

Marketing Optimisation?

You've come to this document via our page on **LEAN MARKETING** and we'd like to share a scenario with you, one that isn't too uncommon.

SCENARIO

It's your first day at the your new company, your the marketing manager for the **GHJ company**. They want you to manage their marketing activity to bring in more sales, simple, nothing more, nothing less.

You spend the next two weeks working on your first move, understanding the market, the competitors, the USP. You refine the activity, you polish it and then you deliver it to the owners.

They are in awe! how simple, a price promotion! **a 33% reduction in price for one month** which will bring in an increase in sales during that **month of 66%** and **ongoing improvement of 25%**.

So the range of different coloured widgets that you currently sell for a £1 and make 20p profit on will be sold at 66p, okay its **14p or 17.5% below what it costs to make**. But all those extra sales will help you in the long run won't they?

Normally they sell **1,000 units at a £1 each**, you've promised them 1,666 during the promotion period, which will settle down at 1,250 units per month afterwards.

So you aim to sell **1,666 units, losing 14p per unit** giving you **a loss of £233.24** but you promise an additional increase in sales in every other month after that. You promise to increase sales by an **extra 250 units/month** and on each unit you make 20p, so overall you make back **£50** (250*£0.20) each month.

Over the year you've **made an additional £550** (£50*11 months, remember the other month is the price promotion).

With £550-£233.24 = £316.76 extra profit, everyone is happy!

So you show the plan to operations who realise that they haven't got the capacity, so first of all they put overtime on. This is to build stock to meet the forecast demand during the promotion. Next they hire more warehousing to keep the stock in and an extra stock person to keep everything in order.

The promotion begins and the forecast is okay, in that it brings in the 1,666 orders. However some colours of widgets didn't have enough stock built so the orders go out later than planned. The operations manager only gets his financial reports **after the month** in which the promotion ran.

Do you ever get your financial reports earlier than month end?

He is not happy, his costs have gone **UP** and he's overspent his budget and actually if he sat down and worked it out, every widget you sold during the promotion period cost him 85p not 80p due to the extra overtime and warehousing. Each widget sold on promotion actually **lost you 19p, not 14p** so the promotion cost you **£316.54**. (1,666*£0.19).

In the month after the promotion your **sales drop to 500**, not the forecast increase to 1,250 or the usual 1,000. The customers who bought your product on promotion weren't too different to those that normally bought it.

Many of your existing customers took the opportunity to purchase extra units at the lower price for stock, thus they don't need any this month.

So this month instead of making the additional £50 profit in the forecast **you lose a further £100** (500 lost sales * £0.2 profit).

So now the promotion has cost a total of **£416.54 (£316.54 + £100)** and the additional profit forecast has now been reduced to **£500**, now that you've only got 10 months to go. So you at best will make **£83.46 (£500-£416.54) not £316.76**.

Still confident the price promotion move was the right one?

Over the next few days you find out the following facts;

One of your regular customers who takes 75 widgets regular each month is unhappy. When he came to buy the red and yellow versions the delivery was delayed, which is not normal and he may look around for other suppliers.

Two of your competitors were left with extra stock on their shelves and are contemplating a similar price offer to clear stock.

The operations team have worked normally and produced 1,000 items this month, even though you only have orders for 500, adding another 500 to the stock levels. They also want you to start forecasting which colours they should make to minimise the overstock issues.

What will the position be if we roll forward six months from now?

Would like to be in the shoes of this marketing manager?

The story above is fictional, You wouldn't let that happen, would you?

Unless you use system thinking techniques and understand the whole value chain of your solutions that qualify and quantify what the customer values for all to see and use, you probably will.



Systems thinking techniques are the foundations and backbone of Lean Marketing

Conclusion

If businesses are to embrace lean and achieve the organisation-wide improvements that it offers then any improvement programme must start with customers and marketing must focus on the value delivered to the customer from the whole organisation.

For more details on 'Lean Marketing' then please contact Mark Greenhouse on

✉ mark.greenhouse@resqmr.co.uk

☎ 07712 669396

