

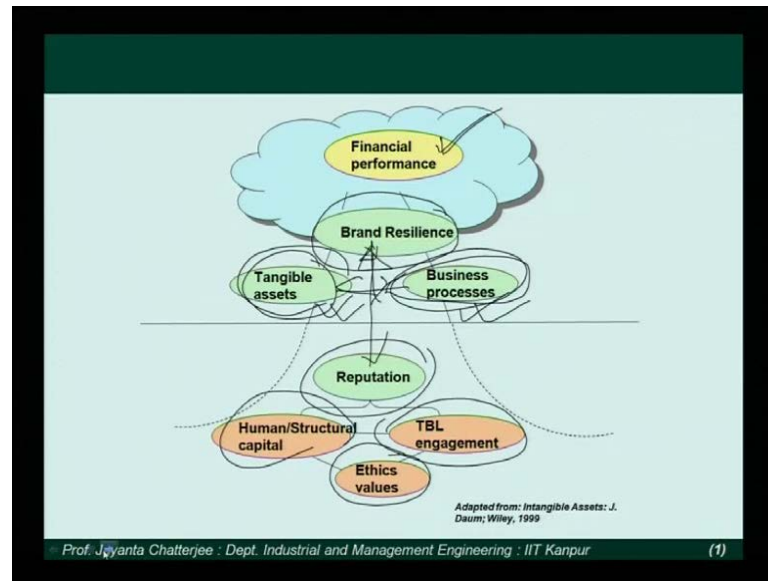
Strategic Marketing – Contemporary Issues
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Lecture - 29
Reputation

Ethics in marketing strategy, and the role of corporate culture value system as reflected by the organization's socially responsible strategy, and its correlation with successful marketing strategy implementation. We will conclude this module with our discussion on reputation, which in a way encapsulates all those issues like ethics values, responsible behaviour, pursuance of the triple bottom line of people, planet, and profit, a continuous engagement with the stakeholders concern for the environment as represented by frameworks like the natural steps and so on.

So, this encapsulation in this concept of reputation and how reputation is the bedrock of successful marketing strategy today will be the subject of this session. So, when we look at an organization and we try to understand its current well being the success of its marketing strategy. We often look at some numbers like revenues, margins, growth in market share, growth in mind share and so on, but mostly we look at financial numbers. And people have actually some researchers have use the analogy of a tree, sometimes you can be mislead by looking at the leaves and the flowers and the greenery, the lush foliage of a tree, and consider that to be a very successful tree - a healthy tree. But you can be wrong, because there might be insects, there might be white ants eating away the roots of that particular tree which apparently looks healthy. So, it will within a few days, months, it will collapse. If there is a storm then because of weak roots the tree will not survive.

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In some way as we show in this metaphorical depiction, and organization and its success in the market place can somehow be related to this analogy of a tree. So, we normally look at this financial performance and this can be compared with the leaves at the flowers and the colours and so on. But truly speaking, this is what is our marketing objective - brand resilience. The resilience as you know is also a kind of a connotation of robustness, flexibility, the ability of the brand of the organization to face adversity to face ups and downs, and yet be capable of bouncing back regaining its former position or even better.

So, obviously, the brand resilience will be based on tangible assets which we will discuss things like productivity or quality or cost performance and so on. Many of the concept that we have discussed when we have looked at the financial underpinning of marketing strategy. And as we know that to excel in today's market just as we have to create differentiated products and services focus on featured, so that product featured differentiation all those depictions of tangible properties we know in today's world they must be complemented with continuous productivity improvement continuous optimisation of cost, so that an organization can simultaneously manage operational excellence and product leadership.

We also know that customer intimacy becomes an important requirement as an organization matures. So, business processes which actually give us the edge for a low-

cost strategy or a operational excellence strategy or customer intimacy strategy coupled with tangible assets in terms of product performance quality and so on. Together definitely create the brand resilience, but what we are presenting here are today's discussion point is that to be able to achieve these tangible assets, to be able to achieve this business process excellence. We have to look at the roots of the organization. We have to look at the foundation on which that organizations marketing strength is built. And that we are saying is reputation which is a kind of an encapsulation of the human and structural capital as well as organizations engagement responsible engagement with the triple bottom line concept of people, planet, and profit, which is based on all the all permitting ethics and values of the organization.

