TO BE EFFECTIVE, MARKETING MUST BE STRATEGIC

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Two factors drive the need for strategic planning; external change and competition. We know that the seven dynamics of external change and competitive advantage (technology, the legal/regulatory environment, demographics, macro-economics, geopolitical shifts, competition, and environmental/biological trends) are continuously altering the rules which determine success or failure for any business. Therefore, enlightened leaders make every effort to monitor continuously the implications of those changes on their industries and companies. Then, they plan proactively the internal changes that are needed to adapt to the new realities. Simply put, we must plan because the reality in which we operate is constantly changing.

Reality, after all, must drive strategy. Reality is what it is, not what we think it should be or wish it were. Strategy is what we must do, given current and unfolding realities, not what we want to do or what makes us comfortable.

Competitive Advantage

The need to make planning strategic is driven by competition. The word strategic, in fact, means "to create an advantage", thus implying the existence of adversaries, enemies, or competitors. According to Kenichi Ohmae in ***The Mind of the Strategist:***

> *"What business strategy is all about – what distinguishes it from all other kinds of business planning – is, in a word, competitive advantage. Without competitors there would be no need for strategy, for the sole purpose of strategic planning is to enable the company to gain, as efficiently as possible, a sustainable edge over its competitors."*

A thorough understanding of the concept of competitive advantage is the foundation upon which strategic planning – and marketing strategy – must be based. Michael Porter, in ***Competitive Advantage***, provides additional insight: "Competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it."

Marketing, of course, is everything a company does to attract, enhance, and retain profitable customer relationships. The key to fulfilling this marketing mission is to develop, modify as necessary, and communicate and reinforce effectively, superior value propositions to targeted customer segments. Competitive advantage (or disadvantage) can therefore be defined as "the perceived worth of your value proposition less the perceived worth of your direct competitor's value proposition in the mind of the targeted customer or prospect."

Your Value Proposition has three components; the generic products and services you offer, plus your value-adding differentiators, minus price (monetary and nonmonetary) as shown below.

Value Proposition	***=***	***Generic products & services***	***+***	***Value-adding differentiators***	***-***	***Price***

You can lose the battle if you do not offer generic products or services a customer demands, but because your offerings are generic (everyone has them) you cannot win the battle here. You can also lose the battle if your pricing is not competitive, but because you cannot be the low cost provider, you cannot win the battle with price.

The battle can only be won with your value-adding differentiators. ***The reality is that all you really have to sell is what makes you different!***

Strategic planning, therefore, in order to be truly strategic, must produce specific actions that create meaningful advantages over competitors in delivering superior value-adding differentiators for specific existing or prospective customers.

Because "strategic planning" in most companies is a numbers-driven, annual event (budgeting masquerading as planning), as opposed to being customer or marketing-driven, it is rarely strategic.

Building the Foundation; Mission-Driven Strategic Planning

We believe that the best way to design an effective strategic planning process is to use the company's mission statement, with its clearly-defined commitments to shareholders, customers, and employees, as the foundation. After all, should not the purpose of the strategic plan be to fulfill the company's mission? This approach also makes sense given the overwhelming body of research linking shareholder value to customer and employee value. For example, ***Fortune,*** in honoring the "***Most Admired Companies in the World***" (October 2, 2000), concluded:

"The top organizations create performance measures that focus on all the drivers of their businesses – financial performance, shareholder value, employees, and customers."

According to John Kotter and Jim Heskett, in ***Corporate Culture and Performance***,

"Firms with cultures that emphasized all the key managerial constituencies (customers, stockholders, and employees), outperformed firms that did not have these cultural traits by a huge margin."

Examples of mission statement commitments might include:

- *SHAREHOLDER COMMITMENT*: "to produce consistently superior profitability and quality growth leading to long-term shareholder value."

- *CUSTOMER COMMITMENT*: "to excel in building loyal, profitable customer relationships."

- *EMPLOYEE COMMITMENT*: "to foster a corporate culture that attracts, develops and retains financial service professionals who demonstrate a commitment to the organization's success."

The essential role of marketing in the strategic planning process is to provide the strategies needed to honor the shareholder and customer commitments

Marketing and Shareholder Value

The principal key performance indicator for shareholder value is ROE, which has two drivers, ROA (Return on Assets), and the equity multiplier (reciprocal of capital/assets ratio) or leverage factor. In turn, the profitability driver, ROA, has six drivers; interest income, interest expense, noninterest income, the provision for loan losses, overhead expense, and taxes, the first four of which rely heavily on sound, strategically relevant, marketing strategies.

The even more critical shareholder value issue for most banks, however, is the consistent quality growth of assets, revenue, and income. (Quality growth is defined as that which contributes to enhanced shareholder value.) Stock price is, of course, driven by market perceptions regarding revenue and income growth and most strategies in a bank's strategic plan in support of revenue and income growth will be marketing-driven.

These strategies will be designed to increase volume and/or to create and communicate the added value needed to command a premium price. Furthermore, the superior efficiency ratio found in most high-performance banks is almost invariably driven by growing revenues and income, not by cutting costs. For most banks, the greatest opportunity by far for reducing the overhead expense/avg. assets ratio and/or lowering the efficiency ratio is to leverage fixed costs with quality asset growth.

Quality growth is also essential for leveraging capital. Once an organization has set a target ROE, it must then determine the desired combination of ROA and equity multiplier that will produce that ROE. Then, the percentage growth rate in assets must match the percentage growth rate in capital. Otherwise, the capital ratio goes up and the equity multiplier and ROE go down. The required asset growth rate for any bank is imposed mathematically by three key variables, the target capital ratio, net income, and dividend policy.

