

# Arthur D Little

“Marketing is responsible  
for profit and growth”

May 17th 2011

**Contact Person:**

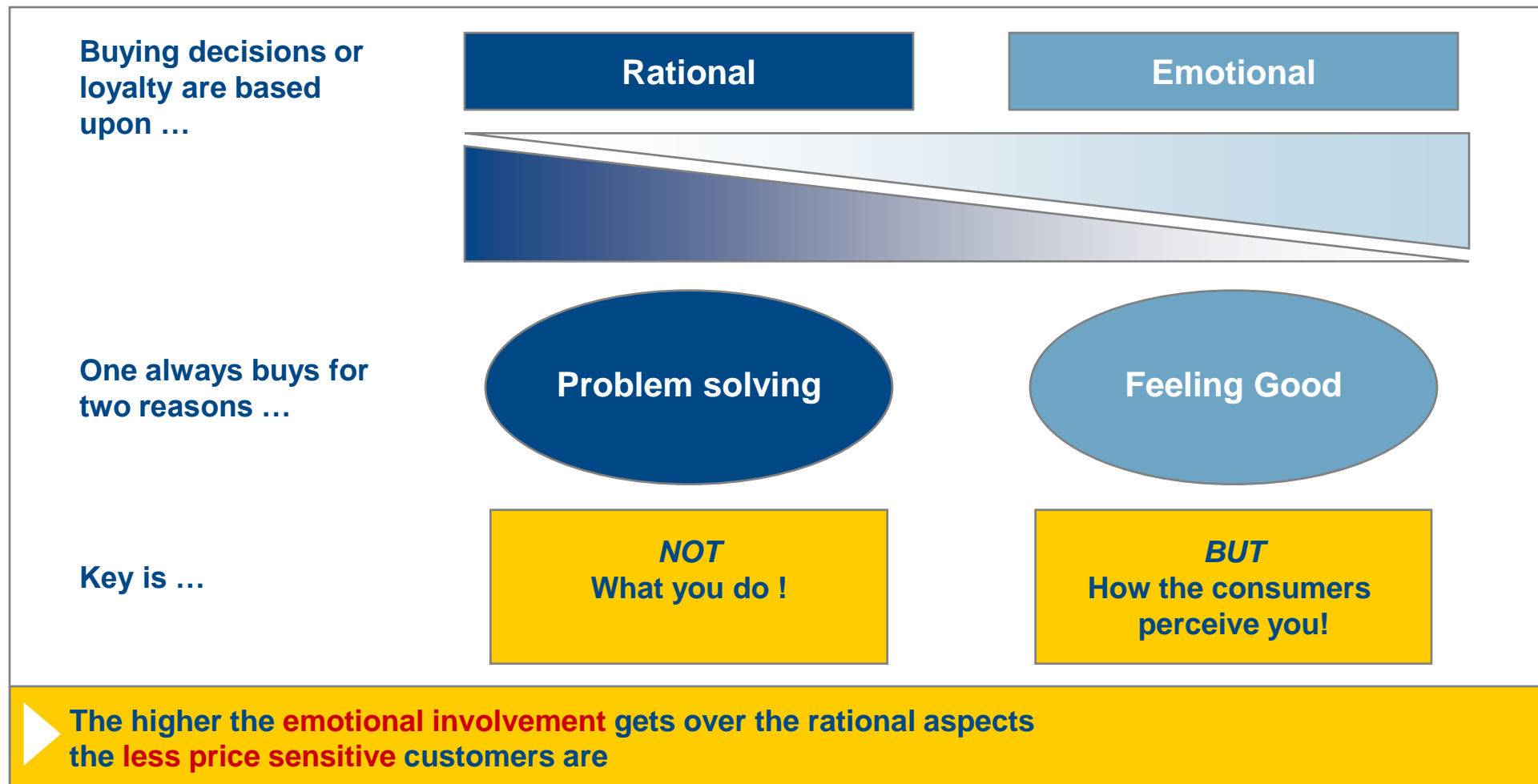
**Andreas Peter Tiefengraber**  
Arthur D. Little Austria GmbH  
Schottengasse 1  
A-1010 Vienna  
Austria  
Tel.: (43) 1.515.41-0  
Tiefengraber.Andreas@adlittle.com



Marketing: odgovornost za dobiček in rast  
17. in 18. maj 2011, GH Bernardin, Portorož

- 1 Introduction**
- 2 Some Thoughts about Market polarization
- 3 Some Thoughts on how to increase profit and growth
- 4 Appendix

**Buying decisions are always driven by both elements, rational and emotional ones;  
Marketing is the lever to emotionalize your (rational) products and services**



It is hard to find rational arguments why for buying a watch someone should spend more than e.g. 35€ for a SWATCH and even that is questionable as each mobile has it built in

*Illustrative*

Rational



approx. 35€

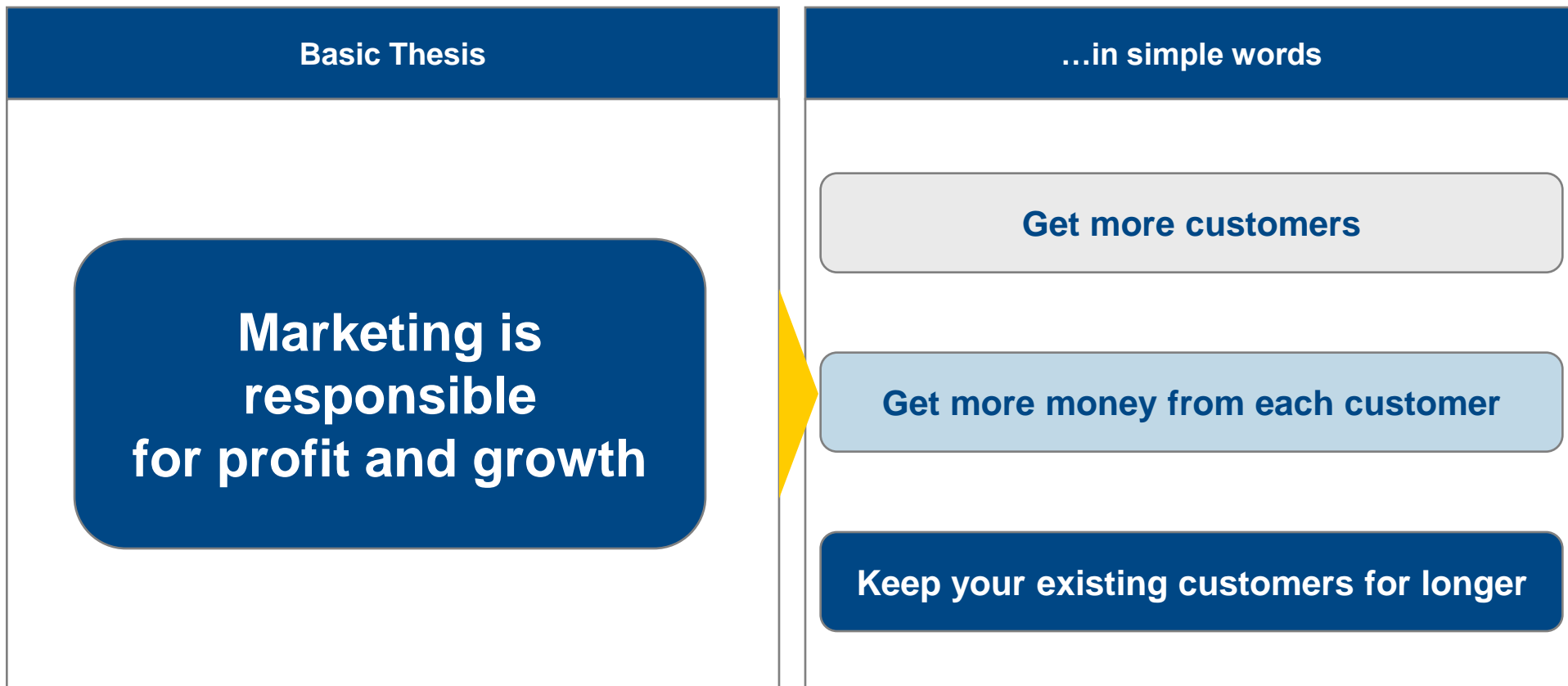
Emotional



approx. 20.000€

▶ Marketing is the not key to sell products to fulfill requirements but to **address customers' desires, associations and personal lifestyle**. Marketing addresses how the customer sees himself.

