

Chapter 1

The Need for a New Approach

I constantly hear the following six statements with regard to the business environment today.

1. The e-commerce revolution, the social network phenomenon, and convergence of media have changed the way the world does business.
2. We are dealing in a new commercial environment that requires a fresh approach to marketing our products and services, whether we operate in a bricks-and-mortar business or business-to-business (B2B), business-to-consumer (B2C) or consumer-to-consumer (C2C) transactions online.
3. B2B sales will be commoditized, with global online auctions favoring companies with lower manufacturing costs. Middlemen will disappear, and traditional buyer/seller relationships will weaken. The web will continue to cannibalize an increasing percentage of traditional sales at lower prices.
4. This new economy's consumer thinks and behaves differently. He or she is more educated, more cynical, has access to more information, and is more price conscious than the consumer of days past.
5. The most important keys to success today are a great product, highly competitive prices, strong brand awareness, and satisfied customers.
6. E-commerce represents the greatest advancement and radical change in business history.

In my view, although all these statements contain a sliver of truth, they are essentially wrong.

The new economy has changed the communication mechanism and improved efficiency and speed of transactions. Contemporary technology

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enables a high quality of business intelligence that allows fast, accurate customer profiling, which enhances sales opportunities. However, successful marketing has *always* been about creating and leveraging the emotional connection with your potential client, whether through advertising, public relations, face-to-face, or any other method.

Successful marketing has always been about the quality of your brand equity.

As I already established in the Preface, brand awareness isn't worth a damn in today's cluttered, highly competitive environment.

Building real customer relationships by adding value and providing fantastic service with both internal and external customers at every interaction as well as providing customers with a genuine value proposition are simple elements that have always been the true keys to success.

Customers, whether B2B, B2C, or C2C, have not changed. They get elated, enthusiastic, hurt, angry, and upset over the same things they did 10, 20, or 100 years ago. The difference is that, now, an excellent value proposition, identification with the customer, and top-notch service can spread virally across the state, country, or planet in a matter of hours. Think about it: Is the e-commerce revolution a more important or sweeping change than the printing press, steam engine, telephone, or other significant technological advances that we have encountered throughout history? I don't think so.

Each of these changes increased economic growth by around 2 percent, and e-commerce will not prove to be much different. The first half of the 1900s saw monumental change with motor vehicles and highways, air travel, electrification, refrigerators, washing machines, television, and radio, as well as extraordinary medical advances. Has the world really changed *that* drastically in the past few decades?

There is no question that technological change has come rapidly. Just 30 years ago, futurist Alvin Toffler said something along the lines of: "In the future, we will have smart typewriters; letters will be correctable [and] able to be stored on disc or tape; electronic dictionaries will check for spelling errors; we will be able to link these electronic typewriters with phone lines and send written messages to the recipient's screen." How about that?

It is the speed of technological and media change—the drama of dot-coms soaring to extraordinary heights and crashing again, the hype that customers would prefer to buy over the net in preference to traditional sources, and the proliferation of handheld multimedia devices—that fueled the belief that the age-old principles of marketing would not work in this new environment. Most companies these days seem to have confused sales with marketing. They have forgotten—or, more likely, never really appreciated—the real keys to successful marketing.

Although the methodology we use to market our products and services has not changed, there is no question that e-commerce and shifts in communication vehicles have dramatically altered the nature and speed of doing business. The days of supply-driven industries in which a company creates a product or service and hopes the customer will buy are over.

Unless you provide precisely what the customer wants nowadays, you will fail.

This means being able to anticipate the customer's future needs, which requires an ongoing, thorough knowledge of the customer, marketplace, competitors, potential legislation, and other factors.

One thing is certain: There will be two types of companies in the future—those that can lead, innovate, operate efficiently, and respond quickly, and those that go bankrupt.

Today's marketplace is dynamic, as evidenced by the following facts.

- ◆ There are 156 million websites covering every conceivable subject.
- ◆ *Sony* creates a new product every two hours.
- ◆ 50 percent of this year's profits at computer giant Hewlett Packard will come from products that did not even exist 18 months ago.
- ◆ The singing birthday card has more computer power than existed just 35 years ago.
- ◆ Many of the products we paid for yesterday are free today.
- ◆ Companies are dramatically reinventing themselves. For example, NCR has evolved from an office equipment company to a business intelligence company.

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- ◆ There are over 150,000 applications for mobile (cell) phones. They receive video, and can be used for financial transactions. For example, a cell phone can be used for putting money into parking meters and it can function as a boarding pass on airplanes.

The speed of this change is equally extraordinary. Think about the fact that only 15 years ago, fax machines were hot technology. They're now obsolete.

We have moved into an era in which knowledge and information are far more valuable than any product. Consider:

- ◆ 90 percent of all scientists who have ever lived are alive today.
- ◆ During the Vietnam War, 17 percent of U.S. soldiers had college degrees. During Desert Storm some 20-something years later, this figure had jumped to 90 percent.
- ◆ Norway received \$17 billion in royalties from North Sea oil in the past 30 years. Amazon.com, with no profits, was worth that in just four years.
- ◆ Ford paid \$6.4 billion for Volvo—plant, equipment, history, the lot. That \$6.4 billion would have bought 4 percent of AOL at the time.
- ◆ Silicon Valley at its height produced 67 new millionaires every day.
- ◆ Technology represents 47 percent of total US growth.*

Wow, the Internet and e-commerce really *have* changed everything . . . right? Well, before we say yes, let's look at the facts about Internet companies.

- ◆ 99.6 percent of all Internet sites fail.
- ◆ Of the 156 million websites out there, fewer than 500,000 (less than 1 percent) have any real traffic.
- ◆ Only 280 of 16,000 retail websites are profitable.
- ◆ 46 percent of people who bought on the web in the past 10 years have gone back to their traditional way of shopping.
- ◆ Nearly 45 percent of people who have begun a purchase transaction on the web quit before they completed it.

