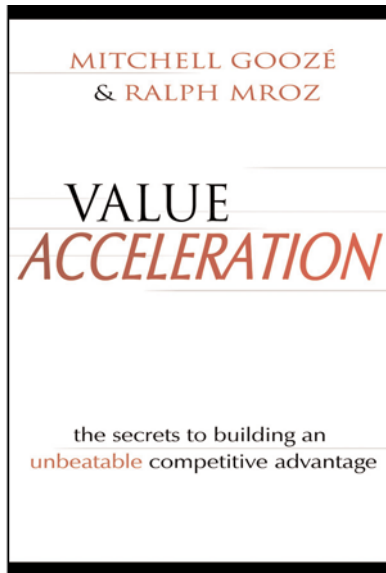


The State of Competitive Advantage

A synopsis of the breakthrough book, Value Acceleration

*Mitchell Goozé
Ralph Mroz*



Value Acceleration is available at fine bookstores, both brick-and-mortar and online. For more information about the book or the concepts it discusses, please visit www.valueacceleration.com.

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As we have progressed through the information economy, it has become clear that the strength of a corporation's processes determines whether the company can anticipate its future markets and adapt to them . . . or be surprised by them — perhaps fatally. In this age, characterized by frenetic and unpredictable change, the marketplace alone no longer provides a stable reference to guide and correct corporate activities. Therefore, the corporation's processes themselves must be stable and coherent in order for the company to remain in sync with the market.

With the acceptance in the 1990s of the necessity of a stable, structured, and repeatable Product Development process, only the marketing function was left without an overall integrating process model — which not only integrates the multitude of activities that constitute marketing, but also integrates marketing seamlessly with other business functions, such as sales and product development. The lack of a useful model and a method for managing the marketing and the integrated marketing/sales function is at the root of most of the ongoing problems commonly seen in marketing (and sales) today.

Value Acceleration argues the case for the necessity of such a structured, unified marketing/sales model and for objective methods to manage it. It then presents an overview of the first instance of a useful integrated marketing/sales model and demonstrates how universal management methods

that have been applied successfully to the manufacturing side of the business apply equally well to marketing/sales.

HOW WE GOT HERE

The economy of the major industrial nations is now entering its fourth stage. We have passed through the agrarian and industrial economies, based on the critical resources of labor and capital respectively. Today, most industries are exiting the post-industrial economic stage, based on the critical resource of traditional management skills. We have entered what some are calling the information economy stage based on the critical resource of *process management skills*. And in this era of outsourcing everything, companies must now focus on the one, fundamental, non-outsourcable thing that at their core they do: aligning the capabilities of the enterprise with the demands of the market. In other words: *marketing*.

As Peter Drucker has pointed out, marketing, properly understood and practiced, is the very soul of the enterprise — it gives meaning to and permeates all aspects of it: “. . . *the business enterprise has two — and only these two — basic functions: marketing and innovation . . . all the rest are ‘costs’*”¹ It has taken decades to realize the truth of this prescient statement, but it is now becoming startlingly clear. If a clear understanding and rigorous management of the enterprise’s processes is critical to its success, then a clear understanding and rigorous management of the enterprise’s marketing/sales process is foundational. The processes previously developed and implemented by corporations have largely been to make the company more efficient. Process management of the marketing/sales process will also make the company more effective.

1. Peter F. Drucker, *People and Performance*, (New York: Harper College Press, 1977), p. 90

And yet, today, few people can confidently define marketing or sales, let alone apply them as part of an integrated process of hierarchical activities that fuse with other corporate processes. At the very root of these problems is the lack of an over-arching, unified *model* of marketing/sales.

In the information economy of the 21st Century, corporate survival depends on the effectiveness of the corporation's innate business processes. In fact, many corporations will be defined not so much by their industry or products, but by the nature of their processes — particularly those processes that promote innovation. Survival depends on superior accuracy in identifying new opportunities; the ability to match those opportunities with corporate capabilities so as to develop products/services in a timely way; and the ability to promote and sell those products/services effectively.

