



# Seeds...

Issue Number 1

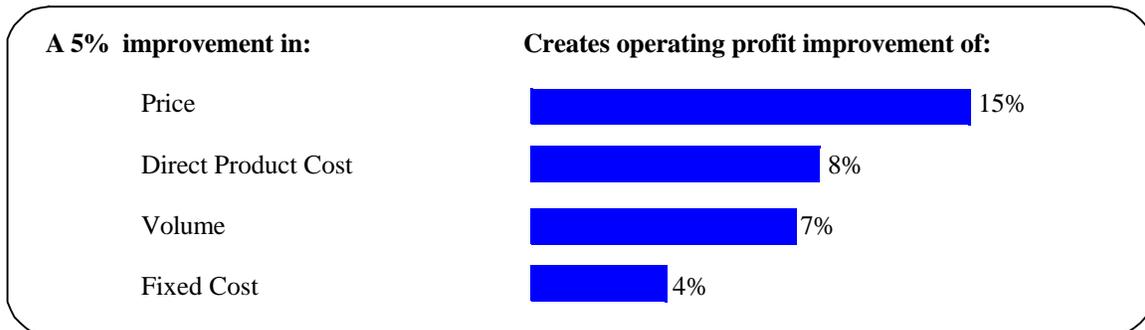
Welcome to the first issue of *Seeds...*, the Allegheny Marketing Group's notes on marketing subjects. As a company involved in all aspects of marketing, we hope to plant a few seeds -- and with a little nourishment, maybe trees will grow.

The information contained in *Seeds...* is a result of our market research, training, and consulting. Each issue will report on several marketing subjects with this first issue highlighting areas to be covered in more detail in later issues.

*The Allegheny Marketing Group*

## Pricing

Pricing is the most important marketing activity according to surveys of business executives. Rightly so, as price has the biggest and most immediate influence on the bottom line. Based on the Allegheny Marketing Group's recent research projects, the impact of price improvements versus direct product cost, volume, and fixed cost improvements, is shown below:



Those improvements vary depending on a company's cost structures and product margins. Each calculation is based on all other variables being held constant.

Accordingly, we asked these companies their opinion of how much of their time is spent in each of the above areas. The results:

Direct Product Cost Improvement	21%
Volume Improvement Capability	16%
Fixed Cost Improvement	7%
Price Improvement	7%

Why did these companies spend so little time on the largest lever for operating profit improvement. Their reasons:

- Difficult to improve prices due to market dynamics.
- Pricing is out of our control.
- The market sets the price and we cannot influence the levels.
- We already price at a premium and never leave money on the table.

Do you believe their answers?

In our next issue we discuss pricing implications when entering into strategic partnerships.

# Customer Satisfaction

The most frequent application for market research in the 1990's is Customer Satisfaction Measurement. Most major corporations conduct annual customer satisfaction surveys as an ongoing process in conjunction with their Quality Programs. The methods of conducting the surveys vary as companies struggle with how best to obtain accurate, meaningful information.

There are five basic methods of collecting customer feedback on customer satisfaction -- each having a different set of advantages. The five methods are:

- Mail Questionnaires
- Internet Questionnaires
- Telephone Interviews
- Focus Group Discussions
- Face-to-Face Interviews

The tables on the right summarizes the advantages and disadvantages of each method. The trend is leaning toward using a combination of these methods, thus balancing cost versus effectiveness.

Method	Cost	Length of Survey	Speed of Completion*	Accuracy of Data**	Extra Information
Mail Questionnaire	Lowest	Reasonably Long	Reasonably Slow	Questionable	Very Little
Internet Questionnaire	2nd Lowest	Reasonably Long	Reasonably Fast	Somewhat Questionable	Little
Telephone Interviews	Middle	Shortest	Fastest	Reasonable	Some
Focus Groups	2nd Highest	Can Be Long	2nd Slowest	2nd Highest	Lots & Lots
Face-to-Face Interviews	Highest	Can Be Long	Slowest	2nd Highest	Lots
* Depends on the length of time respondents are given to return written questionnaire ** Based on pre-selection of key customers to complete interviews.					

