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The Pragmatic Marketer™

The ROI of Being Market-Driven

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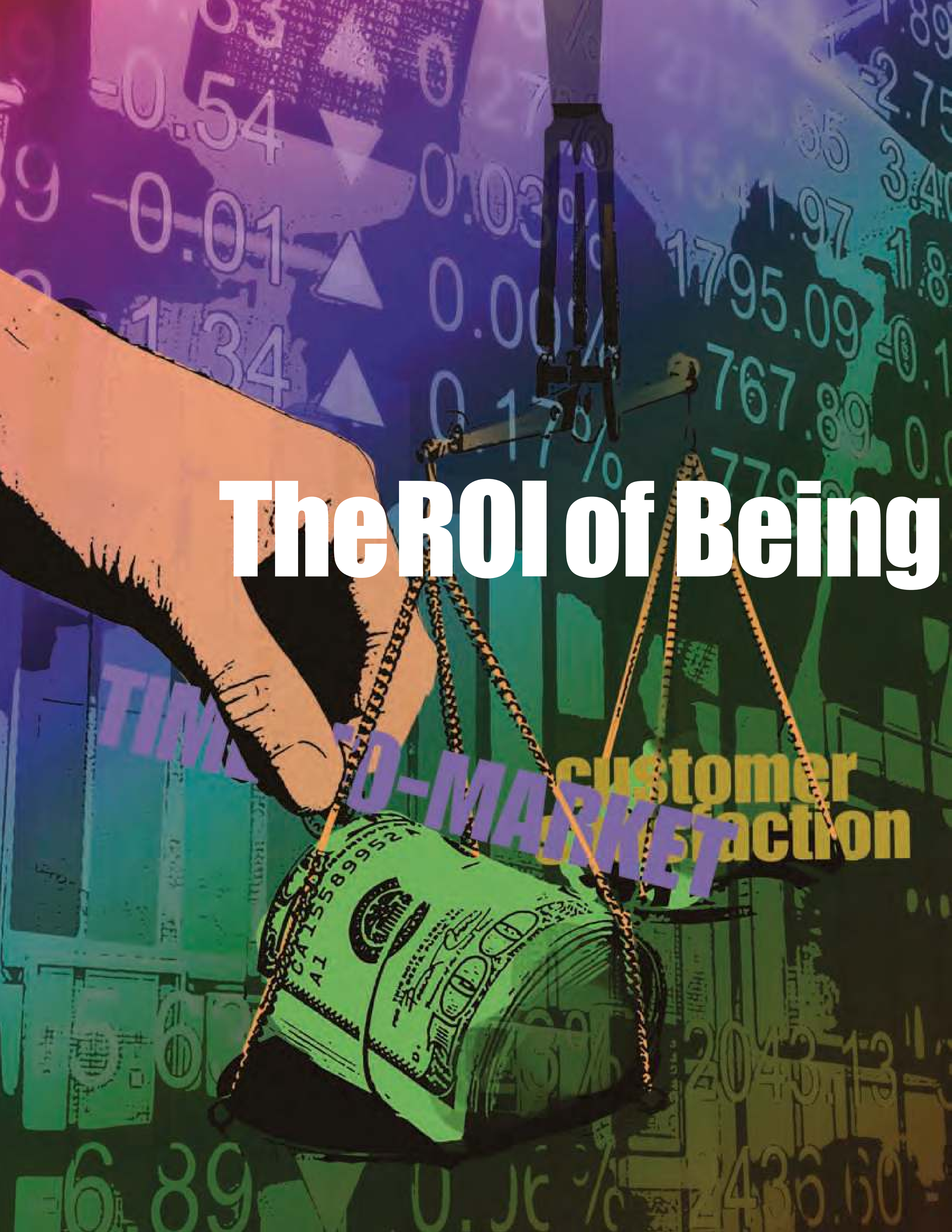
The ROI of Being



CEOs love performance measurements. As someone who's sat on both ends of the table, I can recall the frustration of being asked to measure the un-measurable as a product manager, and, being incredulous as a CEO when folks asked me to approve large expenditures without any accountability for how they would help the business. So, it is with a sense of both humor and purpose that we began a study here at Pragmatic Marketing to answer a question our customers get asked all the time by their executives—what is the return on investment, or ROI of being market-driven?