It is apparent that the skills and abilities an enterprise must have to survive are *additive* — that is, new skills are constantly required *in addition* to previously required skills. Another way of saying this is, that the “skills price” or “competency hurdle” of doing business is constantly increasing. As a simple example: when telephones were first invented, they represented a source of competitive advantage (and expense) to those firms that had them. But when everyone had them, their ability to provide competitive advantage disappeared, though the necessity of having them did not. They then became part of the entry fee, the ante, or the “baseline cost of doing business.” In fact, once numerous competitors master any corporate competency, the bar is raised. That competency becomes the new baseline cost of doing business. And the battle for customers and profits moves on to the next front.

After a functional competence has been accomplished, the dominant competitive arena simply moves onto another functional area — or to another defining corporate characteristic altogether — while the previous critical functional area continues to be a competitive locus throughout the development of secondary or post-critical-stage skills.

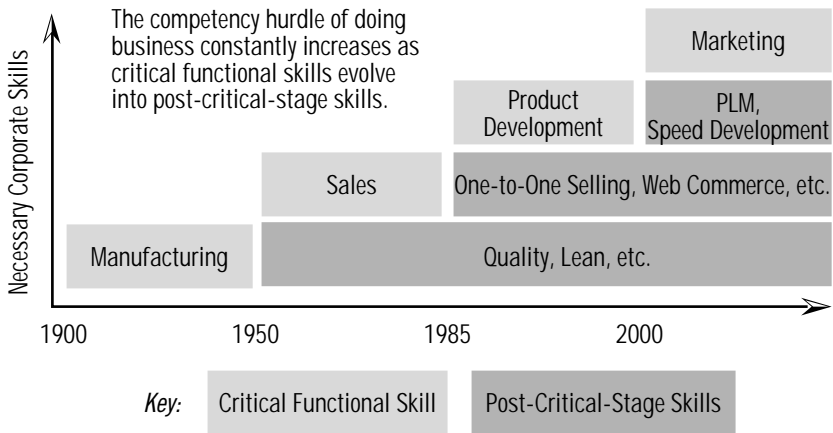


Figure 1

Throughout most of the industrial and post-industrial age, the basis of competitive advantage has been a corporation’s functional competence, usually with one functional ability — the *critical functional skill* — dominating. In the 21st Century, the integration of marketing with product development and sales to form a true and integrated marketing/sales process (that links to product development) is the critical functional skill. For example, many of the problems that corporations — even those with world-class product-development organizations are seeing today can be traced to the “garbage-in/garbage-out” phenomena. When marketing cannot tell product development what to make when, when it is not capable of being a full, integrated

partner throughout the development cycle, then the effectiveness of the Product Development process is blunted.

With respect to marketing, per se: the “back-end” marketing skills of promotion and sales support are currently reasonably well understood and refined, and they can be implemented well by any organization with the desire to do so. However, the “front-end” marketing skills — such as positioning and opportunity identification — and the “integrative” marketing skills — such as integration with product development, sales and corporate strategy — are not well understood. It is in this holistic sense that a truly useful marketing/sales process model addresses the marketing function.

<i>Period (rough)</i>	<i>Industrial Stage</i>	<i>Critical Resource</i>	<i>Management Paradigm</i>	<i>Critical Functional Skill</i>	<i>Post-Critical Skill Examples</i>
→ 1900	Agrarian	Labor	NA	NA	NA
1900–1950	Industrial	Capital	Functional Competencies	Manufacturing	Quality, JIT
1950–1985				Sales, Promotion	CRM, 1–1, Web Commerce
1985–2000	Post-Industrial	Traditional Managerial Skills	Core Competencies	Product Development	PLM Speed Development Lean Thinking
2000 →	Information	Process Management Skills	Core Processes	Marketing, Marketing/Sales/ Production/Development Integration	?

Figure 2

Another way to appreciate this new state of affairs is to consider the alignment of the corporation’s capabilities and offerings with the market’s needs. (Naturally, these two things must themselves be aligned within a profitable company.) Therefore, in order for the company to align itself with a market, it must have a way of referencing its position vis-à-vis the market.

