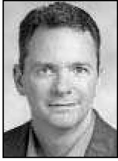
Marketing Complexity

Its high costs kill your profitability.



by Michael Harris

DO YOU UNDERSTAND THE complexity in your marketing and the costs that it adds? Marketing complexity destroys profitability from within, and complexity can be found in both the demand and supply sides.

Marketing complexity erodes profitability from within. We are now seeing complexity strangle the airline industry. I was chatting with my friend John Mariotti about the "Curse of Complexity" and how companies need to declare war on complexity. He pointed out a notable difference between Southwest Airlines' marketing complexity and that of rivals like Delta, American, United and USAir.

Southwest follows a self-imposed Rule Of One: one type of aircraft, one seating configuration, one snack type, one routing type (point-to-point). It is even consolidating all its IT operations.

How many different types of aircraft do Delta, American and United operate? How many seating configurations do they have? How complex is the hub-and-spoke model? How many meal options do they offer?

One could argue that marketing complexity is really operations complexity, but much of the airline industry's operations complexity can be traced to the product offering for passengers. Much of Southwest's success can be traced to its decision to please one type of customer, the budget traveler, which placed it at the leading edge of a growing market.

Marketing's responsibility is to ensure that everyone in the company, starting with the CEO, is aware of the trends and their implications for competitiveness and profitability.

Earlier in my career I worked for Philips Consumer Electronics, the U.S. headquarters for Philips NV (now Royal Dutch Philips). In 1993, the large screen TV market was about eight years old and growing steadily. Philips was the early leader in this market but its share had eroded from 60 to 20 percent. The CFO had just about persuaded the CEO to shut the consumer electronics division down.

I was brought in and assigned to work on this challenge as the director of marketing and product planning. After spending six weeks looking at the business, my team and I concluded that complexity had choked both the growth and the profitability from the business. Marketing had ceded control of the product line to sales, which had attempted to stave off the customer defections and revenue declines with their own marketing and product planning. As sales' influence grew and marketing's shrank, the product line quickly proliferated into a complex smorgasbord that attempted to address every retailer's desire for something unique.

Quality plummeted, and sales and margins shrank as marketing struggled to maintain share. The division's morale hit bottom, and the engineering, operations and product management teams had little influence compared to sales.

After analyzing the market's growth trends and profitability, I was asked to create the company's first business team and brought together the division leaders from every function. I explained the imminent shutdown of the division and presented a bold turnaround plan focusing on pruning the product line, an all new styling approach, creating consumer incentives and strong new partnerships with retailers. Asking for their support, I promised the demoralized product management, engineering and manufacturing teams that, if they agreed to this new product line and marketing plan, I would freeze the new product line for one year and not allow sales to make any changes.

The fix was surprisingly simple. First, a new management team who showed enthusiasm for the turnaround was created. With a great deal of factual input from customers, sales, manufacturing, engineering, finance, customer service and logistics we slashed the number of models from 30 to 10, all built around a single chassis (the previous year's line had three different chassis).

The sales team was skeptical but I hit the road with them and helped sell in the new line to the retailers, backed with a bold new styling approach, a national television ad campaign and strong merchandising. The new product development took a year to execute. By that time, factory throughput had increased substantially, and all of the major retailers had bought into the new line.

At the end of the new line's first full year of sales, revenues were up, market share was up, and the $120 million division had turned in a $7 million operating profit, following an operating loss of $5 million the year before—a positive swing of $12 million. Of all the product groups in the $2 billion U.S. consumer electronics division, the large screen group was one of two that turned a profit. Team members were treated like company heroes and the division became a strategic component of the parent company's consumer electronics strategy.

Now we see the airlines struggling through a similar scenario. Complex business models and marketing are choking the major carriers to death. The signs are similar to the Philips example: major losses, shrinking share, quality problems, low employee morale.

Clearly these are signs of failing companies struggling with quality and morale problems brought on, at first, by bringing to market a level of complexity which industry pricing would not support. Isn't one competitive advantage of Southwest its turnaround times at the gate? Isn't that the same as factory throughput? The same principal applies to consumer electronics and the airlines, both mature industries: the less complex the marketing model, the more rapid the throughput and the higher the profits.

Marketing must own the trend analysis and make happen what the market is willing to pay for. SSE

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