Targeted marketing directly affects both revenues and profits to deliver sustainable growth



▶ Starting point for all marketing strategies and solutions is self assessment

In order to build successful marketing plans and strategies 5 questions have to be addressed

### The five basic questions



*1. What is your business?*

*2. Who are your customers?*

*3. What are your Strengths and Weaknesses?*

*4. What are your Opportunities and Threats?*

*5. What will you do now?*

The starting point before elaborating successful marketing strategies is an over-all **assessment** of own **capabilities/limitations** and the given **frame conditions**

Any marketing strategy independent of its level of sophistication is useless as long as the organization is not able to implement it or lacks crucial reflections of the frame conditions

### 1. What is your business?

- What is your **business mission**? Why does your company exist?
- You must know why you have put up your business in the first place

### 2. Who are your customers?

- Which segments shall you serve with which products and how are they addressable?
- **Segmentation** of the target market as well as your customer base is the key

### 3. What are your Strengths & Weaknesses?

- Identify your **strengths**, e.g. quality products and services, friendly customer service, good customer relations, competitive pricing, good location.
- Know your **weaknesses**, e.g. lack of funds, limited marketing knowhow, poor promotion, etc.

### 4. What are your Opportunities & Threats?

- What are **favorable factors outside of your business** that can help you achieve your objectives, like increasing demand, availability of funds for expansion, etc.
- What are **unfavorable factors** outside your business that can hinder you from achieving your objectives, like intense competition, sluggish demand, economic downturn, etc.

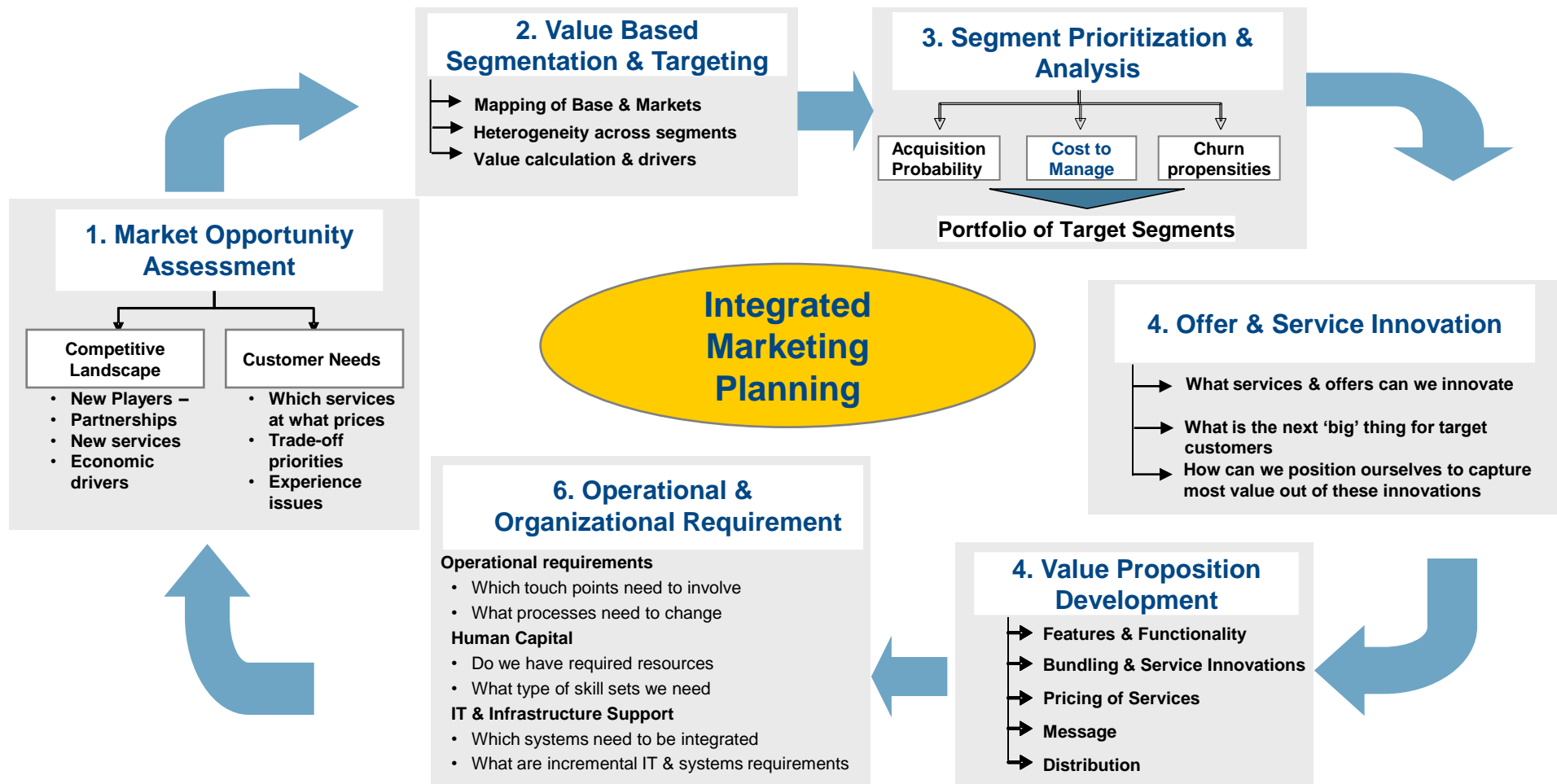
### 5. What will you do now?

- How shall you start designing your marketing strategies/actions?
- Crucial **marketing planning** taking the **frame conditions** and its **implementability** into account will enable you to grow your business and maximize profit.



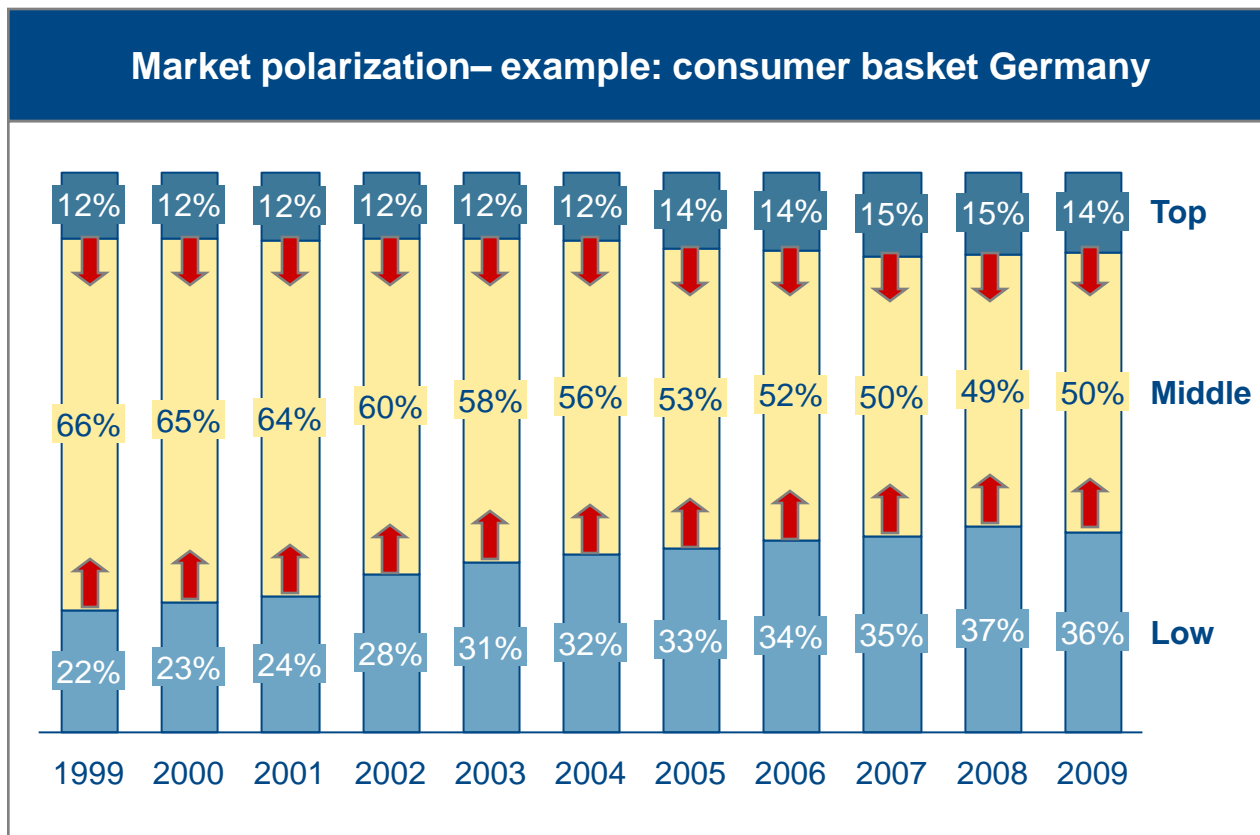
Marketing has to be seen as an integrative ongoing process effecting all areas and departments of a company

*Illustrative*



- 1 Introduction
- 2 Some Thoughts about Market polarization**
- 3 Some Thoughts on how to increase profit and growth
- 4 Appendix

The mid segment in triad markets is decreasing, driven by the growth of the bottom and top ends of the market – **In 10 years Germany's consumer basket mid segment decreased by 16%**



### Observations

Our findings in the triad consumer market confirm our hypothesis

- Markets are polarizing – with the growth driver being the low end of the market
- Growth in top-end of the market is slow, but steady – this is even higher in categories not covered in the typical household panel (“Haushaltspanel ConsumerScan”)
- The polarization trend in consumer markets has decreased. In 2010 the mid-segment has regained share indicating a possible end-point for this category (statistically not significant yet)