In times of slow market change, the market itself provides its own stable reference. That is, the market is stable enough

that a competent observer can easily discern whether or not their company is aligned with it. This means that a company’s internal processes for providing products to meet market needs can be unstable, yet the company can still know what the market is doing. It can align itself with the market by observing it and making appropriate corrections.

However, in times of instability and frenetic change, the market does not provide a stable reference to itself, let alone to its future needs. (It is, of course, the future needs of the market we are concerned with, not just its present needs. The future time frame we are concerned with is the time it takes to develop a product — the length of the product development cycle.) In periods of unstable markets, it is only through the use of stable (i.e., rigorous, consistent and accurate) marketing processes that a company can hope to discern the needs of the future market. If the market won’t provide its own stable reference, then the enterprise must provide a stable observation point (a stable process) from which to assess it.

		<i>MARKET</i>	
		<i>Stable</i>	<i>Unstable</i>
<i>PROCESSES</i>	<i>Stable</i>	Desirable	Necessary
	<i>Unstable</i>	Possible	Impossible

Unstable markets require stable corporate processes

Figure 3

NO TRUE MARKETING PROCESS

Among all corporate functions, marketing alone has the distinction of not having a well-defined process by which it is practiced. All other functions do. Well-established systems,

methods, tools and procedures drive manufacturing; likewise with finance, sales, and HR. Modern accounting processes were developed centuries ago. Even product development — previously a notorious habitat of freewheeling “un-structure” — now has a set of well-ordered processes by which it can be effectively managed. But not marketing.

Marketing suffers from two common misconceptions. The first is the almost ubiquitous confusion of marketing with promotion. Promotion — advertising, publicity, branding, sales support, and so on — is but one area of marketing. Promotion is the “back-end” task of the larger marketing function — the one that is done last in a product’s development and introduction cycle. The second universal misconception about marketing is that it’s not a science — that it’s not something amenable to an organized, structured approach. It is wrongly regarded as an art, as something that is dependent solely on the insight of gifted people for its success.

With these rampant misconceptions in place, is it any surprise that most companies are disappointed with their marketing organization and results?

Of course, it would be impossible to manage marketing as a process without an overall model of the function — one that delineates all of its activities, organizes those activities into manageable sections, and defines the interactions and information flows between those sections and other functional areas. We need the big view — the entire roadmap — otherwise, we get lost in the details. In engineering terms, without an over-arching process model of all of marketing, we can optimize local sub-processes (such as advertising), but are incapable of globally optimizing the system.

But by using such a model — one that details each “work cell” in the marketing/sales function, one that specifies the input and output of each work cell, and one that does all this at various hierarchical levels — we can easily overcome the barriers to continuous improvement in marketing/sales. We can specify the goal and its “quality spec” for any activity or group of activities in marketing/sales. We can identify the upstream inputs to any work cell and measure their quality. We can track measurements over long periods of time, because they’re all down on paper. If we understand the process, applying continuous improvement is easy; if we don’t, it’s impossible.

Some readers will object: “Aren’t there copious examples of real marketing wizards leading companies to profitability — of companies where top management is absolutely engrossed in marketing?”

The answer is, yes, there are, but we must use the word “marketing” with precision. The primary marketing focus of these companies is generally on the back-end sales and promotional aspects of marketing, just as it is in most companies — the difference being that these companies are performing these functions effectively, with focus, and that these companies are at a point in their development where this focus can bring about a blip in sales and profits for a couple of years. In fact, men and women who came up through sales usually lead these companies.

Management is usually aware of the crisis in marketing, but, without a unified model of the function, they are at a loss to do much about it. As a result, there are a lot of fads that pass for marketing panaceas. Such recent fascinations as “branding” and “integrated marketing” (which, in reality,

means only “integrated marketing communications”) are worthwhile (even necessary) elements of a complete marketing process in and of themselves. But sold as a cure-all, they often become another fad-of-the-year.

MARKETING/SALES LIKE MANUFACTURING?