*Ridderstrale/Nordstrom. Funky Business.

Has the Internet Lived Up to Its Potential?

The Internet hype was primarily developed on five premises, all of which turned out to be untrue.

1. Being on the Internet will be an inexpensive way to sell product.

With such a proliferation of websites, the cost of attracting people to your site is higher than it is with traditional business. Online advertising is no more effective than other forms of advertising, and websites do not have the physical presence to drive awareness and equity through great service. Utilizing expensive traditional media to promote the online site must compensate for this. Simply placing an electronic catalog online has resulted in a nearly 100 percent failure rate. This makes achieving profitability an expensive task.

The cost of building a customer-friendly, interactive, advanced, high volume site can cost millions of dollars. For example, Walmart's initial site cost over \$110 million. The hardware represents only 10–15 percent of these expenses, and the software contributes a further 15–20 percent. The balance is the price of integrating the site into back-end systems.

2. It will be easy to market on the web.

Building the infrastructure and back-end integration is a *huge* job. Let's use Walmart as an example again. The company had 1500 IT specialists involved in building the site. Analyzing customer-supplier relationship, and creating effective distribution and return strategies is very difficult and expensive.

And you thought that the web leveled the playing field!

The reasons for such a high failure rate on the web are usually poor marketing, a combination of poor design, poor customer-relationship management (CRM), poor delivery, and poor customer communications.

3. E-business will reduce costs by cutting out the middleman.

This simply will not happen. The middleman adds value to the customer purchasing process, education, installation, and repair—elements that are usually outside the company's core competencies.

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In reality, there are more intermediaries than ever, including lead generators, e-billing companies, market exchangers, virtual distributors (shopping carts), and so on. An increasing number of companies drive web users to retail outlets, often to pacify their current retail partners. For example, Levi Strauss and Stephen King ceased selling online due to the anger of retailers and, in King's case, his publisher.

4. E-business will commoditize markets.

Many people originally believed that the Internet would weaken traditional buyer/seller relationships. They assumed that a lack of physical stores would prompt online prices to represent significant savings, and that customers would switch brands based largely on price.

However, this hasn't happened. The reason is that despite commoditization, only 17 percent of consumers buy based on price. However, 83 percent consider other elements, such as service or ease of use, to be more important.

Internet technology actually encourages business-to-business supply-chain integration and strengthens relationships, creating true strategic partners. This is one reason why traditional companies with integrated e-business strategies are more successful than purely Internet-based companies.

5. The Internet will cannibalize traditional sales.

It was thought that web sales would simply replace traditional sales at lower prices. Clearly, that hasn't been the case at all. For example, publishing division Headland put its Rough Guide travel books online with free downloads. People liked what they saw on the web, prompting retail sales to soar.

Why Do So Many Companies Fail So Badly at Marketing?

In short, too many companies think that they are important. They think their products are important. They think price is important. They think satisfied customers are important. They think brand awareness is important. The executives think they are important.

But they are not.

Customers do not care about the companies or their products, except in very rare cases. The world has thousands of warehouses full of great products from bankrupt companies. Customers only care about themselves.

Low prices simply mean temporary market share until your competitors cut their prices. They lead to decreased profit margins and, therefore, to less competition, which is a recipe for disaster. When customers buy something from you, they are entitled to be satisfied at the very least. According to a Harvard Graduate School study, 62 percent of supposedly satisfied customers do not repurchase from the same source.

In the vast majority of successful businesses, irrespective of category, four out of every five sales are due to repeat purchase or word of mouth; only one out of five is due to advertising.

Merely satisfied customers are absolutely worthless. You need *advocates* instead—customers who are so delighted with you that they constantly promote and endorse you.

Results from a 2007 Rockefeller Institute study into the primary reason customers stop dealing with companies are extremely revealing.

- ◆ 1 percent die.
- ◆ 3 percent move to a different locale.
- ◆ 5 percent stop using product/service.
- ◆ 9 percent are attracted by competitors.
- ◆ 14 percent leave because they are dissatisfied.
- ◆ 68 percent leave because they felt the company didn't care about them.

Customers do not stop doing business with companies because of poor products or bad service. They cease to be customers because they believe that these companies simply do not care about them. This could be so easily rectified by a little display of attention to show customers that they are important to the companies.

The most important fact that this study highlights is how incompetent most marketers are. The majority of companies, large and small, have advertising budgets, and everyone knows that the purpose of advertising is to attract new business! Any company worth its salt has a database that records all prior customer contacts, sales, and so on, which enables efficient one-on-one marketing to these people, all of which is much more effective than general advertising.

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So despite the fact that studies show that only 9 percent of customers will be attracted to competitors because of the competitors' advertising, most companies focus the majority of their marketing on advertising. What about the budget for customer retention? After all, companies will lose seven times more customers through neglect than they will attract by advertising. Unbelievably, most companies have no budget for customer retention.

The best way to grow any business is by one knocked-out customer at a time. Once you get them, make sure you keep them, and then use word of mouth to attract new, high-value, low-acquisition-cost customers.

This study alone makes the brand awareness discussion pretty pointless; however, let's touch on it anyway.

There are a huge number of companies with enormous brand awareness that are still not profitable. Car manufacturer Saab spent \$60M a year advertising their cars, with a 97 percent consumer awareness level, only to fail. Having people know who you are and having them buy something from you are two totally different things. If I walked down Fifth Avenue in New York in nothing but a sequined jock strap, I would have great brand awareness. I would be in every newspaper and on every TV news station in the world. Everyone would be talking about me, but would anyone buy anything from me?