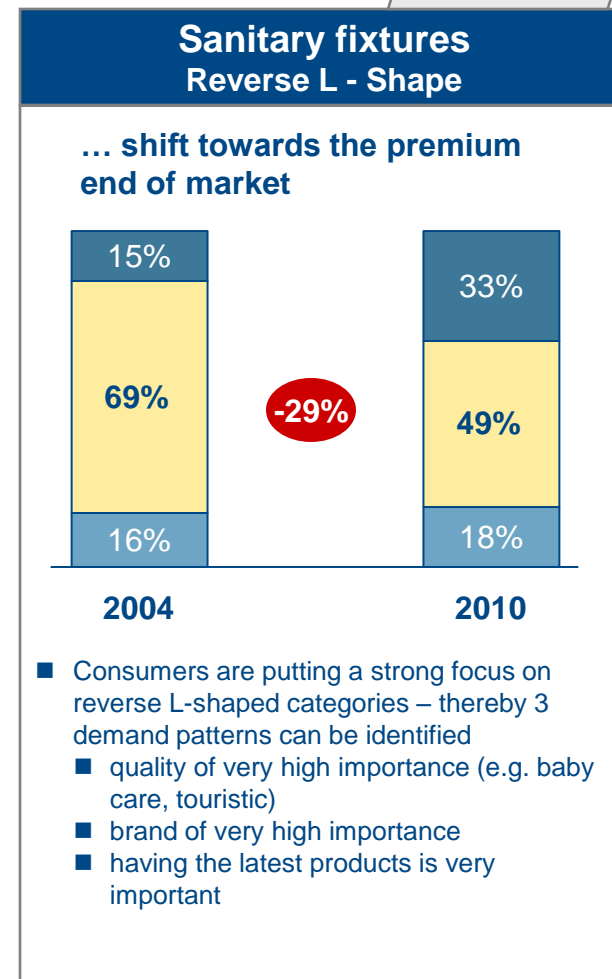
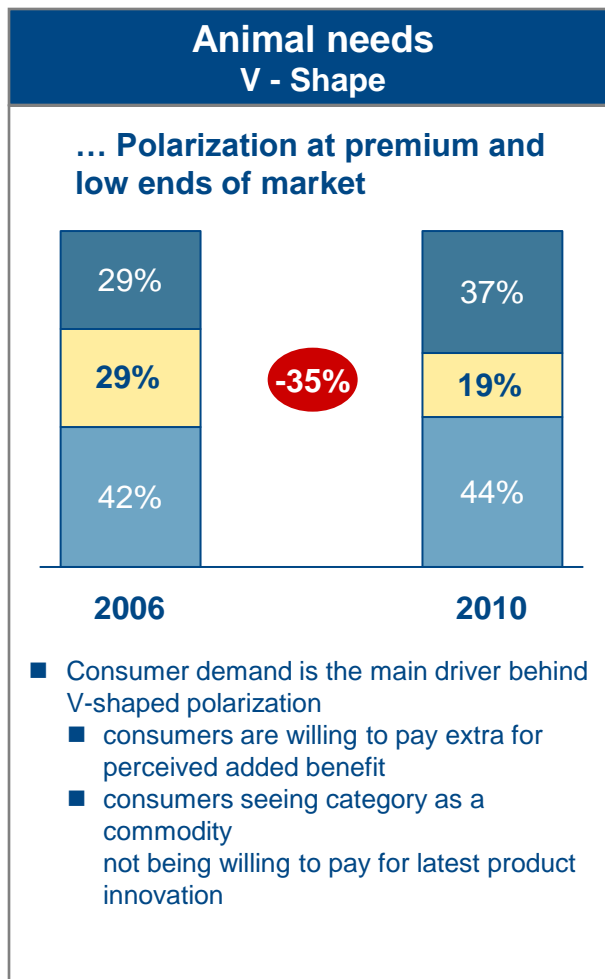
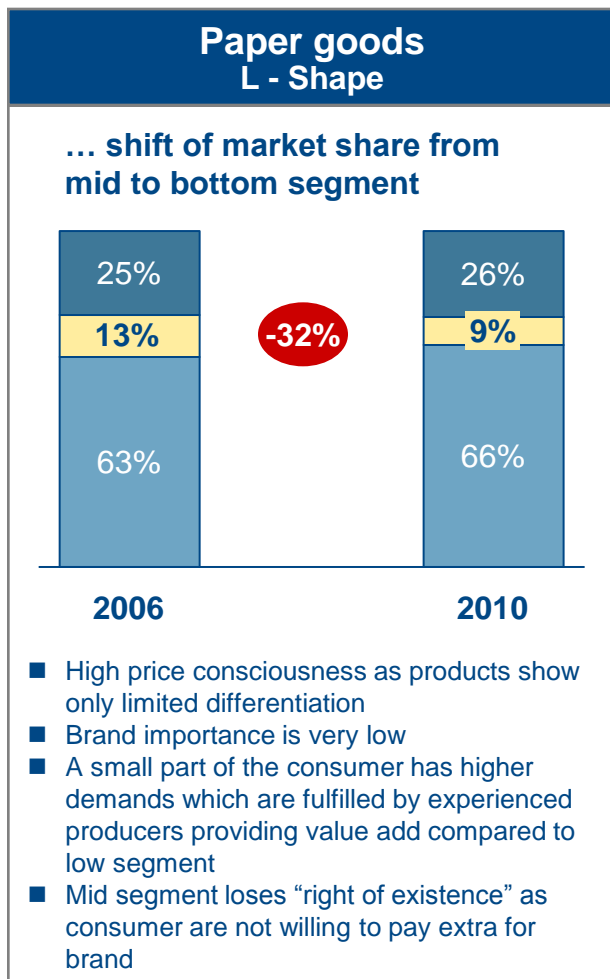
**Market polarization is taking place – the question remains: How does polarization take place?**



Source: GfK 30.000er Haushaltspanel ConsumerScan, Basis: 100 Warengruppen, Arthur D. Little analysis

Three shapes of polarization can be identified in the market, but the diminishing middle segment can be perceived in each of them

Germany



■ Top segment ■ Middle segment ■ Low segment

Source: GfK, Arthur D. Little analysis



### Industry maturity, rate of innovation, branding and low cost trade up are the four key determinants influencing polarization in a market

<p><b>Maturity of the industry</b></p>	<p>The maturity level of an industry positively affects polarization: <u>the higher</u> the maturity, <u>the higher</u> the probability of polarization, c.p.</p> <ul style="list-style-type: none"> <li>■ Upon higher maturity levels of an industry/category, there is a shift from performance to price-value</li> <li>■ Once highly differentiated products transform into commodities</li> <li>■ Mass products are more likely to be copied by competitors</li> </ul>
<p><b>Rate of innovation</b></p>	<p>The rate of innovation adversely affects polarization: <u>the higher</u> the rate of innovation, <u>the lower</u> the probability of polarization, c.p.</p> <ul style="list-style-type: none"> <li>■ Ongoing innovation requires significant investment and diminishes cost advantages from low cost competitors</li> <li>■ Categories driven by repetitive introduction of new products are less likely to polarize</li> </ul>
<p><b>Importance of the brand</b></p>	<p>Importance of branding adversely affects polarization: <u>the higher</u> the importance of the brand, <u>the lower</u> the probability of polarization, c.p.</p> <ul style="list-style-type: none"> <li>■ Industries/categories in which the brand is a significant part of the offering are less likely to polarize</li> <li>■ Unlike the actual products, brands cannot be easily replicated</li> <li>■ If the brand image contributes to the offering, these categories are less likely to polarize</li> </ul>
<p><b>Trading up of low cost competitors</b></p>	<p>Trading up of low cost competitors adversely affects polarization: <u>the higher</u> the degree of discount maturity, <u>the lower</u> the probability of polarization, c.p.</p> <ul style="list-style-type: none"> <li>■ Industries of a lower degree of discount maturity are more likely to polarize</li> <li>■ In industries of a higher degree of maturity a higher rate of innovation is likely</li> <li>■ A high degree of discount maturity implies high importance of branding and lower probability of polarization</li> </ul>



