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Marketers' Next Task: Exploit Efficiencies to Uncover Growth

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Which are the great marketing organizations and what makes a great marketer?

Tom Nagle, co-author of *The Strategy and Tactics of Pricing*, now in its fifth edition, thinks we should consider Walmart, Southwest Airlines, Quad/Graphics and Anheuser-Busch because these companies understand their operational advantages and exploit synergies between operational advantages and customer behaviors.

Too often, according to Nagle, marketers only see half the equation; they seek out customer segments with unmet needs or target fast-growth segments without understanding their own profitability in a Pyrrhic desire for market share.

Speaking recently at a Professional Pricing Society conference held in Chicago, Nagle told the audience that there is a fundamental flaw in the way marketers approach their jobs and the evolution of global competition makes it imperative that marketers mend their ways.

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"Marketers are incented and trained to drive top-line revenue," says Nagle, perhaps the foremost thought leader on pricing in the marketing field. "Marketers chase unmet needs or rapidly growing markets, but too often these new revenues are less profitable than existing revenues," he says. "Marketers end up growing themselves into reduced profitability."

Nagle laments that marketers are disconnected from the experts within their companies who know where the profit margins are best. On the flipside, he says internal operations personnel simply seek to cut costs and don't pay attention to marketing or the company's customers. "They standardize products, streamline processes and cut overhead. They play suppliers off one another and keep beating down the costs. They call it strategic sourcing," Nagle adds.

"The inherent conflict is that these two corporate activities are siloed. Marketers and the strategic sourcers don't talk with one another. There is no mechanism to resolve this conflict. As a result, we take on unprofitable business and grow ourselves into poorer profits."

Nagle believes correcting this trend is especially critical because of globalization. While Brazil, Russia, India and China are growth markets, they also house potential new competitors.

"Those markets are growing like crazy. They're also acquiring new capabilities like crazy. They are not only new markets; they are new competitors. We're seeing this in many traditional product categories. Boeing and Airbus were two main providers of airplanes, now Brazil-based Embraer is the No. 3 maker of airplanes and the Chinese government is funding an initiative to get into production," Nagle says.

"Driving profitable growth requires more than creating customer preference. It requires targeting customers where there is a superior 'fit' between what is essential to win their business and the firm's internal capability to deliver those essential elements cost-effectively," Nagle adds. "Responsibility for such targeting should be a marketing function."

Nagle points to the printing business as an example of a highly competitive, capital-intensive industry that lost its way. He cites Sussex, Wis.-based Quad/Graphics Inc. as an example of success.

"In 1971, a veteran commercial printer named Harry Quadracci mortgaged his house for $35,000 and started Quad/Graphics.

"Harry worked in one of the big printing companies. He was frustrated with how they operated. They were inefficient and kept buying new presses to do more for the customer," Nagle says.

"In his new company, Harry only accepted customers like big industrial catalogues who were flexible on their delivery schedule. That way he could fully utilize his printing presses. He adopted new computer-to-press technology, eliminating costly press proofings that slowed things down. He only communicated with customers through electronic means, reducing overhead. Like Southwest Airlines, which flies a single type of airplane, Harry bought just one type of printing press. As he expanded to multiple plants, he laid them out identically," Nagle says.

Quadracci limited customer choice. "Customers could choose only from a set number of paper stocks. This increased efficiency. Harry would ship on certain days. He didn't accommodate customers with custom deliveries."

"Harry's rules were Harry's rules," he says. For a certain segment of customers, Quadracci's operational rules were just fine and the results were better prices for the customers and growth for Quad/Graphics.

According to Nagle, when Quadracci died in 2002, sales exceeded $1 billion with a 20% annual compound growth rate. This occurred in a shrinking industry filled with consolidation and bankruptcies. Quadracci's personal wealth had reached $470 million.

"Harry was very customer-focused and close to his customers," Nagle adds. "If you didn't attend his annual customer meeting in the Caribbean, Harry made a visit to find out why."

Quadracci would use his annual meeting to introduce and vet his new approaches to achieve efficiency. "This was a partnership," Nagle adds, "Harry sought to understand any barriers that could prevent customers from adopting his efficiency approaches."

"Loyal customers saw Harry as the Messiah," Nagle says. "Year in and year out, as the printing industry suffered, Harry helped customers cut costs while improving quality."

What made Quad/Graphics and Harry Quadracci effective was his blending of internal insight and expertise with an external eye toward what the customer and the market required. Having worked for other commercial printers, Quadracci had operational insights. He also loved customers and wanted to help them. Combining both sides of the equation put him on the path to business success.

Nagle says companies like Walmart, Southwest Airlines and even Anheuser-Busch follow the same approach. They understand their operational advantages and target segments to exploit the synergies. Walmart only adds products that fit its operationally efficient distribution system. Southwest only flies to markets where it has operational efficiency. And Anheuser-Busch leverages its operational efficiency in advertising and customer acquisition.

Nagle says rejecting low-profit business allows marketers to invest disproportionately in targeted segments. "The goal is not to try to grow everywhere," Nagle says. "All revenue is not good revenue. Dominate share in those segments where you can leverage your capabilities and gain competitive advantage.

"When you do that, you're in position to compete even in very tough markets, whether it is printing, airlines, retailing or beer," he says.

Nagle's message is a good one that marketer's should heed. In today's competitive world, spending time with internal operations and procurement executives may be as important as understanding the customer. Finding synergies between customer needs and the company's ability to deliver efficiently is the role of truly great marketers. **m**