Market Makers: The True Meaning of Leadership

By Peter Leighton

In a world where competition is everywhere and brands are vying for attention against an ever-increasing spectrum of stimuli, there has been a slowly evolving shift in what has been considered the best-of-class marketing approach. Like all evolutionary changes, it is hard to discern this shift in approach unless you are able to step away from the frenetic rushing waters of the market and see a bigger picture of the environment. Only then will you be able to see that you likely are being swept down the rapids with no real control of your own, and quite likely you are heading for a waterfall of failure, or worse, mediocrity.

Most sophisticated enterprises have been following the tried-and-true belief of being “market-oriented”, listening to their customers and building “brand equity” by delivering what the market wants. The prevailing wisdom dictates that research data holds the answers to what the market wants; consumer research in the form of focus groups can define qualitative needs; and competitive analysis identifies opportunities yearning to be realized.

But like an over produced farmland that has depleted its soil of nutrients, this traditional market approach is yielding fewer and weaker results, with new product failure rates now exceeding 80%. And as with the depleted soil that requires more nutrient inputs, it now costs much more in terms of invested capital to produce a modest yield. This inefficiency dramatically increases risk and eliminates all but a few start-up companies from entering the market with any real chance of success.

It’s no coincidence that major CPG companies have shifted to a predatory strategy of early stage investments. They swoop in and buy a 30% share for dirt cheap, with options for 50-100% ownership if the company hits certain milestones. It’s not a pretty picture and it certainly limits real market innovators.

So if you are not blazing a new trail, you are eating someone else’s dust. The real leadership brands are ones that are able to see the larger vista of the over-produced marketplace and they understand the evolution of a new market approach. These are the “Market-Making” enterprises.

Market Makers are able to create disruptive changes as they anticipate shifts in the market and they are agile enough to surprise their customers with the unexpected and relevant solutions to problems that were not even well articulated. These leading brands drive innovation in *anticipation* of where the market is heading, not provide expected solutions to where the market is now.

It's this use of predictive data analysis that is one of the distinguishing characteristics of Market Makers. Whereas focus groups provide a snapshot of a particular audience, reflective of their current constructs and knowledge, they cannot articulate something they don't know. Ask a focus group in 1970 about coffee, and they will reflect their beliefs at that time; ask them if they'd be willing to pay ten times the current price for a coffee, wait in a line out the door for it, and learn a whole new coffee vernacular, and they would think you were crazy. Based upon focus group data Starbucks would have never launched.

But based upon a host of other data points, Starbucks was able to see that consumers valued the idea of a coffee break, they placed a premium on unique cultural experiences, and consumer purchasing data illustrated the emergence of gourmet foods. Aggregating these facts in the context of a sleepy product category (the coffee segment had little or no innovation in over 20 years), Starbucks became a Market Maker by redefining the category and delivering coffee as an experience that provided value to a broad audience.

Market Followers do a good job of reacting to shifts in the market, delivering incremental changes to fill a need once it becomes apparent. But these incremental changes are often focused on features and benefits, as these brands work hard to train the consumer to look for "new" and "improved" versions of products that are familiar to them. What they are unwittingly doing is training consumers to consider their brand (and often the whole category) as a commodity.

Apple demonstrated how a brand can leapfrog the entire market by applying a market-making approach. As a plethora of device manufacturers were slugging it out over incremental features and product attributes, Apple redefined the MP3 category by delivering simplicity. The iPod steered away from technical specifications and simply defined the iPod as "10,000 songs in your pocket". Then with the iPhone they aggregated several different devices into one simple user experience. As hard as it may be to believe, at the time no focus group could have stated "I want a device that holds my music, my camera, my calendar, my computer applications and my phone, all in one".

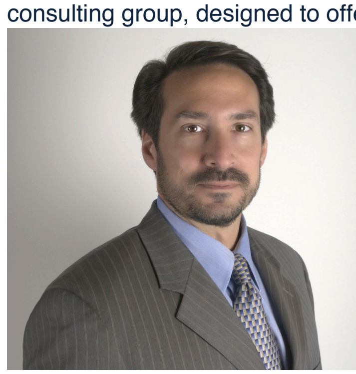
Whether it's Whole Foods Market redefining what a grocery store is, or Luna bar creating a women's nutrition bar category where one did not exist as such, Market Makers are able to look at the market landscape and see not only the facts at hand, the research data illustrating what consumers are buying today, but they are able to aggregate more global attitudes, beliefs, and consumer trends that all point in a similar direction. And then these enterprises are able to act upon that.

Market Makers are often defined by innovation, which at its core is the delivery of an unarticulated need. But innovation is much more than a product, a technology or IP. Innovation is more often an approach to market and a way of delivering that unarticulated need. Interestingly, Market Makers have taught us that most value is not created in the product, but rather in the business model or delivery of the brand (i.e., novel channel distribution, branding, etc.). These Market Making enterprises build exponential value through innovative approaches to the market; they redefine the category and leave us asking, "Why didn't I think of that"?

And the market rewards Market Making enterprises. These organizations on average have higher margins, greater profits, longer product lifecycles and bigger valuations than Market Followers.

Ultimately, success is dependent upon user engagement. What this means is when users (consumers) are engaged with your brand, it is signals that it is relevant to them and their lifestyle. Consumers will then pay more for the brand, use it more frequently, provide greater feedback about the brand and they become what is known in the marketing world as *brand ambassadors*; they pay <u>you</u> for the honor of marketing your brand. Call it word-of-mouth, viral marketing or brand equity, it doesn't much matter. But that is why Starbucks created more value in 15 years than Maxwell House did in 108. That's why Starbucks never ran advertising in their first 40 years of business.

Being a Market Maker is a cultural and philosophical orientation that can't be faked. It requires an enterprise to dedicate itself to doing things differently and reevaluating the fundamentals of their business; it necessitates an innovative approach and a core desire to be relevant to their end-users. Market Makers are leaders, not followers.



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