The Focus on Price, Product, Brand Awareness, and Satisfied Customers Is Bullshit

Price is only a purchase motivator if you have not established a perceived value/cost differential that is superior to your competitors. This is not even an issue of price, but rather one of customer benefit differentiation. Focus on price erodes your value/cost equation. Although decreasing price may temporarily increase market share, this only occurs until your competitor responds. Discounting prices dramatically erodes margins and, therefore, long-term competitiveness, which eventually leads to disaster. Price is not among the top three reasons people select one item over another when the consumer benefit of a product or service is clearly defined with respect to a competitor. Only when there is no clearly perceived advantage of one product over another is price the likely determinant.

When evaluating products, 92 percent of consumers—and a similar percentage of business buyers—see like products as interchangeable. It is extremely unusual that there is not another product that is either similar to

yours or can do a similar job in today's competitive environment. Even if your offering is unique, it is only a matter of time before someone makes a copy. Therefore, the brand that does the best job of understanding customers' needs and selling the solution to their problem will get the business. Forget the product; it is simply a tool. If you are a retailer selling hundreds—even thousands—of products that a myriad of other stores are also selling, how does it build your business to focus on selling products? You must focus on what *differentiates* your business from your competitors, and it certainly is not the products you sell.

With the average consumer recalling only two advertisements they saw yesterday . . . a mere 24 hours later . . . the other 2,998 ads they also saw were also trying to get brand awareness, but obviously failed dismally. What is the likelihood that your message will be one of the two recalled? Even if it is, what are the odds that it has made an impression, sufficient and positive enough to have the potential customer buy your product or switch brands? That is a different, more challenging, and even less likely scenario.

Dot-coms are the perfect example of this. Some years ago, they spent literally billions of dollars on brand awareness. In fact, 17 of them spent \$3 million each on 30-second spots in the 1990 Super Bowl, which was broadcast to over a billion people. Though many of these dot-coms had great brand awareness, this simply did not translate into sales. In fact, 12 of the 17 Super Bowl dot-com advertisers were out of business within three months.

It's time for us all to face a harsh reality: Brand awareness nowadays is bullshit.

A study of 2,000 consumers at the University of Iowa showed no correlation between the messages to which they were exposed and the purchases they ended up making. In fact, none of the studies I have seen in the past 10 years have been able to show *any* correlation between brand awareness and sales.

Advertising for supermarket brands is a good example of advertising waste. Depending on the product, consumer decisions at point of purchase vary from 40 percent up to 90 percent. If, for example, 74 percent of purchase decisions in a particular category are made at point of purchase, then why wouldn't brands spend most of their marketing dollars in stores, where

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people are focused on buying? Why spend money on TV ads the night before, a time during which people channel surf or go to the bathroom? Even if consumers did accidentally *happen* to watch your advertisement—and did not confuse it with that of your competitor—the chances of it inspiring them to recall your product among all the clutter they will experience before they next walk into a store is almost zilch.

Research done by Harvard Graduate School—and a number of similar studies conducted across a wide range of product categories—has shown that companies with a balanced marketing strategy attain up to 80 percent sales from either repeat business or word of mouth. Only one out of five, or 20 percent of sales are generated by advertising. Despite this fact, I have found that the overwhelming majority of businesses have a significant advertising budget (which is primarily directed at acquiring new customers), but little to no budget allocated to their *existing* customers.

A budget for existing customers is absolutely necessary in order to attain (in a relatively inexpensive way) higher-profit-margin repeat business and drive word-of-mouth (viral) marketing. Yet this lack of existing customer budget (and attention) occurs despite the fact that word of mouth is much more effective than advertising. Gallup shows that some 91 percent of people trust recommendations from friends and family, yet only 13 percent trust what corporations tell them.

Whose Fault Is This?

The blame lies fairly and squarely with marketing and advertising people. Commoditization has made business nowadays more and more price driven, and a price-driven, commoditized industry very quickly becomes dominated by a few huge players with the most purchasing power. It also opens companies up to very serious attacks from price-advantaged web businesses. The result of this trend is that few organizations will survive in the long term.

In order to grow your business and increase your ROI, you must first differentiate yourself and change the way you do business.

Marketers have allowed this commoditization to happen by failing to clearly differentiate their companies from the competition. Of course, it is

easy to blame globalization, the highly competitive environment, the increasingly price-conscious consumer, and so on; after all, marketers need to blame *someone*. To see the real culprit, we actually need to look in the mirror.

The tragedy of all this is that there is a greater opportunity for great marketers now than at any other time. We have extraordinary diagnostic and communication tools to assist us nowadays.

There are three reasons for this trend. First, changes that have occurred in the media environment over the past 10 years, including:

- ◆ Media proliferation and increased segmentation.
- ◆ More one-on-one communication.
- ◆ Media creep (audience overlap due to media proliferation, particularly new media).
- ◆ An increased amount of content.
- ◆ A time-challenged public and consumer cynicism.
- ◆ The consumer's increased ability to access information.

Second and equally important is the consumer's capacity enhancement. For example, look at the TV screen for financial and business news giant Bloomberg; watch a 14-year-old make a call, watch TV, listen to music, send instant messages, and surf the Internet simultaneously on their cutting-edge smart phone. Scenarios like these show us quite clearly that our involvement with the potential customer needs to be challenging, interactive, and multichanneled.

Third, the changes in media vehicles enable marketers to attain:

- ◆ Immediacy of performance.
- ◆ Increased response from consumers.
- ◆ Infallible media metrics.
- ◆ Enhanced data-mining opportunities.
- ◆ Opportunities for more dialogue and less monologue.
- ◆ Dramatically lower cost of new-technology communication—such as SMS, e-mail, and social media.

