marketing Areas Region Area Competitor Competitor Type Competitor Company Customer Segment Market Segment Socio-demographic segment Loyalty & spend segment

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing	Executives		•	
	Professionals	•		
Store/Channel	Executives		•	
	Professionals	•		
Customer Service	Executives		•	
	Professionals	•		
Merchandising	Executives			•
	Professionals		•	
Finance	Executives			•
Supply Chain	Executives			•

Media and Promotions

Driving demand is where Marketing rubber hits the road. All of Marketing's strategic thinking about micro-segments, profit potential, the offer and competitive pressures comes to life in advertising, promotions, online marketing, public relations and events.

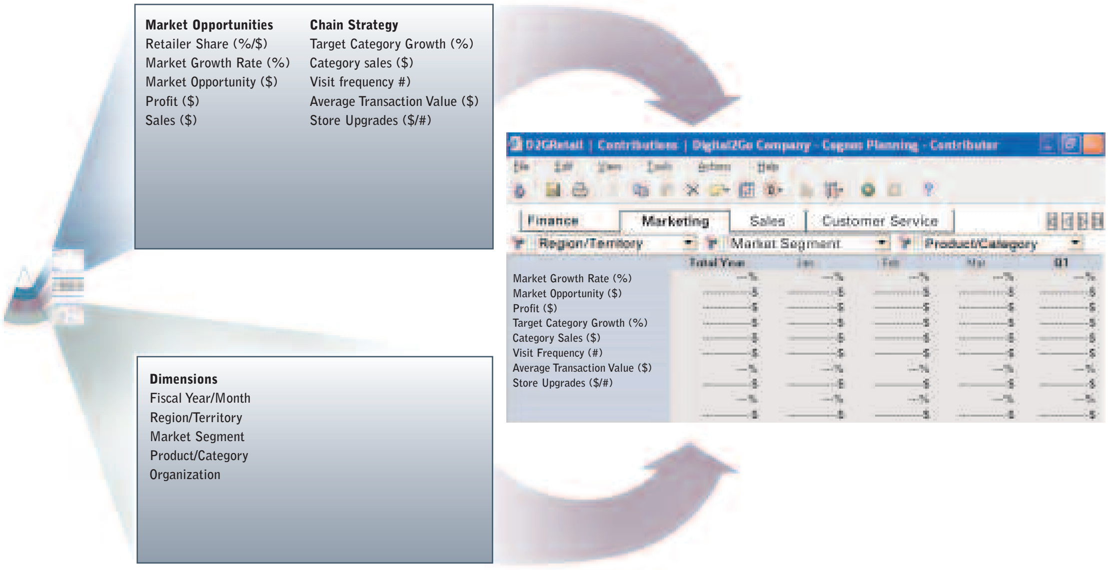
Marketing understands effectiveness by analyzing costs, sales lift and response rates for programs, direct marketing campaigns, and benefits from advertising. At the same time, Marketing must understand whether or not the multiple channels are acquiring the optimal shoppers and customer profiles. This is key to understanding the results of a micro-segment marketing effort.

Improving Marketing tactics is not simply about designing more detailed and specific activities; it also means understanding what elements work better than others. Marketing must understand the health and vitality of its various decision areas, including pricing, promotions, shopping experience and customer communications. *What provokes a greater, more profitable response? At what cost?* With a wide variety of options for online, direct response and traditional advertising, Marketing needs to know which tools work best for which groups.

GOALS	METRICS	DIMENSIONS	
Promoted Sales ($/%) Promotions ROI (%) Marketing Spend ($)	Non-Promoted Sales ($) Sales Lift ($) Campaign Audience (#) Promotional Campaigns (#) Responses (#) Non-Promoted Margin (%) Promoted Margin (%) Promoted Profit ($) Brand Equity Score (#) Marketing Spend/Sales (%)	Fiscal Month Year Quarter Month Week Organization Division Channel Store Marketing Method Marketing Method	Marketing Campaign Projects Marketing Campaign Type Marketing Campaign Marketing Segment Market Segment Micro-Segment Marketing Areas Region Area Customer Segment socio-demographic segment loyalty & spend segment Product Hierarchy Product Category Product Group Product Line Weeks on Promotion

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Marketing	Executives	•		
	Professionals	•		
Store/Channel	Executives			•
	Professionals		•	
Merchandising	Executives			•
	Professionals		•	
Customer Service	Executives			•
	Professionals		•	
Finance	Executives			•

Understanding and analyzing this information is key to alignment and accountability. Driving demand requires close alignment with in-store execution, merchandising and customer profiling such that Marketing can continually fine-tune its aim and selection of tactical "arrows" until they hit the bull's-eye.



The Marketing Opportunities and Chain Strategy decision areas illustrate how the Marketing function can monitor its performance, allocate resources and set plans for future financial and operational targets.