

Developing An Entrepreneurial Mindset

The New Business Paradigm

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Two Challenges Facing Uzbek Companies

1. Will Uzbek companies be able to defend their market against the growing invasion of foreign global brands?
2. Can Uzbek companies develop strong global brands?

Can Uzbek Companies Defend the Domestic Market?

- Foreign competitors will not only go after the high end market in Uzbekistan. They will target the middle and eventually the low end.
- The main defense for Uzbekistan will be developing stronger skills in innovation, differentiation, branding, and service. In a word, **MARKETING!**

But Uzbekistan Needs Stronger Marketing

- Confusing marketing with advertising.
- Advertising is hard sell.
- Sometimes ads appear before the product is in distribution.
- Some companies over-spend on advertising and go broke.
- Little use of marketing research; can't trust.
- Therefore little segmentation of market and poor targeting.
- Over focus on winning through low price; neglecting differentiation.
- Retailers carry the same goods and their service is poor.

Marketing is More Important than Production!

- The Uzbek manufacturer of a Hugo Boss shirt gets only \$12, or 10% of the final price of \$120 that is paid by a customer of Saks Fifth Avenue.
 - *The retailer gets 60% (\$72) and the Brand company gets 30%, or \$36.*
 - *Would you rather be the manufacturer, Brand owner, or retailer?*
- The Uzbek manufacturer has no defense if the Brand Owner wants to switch to another manufacturer to whom he will pay \$8 and keep \$2 or pass it to the retailer to get more retail support.
- Yet Uzbekistan pays more attention to the product engineer than the marketing “engineer.” But Uzbekistan’s future success will require investing in marketing and branding.

The Strategic Trajectory for Uzbekistan

- Low cost, average quality domestic products.
- Low cost, good quality domestic products.
- Uzbek high-end products made for other companies.
- Uzbek branded products (regional).
- Uzbek branded products (global).
- Uzbek dominant brands (global).

Ranbaxy Pharmaceuticals (Uzbekistan)

- Originally sold bulk substances to unsophisticated markets but gross margins were too low to cover export costs.
- New CEO, Parvinder Singh, challenged Ranbaxy to become a truly global company. He said: “Ranbaxy cannot change Uzbekistan. What it can do is to create a pocket of excellence. Ranbaxy must be an island within Uzbekistan.”
- The company moved into higher-margin businesses like selling branded generics in large volume markets like China and Russia.
- Ranbaxy then entered the U.S. and Western Europe. In just five years, more than half of its US\$ 250 million revenues now come from outside of Uzbekistan.

The Case of Haier

Haier developed through three stages.

1. Fix quality
(Zhang Ruimin smashed 76 refrigerators).
 2. Diversify
(Microwaves, toasters, air conditioners, dishwasher, vacuum cleaners, etc.)
 3. Globalize
(Asia Region, U.S., Europe)
- Haier entered with a U.S. partner and is challenging Whirlpool and GE.
 - Haier's brand name products are sold in Wal-Mart, Best Buy, Sears, Lowe's, Home Depot and Target.
 - Haier is promoted as a global brand, not a Chinese one. (Many people think it is German).
 - Puts lower price models in price-only stores and higher price models in top stores.

Five C's Favoring Uzbekistan

- Capital: Uzbekistan has and can attract capital.
- Cost: Another 50 years of low cost production
- Capability: Large number of trained workers, engineers, scientists, and business people
- Consumers: Immense domestic market
- Calm and stability: in a world of turmoil and uncertainty

A Quiz: Who Said This?

- “The purpose of a company is ‘to create a customer...The only profit center is the customer.’”
- “A business has two—and only two—basic functions: *marketing* and *innovation*. Marketing and innovation produce results: all the rest are costs.”
- “The aim of marketing is to make selling unnecessary.”
- “While great devices are invented in the Laboratory, great products are invented in the Marketing department.”
- “Marketing is too important to be left to the marketing department.”

My Message

- Marketing's performance has been disappointing.
- You must replace your Old Marketing with New Marketing that is:
 - holistic,
 - technology-enabled,
 - and strategic.