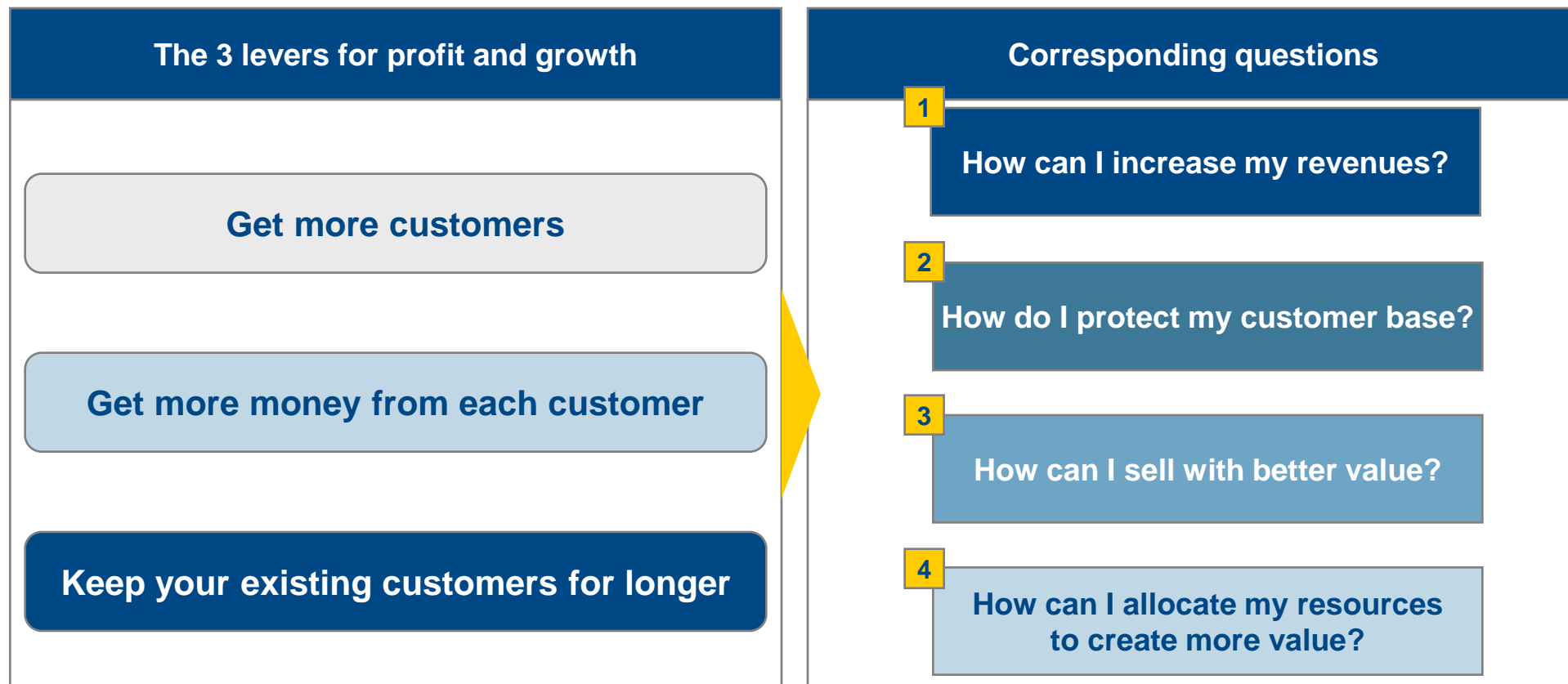
### Five critical key factors determine the success of an organization's dealing with polarization in their markets

Critical success factors	
Anticipate industry future	<ul style="list-style-type: none"> <li>■ Develop polarization futures for your industry leveraging insights from comparable industries</li> <li>■ Anticipate future moves of competitors with wargaming exercises</li> </ul>
Leverage customer insights	<ul style="list-style-type: none"> <li>■ Move from market &amp; sell to sense &amp; respond to anticipate changing customer and consumer needs</li> <li>■ Understand willingness to pay and optimize your pricing &amp; margin management</li> </ul>
Drive innovation	<ul style="list-style-type: none"> <li>■ Move your strategic focus from renovation to innovation</li> <li>■ Link strategy, technology and innovation to avoid me-too copy-cats</li> </ul>
Modularize your offering	<ul style="list-style-type: none"> <li>■ Modularity of offerings as platform strategies enables for flexible and variable product positioning without significant changes in the value chain</li> </ul>
Flexible business set-up	<ul style="list-style-type: none"> <li>■ Spin-off separate entities to develop business model in low cost vs. premium segments</li> <li>■ Value differentiation in asset intensive industries has to be in later value-chain segments</li> </ul>



- 1 Introduction
- 2 Some Thoughts about Market polarization
- 3 Some Thoughts on how to increase profit and growth**
- 4 Appendix

Marketing has not solely to be seen as the element for growth but further more by applying appropriate cost control as generator for real value/profit creation



▶ Essential: Marketing strategies and actions that deliver superior sales growth but fail to contribute to profits will eventually bankrupt a company



In order to unlock further value from your customers and to improve their commercial effectiveness segmenting your current and your targeted customer base is the starting point

### Top management issues on “Value Growth”

#### Typical questions

#### Arthur D. Little solutions & approaches

1

How can I increase my revenues?

- Redesign offer/product portfolio based on customer value segments
- Design new pricing scheme based on ARPU and usage elasticities
- Design, test and roll-out **ARPU stimulation** campaigns
- Identify customer segments for **Cross-&Up-Selling**

2

How do I protect my customer base?

- Identify, measure and address **root causes of churn** by value segment
- Design and pilot test **retention campaigns**
- **Optimize communication channels**

3

How can I sell with better value?

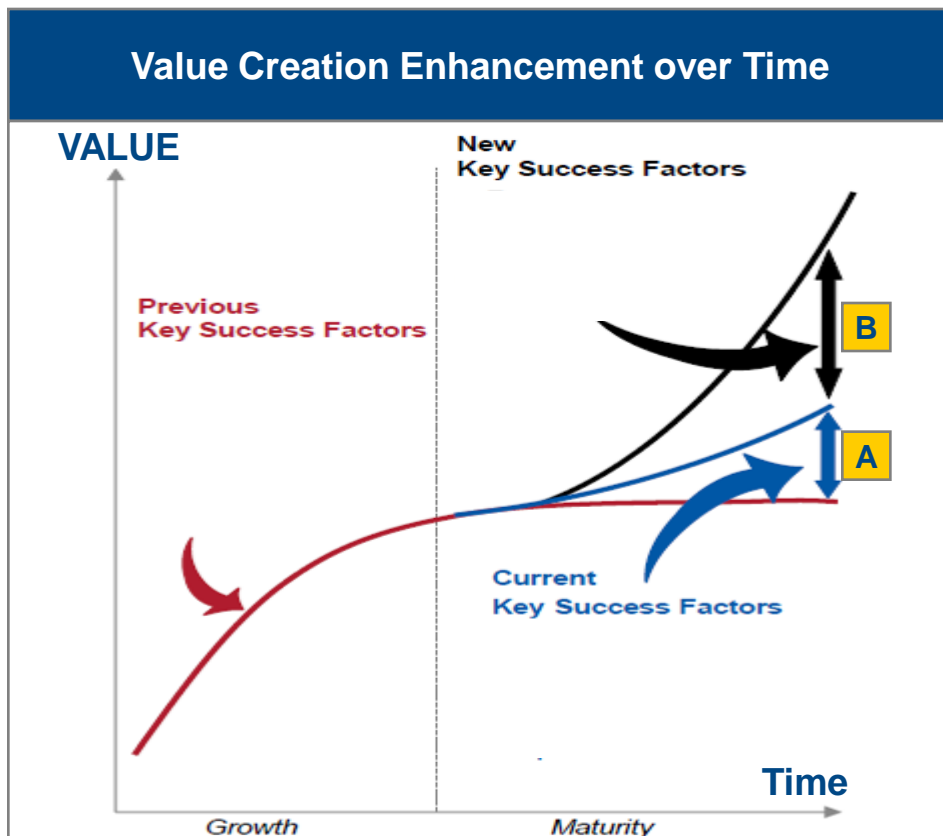
- Identify **impact of channels** on acquisition, value increase and churn
- Redesign **distribution footprint** and formats
- Redesign **commissioning schemes** with channels
- Reorganize and reallocate **salesforce**

4

How can I allocate my costs to create more value?