And if we looked at the brand resilience of Indian organizations like the Tata or Godrej or many other successful a long enduring brands in India. We will understand that that brand resilience has a high connection with the reputation of that particular organization of that particular group. So, the question is that what is the role of marketing management in nurturing this reputation be the custodian of this reputation, because the marketing function the sale service function the marketing practice function in a broader sense is the frontline, is the main interface between the organization and the stake holders like the customers. And in some way, we take the internal marketing concept then it is also the interface with employees and other stakeholders, and in that sense if we consider strategic marketing as a custodian function of reputation.

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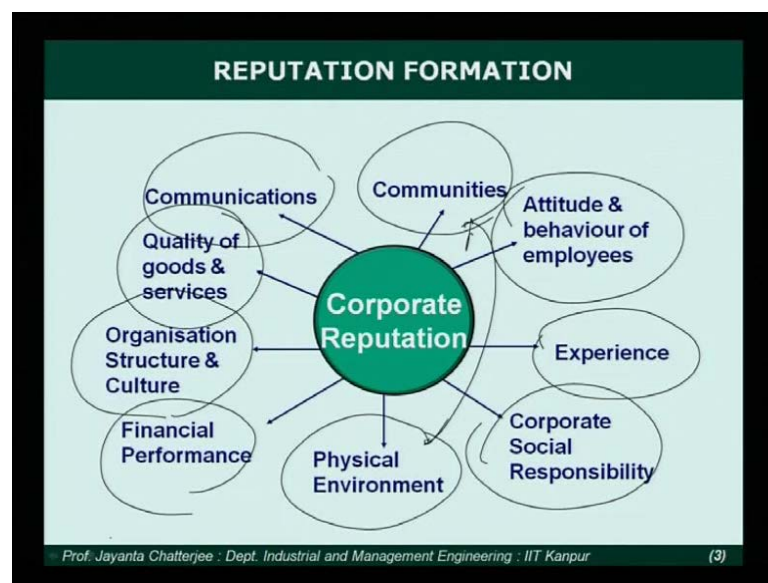
CHANGE IN ATTITUDES

- In the Industrial age, the marketing model was driven by advertising (P) 4P
- For knowledge-intensive products, inherent value cannot be as easily communicated in 5-10 sec commercial
- Therefore, products and services rely more on reputation – the key manifestation is the BRAND and its resilience, robustness.

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Then let us look at that how we strategize to manage, to enhance, to nourish that reputation. So, in the industrial age maybe 20 years back, 40 years back advertising was still a very important function, even today it is, but that nature of advertising, the nature of promotion in the 4 P be the major element of the marketing mix being promotion. It is still very important and we will discuss that in a subsequent module in depth, the whole issue of marketing communication, and it is different building blocks and how those building box blocks are getting re aligned, the new blocks are getting added for strategic marketing communication. But one fact remains that today because of the intensity of the media coverage, the breadth and depth of media exposure for a consumer, it is very difficult to project the real value of an organization. All that goes, all that will be constituting these brand resilience, it is very difficult to communicate that in five or ten seconds on a t v commercial. And that is why the key manifestation that we are looking at here which leads to the financial performance is this brand and its resilience and its robustness and that is really coming from reputation.