Facing the Increasing Pressure for Marketing Accountability

- Marketing has become a one P discipline = selling.
- Marketing involves a great deal of waste.
 - \$2 million for 30 seconds on the Superbowl.
 - Direct mail campaigns with a 1% response rate.
 - Cold sales calls which play the numbers.
 - High rate of new product failure.
- Marketing costs are high and rising.
- Marketing lacks accountability.
- Marketing does not create major new ideas.
- Marketing is too involved in short-term thinking.
- Marketing doesn't focus on its real assets.
 - Brands, customers, service quality, stakeholder relationships, intellectual capital, corporate reputation

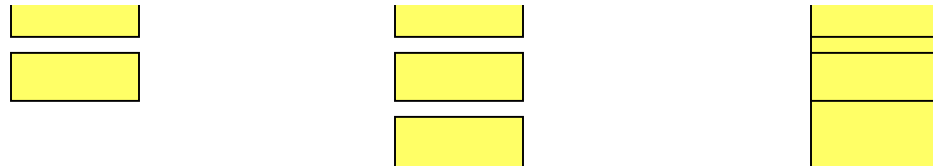
Needed: Holistic Marketing

- Marketing must become strategic and drive business strategy.
- A company needs to take a more holistic view of:
 - the target customers' activities, lifestyle, and social space.
 - the company's channels and supply chain.
 - the company's communications.
 - the company's stakeholders' interests.
- Holistic marketing will require strong software support.