The great strides in management over the last 100 years have been the result of the systematic analyses of business processes and the development of proven management techniques and intervention technologies. Perhaps the greatest strides have been made in the manufacturing arena, although other business functions — finance, engineering, human resources, and so on — have also benefited.

But marketing and sales have not. These two overlapping functions continue to be managed, for the most part, by the same “seat of the pants” methods that they always have been. While it’s true that certain sub-areas of the marketing and sales functions are now truly analytical (data mining and market research, for example), the entire function still lacks truly rigorous management.

Without a complete, over-arching model of these functions, there can be no true understanding of them, no grasp of the sub-functions that compose them (and their relationship to each other), and no systematic analysis of them. Certainly, there can be no application of proven management methods to marketing/sales if there is no understanding of these functions at a detailed systems level.

But what if you considered marketing/sales as a manufacturing process and considered the output of this manufacturing process to be loyal, profitable customers? That perspective would allow the application of rigorous manufacturing-based

management methods to this new “Customer Manufacturing” process. Why manufacturing-based management methods? Because these methods are not, in fact, manufacturing-specific. Instead, they apply to any well-defined process and they have proven themselves as practical, effective management methodologies over the last 50 years.

How are product manufacturing and marketing/sales similar? Both are processes that take raw material, transform it, and output a desired good. Specifically, marketing/sales takes suspects (raw material), provides value-added goods or services (the transformation), and produces loyal, profitable customers.

Marketing/Sales is further like manufacturing in that each of these functions can be managed as a set of work cells with raw material as input to the cell, work-in-progress (WIP) within each cell, and finished goods as output of the cell. In a lead qualification work cell within the sales process, for example, the work cell input may be a lead, the WIP, or value-add within the cell, may be the conversation that the salesperson has with the prospect, and the work cell’s output is the decision of the salesperson about what do to next with the prospect.

Like a series of manufacturing work cells, each marketing/sales work cell has scrap rates, yields, quality measures, and latencies. Viewing marketing/sales in an integrated, work cell-like fashion thus allows time-proven process management principles to be applied to the management of the system.

For example, in the “old” days, if your production line was producing faulty goods, you’d go to the production manager and scream at him (it was usually a “him” back then), in the belief that your production quality would improve. Back then,

it never occurred to you that the reason that the production lines were having trouble producing “good” stuff was that the design of those items might be faulty. It may have simply been a bad design, or maybe it was a good, but not a manufacturable, design.

Now, as silly as this sounds today in a manufacturing context, we nonetheless still see the same thing going on in a marketing/sales context. Today, if sales are off, you tend to hunt down your sales manager and flog him or her in the belief that that’s how you cause sales to improve. Yet the real problem causing sales to be down may be that the groundwork for those sales — done by marketing — is faulty, or that marketing specified an un-sellable product.

A NEW PROCESS MODEL OF MARKETING/SALES

A useful marketing/sales process model based on the manufacturing metaphor takes an existing set of ad-hoc marketing and sales activities, and transforms them into a reliable, repeatable System to Manufacture Customers.² This is accomplished in several steps. The first is to structure marketing/sales as a series of work cells, using the Customer Manufacturing System process model as a design template from which a company-specific System to Manufacture Customers is produced.

The second is to measure and manage the individual work cells, as well as the overall Customer Manufacturing plant with appropriate techniques. Note that we put “measure” before “manage.” You can’t manage what you can’t measure —

2. The term Customer Manufacturing System refers to our process model for manufacturing customers. The term System to Manufacture Customers refers to a specific concrete instantiation of the Customer Manufacturing System. In other words, using the Customer Manufacturing System, a company can create its own System to Manufacture Customers.

a lesson that the production floor has learned painfully over the last few decades. Just like a series of manufacturing work cells, at each marketing/sales work cell you will have scrap rates, yields, quality rates, and time delays. Acceptable measures for each of these must be determined. After capturing this data over time, you can then manage each work cell, and the overall marketing/sales process, with the process principles of *lean thinking*, *constraint analysis*, and *continuous improvement*. These are *not* just manufacturing-specific management tools — rather they are *process* management tools. These techniques apply equally well to a well-defined marketing/sales process as to a manufacturing process.