- Assess and **improve promotional effectiveness**
- Develop and implement a **Segmentation scheme** based on customer value
- Reallocate **customer care resources** to value segments

In order not to risk revenue stagnation after reaching maturity any company has to optimize its current and identify new Key Success factors



### Potential Actions

**A** Improve your **capabilities**, optimize your current **value propositions** and identify **cross- and up-selling** opportunities through **segmentation**

**B** Identify new opportunities to **diversify your business:**

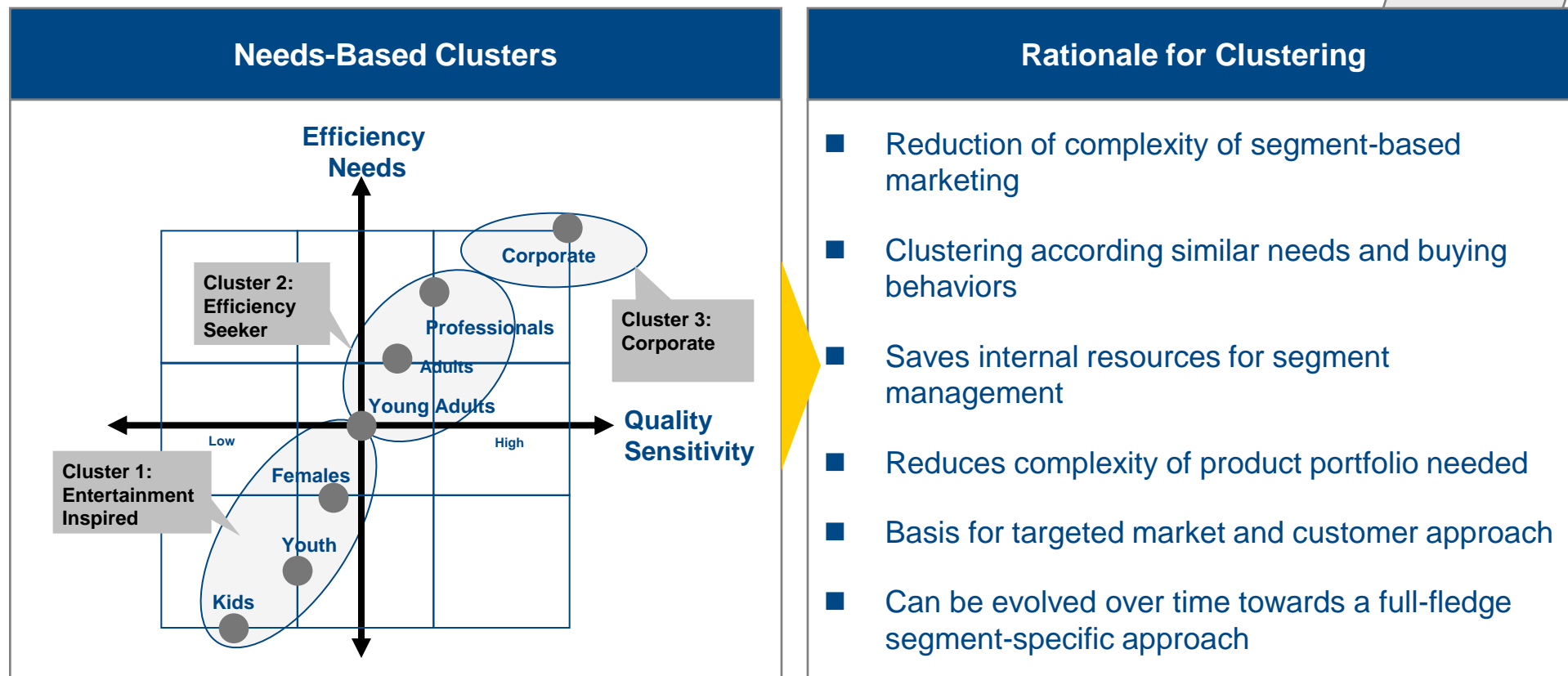
- Introduction of new product lines
- Identify alternative sales-approaches & channels
- Enter new Markets
- Engage in Partnerships

▶ **Partnerships or Co-Branded Value propositions** can be a very successful lever in increasing the attractiveness of your offerings and enabling new revenue streams



A grouping of the identified customer segments into “needs-based clusters” can help to reduce complexity and be the basis for synergy gains

*Illustrative*

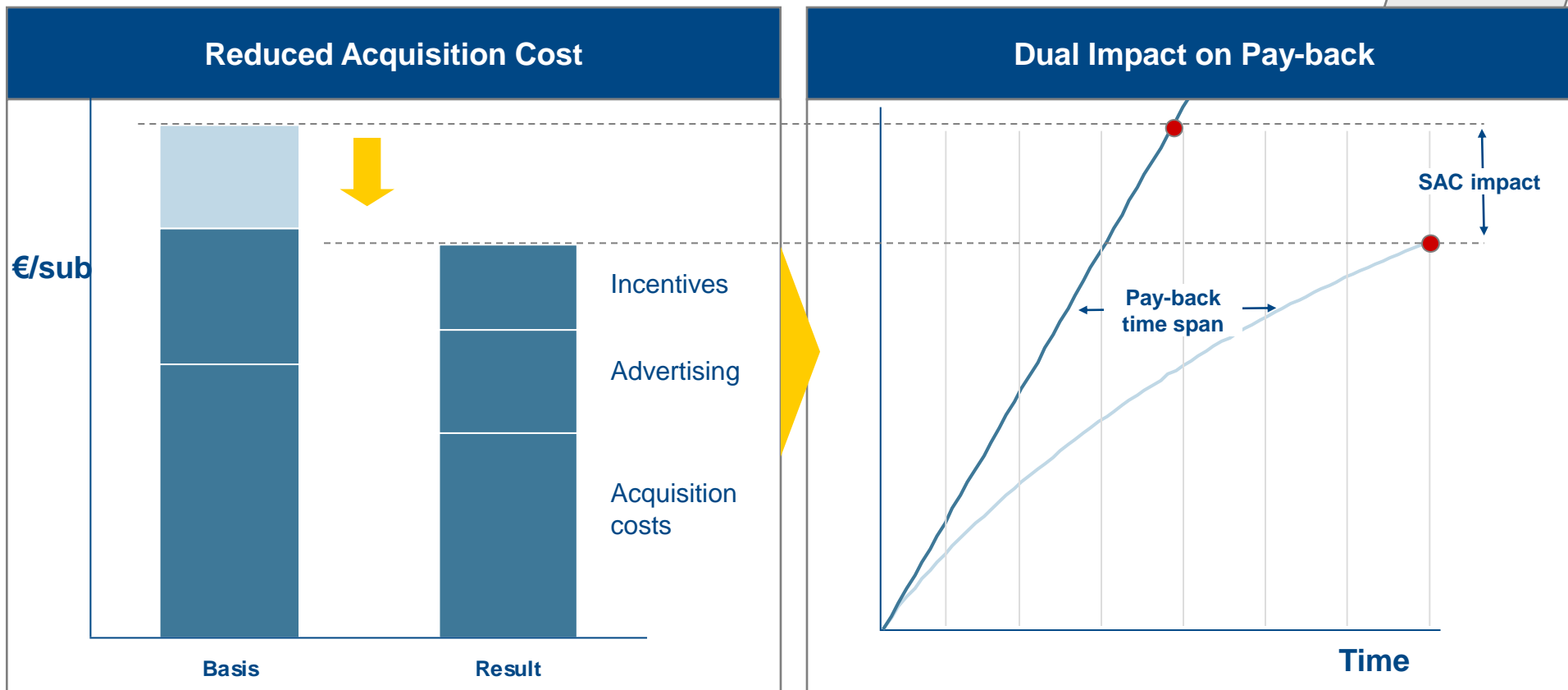


▶ Acting according to a sophisticated segmentation approach towards your current as well as your potential customers will reduce your acquisition efforts and increase convenience



Following a segmentation approach will not only increase profitability by reducing Subscriber Acquisition Cost (SAC) but further more Customer Satisfaction