Market-Driven

By Pragmatic Marketing

Part of the issue is perspective. What does it mean to say that a company is market-driven? Google it—*in quotes,* and it gets over 1.2 million results. Every week, customers give us their own personal views, and their responses vary significantly. We've centered on a very practical definition: *"every thought, word, and action within your company is based on the needs of the market."* Hard to argue with this right? But, is this definition enough to govern your corporate investment decisions?

At Pragmatic Marketing, our business is to study these things, analyze the patterns and develop best practice methodologies for leading a market-driven business. We've worked with thousands of companies over the past five years, including big, well-known, market leaders like IBM, SAP, Freescale, Microsoft, EMC, eBay, and Yahoo; with breakout products from Apple, BlackBerry, Salesforce.com and Google; and offerings from consistent product leaders like Intuit, WebSense, Macrovision, Metavante, and SAS. We've validated many of the high-level anecdotal studies that support the value of being market-driven—companies are more profitable (31% more[1] according to George Day), twice as fast in getting new products to market,[2] and own 10-20% higher customer satisfaction levels.[3] And, we've found compelling convergence around best practices for building and leading a market-driven culture.

But, internal to these companies and many others, we still find ROI skeptics. So, most recently, we sat down for one-on-one discussions with 30 CEOs to get to the bottom of the ROI question. By far the biggest eye-opener was the way in which these CEOs dug into the questions and delivered a pragmatic assessment of how their company measures the value of being market-driven. They ask four very simple ROI questions:

- How much faster can you bring a new product to market and how much money can be saved by eliminating development mistakes?
- How can we ramp sales faster and lower the overall costs of sales and marketing by spending our dollars and resources more wisely?
- What impact will this have on the fundamental measurement that we value the business by—improving customer satisfaction, retention and referrals?
- Will any of these practices create better margins by improving productivity or retention rates?

This article helps you gain strategic visibility for the ROI of being market-driven. And while we can't calculate exactly what that figure is for your company, product, or unique market scenario, we can document a simple strategy for justification. The Four Rules of ROI Leaders that speaks in the language of your buyer—the CEO—are *time-to-market, time-to-revenue, time-to-value,* and *time-to-profit.* →

[1] Derived from George S. Day and Prakash Nedungadi, "Managerial Representations of Competitive Advantage," Journal of Marketing 58 (April 1994): 40

[2] SoftwareMinds Best Practices report. © 2004. http://www.softwareminds.com/pm.asp

[3] Summarized from Pragmatic Marketing's interviews with 30 technology CEOs

Rule#1

Get products to market faster and eliminate "do-over" development cycles

Time-to-market is the first measurement of an ROI Leader. When a product manager develops and defends a business case for a new product investment, decision makers want to quickly understand and rate the risk/reward vs. other alternatives—including not investing in the project at all!

Development costs and schedules are the first point of inspection. Typically, no matter what is included in the plan, the smart executive doubles it. They know from experience that these projects are almost always impacted by "feature creep," inaccurate sizing, and changes in requirements. Yet, each month that a product is delayed beyond the planned ship date has a cumulative *negative* impact on the overall ROI over the life of the product. Schedule slips are rarely recovered, market windows are missed, and early customer adoption impacted. So, the ROI number in the plan is suspect right from the beginning.

Market-driven organizations improve development ROI by delivering more quickly, cheaply, and by meeting and often beating their schedules. The formula for success is simple:

1. Focus the development organization on a specific problem.
2. Reduce the scope through tight requirements definitions that are targeted to specific market segments and specific persona(s)
3. Create a launch plan that justifies the release date target with quantifiable, measurable improvements that the company will realize in sales.