Employing a marketing/sales process model does not require the invention of any new marketing or sales techniques. A well-constructed process model uses common marketing, sales and corporate resources and general management skills, but it combines them in a new way. It defines a new *process*, a way to *integrate* existing or known activities so that they support and reinforce each other, and together compose a unified marketing/sales function that's integrated with other corporate functions and processes

The Customer Manufacturing System is not academic theory — it comes from experience. It also has the distinction of being the only comprehensive process model of marketing to have been published in a leading journal.³ It is a process *model* for marketing. It is neither a straightjacket nor a rigid set of rules. With such a process model of marketing, measurement of and within the function can take place. And when activities are well defined and measurement systems are in place, true process improvement can occur — that is, market-

3. Ralph Mroz, "The Synchronous Marketing Process", *Industrial Marketing Management*, May, 1998, pp. 257–278

ing can engage in continuous improvement — and other well-established process management methods can be employed.

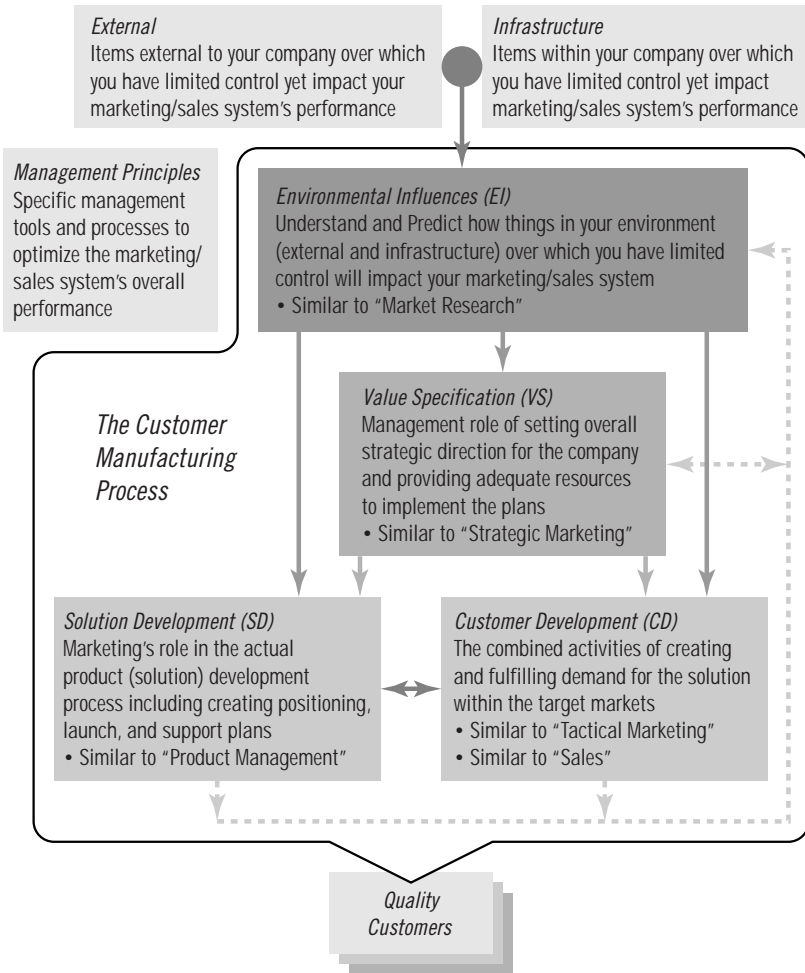


Figure 4

THE FOUR ELEMENTS

The Customer Manufacturing System—the first true complete, overarching, detailed comprehensive, integrated process model of Marketing/Sales, consists of four main areas.

1. *Environmental Influences* are those factors that occur in the external world that you can monitor, analyze and predict — but not control.

2. *Value Specification* is the process of understanding and agreeing upon Who buys and What they are buying — or what they want to buy — from you that they can't buy from others.

