Management Focus

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Featured article

If you don’t measure it, you can’t manage it
Laura Patterson

Guru interview

Peter Cappelli: the HR function
Interview by Alistair Craven

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Welcome to Management Focus

...and welcome to the July/August issue.

In this issue we cover the areas of HR, Marketing and Management Styles.

Peter Cappelli is Professor of Management and Director of Wharton’s Center for Human Resources at the University of Pennsylvania. He is recognized as one of the world’s most important authorities on human capital. In this interview read what he has to say about labor relations, online recruiting and the reality of employee training in today’s competitive marketplace.

Laura Patterson is president and founder of VisionEdge Marketing Inc., a leading consulting group for metrics-based strategic marketing. According to Ms Patterson, if a company doesn’t identify and track important performance measures, its risk is increased. Our featured article outlines the best marketing metrics for managing marketing performance. Will measurements actually change marketing investments? Read on to find out more.

On a different note, a guest expert answers your questions on succession planning in our Management Matters section. Find out how well succession planning is standing up to the uncertainty of business life today and what is the best way to produce an efficient succession plan.

Remember, by using your Emerald username and password to login to www.managementfirst.com, you can gain access to over 275 articles and 120 guru interviews across our ten communities. As always, we hope you enjoy this issue.

Best wishes
Debbie Read and Alistair Craven
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If you don’t measure it, you can’t manage it

The best marketing metrics for managing marketing performance
Laura Patterson

Metrics are a part of our everyday lives – from our heart rate, to our bank balances; from our weight to the gas mileage on our cars. If we don’t pay attention to these numbers, we create the risk of a heart attack, being overdrawn, or running out of gas. The same is true in the business environment. If a company doesn’t identify and track important performance measures, its risk is increased.

Metrics provide a means to assess progress; they provide valuable data points against which the marketing organization can track its progress. Metrics demonstrate accountability and allow marketers better to know, act upon, align their efforts and reduce their market exposure. Metrics enable the marketing organization to truly serve as the “eyes and ears” of the company.

More importantly, establishing and tracking metrics will positively impact the leadership’s satisfaction with marketing and your ability, as the marketer, to secure funds. According to a Blackfriar study of US senior business executives conducted in the second quarter of 2004, only 38 percent of the executives say that their companies are now measuring the results of their marketing efforts. Will measurements actually change marketing investments? Blackfriar compared the planned marketing spending for companies that measure marketing against those companies that don’t. The result? Firms that measure marketing planned to spend an average of 41 percent of their annual marketing budgets during Q2; while those that don’t measure marketing planned to spend only 33 percent. So we can assume that companies that measure felt more comfortable planning to spend their marketing dollars than those that don’t measure. Measuring marketing also impacts on the satisfaction of senior executives toward marketing investments. When asked how satisfied companies were with their marketing, 16 percent of executives at companies that measure marketing were dissatisfied with their marketing efforts. But, at firms that don’t measure marketing, 28 percent of executives were dissatisfied.

Defining metrics
The world of metrics can be confusing for people new to these concepts. To better understand metrics and how they work, several terms must be defined:

- **Measurements** are the raw outcome of a quantification process, such as a company’s numbers, ratios and percentages.
- **Metrics** are the standards for measurement, providing target values that a company must achieve to reach a certain level of success.
- **Benchmarks** are the very best measurements to which to aspire, the standard by which all others are measured.
Three metrics gauges

In order to determine which success factors to measure and the appropriate metrics for each, marketers must have a clear understanding of the company’s goals. A young company looking to gain traction in the market is focused on different factors than a more established company wanting to improve its customer relationships. For those beginning to use metrics, listed below are four key performance indicators that support three metrics gauges: market share, lifetime value, and brand equity. These gauges are directly linked to the three specific performance areas on which marketing can impact – acquisition, penetration, and monetization:

1. Customer growth rate
2. Share of preference
3. Share of voice
4. Share of distribution.

Will measurements actually change marketing investments?

The first responsibility of marketing is to identify and enable the organization to acquire customers – for, without customers, there is no revenue and, without revenue, there is no business. Acquisition enables the company to increase its market share. While marketing may not close the deal, marketing strategies move the customer through the buying process, from awareness to consideration.