There are no short-cuts if you want to be an ROI leader. When do you realize that you've shipped the *wrong* product to the *wrong* market? We hear from companies every week that say they don't have a process to effectively deal with change during the development cycle—in other words, when market conditions or product content changes, and the agreed-to business case is no longer valid, many companies "ship it anyway," and wonder why revenue goals aren't met. We sometimes hear this referred to as shipping an "anyway product," and by doing so, companies typically hurt their market perception and rarely meet their revenue goals. This problem can be addressed by implementing a more agile product management and development process.

SIMPLE MEASURE: The typical technology product requires two to three versions to get it right. Take your product development cost and multiply it by two and add it as an avoided cost if you are market-driven.

Rule#2

Ramp sales faster and eliminate thrashing in marketing

Time-to-revenue is the second measurement of an ROI leader. You spend tons of money on marketing programs. And maybe even more in the training, support and staffing of your channel. The front-end of the launch of a new product is filled with expensive investments—new web pages and online campaigns, direct mail, advertising, brochures, e-books, press conferences and tours—a seemingly endless list. These investments, along with the series of activities that introduce your new products to the channel and the resources set aside to support it are real and tangible. But how fast do you typically get product adoption? Is it a six month ramp? A one year ramp? Longer?

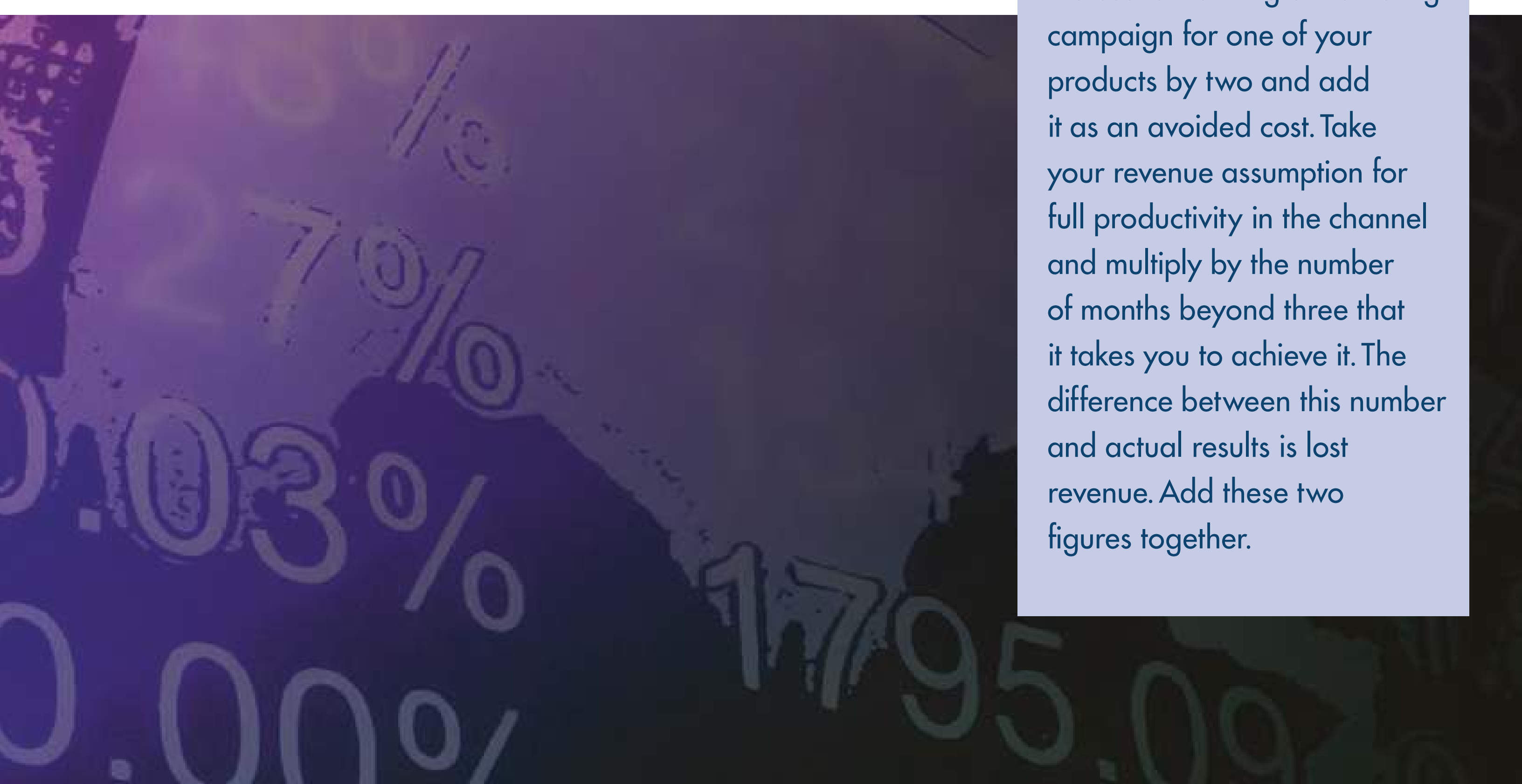
ROI leaders get there faster by optimizing the full launch process:

- In our industry, most vendors assume it takes 5 to 8 marketing impressions with a prospective customer to establish product awareness. 5 to 8? Doesn't that sound rather high for an educated, fairly technical audience? We found that market-driven collateral and tools that focus on solving market problems for prospective customers generate leads in no more than 2 to 3 "touches," improving the ROI by over 100%.
- Market-driven organizations take an entirely different approach to channel training. The focus of the training is on *how to sell* the product, not on making the salespeople *experts on the product.* Salespeople are not detailed oriented. Never were, never will be. Market-driven sales training programs should teach the tools, processes, and the important information about the buyers and how they buy—not specifics about the products.

To build market-driven sales and marketing programs, your goal should be that for every buyer message and every marketing deliverable, the targeted customer exclaims, "Wow, these guys really understand my problems!"

A related, but neglected, item is the additional support staff allocated to most new products to assist the launch. If your company does not have clarity about what problems you solve for your market and how the product solves those problems, your prospects will be confused. This contributes to longer sales cycles and potential lost deals which are easily measurable. It also contributes to more folks being applied to assisting the selling process to avoid these losses. Developing a repeatable sales process that scales without extra support comes much faster from a market-driven product.

How do we measure and translate that value into an ROI? First of all, clearly define your target audience for each deliverable—what is the market segment(s), who is the buyer persona(s), and what are their problems? What do they care about? How are they measured? What are the *alternatives* to buying your product? Second, audit each of your primary marketing deliverables and eliminate any extraneous information that is not 100% focused on the market and persona and their problems. If you can't entirely eliminate information about you or your technology, put it in backup or in the lower-level details. By implementing only these two simple steps, companies can improve the ROI by up to 50%, eliminating entire campaigns and significantly increasing sales productivity. →



SIMPLE MEASURE: Multiply the cost of running a marketing campaign for one of your products by two and add it as an avoided cost. Take your revenue assumption for full productivity in the channel and multiply by the number of months beyond three that it takes you to achieve it. The difference between this number and actual results is lost revenue. Add these two figures together.

Rule#3

Raise your customer satisfaction levels to best-in-class

Time-to-value is the third measurement of an ROI leader. According to a 1993 *Harvard Business Review* article, *"A 'very satisfied' customer is almost 6 times more likely to be loyal to repurchase and/or to recommend your product than a customer that is 'just satisfied.'"* And from *Leading on the Edge of Chaos* by Emmett C. Murphy and Mark A. Murphy:

1. *Acquiring new customers can cost five times more than satisfying and retaining current customers*
2. *A 2% increase in customer retention has the same effect on profits as cutting costs by 10%*
3. *The average company loses 10% of its customers each year*
4. *A 5% reduction in customer defection rate can increase profits by 25-125%, depending on the industry*
5. *The customer profitability rate tends to increase over the life of a retained customer*

Best-in-class companies garner customer satisfaction rates, renewal rates and achieve Net Promoter Scores in the 50-80% range. Those that are not, generate scores in the 5-20% range.[4] What are the impacts of creating these levels of customer satisfaction? What CEOs have come to realize is that this is their number one measurement for success. For some very virtuous and pragmatic reasons—costs decrease and revenues increase in direct proportion.