Therefore, it is obvious that there is a need for a paradigm shift in the approach to marketing. The past 55 years have provided concentrated, focused, and predictable traditional media. Although marketers have been trying to find their feet over the past 10 years or so of new or digital media,

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these advancements have also changed consumers' behaviors. The combination of transformations on a variety of levels makes all forms of communication—internally, with strategic partners, customers, and potential customers—that much more important.

There are essentially two ways to get your message across:

1. Throw around sheer weight, which leads to price driven business and short-term results.
2. Communicate with the audience, which builds rapport, identifies with customers, and entertains them.

Developing this communication, becoming part of customers' lives, and sharing their interests is the only way to succeed. We must build long-term loyalty through equity.

The Five Drivers of All Business

Marketing has a fairly simple goal: to make the potential client feel better about you and your product or service than they do about your competitor, and to give them an emotional reason to buy from you. Think about the real reason you bought any product or service—from the mundane to the exciting, from the pleasant to the unpleasant. Wasn't it because it made you feel better in some way? Wasn't it the satisfaction of getting a better shine on the kitchen floor or knowing that you sent your mother-in-law off to the big old-people's home in the sky in a manner befitting her?

Success is about building brand equity by developing exceptional customer relationships, providing superior information, adding value at every level of customer interaction, implementing an equitable risk reversal policy, and delivering above-expected levels of service. Whether in the so-called new economy or the old economy, in e-commerce or traditional business, it is essential to remember that there are only five drivers of business:

1. Product/technology/service
2. Funding
3. Business strategy
4. Customer need
5. Marketing strategy

At a time when traditional business was paying more attention to and getting increasingly in touch and in tune with their customers, along came the new generation of business. It began with a technology product, focused on that product, and tried to drive sales through brand awareness, that is, advertising. The result was poor sales, a high burn rate, loss of consumer and investor confidence, and, often, utter failure.

Brand awareness might have been more effective in a supply economy with less clutter and less competition; however, it certainly is not worth much in this new demand environment.

Advertising expenditure across a myriad of ever-growing communication vehicles continues to increase. Yet the number of people contacting my office—who represent corporations large and small, all nature of events, and some individuals—complaining that their traditional advertising is not working is mounting exponentially as well.

The most common complaint is that the marketing and advertising strategies, which just a few years ago kept a steady flow of new customers coming in the door of their businesses, are not generating anywhere near the same response today. Two points emerge upon reviewing their strategies. The first is that the overwhelming majority of these businesses focus on the product's features, which will never drive sales. Second, few have a marketing strategy; most conduct poorly targeted, often shotgun advertising. Advertising is not marketing; it is only a small element of marketing.

In my view, the primary reason for the lack of success is extremely simple: We have forgotten how to plan a marketing strategy, and we have forgotten how to communicate. We have forgotten that marketing is logical, common sense, and simple. We have become carried away with complexity. We have forgotten that the customer has not changed.

Customers want to deal with someone who shares their values—the same as they always have.

Too many of us have overlooked (or never learned in the first place) how to communicate with our customers, our spouses, our kids, our neighbors, our fellow workers, dissimilar governments, people who are different or have different values than we do, and so on. The pace of change is unnervingly rapid, but that is not the root cause of today's

business bankruptcies, teen suicides, and family breakups. Rather, our inability to communicate is to blame.

The majority of traditional advertising is monologue; that is, the advertiser talking *at* the potential client. However, today's sophisticated consumer is seeking to have a dialogue with the advertiser. This requires that any company representative have the information necessary to address questions regarding a client's particular circumstance. Consumers today also have an increasing number of choices from which to obtain the product or service they are seeking. At the same time, many seek to be reassured that they are doing the right thing in making the purchase as a result of the trepidation they may feel.

Isn't that what marketing *is*? Offering quality products, great service, customer care, added value, and reduced (or eliminated) risk? It is a simple communication of your brand equity. What is so difficult to understand about that?

I recently gave a presentation in Barcelona to 1,000 clients of one of the world's leading software companies. After emphasizing that brand equity counts and brand awareness does not, one of the directors—a fixture in today's business magazines—told me that what I said made a heap of sense and that he had never heard of brand equity. He told me that their board meetings are dominated by brand awareness discussions. This is a multi-billion-dollar company—how scary is that?!

I am not saying that communicating our message today is not more difficult; it is. However, *everything* is more competitive today. It is also a lot harder to drive on the freeway or win a gold medal at the Olympics.

Retail is extremely competitive in the United States. Research shows that 60 percent of all retail outlets could close down without affecting the total number of products sold. However, this makes it all the more critical for brands today to differentiate themselves from their competitors and communicate with potential customers in a distinctive, more effective manner in order to succeed.

Marketing Is Logical, Not Rocket Science

No matter what one's industry, product, or service is, the ability to increase sales comes down to two sets of fundamentals; there are only two ways to get more customers. The first is to increase the size of the market; the second is to obtain customers from your competitors.

Once you have the customers, there are four ways to grow your business. The first is to grow the frequency of purchase; second, increase the amount of each purchase; third, increase the profit per sale; and finally, reduce your costs.

A small—say, 10 percent—increase (or decrease, where appropriate) in each of these categories, based on an initial margin of 20 percent, will boost profit by over 300 percent, whereas a 20 percent change in each will boost profit 550 percent.

Some Interesting Facts:

- ◆ Mintel Research studied 7,000 U.S. consumers and found that 67 percent bought due to word of mouth; only 26 percent bought due to advertising. Our practical experience across a range of business has found the percentage of those buying due to word of mouth to be between 64 and 90 percent, depending on the industry. This appears to be entirely dependent on the level of customer service and added value provided.
- ◆ The University of Iowa studied 2,000 consumers over two years and found no correlation between the messages to which they were exposed to and the purchases they made.
- ◆ Our research shows that only 13 percent of people buy because of price. 87 percent believe customer service and other factors to be more important considerations in the United States.
- ◆ As mentioned earlier, Harvard Business School research shows that 62 percent of consumers who are totally satisfied with the product or service at the time of purchase don't repurchase from the business where they made the initial purchase.