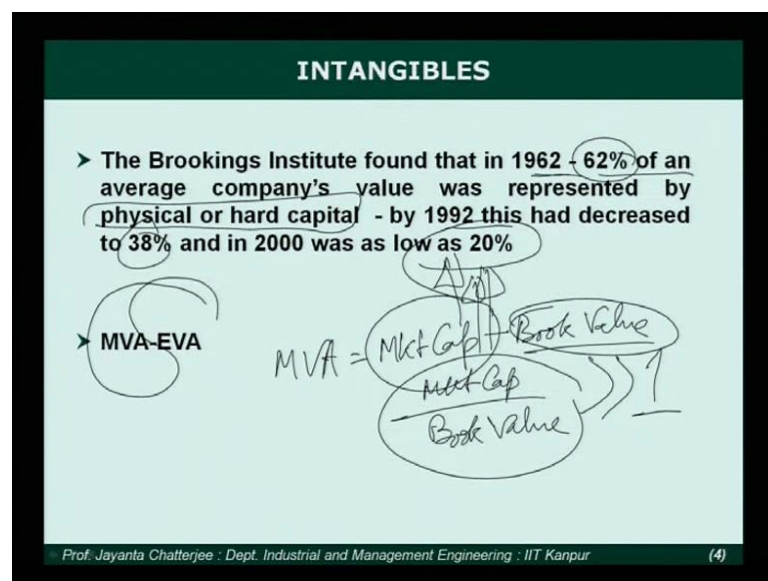
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Now let us look at some elements of building this corporate reputation. So, as you see in this diagram, we look at that reputation in way looks at the corporate social responsibility, look at the physical environment in both sense internal as well as external and how the organization relates to it. That means, what kind of environment, which is part of the quality that we maintain inside the organization and how we behave responsibly with the bigger concept of environment at large. And all the issues like

experience attitude and behaviour of employees are engagement with communities which is in a way connected and related to the environment, our communication, our quality of goods and services, organization structure and cultured, the financial performance. So, in this diagram, we kind of going to a little bit more detail compared to this analogical or methofolical diagram. And we look at therefore that what are the building blocks of corporate reputation and how do we actually action actualised and that the reputation.

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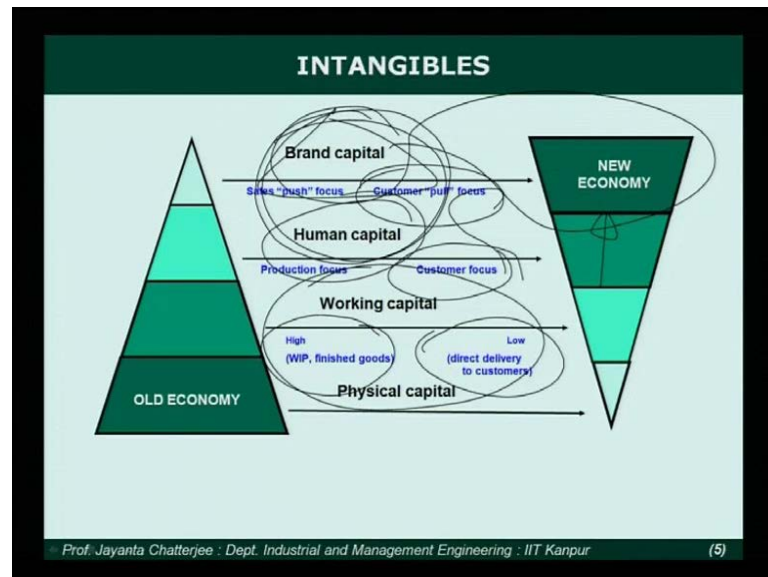


The importance of reputation as the key cluster of intangibles in the financial performance, in the market performance of a company is very evident from this concepts like MVA and EVA which we will discuss little later. So, the market value added M V A is usually the difference between the market gap or capitalization of an organization minus the book value. Sometimes we also look at this as the market cap to book value ratio; obviously, for a good organization this is many times greater than one.

So, which means a value of the company is not the value of its machines and land and building and all those tangible things. In fact, one of these studies have shown that in 1962, it interestingly that 62 percent of an average company's value was represented by the physical or hard capital like machines land building and so on or the mining, mines, and land banker and all those kinds of very tangible elements. By 1992 that come down from 62 percent to 38 percent and by 2000, it was as low as 20 percent. So, which

obviously means that this market cap, cap of good companies reputed companies are many times more than the book value. This ratio is many times more than one and obviously, therefore, that which gives this multiple is the topic of today's session, this whole issue of reputation.

