The Debating Group

A Parliamentary forum for Marketing Debate

Does marketing add more value to shareholders than consumers?

“Good marketing creates outstanding value for shareholders”. These were the views of Andrew Davis, Editor of the *Financial Times* supplement *Tuesday Creative Business.* He was speaking in support of the motion ‘Marketing adds more value to shareholders than to consumers’ at the Debating Group debate, sponsored by the Chartered Institute of Marketing and chaired by Austin Mitchell, MP, President of the Group, which was held in Committee Room 14 at the House of Commons on 21 January 2002.

Andrew Davis argued that marketing is about demand – arousing, reinforcing and gratifying people’s desire for what you are offering. It can accomplish many goals, e.g. it induces consumers to sample products and services, to remain loyal to them when presented with ever increasing choice and even to pay a premium when cheaper alternatives are available, and to help companies to avoid being purveyors of mere commodities. However, marketing cannot exist in isolation. What is the point of expert marketing if what your are offering is substandard? There are lots of other factors in the success or otherwise of a product or service. Is the product any good? Does it fulfil people’s reasonable expectations? Good marketing is the skilful creation of demand. A division of value between buyer and seller is inherent in the practice of marketing. For the process to work satisfactorily, both the consumer and the vendor must emerge with their value expectations satisfied. The consumer must not feel ripped off. Good companies with skilled marketers understand this and they make superior returns for shareholders. As a consumer I need to feel that I have a decent deal and am buying into a set of values with which I wish to be associated. However, for the exercise to serve its financial purpose, the shareholder has to win. Marketing is part of a company’s effort to sell things for profit. When marketing is done badly, shareholders will suffer, often at the expense of consumers. When it is done well, both parties end up satisfied. Companies spend money or cut prices in the hope of making more money. Like every other investment a company makes, it should operate in the long-term interests of shareholders.

Andrew Davis then gave examples of companies which, through skilled marketing, had achieved substantial shareholder value. “When well-made products are marketed well, the returns can be amazing”. Nike and Orange are examples of outstanding shareholder value in large part as a result of outstanding skilled marketing. Because of sophisticated marketing people are prepared to pay a premium for such goods and the spoils of this go to the shareholder. He concluded “Good marketing creates outstanding value to the shareholder”.

Consumer focus

Laurie Young, Head of Corporate Finance and Recovery, PricewaterhouseCoopers, in opposing the motion, argued that marketing can only produce value for a company if it focuses on the customer.

Around a billion pounds is spent on customer research every year. That in itself is indicative of the importance that is put on customer knowledge by the marketing community. The majority of marketing people know that their work begins with a deep knowledge of the customer.

In the modern world consumers have enormous choice. Critics suggest that marketers are beguiling the innocent and inducing them to spend their money on products that they would not otherwise purchase. There seems to be an assumption that marketing people can hoodwink buyers into paying for items they do not want. The flaw in this argument is product integrity. It is not possible in the long term to offer products that people do not value. Modern consumers are not stupid. It they do not get value they vote with their feet and look for alternatives. The consumer has choice.

Another argument against the proposition is the power of the modern consumer. After decades of consumerism, consumer legislation, pressure groups and consumer television programmes, it is not possible for companies to ignore their consumers for long. In fact an aggressive consumerism has developed. A recent survey of UK consumers by the Henley Centre for Forecasting showed that 65% are prepared to take action in the form of a boycott, protest or lawsuit against a company they think has aggrieved them.

This has caused many to rethink their approach. The oil companies are lauding their environmental credentials. And many companies report their environmental and consumer stance with their annual reports. Marketers have to heed the aggressive consumer and cannot put the shareholder first.

Probably one of the most powerful arguments against the motion, according to Laurie Young, is the dramatic effect of new competition in markets. Companies are often a haphazard array of competing interests and the slow, out of touch and expensive eventually get out-manoeuvred. There have been several dramatic and clear examples of this in the past few decades: the Japanese brought a new set of rules to the traditional car market; the computer industry was traumatised by the arrival of dramatic new offers from Bill Gates and Michael Dell and Virgin and First Direct bought shock waves to the financial services industry. The customer-orientated company changed the rules. The new competitors were successful because their marketing focused more on the consumer than the shareholder. In the real world, you survive by putting customer needs first. Your marketing has to concentrate on that.