Though knowledge may be king in the new networked economy, knock-their-socks-off service, a strong value proposition, and word of mouth comprise the crown. This alone will drive a minimum of three out of four sales—frequently more—in most businesses. Brand equity creates loyal customers and the power of the loyal customer is awesome. For example:

- ◆ 5 percent of people buy 85 percent of Levi's.
- ◆ 8 percent of people buy 84 percent of Diet Coke.
- ◆ 15 percent of people make 67 percent of credit-card purchases.

This is a very simple equation, and one that must serve as the foundation of your considerations when planning a marketing strategy. When you take into account the power of online communication and the networking involved in social media, the power of brand equity is extraordinary. The challenge comes in figuring out how to create the strategy to achieve these objectives in the new business environment in which we find ourselves.

The New Fundamentals of Marketing

The essential changes to the way we must do business today result from our exit from the industrial age and entrance into the information age. Knowledge is king today, at every step along the chain, from the consumer to the service provider to retail and the manufacturer. Note the reverse order here—that is, consumer to provider—in contrast to the more traditional or legacy supply-chain business.

Today, we have a demand chain economy in which the customer is *all that counts*.

However, knowledge is not enough. Knowledge does not drive innovation or success. These trends are propelled by ideas. Knowledge is only a benefit if it is stretched, bent, twisted, and hammered into the shape of a great idea.

The fundamentals of marketing used to be the five Ps: product, price, positioning, people, and process, with the emphasis usually being on product and price. However, in today's knowledge era, the marketing cycle begins and ends with the customer. We have evolved from the five Ps to the seven I's*: ideas, imagination, intuition, interruption, initiative, ingratiation, and interaction. Let's take a look at each one in detail.

- ◆ **Ideas:** As I established earlier, success is not about mere knowledge, but rather the ideas that *come from* knowledge. Ideas are what build brands and businesses. Most companies spend considerable time,

*The 7 I's are derived from Ken Hudson, original thinking company.

manpower, and money obtaining information, yet they do not encourage effort toward producing (or provide the time to create) ideas. Management and staff should be persuaded to contribute those ridiculous, off the wall, zany notions, because ideas like these are what generate competitive advantage.

- ◆ **Imagination:** Imagination activates changes and ideas. At the time it was invented, nearly everything we utilize today appeared to be a crazy idea. All it took was a little imagination. Unfortunately, most businesses are structured to stifle imagination. The Chartered Institute of Marketing cites that 62 percent of corporate CEOs believe their companies' corporate cultures restrict innovation.
- ◆ **Intuition:** This is the total of all our experiences, observations, and emotions. People buy with emotion, then rationalize with logic. Therefore, one of the most important attributes any marketing person can have in today's commercial environment is intuition. This emotional experience driver is a powerful tool.
- ◆ **Interruptions:** 99 percent of all our thoughts every day are the same as the ones we had the day before. We need to disrupt this traditional way of thinking, and to begin from a different jumping-off point. To maximize your creativity, make an effort to continually disrupt your current practices, processes, and mindsets.
- ◆ **Interactions:** Most businesses have various employees in various positions. There are people who create marketing, others who work in administration, others who provide service, and so on. Usually, members of these divisions are totally segregated from each other. It's no wonder most companies are so disjointed! Encouraging and maximizing interaction allows creativity, ideas, and new solutions to emerge. In addition, every interaction with customers must be transparently recorded for all departments involved with customers to see, refer to, update, and act upon.
- ◆ **Initiative:** It is essential to seize the initiative. If you don't, someone else will, and the world will not wait for you to catch up.
- ◆ **Ingratiate:** Business today depends to a large degree on the quality of relationships. We truly have to look for the individual in every customer, rather than the customer in every individual. You must ingratiate yourself to your customers and workmates. Don't forget, three out of four sales come from word of mouth, and people need to like you before they will talk about you.

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Many advertising agencies acknowledge the changes inherent in these seven I's, and are reorganizing and refocusing the way they do business accordingly. Former CEO of Australia's J. Walter Thompson, Anthony Armstrong, told me that their agency was getting "out of the advertising business and into the communication business" in order to address today's consumer's changing needs. The reason that the majority of advertising does not work is not due to the vehicles we're using; in fact, each is very effective when used correctly. The problem lies with the nature of the messages we're conveying.

One of the reasons the Internet has altered the way consumers relate to and buy products and services is due to consumers' ability to obtain extensive information, ask questions, and get detailed specifics relating to their particular issue from the corporation offering the goods or service. Additionally, they can do it without the aggravation of the often poor and could-not-care-less attitudes of many sales personnel. The Internet also enables consumers to obtain information without feeling intimidated. Even more important, potential customers can readily interact online with one (or even thousands of) other individuals who may have used the product or service, and thereby get genuine, firsthand feedback in a matter of minutes.

The social websites can also alert potential users to possible issues. For example, the extremely powerful "United Breaks Guitars" video segment by David Carroll on the social networks changed United Airline's cargo-handling methods and reportedly cost the airline \$180 million. This video has been viewed more than 10 million times, creating a PR nightmare for United. What is less well known is that Greg Gianforte, the founder and CEO of RightNow, a customer-service software company, organized a customer-service conference in New York and secured David Carroll to speak. Well, guess what? Carroll flew United to the conference and according to the *New York Times* . . . they lost his bag!