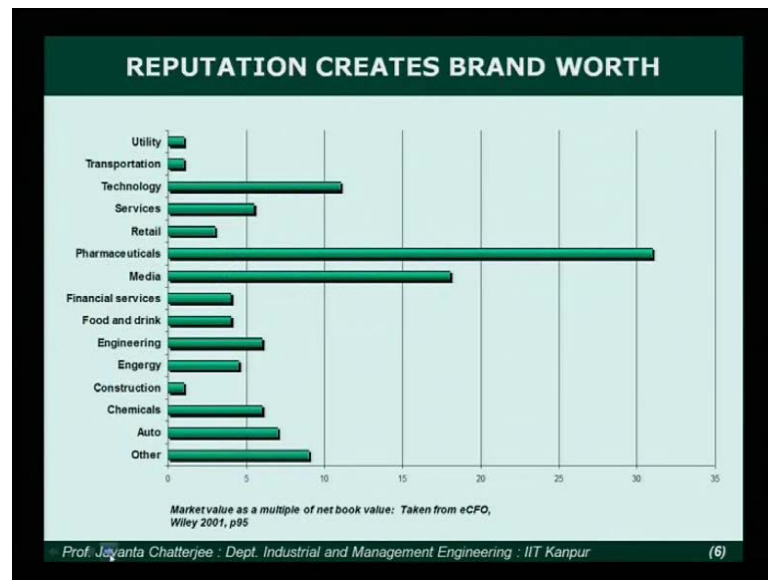
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So, this is presented in another way, but in the old economy and the new economy is actually kind of you can look at it like a inverted pyramid. And really the issues that connect with the customer is right on top, and obviously, that is possible the way your people are capable of delivering that create that customer pull, the customer advocacy, the customer intimacy, the emotional connection with the customer that we have discussed before. So, this customer focus creating, the customer advocacy which is what we normally look at a brand capital is at a much higher level compared to I mean these remain very important the working capital.

But, as we see here that those high working capital regime are today giving way to and a low working capital by depending on the network, by partnering by alliances well exemplified by the enduring marketing strategy successful marketing strategy of companies like dell. All in that sense many of the automobile companies where they actually depend on a whole network of suppliers and channel partners working together to deliver the value to the customer, which we have discussed before. And as you can see here from our earlier a diagram that reputation actually emanates from these factors.

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Another very interesting research work, this is something that is from 2001, it shows that for example, in a pharmaceutical company, the market value as a multiple of book value is 30 or over 30 times. And impact in all of these as you see here, the market value is five, ten, twenty, thirty times of that book value and that comes out of reputation that creates that kind of brand worth. Because of that this important reputation, every year we have important publications. So, there are famous charts that have always been published by last 45 years like the fortune 500 or today in India we have the BS 500 or the BT 500 and so on. But more and more those numbers oriented, revenue growth, profit growth performances are seen together with results like most admired companies.

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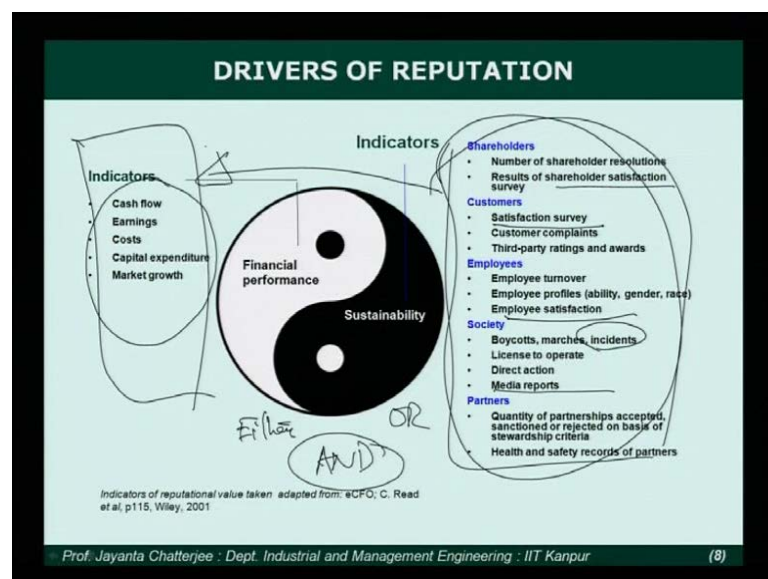
REPUTATION INDEXES