Laurie Young went on to address the shareholder value argument which says there are levers in commercial organisations which CEOs can use to drive them towards giving maximum return to shareholders eg financial measures such as cost of capital. However, there are also a number of marketing orientated measures: value-directed strategy, brand value and customer retention. The value of a company and its return to shareholders is critically affected by customers' satisfaction and their propensity to buy again. It is not possible to maximise return to shareholders without ensuring that marketing focuses on customer-related drivers of shareholder value.

He concluded that the philosophy of marketing, increasing consumer choice, consumer power, competition and shareholder value are all powerful arguments against the motion. Marketing puts the consumer first and it can only do its job properly and give real value to shareholders by first focusing on the consumer.

Value

Seconding the motion, David Haigh, Chief Executive, Brand Finance plc, quoted the CIM definition of marketing: 'The management process which identifies, anticipates and satisfies customer demand profitably'. He argued that it is clear from this that customers basically just want their demands satisfied. But companies have to create profits and capital values for their shareholders. The world 'value' is often used metaphorically, but the primary meaning is very literal – hard cash and hard assets. However, it is important to recognise the difference between real and perceived value. The more satisfied customers are with a brand, the higher the perceived value they attach to it and the more they are willing to pay for it. They do not care what the brand costs to produce. They just want emotional satisfaction based on reassurance, association and aspiration and are happy to pay high prices for the brand they want.

However, sometimes well-marketed brands are sold for less than consumers are willing to pay leading to what brand economists term 'surplus consumer utility' which refers to the extra amount consumers would be willing to pay to obtain the brand they want.

The role of marketing is to stimulate the level of demand by creating consumer needs, to optimise the price charged and minimise the amount of 'surplus consumer utility' left on the table. Sometimes marketers get the equilibrium point wrong eg Marlboro cigarettes. The equilibrium point for every brand is where the brand owner is making super-profits on his costs and consumers continue to buy because there remains a small surplus of 'perceived value' or 'consumer utility'.

If marketers are doing their jobs properly, shareholders are getting more of the real financial value out of the deal than the consumer. All things being equal the shareholder gets a double helping of value: higher income from the super-profits and higher capital gains because investors value brands that make super-profits much more highly. To understand how good marketing creates value, we need only to consider how bad marketing can destroy value.

The relationship of companies and consumers only works well if both parties get what they want out of the deal. But consumers want a return in their hearts. Companies want a return in their wallets. Consumers are happy with 'perceived' value while marketing literate investors expect and demand real value expressed in hard cash.

Satisfying the customer

Seconding the opposition, Kevin Hawkins, Director of Communications, Safeway Stores PLC, argued that to sustain the proposition you have to believe either that the marketing concept is fundamentally flawed or that it has been perverted, blocked, frustrated and diluted by the bean counters and hard-nosed managers who run many of our PLCs in the UK. Or that most consumers, investment managers and city analysts are easily fooled and do not recognise a commodity when it is dressed up as a brand.

According to Peter Drucker, "A business has only two basic functions – marketing and innovation. Marketing and innovation produce results; all the rest are costs". The issue is what sort of results and who benefits?

We have to distinguish between marketing as a concept or philosophy and the marketing department. The marketing concept says that the central task of management is to meet the demands of consumers. But how many companies in this country are genuiningly customer-driven? It is marketing glue that cements the functions together.

No business can pursue a single goal to the exclusion of others and they have to balance shareholder value with customer value. Marks & Spencer is an example where the balance went wrong. Up to 1998 the conventional measures of shareholder value – dividends and capital growth– signalled that the M & S brand had never been stronger. In reality customer performance was going in the opposite direction with consequences for shareholder values.

As consumers, we can distinguish between companies which put consumers first. We can remember the fate of those companies which put the product before the customer, eg the British motor car and motor cycle industries. The core ideas of the customer-led company is that it focuses on *needs* not products. A successful brand creates wealth by attracting and keeping customers. "Does brand equity depend on fooling the customer?" asked Kevin Hawkins. "No it doesn't. Toyota, BMW and Mercedes have established their brand equity on performance and reliability". Strong brands, whether they are company or product-based are valued by investors because they are relatively low risk and have more predictable streams of earnings. Shareholder value is dependent on customer value.

All corporate strategies are trade-offs. But a good balancing act is possible – the big food retailers have shown how to create shareholder value by satisfying customers. In business you only make money by satisfying your customers. Because if you don't, someone else will. That's what competitive capitalism is all about.