It is unlikely that the Internet will gather a significant percentage of retail sales in the foreseeable future. In 2009, the web captured 6.5 percent of the potential retail sales for products/services that could be sold on the web. Unless a company has developed significant brand equity as a result of excellent service, quality information, expertise, and reliability, most consumers will obtain all the relevant information from the Internet and simply target any local supplier to purchase precisely what they have researched, a trend that will further exacerbate commoditization. An oversupply of retail outlets could cause a dramatic rationalization that only customer-centric retailers will survive.

The Internet has the potential to change the way we all do business. Companies that have seized on online presence can gain significant incremental income. However, only 1 percent of companies that conduct online transactions have any level of traffic.

The Internet provides savvy corporations with an exceptional opportunity to build a pervasive brand culture—something they can achieve by providing information to consumers in their home or office, any time of the day or night, at the consumers' choosing. This will become increasingly important as product expertise becomes ever scarcer, due, in part, to an increasing reliance on part-time staff, geared to high trading periods to reduce wage costs.

The 24/7 focused information on the web is a powerful contrast to today's highly cluttered, fragmented, increasingly expensive media advertising options and gradually more cynical and time-starved consumer. It is extremely difficult for new companies using advertising nowadays to build a brand culture without huge financial resources. The companies who have established brands over the past 20–30 years (when it was relatively easy to do so) have a decided marketing advantage today if they reinforce and leverage their brand positioning wisely. Internet companies will continue to experience high failure rates—that is, until they focus on developing customer relationships and not trying to buy brand awareness through advertising.

E-Commerce Marketing Budgets Escalate

Traditional companies' marketing budgets are customarily set somewhere between 2 and 10 percent of sales. However, e-commerce pioneers dramatically changed that equation as they struggled to rapidly alter ingrained buying patterns and build brands in a continuously cluttered marketplace. E-commerce companies that survived this unique time in history are the ones that realized that it is not brand, product, or price, but rather *brand equity* that is critical to profits and longevity. Companies such as *Amazon.com*, which is totally focused on the customer and provides extraordinary service, advice, and rapid follow-up, built equity but at a high cost. It is not unusual for many failed Internet businesses to have spent 250–1,000 percent of their income on marketing, with the majority in traditional media.

Internet-based businesses that have developed the kind of brand equity that *Amazon.com* has mastered the Internet. However, it took them

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six years of losses before reporting their first-ever profit, a modest \$5.09 million on sales of \$1.1 billion in the fourth quarter of 2001. Even with this, Amazon still incurred a loss of \$567 million for the year. Nearly 10 years later, Amazon is recording quarterly profits on the order of \$175 million, but it has taken 16 years to get to this point. The business-to-consumer market online is a competitive one, and the overwhelming majority of consumers, despite their protests, like going to the store, want to see what they are buying, and want to be able to return or swap purchases readily.

No matter how much our method of doing business changes, one thing that does not change is communication principles. The high-risk, high-cost business-development strategy of Internet companies simply makes it vital that the marketing strategy be completely researched, highly creative, and fully tested. It must maximize effectiveness and be measurable at every step along the way.

Retail Faces a New Set of Challenges

Retailers face ever-increasing competition in a rapidly changing world—including:

The Internet. Over four million people a week begin using the Internet, a rate that's growing at 30 percent each year. The range of products being purchased is also mounting; people are buying books, music, cars, tailor-made clothes, and even daily items like groceries. There has also been a massive growth in the number of vehicles that allow consumer-consumer purchases from all corners of the globe—a trend that will continue to impact retail.

Home Shopping. People are banking and paying bills either by phone or the Internet more and more frequently. Television shopping networks are turning over billions of dollars and undercutting retail prices, selling to the public when customers are most relaxed. TV shopping networks provide information, highly personable demonstrations, and a friendly approach. Thirty-minute television infomercials are now a common staple in the television diet.

Automatic Vending. Food and beverages, videos, books, prepaid phones, and an ever-growing range of products are available from increasingly sophisticated kiosks 24 hours a day.

Mobile Vendors. Fast food, prepared meals, groceries, videos, cleaning, gardening, ironing, and even car washing and hairdressing are available from vendors who will come to home or office to meet the consumer's time constraints.

Telemarketing. This increasingly popular sales method is available on TV, radio, and in print. Techniques using information and powerful emotive imagery urge consumers to "buy this product now and get a bonus" (such as a free CD or a set of steak knives) or "get two for the price of one," simply by using their telephone.

Consumers' priorities are changing significantly. For example, people are spending more of their disposable dollars on paying down mortgages and reducing debt or on entertainment, gambling, and holidays, rather than material goods. This further magnifies the pressure on companies who sell via traditional means.

Most companies' quest to relentlessly seek new market share by high-cost means, such as advertising, is a trend I find quite remarkable and idiotic.

One of the major budgeting characteristics of the clients who come through our organization's doors is that they have a substantial budget for marketing their products and services to new customers but little to no budget to maintain or grow their current client base. There is no focus on ascertaining and meeting the customers' changing needs or motivating them to repurchase—despite the facts that (1) word of mouth is both the least expensive and most effective way to build a business, and (2) it is 7 to 15 times more expensive to get a new client than retain an existing one. Obviously the cost of recapturing the 60 of every 100 satisfied clients that might get away is significantly less than generating 60 new ones, a notion that seems lost on many marketers.

Most Businesses Are Inept at Cutting through the Clutter

Although the numbers vary a little, depending on which research study you are reading, it is accepted that, in addition to the up to 3,000 advertising messages we are exposed to each day, we also see up to 14,000 brand names

emblazoned on every moving or stationary object with which we come in contact in any given 24-hour period, from our Polo jockettes to the Manhattan Grill matches we find in our pockets.

The extraordinary fact is that, when asked to describe the advertising messages to which we were exposed yesterday, the average consumer can only name and describe two.

Sure, most people will guess a Coca-Cola, McDonald's, or Ford; however, they cannot provide any descriptions of the ads.

