How We Got Here

Marketing efficiency was relatively high when the consumer market was homogenous and mass media dominated. Many basic needs had not yet been met, and the intensity of competition (certainly from global competitors) was much lower. All of these conditions are now the exception rather than the rule.

From Doing Less With More...

Marketing's response to the tremendously heightened competitive intensity of the past few decades has been two-fold. Its first response was to increase expenditures on virtually every aspect of marketing, from greater and more frequent discounting to more pervasive advertising to intensified selling efforts. The second was to proliferate greater variety in products, prices, distribution channels, and so on. Each of these actions, while perhaps justifiable in isolation and on short-run considerations, contributed to making the marketing function increasingly unwieldy and expensive.

In 1980, Fred Webster of Dartmouth College interviewed the CEOs of 30 major corporations to determine their views of the marketing function. Two of the four key areas of concern were the diminishing productivity of marketing expenditures and a poor understanding of the financial implications of marketing actions. A third concern—a lack of innovation and entrepreneurial thinking—also relates to marketing's failure to address the productivity issue in new ways.

Unfortunately, in the ensuing decade and a half, not much has improved. The high-flying '80s left us with even greater marketing bloat. Rapidly expanding markets in many industries obscured underlying problems of waste and inefficiency. Now that growth has slowed, these problems are coming into sharp focus.

...To Doing More With Less

In most industries the new competitive realities are stark: Companies must deliver more performance with fewer resources in every area. Global competition and ever-savvier customers have seen to that. For example, a recent cover story in *Business Week* described the dilemma of companies that are unable to raise their prices. What was once true only for industries such as computing and consumer electronics is now hitting many industries: Customers expect real prices to fall over time while product quality continues to improve. In an era of intensified global competition, there have been plenty of suppliers ready to do just that.

"The auto industry says real costs have to come down by 2%-3% a year, or you won't be a supplier," said Corning Inc. CEO Jamie Houghton in the Jan. 17 issue of *Financial Times*. "Optical fiber has to keep coming down by 5% a year. I operate under the assumption that over time, our costs must go down 3%-5% a year in real terms." Since the 1980s, Corning has worked through eight generations of manufacturing technology for optical fiber. According to Houghton, "It wasn't long ago that we were selling fiber at $1 a meter. Now it's five cents and our margins have been good throughout."

—Jag Sheth and Raj Sisodia

creation of more satisfying exchanges. At the same time, both buyers and sellers are able to reduce their costs; buyers do it by reducing their search and transaction costs while sellers are able to lower advertising and selling expenses.

Maintaining strong relationships with customers involves fulfilling orders faster and more accurately in the short run and managing orders better in the long run. It also requires companies to be responsive to special customer needs, provide personalized service, and continuously increase value to customers over time.

Be Selective. Implied in the concept of relationship marketing is the idea of customer selectivity. It is neither feasible nor worthwhile to establish such relationships with all customers. By channeling resources into customers who can be served profitably, companies can increase marketing productivity.

The profitability of serving different customers can be analyzed using "customer retention economics." For example, data from the banking industry indicate that a customer who has been with a bank for five years is several times more profitable than one who has been with the bank for one year. Likewise, it has been estimated that automobile insurance policies have to be held five years before they turn profitable.

Reward Loyalty. Companies in a variety of industries now recognize the value of customer longevity by offering "frequent buyer" rewards. While these programs are generally inexpensive, effectiveness depends on their uniqueness and the value they provide to customers. Customer retention and overall service quality are closely linked. As evidence, three winners of the Malcolm Baldrige National Quality Award—FedEx, AT&T Universal Card and Ritz-Carlton—also are leaders in customer retention.

Most companies do not measure and monitor loyalty in any formal way; as a result, customer retention often receives inadequate budgetary support. However, this appears to be changing. Recently, consulting firm Marketing Metrics conducted a study of 165 companies and found that 53% of their marketing budgets were allocated (implicitly rather than explicitly) to customer

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