# Market Research

Ever wonder why so few industrial companies use market research as a tool in their planning process? As providers of market research, the Allegheny Marketing Group conducted a small survey to answer this self-serving question. The results:

- Over 60% said -- Company clearly knows the market.
- Over 55% said -- We obtain market research through our employees.
- Over 30% said -- The cost is too high and the value is questionable.
- Over 25% said -- We used to obtain market research but it didn't change anything.

Our rebuttal to the non-believers:

- Well-managed companies do know the market. Good research confirms 75% of what you already know -- it's the changing 25% that is critical.
- Employees are the best source to continue to build upon a research base. However, employees tend to lead customers in providing answers they want to hear.
- If the cost to value of market research is too high, it is the result of poor initial planning. Good research is designed to answer specific questions that have an impact on strategic direction and the bottom line.
- Results of market research studies may help marketing executives decide not to take major actions, thus savings thousands or even millions of dollars in poor decisions.

In the next *Seeds...*, we will discuss the five most important issues to consider when planning a market research project.

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# Marketing Quality

So much is written, discussed and accomplished in Total Quality programs today that it is astonishing there is so little ever written on Marketing Quality. When an anonymous, retired marketing manager was asked why marketing activities were not included in the Total Quality program, his response was --

“Marketing is considered an art, not a science,  
and is therefore not compatible with quality improvement techniques.”

Of course, no one agrees with this quote -- but no one has written about marketing quality either. (If you have seen an article, please mail it to us.)

In future *Seeds*... we will discuss the key marketing activities that should be measured in Quality Improvement processes and how they can impact your business in logical, measurable steps. We will provide a measurement system that will allow you to assess your own marketing quality.

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# Marketing Channels

“Making the initial sale is still important, but selling itself is not enough. In today’s service- and technology-oriented marketplace, future sales depend on creating and maintaining a close buyer-seller relationship.”

- Theodore Levitt

The issues facing marketing executives in today’s fragmented markets include the choices of sales channels and distribution strategies. Which sales channel is best for my business? Where do distributors fit into my strategy?

The answers to these questions require a complex matrix of the many variables that affect the effectiveness and cost of marketing channels. Each type of channel offers your customer segments different value-added services while costing you a wide band of both direct and indirect expense.

The first step in analyzing the effectiveness and costs of your marketing channels is an understanding of the factors that influence your choices. The following list is an example:

Size of Company	Larger, established companies can afford higher fixed channels costs. Variable cost channels are more attractive to smaller companies.
Number of Products Being Sold	The larger the product portfolio, the higher the probability that a combination of sales channels should be used. The smaller the portfolio, the greater likelihood a single channel should be used.
Complexity of Product and Selling Process	Highly complex products and selling processes require a sales channel’s long-term commitment and understanding of the buyer’s application and use of your product.
Frequency of Orders/Average Order Size	High order frequency requires more sophisticated information systems. Average size of orders affects the types of incentives offered.
Market Intelligence Feedback	The greater the amount of market intelligence desired, the greater the control and influence a company needs over its sales channels.
Number of Market Segments Targeted	The more market segments being served, the more likely a combination of sales channels would be most effective.
Concentration of Customers	The higher the geographical concentration of customers, the more likely it is that a direct employee sales channel is most cost effective.

The next issue will compare profiles of different market channels, and match effectiveness and costs with the above factors.

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# Marketing Thoughts

In each issue of *Seeds...*, we will share some thoughts about Marketing and Sales. The following statements are debatable, often thought provoking, and usually describe situations experienced by seasoned marketers.

- There is no such thing as a small customer.
- The existence of a market does not ensure the existence of a customer.
- Price does not determine cost, cost does not determine price.
- Never delay the end of a meeting or the beginning of a cocktail hour.

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## Afterthought

We just saw a quiz in The Competitive Advantage newsletter -- we thought you could give it to your employees. It's short!

**QUIZ**

**Question #1**      My name is \_\_\_\_\_.

**Question #2**      I work for \_\_\_\_\_.

**Question #3**      My salary is paid by \_\_\_\_\_.

Answers: (1) my name      (2) my customers      (3) my customers

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