Two out of *three thousand*! What other industry could get away with that level of failure rate? Would you go to a brain surgeon who only got two out of the last 3,000 operations right? What about a food company that recalled 3,198 of its last 3,200 products? Imagine the world today if condoms only worked twice for every 3,000 uses. The only people that would be smiling would be the testing team.

The average business executive today receives 37 pieces of advertising-based mail each week and retains just two. Just to add a little more insult to injury, these two pieces are usually filed away because it is unlikely that the recipient will be impacted at the very moment they are looking for the goods or services described in the mailer. Once the individual is ready to investigate the goods or services, they get the mailer from the filing cabinet. Unfortunately for the advertisers, they have usually filed all the competitors' brochures or mailers in the same file. Therefore, unless your product particularly stands out, it's going to endure a highly pragmatic evaluation against your competitors—one that is (even worse!) based only on the limited information contained in the mailer. Unsurprisingly, this drastically reduces your chances of being selected as the supplier. Another illustration of many marketers' lack of understanding of today's consumers' diminished brand loyalty is the number of ads you see for companies who tell their potential customers to "look us up in the Yellow Pages" or some other reference directory. It's absolute stupidity; all their competitors are listed there! Why don't they just e-mail, fax, or post a list of their competitors' names and contact numbers to their prospect? It would have the same effect.

Over 85 percent of people reading print ads only read the headlines, and fewer still read newspapers and magazines each year. Less than 2 percent of radio listeners can recall three of the advertisements they heard only one hour

after hearing them. Television is the medium of choice, and for the big guys, with huge budgets and mass-market products, it certainly works, but at what level of effectiveness?

The reason ads are not rated in the same way that programs are is not because it cannot be done; it is because the results are too horrific to contemplate. The average viewer uses the commercial break time to accomplish a plethora of chores, with the occasional exception being the sports couch potato who may be lazy enough to sit through it. However, the majority of this audience is actually more likely to add to the slippage by channel surfing during breaks. As a consequence, research has shown the third advertisement in a break can attract less than 10 percent of the viewers who are watching the program in which the ad is contained.

Research also cites the fact that in over 50 percent of television ad breaks, no one is watching. This research, conducted by Dr. Allen of Oklahoma State University, also showed that, of the 50 percent that were watching, 65 percent were severely distracted. Despite this evidence, television stations still calculate the advertising rate on the basis of the program viewing audience. In short, these advertisers may be paying up to 10 times the cost per impression they thought they were.

Banner ads on the Internet are also rapidly losing popularity as a result of the overwhelming evidence that they are hopelessly ineffective. Just five years ago, these ads enjoyed click-through of 15–20 percent. Yet by 2009, they had fallen to 0.2 percent.

The Internet Is Just the Tip of the New Technology Iceberg

Although there is a proliferation of new technologies, I will mention just a few simple examples. . . .

First, integrated SMS and radio broadcasts. Tying SMS response into radio advertising and station loyalty clubs allows advertisers to data mine potential customers and interact with them one on one to buy a pizza, attend an event, or even enhance the radio audience at a specific time. The radio station can SMS its database and let them know that, in five minutes, there will be an advertisement for Pizza Hut—and if they can win a prize, they tune in. Once they do so, they are asked to SMS if they would like a special Pizza Hut pizza for dinner. When they SMS, they get a call center calling back immediately confirming the order and up-selling. This kind of cross-communication

marketing is achieving amazing responses depending on the promotion, and it is both measurable and immediate.

A second example is up-selling chat. Chat technology enables real-time, immediate postpurchase online messaging and voice chat that allows retailers to up-sell a customer who has just purchased online. This is not only permission-based marketing; it also enables the sales person to talk to the client about something in which they are interested, making the process much more effective.

A third example is behavior-triggered e-mailing. This software analyzes both real time and historical data, thereby enabling immediate, automated opt-in campaigns based on in-store, catalog, online purchases, biographical data, events, dates, or customer behavior, which greatly enhance sales performance.

Fourth is commercial skipping technology. Products like TiVo and DVR (digital video recorders) have produced a new type of commercial that really engages DVR users. Brands like Coca-Cola, GE, and KFC have produced ads that contain hidden messages, secret codes, and scrambled entertainment. For example, KFC's buffalo snacker sandwich ads contained a subliminal message and secret code that could only be cracked if played back slowly, frame by frame, with a digital video recorder. Viewers then enter the code on KFC's website to win a sandwich. There were 75,000 winners for this particular contest.

Marketers today must keep one step ahead or at least not too far behind the technology. Don King, a group director at The Coca-Cola Company North America, said recently that "There hasn't been a technology invented that can't be leveraged as a marketing tool."

These new technologies render the traditional advertising response rates no longer acceptable.

Many direct marketers are getting response rates in excess of 20 percent; 40 percent rates are no longer unachievable. Direct comparisons between an identical campaign using traditional methods and variable data and other new technology methods occasionally show increased performance of up to 2,000 percent, so we need to be more analytical when choosing communication channels.

Axe Leverages Viral Marketing at Its Best

London's wonderfully creative Dare Digital Agency has produced a host of results-achieving and award-winning campaigns. My favorite is the e-mail campaign for Unilever's AXE range of men's toiletries. Unilever had e-mailed 30,000 clients a graphic of a sexy girl in red lingerie lying on a bed, with an invitation to use the cursor, which turned into a white feather when activated to tickle her. Participants could use the virtual feather to tickle various parts of her body to get her to sneeze, giggle, or writhe. The site is such fun that many recipients e-mailed it on to their friends, resulting in over 50 million people, overwhelmingly male (the intended target) having interacted with the site.

The most important point here is that the average time spent interacting with the site is in excess of nine minutes. Compare this with a television commercial that would be infinitely more expensive to produce, lasts 30 seconds (compared to nine minutes), attracts a fraction of the audience, is not interactive, is expensive to air, and does not allow online purchasing or identification of the viewer.