How can being market-driven impact customer satisfaction, thereby creating very satisfied customers? A formal customer relations program is the first step. The best programs include both electronic and personal contact management, early access to products, "loyalty" programs such as preferred licensing terms, "named" support staff, escalation paths for resolving conflicts, and customer advisory councils/ conferences. The second step is a professional and responsive support organization, with an incentive to sell to and retain current customers as well as acquire new ones.

But, no program is as valuable as this one—providing solutions to real market problems. At the end of the day, satisfaction isn't about how nice you are, how well you provide support, or how much the customer believes in your mission—it's about whether the solution you provide impacts your customer's ability to improve their own execution today. You don't pay attention to anything else, so why should your customer?

Rule#4

Improve retention and productivity of the workforce

Time-to-profit is the fourth measurement of an ROI leader. Ask any technology industry CFO and they will tell you that the number one contributing variable to the bottom line is people costs. Making your workforce more productive and retaining key employees is an often overlooked part of the ROI equation for product managers.

A Human Resource methodology called "TopGrading" estimates the cost of non-performance (as defined by a new hire that didn't work out or an employee in place not doing their job) is estimated at 24 times an employee's annual compensation.[5] That is, a $100,000 employee that doesn't work out costs the company $2.4 million when you factor in hiring, training, expenses associated with poor performance, rehire costs, opportunity cost and delays.

ROI leaders avoid these costs by focusing on the critical success factors within their business that improve productivity and morale.

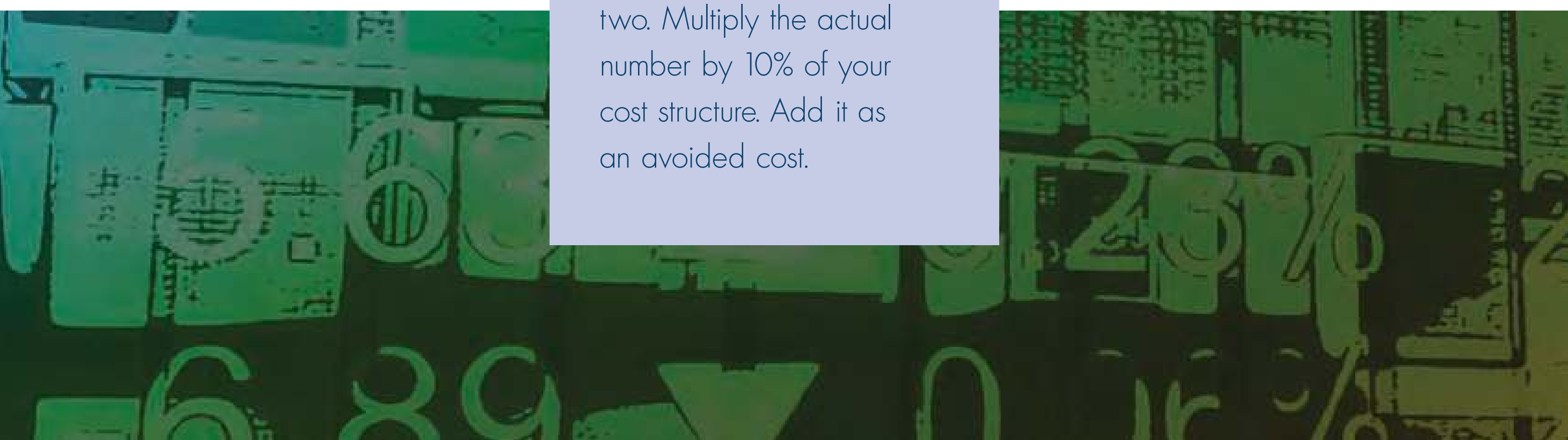
In a recent SoftwareMinds survey, 66% of technology company executives identified product management as a business-critical role in the organization[6]. A recent Pragmatic Marketing survey reports

[4] www.netpromoter.com/calculate/nps.php

[5] *TopGrading by Bradford Smart* (first published in 1997 & reprinted in 2005). Chapter 3, The Astronomical Cost of Mis-hires.