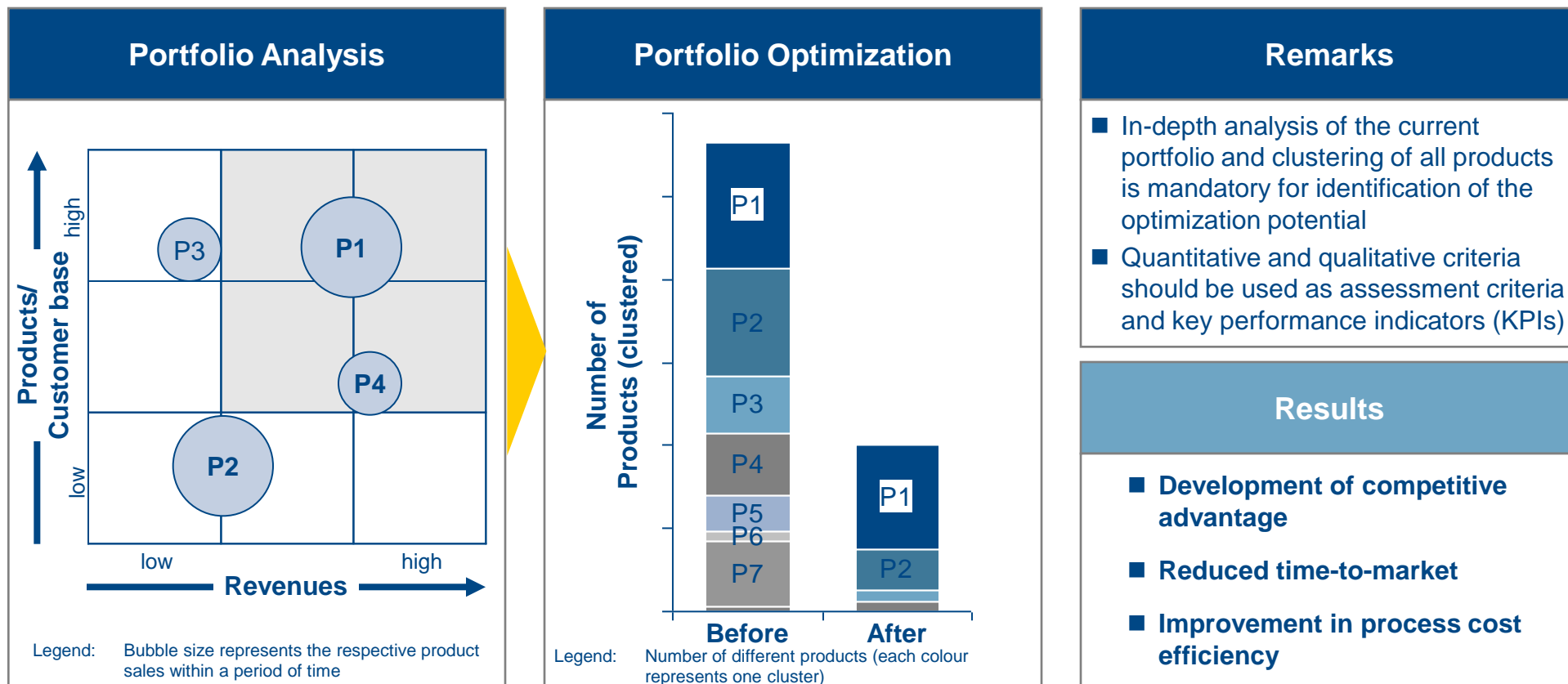
*Illustrative*



▶ Reducing SACs via more targeted approaching will directly hit the bottom line of any business while extending customer lifetime or increasing the likelihood for repurchases



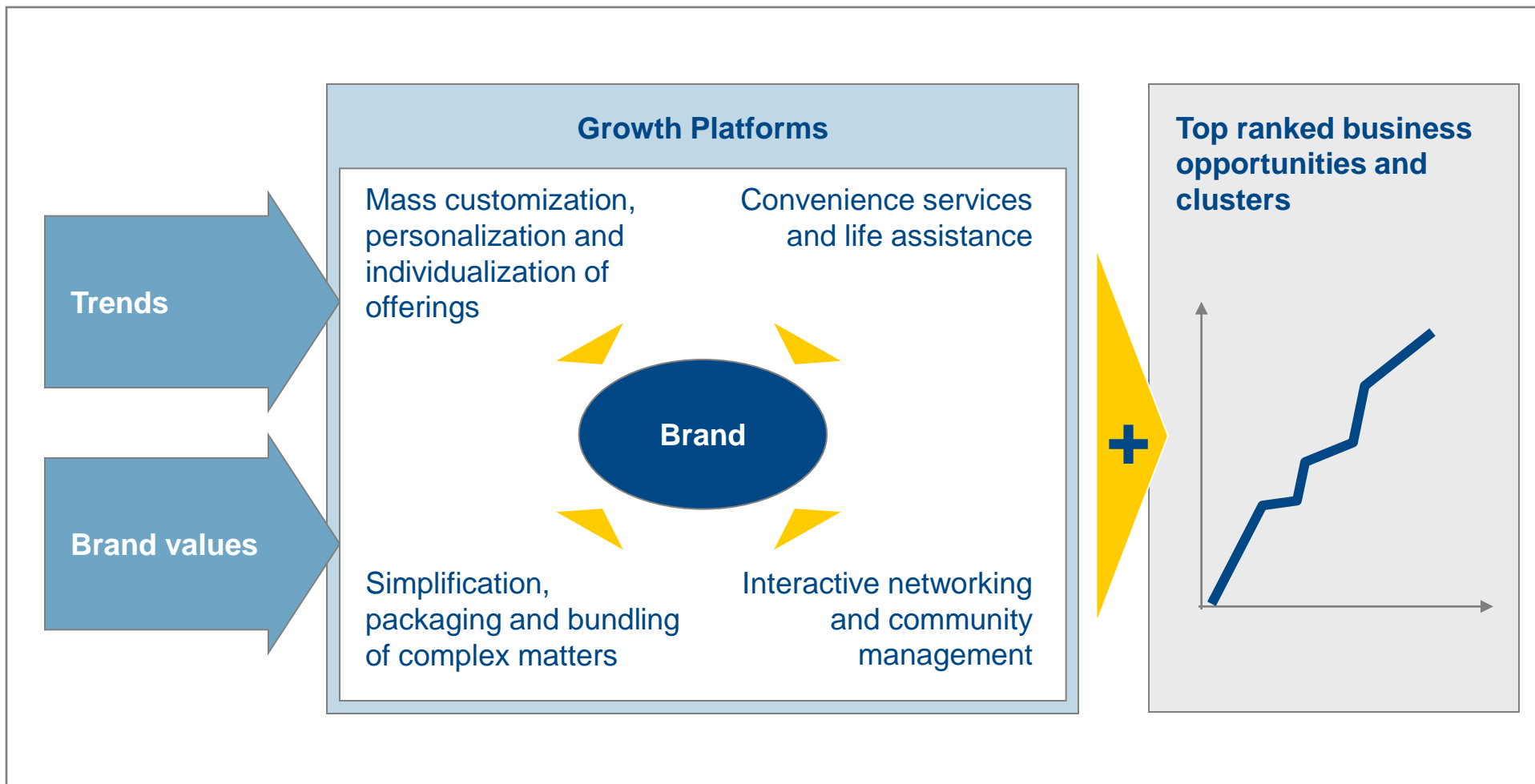
A harmonized two-step approach of Portfolio Analysis and Portfolio Optimization enables companies the strengthen their positioning and focus on real value creation



▶ **Portfolio Optimization is one of the Marketing disciplines which can help to directly reduce costs**



### Trends and brand values can be used to derive “Growth Platforms”



Source: Arthur D. Little

### When you talk about a successful brand ... one can't miss the “big success story”

Case Study



Source: Company pages, Arthur D. Little

A1 Telekom Austria aimed to approach new customer segments and increase their value creation – ADL developed a cooperation model between them and Red Bull – **Red Bull Mobile**

### Red Bull and A1 Telekom Austria

Case Study



**Red Bull MOBILE** "Welcome to my world, the world of Red Bull."  
*Gee Atherton, UK*  
With handsets and tariffs from Red Bull MOBILE.

[www.redbullmobile.at](http://www.redbullmobile.at)



**MOBILE** "Welcome to my world, the world of Red Bull."  
*Scotty Robert UK*  
With handsets and tariffs from Red Bull MOBILE.



**MOBILE** "Welcome to my world, the world of Red Bull."  
*Christian Klien UK*  
With handsets and tariffs from Red Bull MOBILE.

3 how to increase profit and growth – Co-Operation/Co-Branding

Services based on 3<sup>rd</sup> party communities with strong consumer brands like Red Bull, offer a differentiation potential through exciting content and brand experience



▶ Red Bull Mobile is an attractive value proposition allowing operators to dilute their dependency on lead brands and to offer exciting content of sports events worldwide

3 how to increase profit and growth – Co-Operation/Co-Branding

Thank you very much!

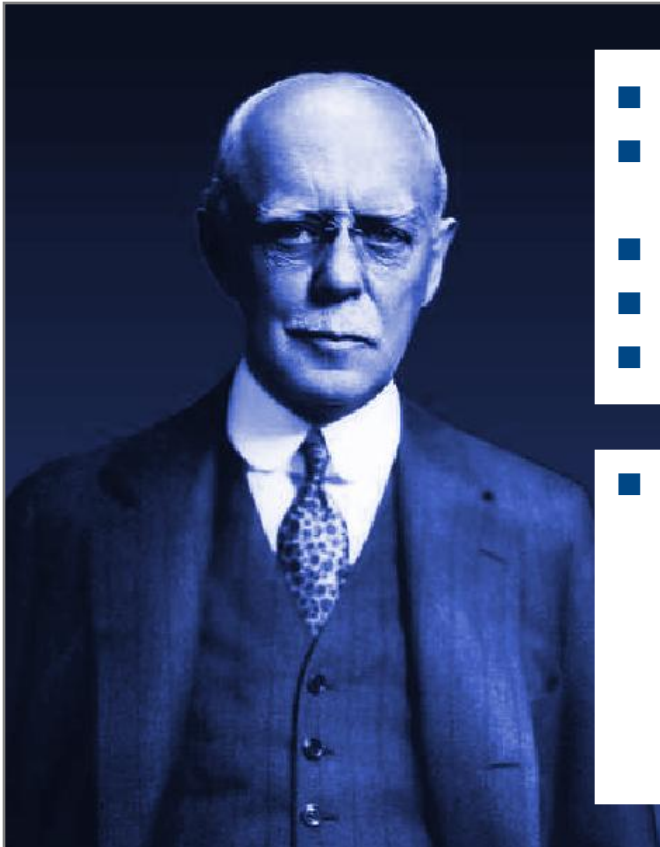
“If everything seems under control,  
you're just not going fast enough!”