This is cutting edge. This is the future of communication.

It Is Extremely Difficult to Succeed

Today's competitive business climate and the costs associated with developing a market niche for a new product are clearly demonstrated by the figures released by Marketing Intelligence Services' product scan. They show that 25,261 new supermarket products were introduced into the United States market last year. The challenging part is that only 1 in every 671 of these new products met its sales target in year one, which is a *one-tenth of 1 percent* success rate! Additionally, *Polaroid Creativity* and Innovation Laboratory figures show that of every 3,200 concepts that are patented, only four go into development, two actually get produced, and only one is released into the market.

This information makes it quite apparent that it's significantly difficult to successfully market a product or service nowadays.

Unless you have a clear, concise, highly targeted marketing plan that creates a connection with the potential customer, failure is likely a foregone conclusion!

A study by Professor Paul Williams shows that, today, 89.7 percent of all small businesses (those with up to 100 employees) fail within five years. Of those that made the five-year milestone, 80 percent disappeared within 10 years, producing an overall failure rate of 97 percent of businesses within a decade. However, 98 percent of the businesses that had some marketing training were still in business 10 years later. Equally disheartening is the fact that some 99.6 percent of online businesses had failed by the end of 2009. Though this performance is improving, it is estimated to still be in excess of 90 percent failure rate (although accurate figures are difficult to obtain).

A business is not a success if it lasts 10 years, or if growth is a steady 15 percent a year. Today's opportunities are endless; a successful business should be aiming for a minimum 25 percent annual growth.

The customers' decision-making process plays a significant role.

In order to create a strategy to market a product, marketers must realize exactly how a potential customer makes a purchase decision. The inclination to purchase a product first arises when the decision is considered by the (totally emotional) preconscious mind before entering the (much more pragmatic) conscious mind. If any business or product within the category you are considering has made a strong emotional connection with you, via an association with either your behavior, belief system, or through a trust and respect valuation, then it is highly likely that you will purchase from that company without seriously considering the available alternatives.

This is exactly why it is so important to comprehensively understand your potential customers and to build brand equity through use of customized emotional benefits, a powerful consumer purchasing benefit (CPB), great service, added value, and advocate testimonials to develop this first-recall brand awareness in your customer's mind. When you fail to develop this emotional connection with a potential client, the decision-making process passes from the subconscious to the conscious mind. Potential customers then use the conscious mind to analyze their requirements and consider all the available options that might satisfy these requirements. This is when the prospective customer considers reputation, quality, service, competitive products, ease of access, price, and countless other elements that make it a lot more challenging to get the sale. These considerations are far less important in the subconscious mind.

The Fifteen Commandments

So how do we get our message heard above the competitors' and overall clutter? We need to follow a set of simple rules to develop relationships with

our customers, to have affinity and empathy with them, and to build dialogue.

Forget market share. We must build *heart* share.

To achieve this, businesses must be customer centric. The customer today holds the power, they are no longer someone to track down, catch, and close. We must build our companies one absolutely delighted customer at a time. If we build heart share on a one-on-one basis, we create advocates, and market share will follow.

More importantly, building heart share will develop brand equity. It moves our potential customers' decision-making processes to the pre-conscious mind, where the emotional heart share impact is extraordinarily powerful. Since 92 percent of people see the majority of products/services in a category as interchangeable, a failure to establish heart share guarantees that they will make a decision using their pragmatic, conscious mind, where they will inevitably rationalize the purchase. As a result, you will simply get a share of the market relative to the number of competitive players. If this is the case with your product or service, you have not effectively differentiated your product from your competitors. You have not gained heart share.

Heart share also transforms business from the traditional supply chain to the demand chain, a dramatic restructuring that is critical for success of any product in the new commercial environment. At Marketforce One, Inc., we have developed 15 keys that we have demonstrated, time and again, that powerfully address the demands set forth by today's tough market place. We utilize these keys every day for our clients, irrespective of their location, size, the nature of their business, or the size of their budget. These elements have been instrumental in helping literally hundreds of businesses, large and small, beat the failure odds.

As you read through these 15 keys, you will notice that none of them directly relates to making money. We cannot make money the focus in order to achieve success. The Stanford University Graduate School of Business study of the most successful businesses in the world—as detailed in James Collins and Jerry Porras' landmark book *Built to Last*—strongly highlights this point. In this exhaustive six-year comparison of the characteristics of the most successful businesses against their less successful competitors, the authors

conclusively found that companies that focused on maximizing shareholder wealth or profit were inevitably less fruitful. However, 94.4 percent of the successful companies focused primarily on their staff and the customer, with profits as their fourth priority (on average).

The study also found that companies that focused on profits and shareholder wealth stifled a sense of experimentation and giving new ideas a try. They did not give their employees the room they needed to do things differently, and they failed to realize that, although the majority of initiatives may fail, the winners could be the very thing that made that critical difference between them and their competitors. The less successful companies also spent more time in meetings, instead of going out and pushing the envelope. They were also protective of their products to the point that they were reluctant to share information—even in favor of relinquishing the chance to develop strategic partnerships with third parties, a critical factor in growing more successful companies. They also exhibited a top-down autocratic approach to their business, and the structure that focused on profits led these organizations to have weaker customer relationships. By comparison, the successful companies encouraged a less constrained, all-encompassing employee environment that fostered empowerment, innovation, and a more fluid, dynamic response to changing market forces.

Remember: If you love what you do, it is a pleasure to learn all you can and discover the best path to take to achieve your goals. Your enjoyment creates passion and this passion produces commitment from those around you and leads to transference of your energy to others. This builds heart share. So love what you do; success and money will naturally follow.