3. *Solution Development* is the set of marketing activities focused on actually creating the complete solution you bring to market. Here, your marketing department works closely with your product development function throughout the product/service development cycle.

4. *Customer Development* is the customer-facing side of marketing/sales. It consists of creating demand for your product and fulfilling that demand. Here, you set strategy for sales, promotion, channels and every other aspect of the company that touches the prospect or customer. (This is where the big bucks are spent.)

In addition to the four main areas of marketing/sales, there are three time-proven process management principles that are essential to the Customer Manufacturing System. These principles are: Constraint Analysis, Lean Thinking, and Continuous Improvement.

Constraint Analysis: Constraint Analysis has been around for a long time as a mathematical construct. It gained favor in the late 1980's and early 1990's in the manufacturing world, due to the publication of the popular book, *The Goal*.⁴ Constraint Analysis ensures that your resources are assigned to tasks where they can make the greatest contribution to improving the marketing/sales system's performance. All too

4. Eliyahu Goldratt, (*Great Barrington: North River Press, 1984*)

often, resources are applied to non-critical constraints because of inertia, politics, or a plain lack of knowledge about where the largest constraint actually lies.

Constraint analysis is a natural outgrowth of process thinking. Since the goal in most marketing/sales processes is to maximize revenue, insufficient revenue is usually the “problem” that surfaces as needing fixing. Typically, either the sales force is then told to sell harder or more sales people are added. Often, lead generation — an upstream activity in the process — is assumed to be the problem and the marketing communications staff is flogged, thereafter, to generate more leads.

Constraint analysis demands that you define the time-frame that you are concerned with and then look at the entire process of marketing/sales to determine where the real limitation (constraint) lies in your ability to produce sales. Constraint Theory is considerably harder to apply to marketing/sales than to manufacturing, and those considerations are addressed in an entire chapter in *Value Acceleration*.

Lean Thinking: Lean Thinking refers to techniques used to eliminate waste and non-value-added steps throughout your marketing/sales process. Lean Thinking is the action corollary to the truism: “Don’t confuse activity with progress.” Each step of your marketing/sales process must be assessed to determine the activities that contribute to the effectiveness of your System to Manufacture Customers and identify non-value-added steps, which are either irrelevant or actually slow down the system.

Further, you must have a seamless and integrated marketing/sales process that allows upstream activities to contribute to downstream results. For example, is your strategy aligned

and linked with your new product/service definition, or have they evolved independently of each other and separately from your customers' needs, wants, and expectations? Have you developed so-called "marketing/sales silos" where activity occurs for the sake of keeping people employed — with no real understanding of whether or how those activities link to downstream activities that could be used to create or keep a customer? Lean Thinking is the proven management discipline that helps you balance your resources and minimize and ultimately eliminate waste.

Continuous Improvement: Continuous Improvement is the on-going, pervasive and systematic methodology by which quality, at each step in the process, is specified; and by which out-of-spec and sub-optimal performance is removed from the system. It is not so much a tactic as it is a fundamental, core aspect of effective management. The techniques most commonly employed to execute Continuous Improvement are pattern analysis, quality control, and training.

These three powerful and proven management principles have been successfully applied to improve the product manufacturing process. By applying them to the Customer Manufacturing process, companies can gain a significant advantage in their ability to manage, control and improve their marketing/sales process.

ARE YOU READY?

For too long now, marketing/sales was viewed as something that could not be managed as a process — but rather as a function where success depended solely on gifted individuals. While great people can add significant value, the perception that they were sufficient was only accurate so long as no

useful methods for managing marketing/sales existed. That era is over. Talented people will always be valuable. However, they have proven to be insufficient to sustain a competitive advantage. Looking forward, competitive advantage demands competent process management to navigate the tumultuous and frenetic environment that enterprises face.

Creating value—as companies must do now simply to survive—is hardly enough anymore. Now the rate at which you increase your value to your customers—that is, your value acceleration—is the metric that will, in the end, determine if your enterprise succeeds or dies on the wayside.

For additional information or to receive a pre-publication review copy of *Value Acceleration* please contact:

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