- The Harris – Fombrun Reputation Quotient (RQ)
www.thereputationinstitute.com
- Most Admired Companies
www.fortune.com
- India's Most Valuable Companies
- FTSE4 Good Index:
www.ftse4good.com
- Financial Times – World's Most Respected Companies
www.ft.com

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This is equally famous on fortune dot com website. So, just as the fortune 500 is mainly based on financial performances. Today we pay equal pay equally to this whole concept of being an admired company, being the best place to work at. All we have concepts like India's most valuable companies an annual publication from business today, which is based on the MVA and the EVA concept or the financial times FTSE 4 for good index or the most respected companies.

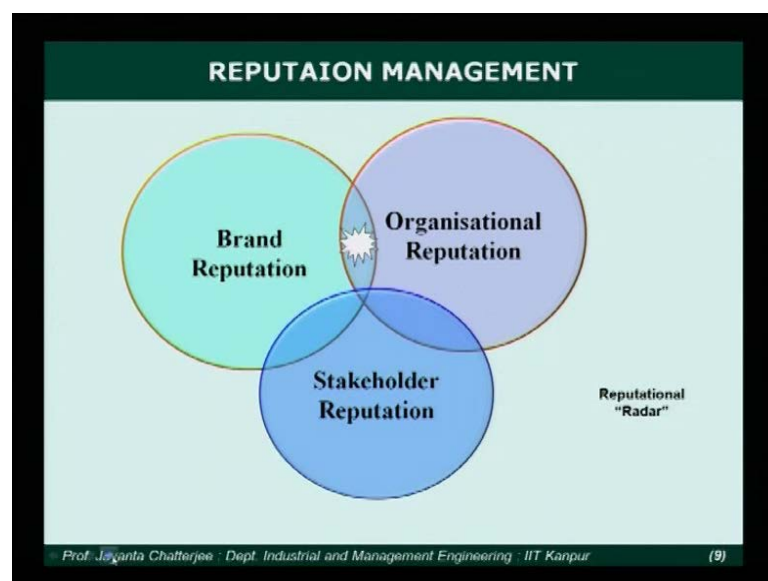
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So, as you see here the market performance the strategic marketing function definitely has to contribute towards these indicators, which we have always looked at. But at the same time today, it is kind of a very nice diagram that depicts this not either or either this or this. But today's need of creating an AND function in terms of the marketing strategy performance that we must be able to maintain our salience on these indicators as well as on these indicators. These are indicators, which we have discussed in depth in the previous session, when we discussed about the triple bottom line or the natural steps, the four natural steps and so on. So, it has the shareholder, the customer, the employee, the society, the partners and we have here the way we need to measure how we are doing on all of these counts.

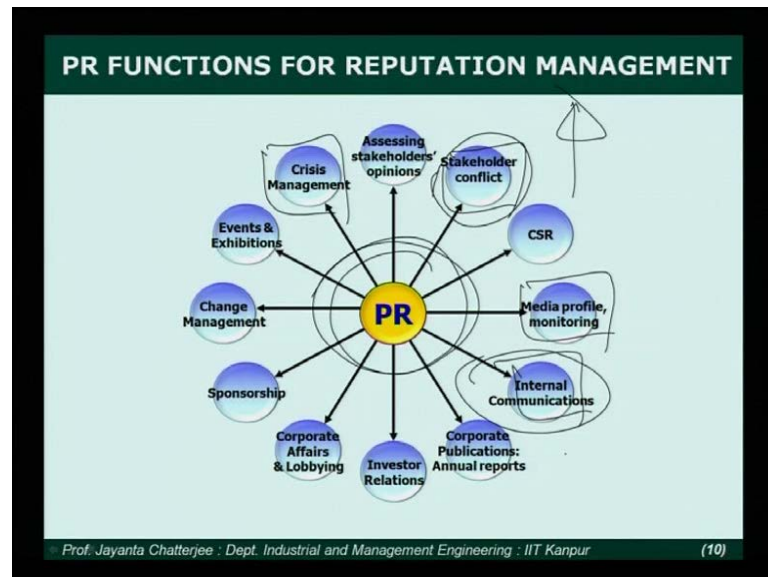
So, just as we have to look at customer satisfaction survey, we have to look at also shareholder satisfaction survey, we have to look at employee satisfaction survey, we have to look at the media reports, and various kinds of incidence if there are adverse incidents and we have to look at the health and safety records, we have to look at our alliances and alliance partners opinion. So, you see it is a much more holistic approach and these are many of these are intangible elements, because these are based on subjective opinion. So, they are intangible, but those intangibles we understand more and more that they are inalienable from superior performance on the tangible front.