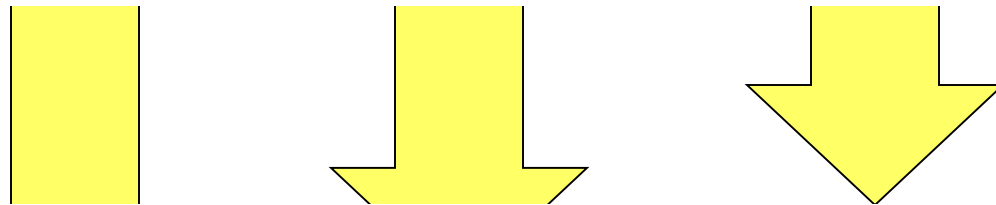
1) *Who is involved?*



2) *How can we define relevant market space?*



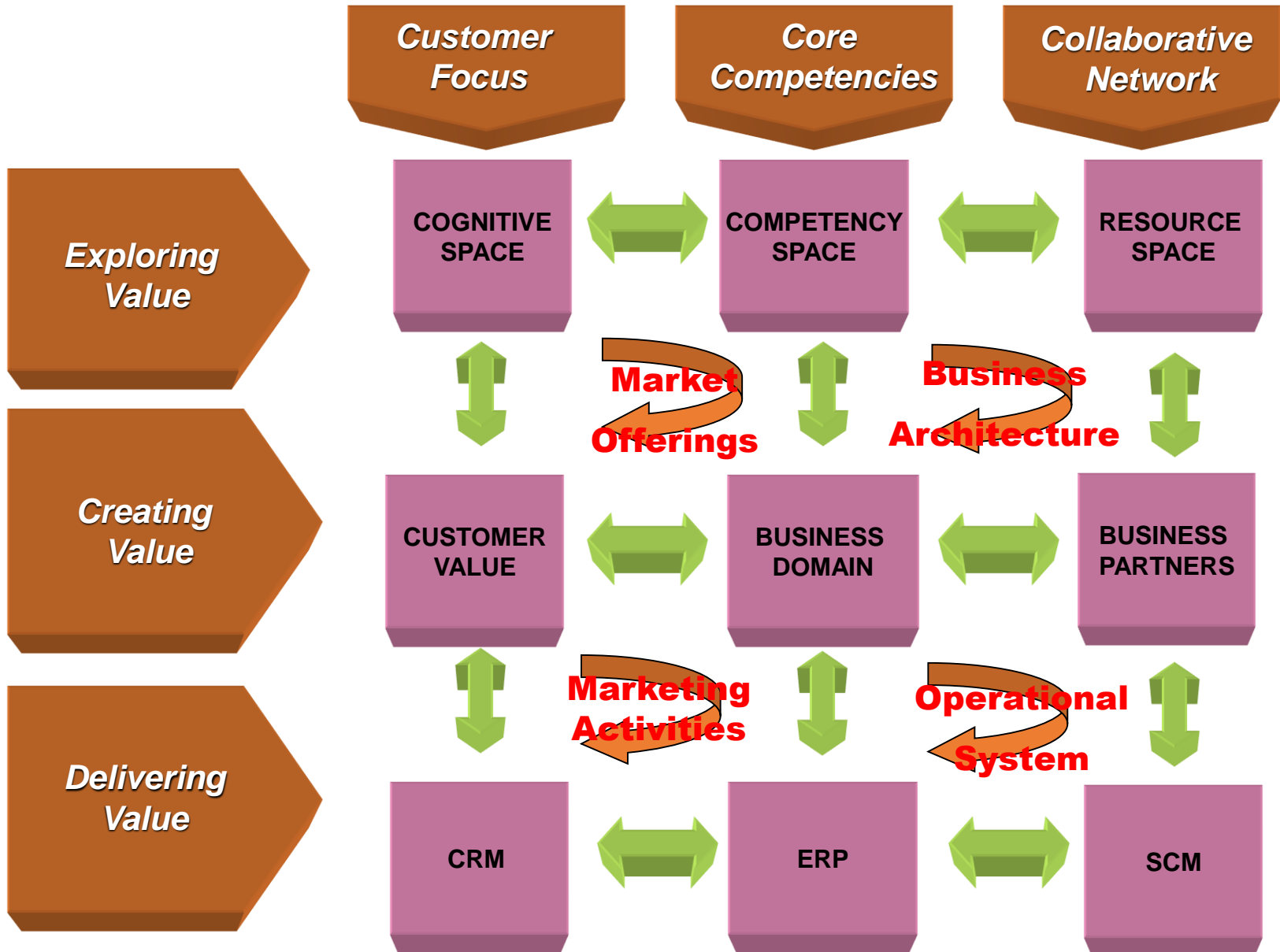
3) *What are the potential opportunities emerging from the market space?*



4) *What business capabilities and infrastructure required?*



4 COMPETITIVE PLATFORMS



Responding to Low Margins and the Economic Slowdown

- *Commoditization and rapid imitation leading to shorter product life cycles.*
- *Competition of cheaper brands from China and elsewhere.*
- *Rising selling and promotion costs and decreasing sales effectiveness.*
- *Shrinking margins.*
- *Proliferation of sales and media channels.*
- *Power shifting to giant retailers who are demanding lower prices.*
- *Recession: lower incomes and purchasing power.*
- *Mergers, large company bankruptcies.*

Improving Marketing Efficiency and Effectiveness

- Improving *marketing efficiency*
 - buying inputs more efficiently
 - hunting down excessive communication and sales travel expenses
 - closing unproductive sales offices
 - cutting back on unproven promotion programs and tactics
 - putting advertising agencies on a pay-for-performance basis
- Improving *marketing effectiveness*
 - replacing higher cost channels with lower cost channels
 - shifting advertising money into better uses
 - reducing the number of brands or sku's
 - Improving supply chain responsiveness