The importance of marketing as it relates to the shareholder commitment results from the fact that there are two primary sources of quality growth for any company. The first is profitable, new customer relationships. The second is the enhanced net present value of existing customer relationships.

Therefore, underlying the financial objectives in any strategic plan are certain assumptions regarding the acquisition of profitable new customer relationships and the firm's ability to enhance the net present value of existing customer relationships. The easy part, of course, is to create strategic plan objectives (quantifiable end-results). The more difficult task is to develop the strategies which will produce the objectives. For this reason, the responsibility for strategic planning must be shared between the highly-analytical, left-hemisphere finance professionals and the highly-creative, right-hemisphere, outside-the-box thinkers who, hopefully, will be found in the marketing department, as well as in other support groups and business units.

The Marketing Agenda

There are **eight** essential components of what we call "Strategic Marketing", each of which is of critical importance in supporting the objectives in the strategic plan relating to superior profitability and quality growth as well as those directly supporting the customer commitment.

The first component is strategic focus; the identification of the specific segment(s) (e.g., "profitable growing small businesses and their owners") that will be targeted.

The second component is Research. Marketing Research should focus on the existing customer base, typically using MCIF/CRM technologies; market demographics analysis in support of segmentation strategies; competitor analysis, including continuously updated assessments of direct competitor value propositions; ongoing evaluations of service quality and customer loyalty (far more important than customer satisfaction); and best practices within the industry.

The third component is Value Proposition Design, which includes the development of generic products and services, the creation of value-adding differentiators which are important to the specific segment(s) being targeted, and strategic management of costs. Marketing professionals must be as concerned with managing costs (working with the operations and technology management group, for example, in search of ways to improve the efficiency ratio) as they are with enhancing the benefits component. In addition, because value-adding differentiators are increasingly dependent on the technology management group (delivery channels for example) and HR (attracting the right personality profiles for all relationship management positions), marketing professionals must work closely with their counterparts in these areas.

Component four is Promotion/Perceptions Management which includes, but is not limited to, advertising. The purpose of promotion in all its forms is to influence the perceptions of targeted customers and prospects. According to Al Ries and Jack Trout, in their outstanding book ***The 22 Immutable Laws of Marketing:***

"Marketing is not a battle of products. It's a battle of perceptions. All that exists in the world of marketing are perceptions in the mind of the customer or prospect. The perception is the reality. Everything else is an illusion."

Key questions underlying a company's promotion/perception management strategy include:

1. Whose perceptions are we attempting to influence, i.e., to which specific customers and prospects will our promotion strategies be directed? This, of course, should come directly from the strategic plan.
2. How, specifically, do we want to be perceived – or, as is more often the case, must we be perceived – by each segment?
3. How are we currently perceived by each target customer and prospect segment?
4. What specific messages must we send, using what specific media and with what frequency, to create the perceptions we desire?, and
5. How will we measure and monitor success?

One of the most common weaknesses in bank marketing, in our opinion, is when the bank's advertising/perceptions management strategy is developed by an outside agency that has no real understanding of the bank's strategic plan. With many of our clients, the representatives of the outside agency sit in on the quarterly strategic planning meetings and, as a result, all advertising/perceptions management strategy is driven by specific objectives in the strategic plan relating to the shareholder or customer commitments.

Component five is Promotion/Public Relations, which is underutilized by most banks. We believe that every bank should have a comprehensive, written, public relations strategy under the customer commitment in the strategic plan.

We call **component six HR Integration**, which includes all HR activities that are crucial to the success of a bank's marketing strategy. These include recruitment and screening (what specific personality profiles, competencies and experience are we looking for?); performance management (what specific accountabilities relating to quality growth, superior profitability, service quality, customer retention, etc. will be included in job descriptions and performance appraisal instruments?); training, (sales and product knowledge, service quality, MCIF, etc.); and compensation (how will compensation be used to support key objectives under the shareholder and customer commitments?).

When marketing departments fail to work closely with HR in these critically important areas, the overall effectiveness of the bank's marketing effort is severely compromised.

Component seven is Sales and Sales Management. For those bankers who are frustrated with their efforts to develop an effective "sales culture", the reason may be that the essential foundation, components 1-6, are lacking. Sales is a sub-set of marketing, not the other way around.

Component eight is ongoing Customer Relationship Management, which relies heavily on each of the other six components and must be seen as the ongoing responsibility of everyone in the organization. This component includes the effective measurement and management of customer relationship profitability and customer relationship loyalty.

Summary:

Strategic planning is a continuous process (as opposed to an annual event) designed to produce consistently superior value for a company's key constituents, thereby earning their loyalty. These constituents typically include shareholders, customers, and employees.

To honor the shareholder commitment, most banks must produce consistent, quality growth in revenues, income and assets. The two primary sources of quality growth are new profitable customer relationships and the enhanced present value of existing customer relationships.

In order to capture new relationships and to enhance the value of existing relationships a bank must create, and communicate effectively, value propositions for specific customer and prospect segments that are perceived as superior to those offered by competitors, i.e., which represent a meaningful competitive advantage.

The comprehensive process by which this is accomplished is called Strategic Marketing. To be effective, Strategic Marketing must include eight essential components, as detailed above. After all, without Marketing, how can planning possibly be strategic?

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