Mario Andretti  
Formula 1 World Champion '78



- 1 Introduction
- 2 Some Thoughts about Market polarization
- 3 Some Thoughts on how to increase profit and growth
- 4 Appendix**

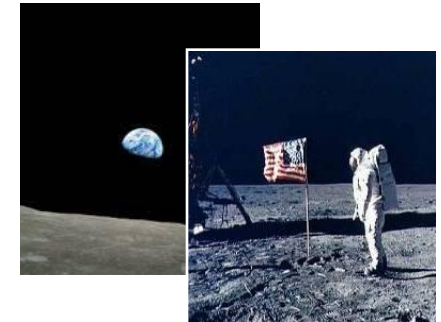
## *The original:* Arthur D. Little is the world's first management consulting firm



- Founded in 1886 as the **world's first management consulting** firm
- Today a **premier global management consulting** firm with 31 offices worldwide
- Core pillars are **innovation, strategy and technology consulting**
- **Serving 75% of FTSE and Fortune 100 companies**
- A member of the Altran Technologies group

### ■ **NASA and Arthur D. Little**

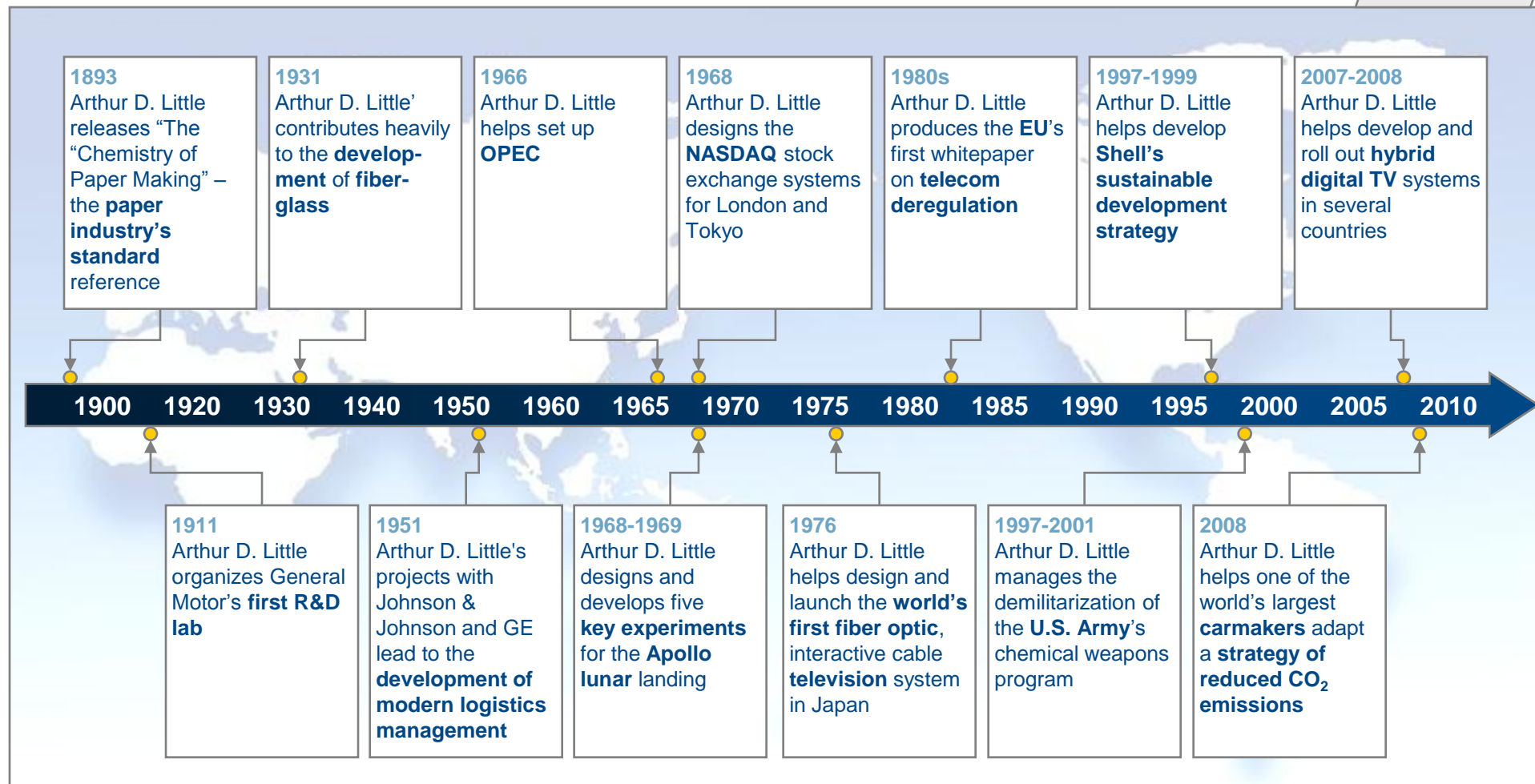
- Arthur D. Little was hired to assist in the planning and execution of the Apollo 11 mission
- The result: NASA kept their deadline of putting a man on the moon before the end of the decade