The second responsibility of marketing is to keep the customers the company acquires and grow the value of these customers. High customer churn signals a variety of problems and hinders your ability to create leverage. Four performance indicators that will help you drive these penetration-related metrics are:

1. Frequency and recency of purchase
2. Share of wallet: purchase value growth rate
3. Customer tenure

Until the 1970s, a company’s value was determined by its book value. Over time, intangible assets, such as a company’s intellectual property, customer value, franchises, goodwill, etc., have had an increasing effect on a company’s market value. Marketing professionals can improve the market value of their companies by improving their performance in four key areas:

1. Price premium
2. Customer franchise value
3. Rate of new product acceptance
4. Net-advocate score.

A recently published report, Measures + Metrics: Assessing Marketing Value + Impact, written by Glazier, Nelson, and O’Sullivan, corroborates these gauges and performance metrics. In their report for the CMO Council, they specified four performance metrics:

1. Business acquisition/demand generation, which can include metrics such as market share gains, lead acquisition and deal flow
2. Product innovation/acceptance, which can include market adoption rates, user attachment and affinity, loyalty and word-of-mouth
3. Corporate image and brand identity, which can include growth in brand value and financial equity, awareness and retention of employees
4. Corporate vision and leadership, which can include share of voice and discussion, retention and relevance of messaging, and tonality of coverage.

Regardless of which model you choose to deploy, to fully capitalize on the benefits of metrics, companies should consider establishing a continuous process where metrics are collected, analyzed, and reported on a regular basis. Over time, metrics can reveal valuable information about which marketing tactics are most effective, which types of prospects are most likely to be buyers, which customers are most profitable, and how the market in general develops over time.

It is also important to remember that metrics themselves can change over time. As the market and the company evolve, marketers must diligently review and adjust their metrics. Innovative competitors will continue to set higher benchmarks, ratcheting the acceptable range of metrics upwards. The airline industry’s 45-minute airplane turnaround time was considered standard until Southwest Airlines decided to do it in 15 minutes. Some metrics may become outdated and newer metrics and methods of measurement will require attention.

Laura Patterson is president and founder of VisionEdge Marketing Inc., a leading consulting group for metrics-based strategic marketing in Austin, Texas. For more information, visit www.visionedgemarketing.com
Peter Cappelli: the HR function

Interview by Alistair Craven

Q: In your book The New Deal at Work: Managing the Market-Driven Workforce you talk about the death of employee loyalty, and competition and other market forces leading companies to shed jobs. One interesting problem falling out from this is the negative impact on employee training: after all, if employees are likely to leave or be poached by competitors, why invest thousands of dollars in their development? In your opinion, what can be done about this dilemma?

A: This is a big problem. Employer interest in training workers, especially for skills that can be used elsewhere, really seems to have collapsed. They are expecting employees to come to jobs ready to start immediately. Part of the problem is driven by the fact that employees may quit, but the more important problem, and the one that is driving retention issues in the first place, is that employers restructure often and in significant ways. They can’t do long-term plans and, as a result of this, they can’t be sure what skills they will need going forward. This is the main reason why they can’t invest in training programs the way they did in the past.

This raises very interesting issues for public policy: employers now often talk about a worker shortage but, with press, it isn’t a shortage of workers that concerns them – it is a shortage of skills – the kind that they used to develop internally but now expect to be able to hire on the outside. The only substitute we have at the moment is education, especially community colleges in the USA, which increasingly provide work-related skills training.

Q: One of your papers takes a look at making the most of online recruiting. What are your thoughts on the technological revolution we have witnessed over the last decade and its impact on the HR discipline as a whole?

A: Online recruiting and the Web in general have made information more available and helped shift some power back to employees who now know more about opportunities elsewhere. It has made the labor market more efficient and made it easier to find and hire people – especially to find the kind of talent that is otherwise hidden from the outside labor market (for example, workers who are not applying for new jobs but who can be found through Web searches).