[6] SoftwareMinds Best Practices report. © 2004. http://www.softwareminds.com/pm.asp

SIMPLE MEASURE:
Take the difference between your current customer satisfaction rating and 90% and divide it by two. Multiply the actual number by 10% of your cost structure. Add it as an avoided cost.



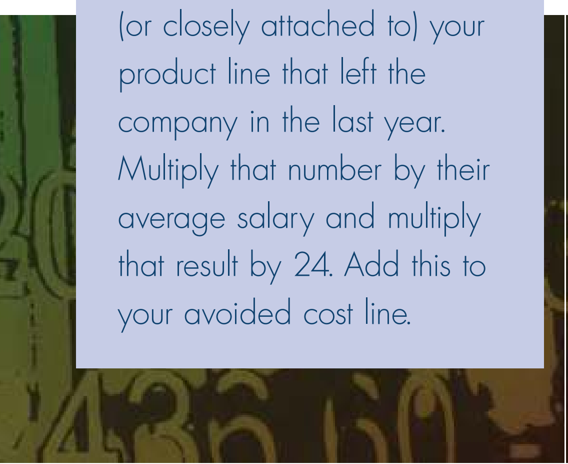
that 55% of technology companies have product managers, product management organizations or business unit leaders reporting directly to the CEO[7]. These companies report longer-tenured employees, a vastly shorter time-to-market and time-to-profit than companies who do not value the product management contribution.

Outside of our industry, the culture and performance of Southwest Airlines is legendary. Does it surprise you their turnover rate is not only the lowest in its sector but best-in-class across all industries? This despite asking their employees to do such things as check baggage and perform maintenance duties during tough times (immediately after 9/11). Love 'em or hate 'em, has anyone met a happier, more cheerful workforce to deal with face-to-face, online or on the phone?

Gallup published a survey based on interviews with over 80,000 employees and found two key factors to employee success and satisfaction[8]. 1.) "I know what is expected of me at work;" and 2.) "I have the materials and equipment I need to do my work right." While being market-driven isn't necessarily a "simple" process, one of the benefits we see is the companies who adopt the philosophy seem to achieve more with less people.

[7] Where Does Product Management Belong in the Organization?, by Pragmatic Marketing, © 2005.
[8] " First, Break All The Rules: What The World's Greatest Managers Do Differently" by Marcus Buckingham and Curt Coffman

SIMPLE MEASURE: Identify the key development, sales and marketing personnel in (or closely attached to) your product line that left the company in the last year. Multiply that number by their average salary and multiply that result by 24. Add this to your avoided cost line.



The numbers started getting big, didn't they?

If you were keeping a running total for your company as you read through these four rules, you probably have a pretty large number staring you in the face on your ROI calculator. Now the really bad news. The ROI calculator is only showing you a small percentage of the bigger story. The bigger part is this. *Market-driven companies win.*

There really is no ROI on success vs. failure. And, that's what we're talking about here. Market-driven companies naturally become ROI leaders through winning in the marketplace. The impact of doing this right is not only in the millions to billions of dollars, it is about the very essence of leading, surviving and thriving in your market. A simple way to look at this is to answer this question—would you rather be Toyota or General Motors right now? And, which one would you guess is more skeptical of the ROI issue?