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And, so therefore, brand reputation, organizational reputation, and our reputation with the stakeholders is a kind of a troika that we have to manage in our marketing function. We will be discussing the integrated marketing communication concept subsequently in the next module.

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But today I think in the reputation management a key function that is now gaining more and more grown is this whole thing that we now call public relations. It is kind of a (()) because it is not only public, but it is also deeply connected with managing the stakeholder conflict, our ability to manage internal, communication corporate publication investor reports, so these are all therefore today the functions of that the broader or the extended involvement of marketing strategy in creating managing, nourishing, enhancing reputation through this, so called PR function. So, this function today therefore, embarrasses many a interfaces - internal interfaces as well as external interfaces like media, stakeholders, and it has to deal with it crisis if there are you know sudden problems like it this these are very ably recently we have seen how companies like Ford or Toyota they have managed proactively.

If four parts were found to be defective in a particular lot, they recall the entire lot and provided free replacement. Sometimes companies do that across the world fantastic capability of what we call reverse logistics, collecting the products from the customer taking it back and then take forwarding it after the necessary rectification back to the

customer. So, this particular diagram in many ways shows that if you look at reputation as the as another name of the super brand creation and super brand in incidentally is a concept that is now gaining popularity across the world to measure brand salience or brand equity. So, this especially on our brands are always based on reputation and the marketing strategy has the responsibility of managing that through these various functions and interfaces

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BUSINESS CASE FOR REPUTATION

Measuring Shareholder Value

$$EVA = (\text{rate of return} - \text{cost of capital}) \times \text{capital employed}$$

Handwritten notes: An arrow points from 'rate of return' to 'NOPAT'. Another arrow points from 'cost of capital' to 'weighted cost of capital'.

Other ways of measuring shareholder value include:

- Net Present Value (NPV)
- Price/earnings ratio (P/E)

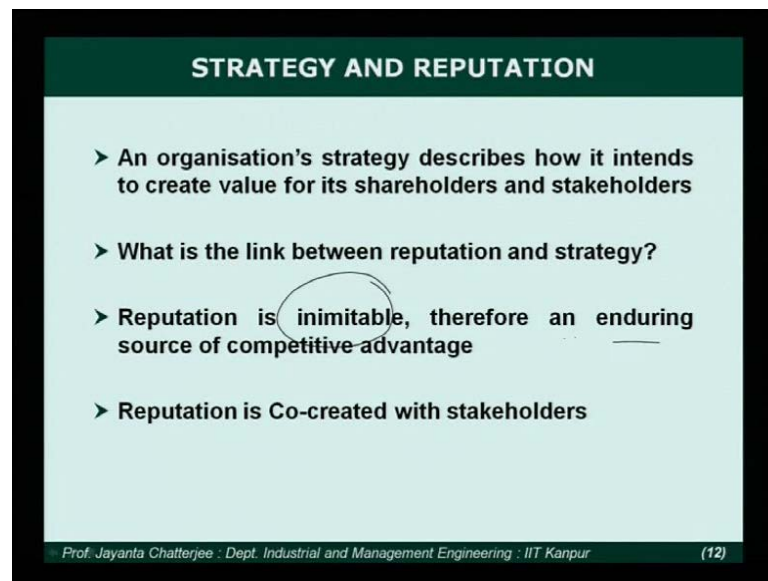
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We discuss about MVA, EVA or the economic value add, which is rate of return or one can call it the net operating profit minus the actually the cost of capital we can expanded the weighted average cost of capital multiplied by the capital employed. That means, this part, if you just put your money in some bank investment - fixed investment, the return that you can get you must be able to do the business get a return higher than that. And to be able to do this, we know that to be able to do that; that means, to achieve these financial performances which actually create that higher rate of return which beats the rate of return that you can get from a bank or a company fixed deposit. This higher rate of return as we discussed before in the also in the previous session does not come only from being ruthless, being cutting costs all the time, but it actually comes very clearly from this holistic approach.