Debate from the floor

There were excellent contributions for and against the motion from the floor.

For

- According to the opposition you have to add value to both shareholders and customers. But successful companies probably add more value to shareholders while appearing to help customers. When the CEO goes to the marketing department he wants returns. Successful marketing achieves both goals because at the end of the day, if you don't have share value, you will stagnate.
- Tesco don't want to help consumers. They do not price all the products in favour of consumers. There is just the perception that they are looking after the consumer. M & S is perceived as being on the consumer side, but it wants to add value to the shareholder. When you get the balance right it works.
- The marketing concept entails satisfying customer needs profitably, and better than the competition. Almost all markets have spare capacity and marketing is good for consumers in the short and long term. But who benefits most? Successful marketing is good for consumers, but leads to enormous and sustainable shareholder value. Ultimately marketing is about shareholder value.
- Shareholders want profits, and marketing is one of the tools for making products, ie through communication leading to understanding; recommendation about pricing etc. Marketing ultimately leads to shareholder value.
- Successful companies are those with marketing departments. The whole purpose of such departments is to maximise the profits for shareholders.

- Marketing is a mechanism by which companies can achieve growth. Consumer satisfaction is incidental. In SMEs marketing is used to drive growth and profitability. We are in an anti-consumer society and we need effective marketing to resolve this. Emotion and finance are closely linked and we need true marketing as part of a feedback loop, feeding consumer satisfaction back to the shareholder. Adding more to the shareholder feeds back benefits to the consumer.
- If I'm in charge of marketing, my job is to add value to the shareholder. High prices, e.g. for Starbucks or breakfast cereals, are for shareholder, not consumer benefit.

Against

- We live in a capitalist society. There are different value measures for consumers and shareholders. The former have emotional values. Companies often fail because they do not consider the basic consumer values. Ryan Air is an example of marketing meeting the needs of consumers by adding emotional value.
- Marketing gives better communication of benefits, not just to shareholders. Internal marketing is also extremely important in communicating value to both sides, and shareholders have nothing to do with this aspect of marketing.
- Financial markets and consumer markets are out of sync and do not function in alignment. Consumers get a better deal than shareholders because marketing people are better at dealing with consumer needs.
- In India, Unilever markets low-price shampoos to poor people. This gives value to consumers, but not to shareholders. It remains a loss-making proposition for a long time. It gives consumer value which will add shareholder value in the future.
- In the US marketing is selling. The product proposition is to produce something that consumers want to buy more than that of the competition, i.e. value to the consumer. Only after the fact do you know if it adds shareholder value. In the UK, marketing is more than selling. It comprises market research and advertising etc. Marketing is more about adding value to shareholders here. It is a cultural thing – the US is more focused on consumers. Consumer value has to be equal or greater than shareholder value for marketing to work well. Consumer value means more value.
- Marketing is a profession which tries to help people to make decisions. If you have no confidence in what you are buying, you are not likely to buy it. In a world without marketing, who loses the most?
- How do you measure marketing effectiveness? Companies have folded because they did not have effective marketing. Marketing adds value to shareholders and also to consumers and this connection must be understood.
- Value to the consumer is not just about the balance sheet. How do you measure customer satisfaction?

Summing up

Summing up for the opposition, Laurie Young argued that marketing has not been allowed to contribute as well as it might. Shareholder value has been destroyed by the dot.coms.

Value means different things. Marketing communicates good quality, but poor marketing can communicate poor quality. Marketing helps us to learn and gives us choice. Marketing communicates the emotional value of a product or service which is of enormous value to the consumer. Hard financial value can also mean priceless value in emotional satisfaction. Marketing gives more value to consumers than shareholders.

Summing up for the motion Andrew Davis acknowledged that intelligent companies focus on the needs of the customers. They also create outstanding value for their shareholders by doing so.

Putting the customer first is not against the interest of the shareholder. It is prudent business practice. There is a division of value between the consumer and the company and they must both be satisfied. Companies exist to make profits using shareholders' money. It is part of the legal duties of the directors to make profits. They have to put shareholders first.

Result

The motion was narrowly carried by a show of hands.

Next Debate

The next debate will take place on Monday 25th March, sponsored by the International Advertising Association. The motion is "Consumers have too much power over global brands." Details from Debating Group Secretary, Doreen Blythe - Tel: 020 8994 9177 – dblythe@varinternational.com