There are some real measurements you can use to assess how market-driven your organization is and how well you are maximizing your ROI in product management and marketing, or more simply stated—pragmatic marketing. We challenge you to objectively answer the following questions:

- Do you meet your product delivery schedules?
- Are your product requirements defined by needs of the market?
- Is the focus of your research and innovation on addressing an understood and well-defined market need?
- Do you look outside for new technologies before building them yourself?
- Is your product positioning and associated messages based on the needs of a well-defined market and buyer?
- Can a customer or prospect understand the *"value to them"* of a product or feature by reading the first few lines of any of your marketing deliverables (data sheets, brochures, fact sheets, etc.) ?
- Does your web page focus more on market problems, market segments, buyer personas, and solutions than on your products, technology, and your company?
- Do you have a *marketing programs strategy*?
- When you have a meeting with a customer, do you spend the largest percentage of the time *listening* versus *talking*?
- Can an average salesperson quickly locate the right tools to present your product strategy or to close a deal?
- Are your channels selling all of your products?
- Is part of your marketing programs budget and sales goals allocated to customer satisfaction and customer retention?

If you answer "yes" to these, then congratulations, you're market-driven! If you answered "no" to more than you'd care to admit, it's time to analyze the brutal facts. Take some solace in the fact that you're not alone. More than two-thirds of the companies we interviewed struggle with implementing these basic principles.

Those that do are ROI leaders. They work better, achieve results faster and have happier customers. The real question product managers and executives should be asking themselves is "can we afford not to be investing in systems that are as fundamental to our success as being market-driven right now?"

TPM

About Pragmatic Marketing

Since 1993, Pragmatic Marketing has trained more than 100,000 product management and marketing professionals at 7,000 companies on six continents. They have created a growing international community of strategic product management and marketing professionals that are changing the way companies bring successful products to market.

ROI of Being Market-Driven Worksheet

Rule	Measure		Avoided Cost	Result
1	Estimated product development cost x 2?			*Get products to market faster and eliminate "do-over" development*
2	Cost to run a marketing campaign for one of your products x 2?			*Ramp sales faster and eliminate thrashing in marketing*
	Revenue you expect at total channel productivity?			
	Months (beyond 3) does it take to get channel fully productive?		$ -	
3	The difference between your current customer satisfaction rating and 90% divided by two. Multiply by 10% of cost structure.			*Raise your customer satisfaction levels to best-in-class*
4	Number of key development, sales and marketing personnel who quit?			
	Average salary (for two years)?		$ -	*Improve retention and productivity of the workforce*
		Total Avoided Cost:	$ -	

Y/N Do you meet your product delivery schedules?

Y/N Are your product requirements defined by needs of the market?

Y/N Is the focus of your research and innovation on addressing an understood and well-defined market need?

Y/N Do you look outside for new technologies before building them yourself?

Y/N Is your product positioning and associated messages based on the needs of a well-defined market and buyer?

Y/N Can a customer or prospect understand the "value to them" by reading the first few lines of your marketing collateral (data sheets, brochures, fact sheets, etc.)?

Y/N Does your website focus more on market problems, market segments and buyer personas than on your products, technology, and your company?

Y/N Do you have a marketing programs strategy?

Y/N When you meet with a customer, do you spend more time listening than talking?

Y/N Can a salesperson quickly locate the right tools to present your product strategy or to close a deal?

Y/N Are your channels selling all of your products?

Y/N Is part of your marketing programs budget and sales goals allocated to customer satisfaction and customer retention?

Pragmatic Marketing Framework™

The market-driven model
for managing and marketing
technology products

STRATEGY

		Business Plan	Positioning	Marketing Plan		
Market Problems	Market Definition	Pricing	Buying Process	Customer Acquisition		
Win/Loss Analysis	Distribution Strategy	Buy, Build or Partner	Buyer Personas	Customer Retention		
Distinctive Competence	Product Portfolio	Product Profitability	User Personas	Program Effectiveness		
MARKET	**FOCUS**	**BUSINESS**	**PLANNING**	**PROGRAMS**	**READINESS**	**SUPPORT**
Competitive Landscape	Product Roadmap	Innovation	Requirements	Launch Plan	Sales Process	Presentations & Demos
Technology Assessment			Use Scenarios	Thought Leadership	Collateral	“Special” Calls
			Status Dashboard	Lead Generation	Sales Tools	Event Support
				Referrals & References	Channel Training	Channel Support

EXECUTION

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