But it also makes it easier for employees to find alternative jobs and to get information on what it is like to work for different employers. So, one consequence is that HR has to get its act together in terms of marketing its jobs, because the applicants will have some independent sources of information to assess whether their story about the company is true.

Q: In 1991 you produced a brief on labor costs and relations in the airline industry, an industry which has undergone much well-documented disruption in recent times. In light of this, what are your thoughts on these issues at the present time?

A: They are exactly the same issues over and over – we’re replaying events every time the industry faces a downturn: employers bled one another with fare cuts, then turn to employees for concessions to survive. It’s a classic race to the bottom in terms of labor costs.

The reason why this happens is because the airlines have a peculiar economic structure. It costs them next to nothing to fill a vacant seat, so when there is a lot of excess capacity they are tempted to fill them up with deep fare cuts, as they have been doing recently. Then other carriers are forced to do the same thing. So far, their employees have been willing to make concessions to help fund these fare cuts, because the jobs have been better than they could get elsewhere. Over the years since deregulation, the industry has continuously lost money, with the exception of the boom years in the 1990s when capacity couldn’t be expanded quickly enough to meet demand and both fares and "yield," or occupancy, increased. Consumers complain about service, but they have made out like bandits in terms of cheaper and cheaper fares. I don’t see any stability in the industry until investors stop giving it money, or wages get so low that workers are willing to walk when carriers ask for concessions.

To read the full interview with Peter Cappelli, please visit our Human Resources Community online at www.managementfirst.com/human_resources/index.htm
Businesses starting out in today’s climate are much more likely to do so with a planned exit strategy in mind and a likely timescale than was the case 20 or 30 years ago. The mood now is to build a business with a view to sale, merger, or taking the company to market within a five- to ten-year timescale.

Figures produced by the UK Dept of Trade & Industry (DTI) show that currently only 5-15 per cent of family businesses now reach the third generation. Given the increasingly competitive and often global marketplace in which today’s modern business operates, and the investment which is often needed to stay at the top of the game, this more structured exit approach is understandable.

Tim Ratcliffe, company law partner, has experienced a wide range of succession-planning issues over his years of working with owner-managed businesses. His advice is to put in place a form of “corporate will”, setting out how the business should be handed on, particularly where there isn’t another family member who is willing or able to maintain the business for another generation. “Owner-managed businesses have changed dramatically in recent times: it is no longer enough to assume that the next generation will want to work in, let alone run, the enterprise. It is very important for anyone involved in a privately owned business, whether as an owner, manager, or worker, that there is a clear vision of how the business will develop over a period of time. If workers feel that the owner is approaching retirement and they can see no clear strategy as to what will happen to the business, they are likely to feel unsettled, potentially look for other jobs and leave. Choosing the management buy-out route often creates very positive effects on morale and therefore productivity for some considerable time before the transaction takes place and can ultimately lead to a better price being achieved. The key thing is to deal with succession planning in a positive way, rather than seeing it as something to be put off until later.”

A UK survey in 2001 showed that around 30 per cent of business closures might be as a result of “failed successions”, or “viable businesses that close for lack of a suitable successor”. But this figure is seen as just the tip of the iceberg, making the issue of succession planning one that has seen government agencies and business advisory bodies joining forces to ensure that advice and opportunities can best be harnessed and taken into the market. With figures estimating that less than a third of privately owned businesses have a definite succession plan in place, the need to raise the profile for this specific area of business has never been greater, as Tim Ratcliffe agrees. “Evidence shows that succession planning is a very real issue for the business community as a whole; many areas are often reliant upon a handful of employers; if those businesses go, then whole areas suffer. There is a real drive now to encourage business owners to make the most of their hard work and efforts, to plan carefully and successfully for business hand-over, ensuring that the fruits of their labours are enjoyed by all those involved.”

For more information on succession planning issues contact Tim Ratcliffe, partner in the company law team at Yorkshire law firm Gordons, on +44 (0) 1274 202170.
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Final thought ...

There are many qualities that make a great leader. But having strong beliefs and being able to stick with them through popular and unpopular times is the most important characteristic of a great leader.

Rudy Giuliani