▶ We are recognized as innovators who keep deadlines and deliver on commitments

### The innovator: Arthur D. Little has an outstanding history in innovation

Highlights

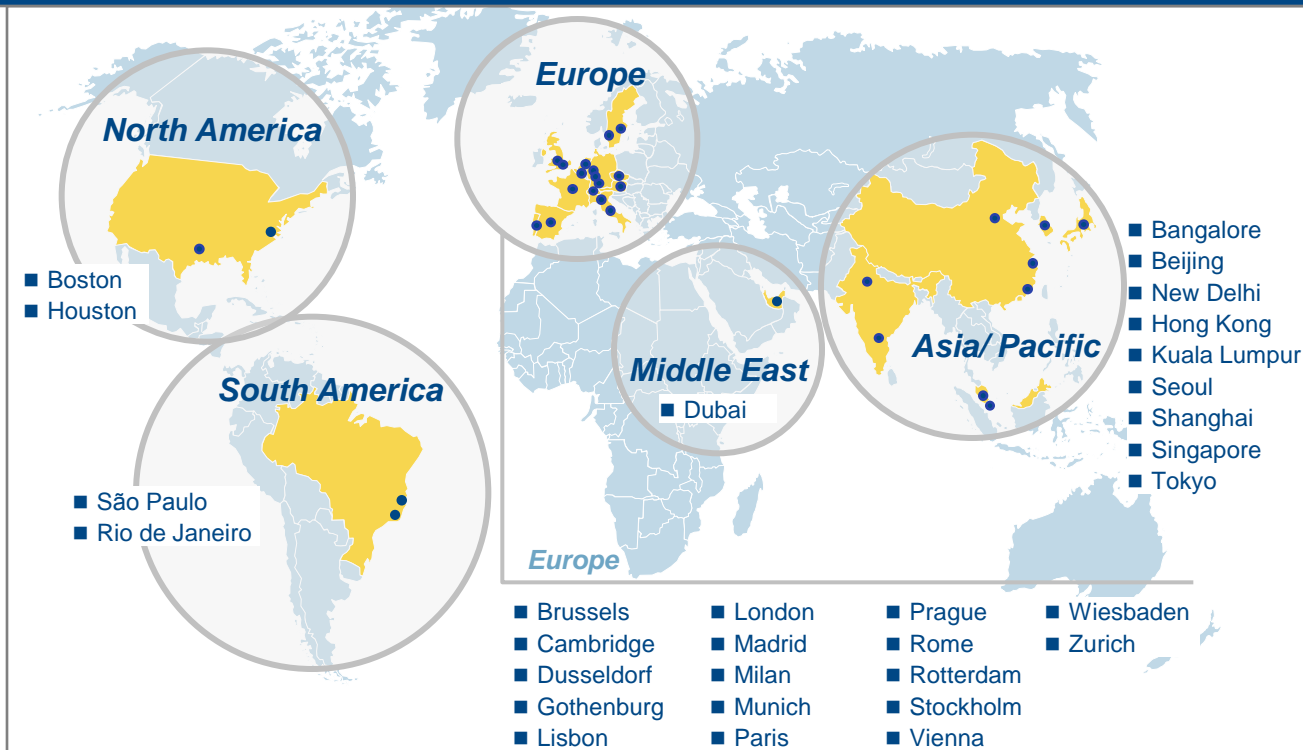


**A global player: We have the global reach and local market experience to ensure our clients achieve their objectives**

## Arthur D. Little's global presence

### Arthur D Little

Offices worldwide: 31  
 Consultants: 800  
 Employees: 1,000

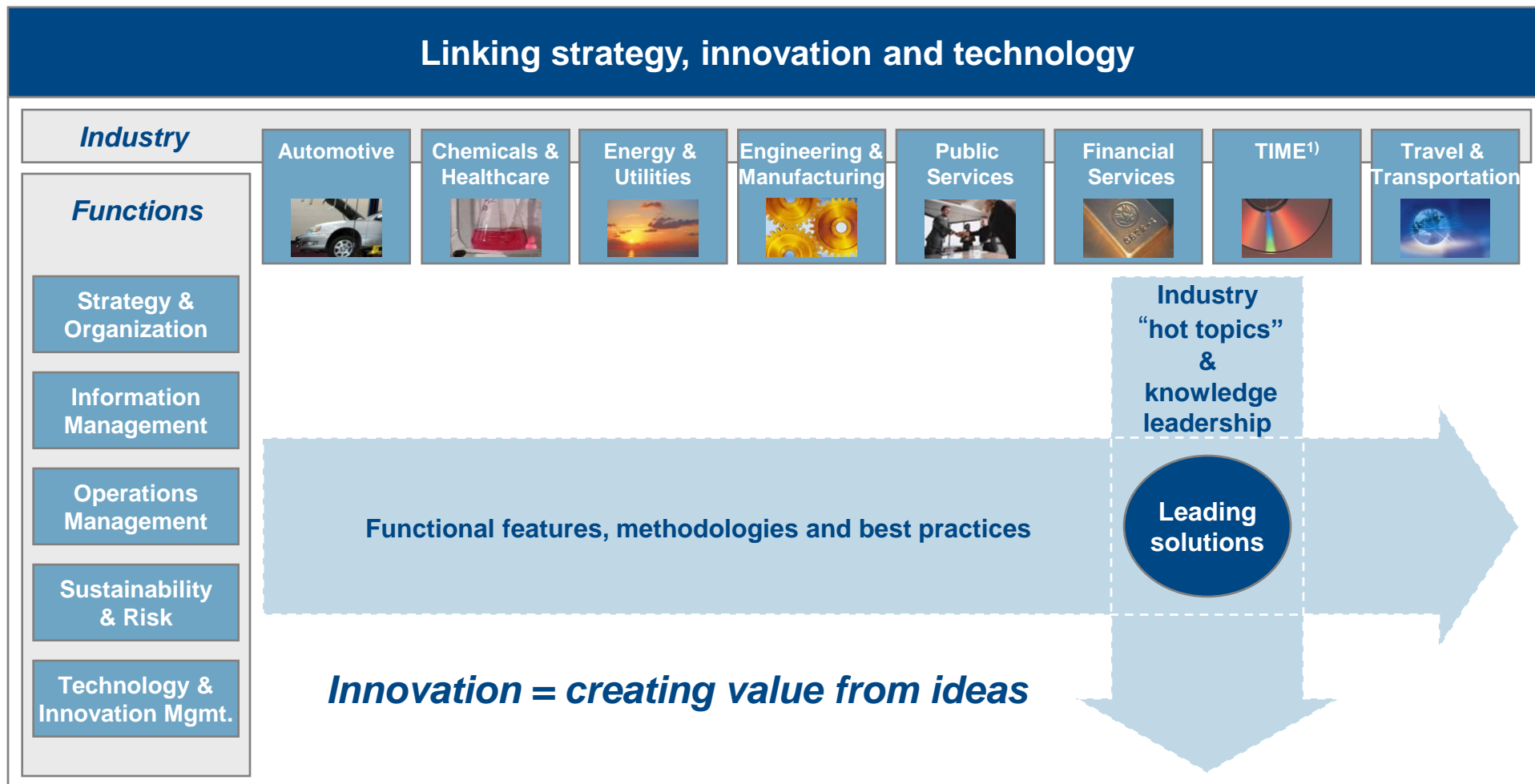


[www.adl.com](http://www.adl.com)

Also at our disposal are Altran's considerable resources – more than 18,000 consultants worldwide ([www.altran.com](http://www.altran.com))



**Cross-sector expertise:** We combine in-depth industry knowledge on the multiple Service industry with cross-functional expertise to deliver exceptional value for our clients



1) TIME = Telecommunications, Information, Media & Electronics

**The Arthur D. Little difference: Our mindset and collaborative approach differentiates us from the competition – just ask our clients ...**

### What makes Arthur D. Little different?

- **Thinking “Outside-the-Box”**
  - “Arthur D. Little is genuinely committed to finding the best solution”
  - “Curiosity and creativity are typical Arthur D. Little characteristics”
- **Delivering beyond expectations**
  - “Arthur D. Little delivers on what they promise”
  - “In terms of cost-effective insights, Arthur D. Little is light years ahead”
- **Making things happen – focused on the bottom line**
  - “These guys roll up their sleeves in an unassuming, down-to-earth and pragmatic way, working side-by-side with our management team”
- **Dedicated people – easy & effective to work with**
  - “The folks from Arthur D. Little are able to work at all levels of our organization, from the executive suite to the shop floor level”
  - “Arthur D. Little not only works for its clients – it works with them”
- **Strong combination of industry & consulting experts**
  - “The team is comprised of highly skilled senior industry experts with deep management experience. They know my business very well!”

### The way we work

- **Our Side-by-Side® approach**
  - Guarantees the best possible collaboration with our clients
  - Ensures know-how transfer, feasibility and sustainability

Successful & controlled transfer of know-how & responsibility

Client

Arthur D. Little

Project progress



Source: Arthur D. Little client interviews

**Leading the debate:** Arthur D. Little regularly publishes decisive management theories that facilitate critical dialogue, particularly regarding strategy and innovation

## A selection of recent book releases



### Working with the best: Our clients set the standard






#### A sampling of key clients






Automotive	Chemicals & Healthcare	Energy & Utilities	Engineering & Manufacturing	Financial Services	Public Services	TIME <sup>1)</sup>	Travel & Transportation

1) TIME = Telecommunications, Information, Media & Electronics



### Arthur D. Little has an illustrative track record and experience in Value Growth projects

Who?	What?
 Das Auto.	Integrated CRM strategy to increase sales effectiveness, customer loyalty and value
	Increased promotional effectiveness of pay-per-view campaigns
	New strategy for the B2B market including : target segments, product portfolio, technical infrastructure, sales & distribution, partnering
	New pricing strategy for industrial mail business line
	New marketing strategy: Brand refreshing, Review of offer portfolio, rationalization of prices & new segment penetration, new services & selective price rising
	New client acquisition and increase in share of wallet from corporate banking clients

Who?	What?
	Rationalization of ticket innovation based on pricing modelling including client elasticity's
	Redesign of pricing architecture, Identification and marketing & financial evaluation of several pricing architectures and implementation plan
	Product & pricing strategy, Re-segmented market and identified valuable product attributes, optimized price structure led to 25% revenue improvement vs. base case
	Redefined mobile marketing strategy, Data-mined data on ARPU, usage and churn, Redefined pricing for prepaid and post-paid products
	Business turn-around: Product strategy & development, Branding & Distribution, Customer acquisition, Balanced Scorecard implementation, Organization re-structuring
...	...

Source: Arthur D. Little analysis; Arthur D. Little project database



### Arthur D. Little's expertise in approaches and methodologies needed to turn polarization threat into a business opportunity can be seen in our track record of successful case studies

Critical success factors	Case studies	Approach/ methodology
Understanding of polarization path	<ul style="list-style-type: none"> <li>For a leading French mobile operator assessment of the opportunity of launching a low-cost offer in order to profitably target under-equipped market segments</li> </ul>	<ul style="list-style-type: none"> <li>Identification of under equipped market segments as well as definition of what is important and not in a mobile offer and design of new offers with 2 types of optimization</li> </ul>
Renovation/ innovation	<ul style="list-style-type: none"> <li>A process for product development/ product management was elaborated for one of the largest German grid distribution companies</li> </ul>	<ul style="list-style-type: none"> <li>Among other things a workshop was held about product development and through side-by-side a conception was generated that is accepted by the organization</li> </ul>
Customer insights	<ul style="list-style-type: none"> <li>A leading European retailer asked for the identification of attractive markets for an internationalization strategy of a premium mineral water</li> </ul>	<ul style="list-style-type: none"> <li>We conducted a concept test within 8 markets and a KPI review regarding size of relevant target segments, growth potential and competition</li> </ul>
Modularity of offering	<ul style="list-style-type: none"> <li>Worldwide leading manufacturer and supplier of industrial X-ray inspection systems</li> <li>Reduction of product cost (COGS) by about 20% across total product portfolio</li> </ul>	<ul style="list-style-type: none"> <li>Modularity and standardization of product portfolio incl. software</li> <li>Organizational redesign according to new process</li> </ul>
Flexibility of operation set-up	<ul style="list-style-type: none"> <li>New growth sectors for a technical building equipment manufacturer</li> <li>Recommendation of stepping into energy contracting (ESCO) business</li> </ul>	<ul style="list-style-type: none"> <li>Holistic market and competitor analysis</li> <li>Strategic options analysis &amp; evaluation: derivation and description of 2 most favourable business models/ future moves</li> </ul>



Source: Arthur D. Little analysis; Arthur D. Little project database

Arthur D. Little is the oldest management consulting firm in the world and assists clients with complex assignments in a wide range of industries

Arthur D. Little, founded in 1886, is a global leader in management consultancy, linking strategy, innovation and technology with deep industry knowledge. We offer our clients sustainable solutions to their most complex business problems.

Arthur D. Little has a collaborative client engagement style, exceptional people and a firm-wide commitment to quality and integrity.

Visit us at  
**[www.adlittle.com](http://www.adlittle.com)**