So, which means that this just as the MVA shows the importance of reputation and they intangibles. The EVA is also created by the intangibles that we saw right in the

beginning in that tree diagram, which means it comes from the human and structure capital, it comes from the ethics values and so on. So, as we see here that the financial performance the market value add, the economic value add, they are coming from definitely financial activities, business process excellence, all those that we have discussed in the earlier session.

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STRATEGY AND REPUTATION

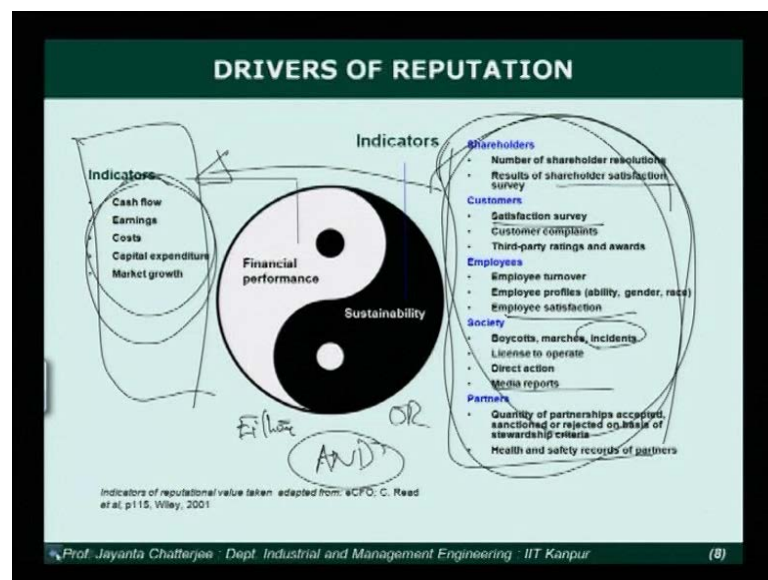
- An organisation's strategy describes how it intends to create value for its shareholders and stakeholders
- What is the link between reputation and strategy?
- Reputation is inimitable, therefore an enduring source of competitive advantage
- Reputation is Co-created with stakeholders

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But, it is also coming from the soft elements normally call those cultural issues, ethical issues, the values the of the organization. And as many people as many researches or authors have pointed out that this the soft side of this strategy is in many ways harder. So, to grow revenue in the market place to the traditional marketing is seen sometimes as an easier thing to do rather than creating compare to creating a commitment of all the employees to customer satisfaction be whatever may be the situation, it is not an easy thing to achieve and that is why we know that for example, there are so many airlines in the world, but this all round focus on customer benefit, customer convenience as depicted by airlines like Singapore airlines have provided them a brand resilience for a long period. And so this soft side is in very, very important element in creating a enduring competitive advantage, because this reputation since it is created by this complex network, and holistic execution of strategy, it is not easy to amulet and because it is inimitable it provides an enduring source of competitive advantage.

Another very important point is that this reputation is another very good depiction of the concept that we have discussed in the when we discussed about service dominant logic of marketing. This co-opting the customer, co-opting the stake holder, in creating this reputation. The reputation is a two way process; obviously, therefore reputation cannot be created just by the organizational actions, unless you take the feedback and and continuously enhance. Therefore you need to be in a closed loop function with your stakeholders and that is why it is a co-creation activity which again is another reason why it is not very easy to imitate. Because it involves the entire organisation process, the business model, the business process.

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So, the tangibles and intangibles are like they in-yang concept as we have seen here in this diagram need to be put together. To create that unassailable, competitive advantage by understanding that reputation building is the ultimate aim of marketing strategy or the super ordinate super ordinate goal of the marketing function.