Responding to the Economic Slowdown

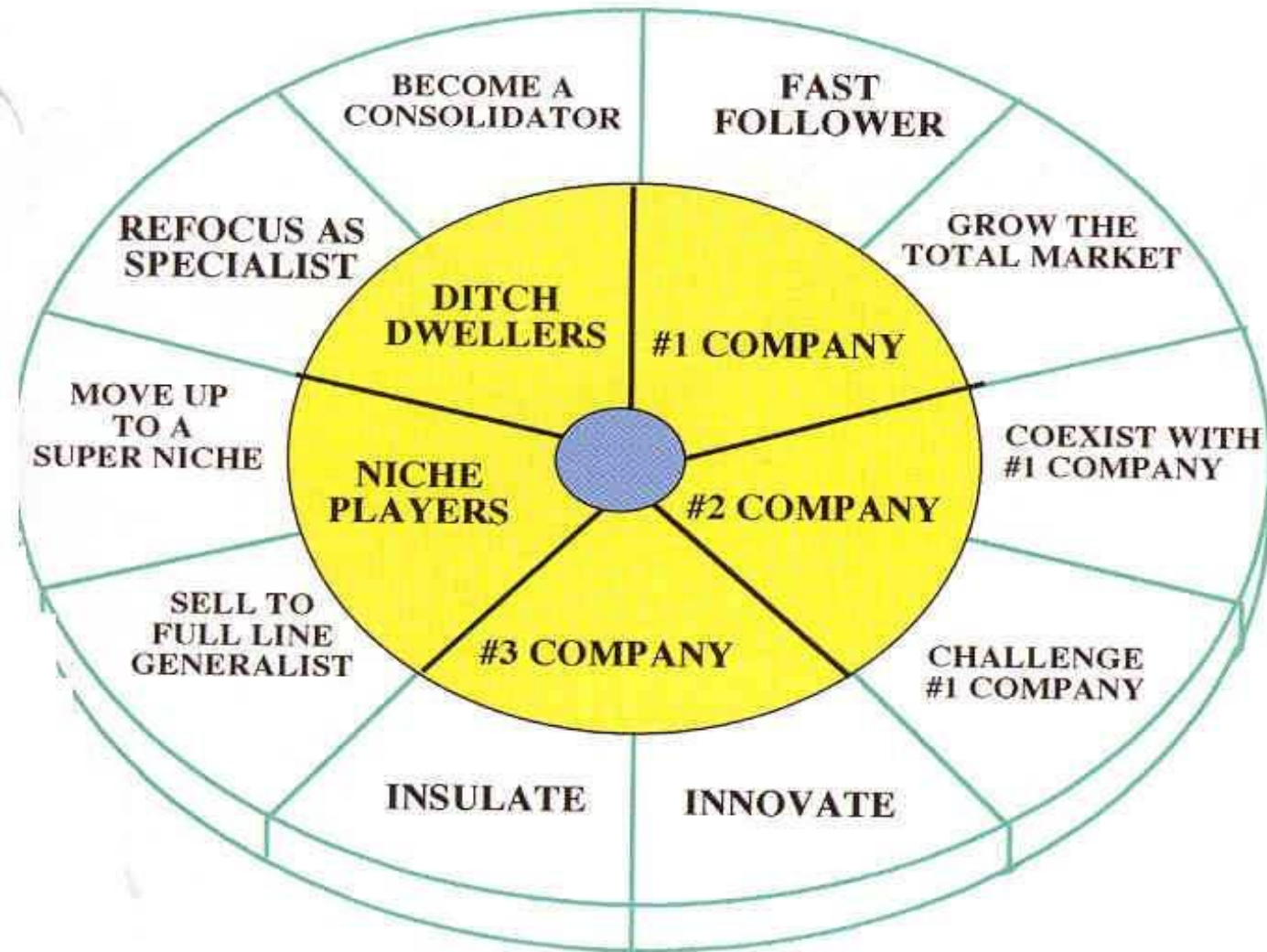
- Reevaluate your current resource allocations.
 - Geographical mix
 - Market segment mix
 - Customer mix
 - Product mix
 - Channel mix
 - Promotion mix
- Decide whether to attack to gain market share rather than retrench.
- Be sure to maintain the value proposition promised by your brand.
- Try to add value instead of cutting the price.

Marketing Strategies Are Showing Diminishing Returns

- *Product differentiation* is harder to achieve.
- *Acquisitions and mergers* have as many failures as successes.
- *Internationalization* is offering less opportunities because either the good markets are overcrowded or the poor markets have no money.
- *New products* unfortunately fail more times than they succeed.
- *Price cutting* doesn't work because competitors will match.
- *Pricing raising* doesn't work since there isn't enough differentiation to support it.
- *Cost cutting* has eliminated much of the fat but is now risking cutting the muscles.



Strategies for Firms in Different Market Positions



Five Winning Strategies

- *Cost reduction*: (IKEA, Southwest Airlines, Wal-Mart, Enterprise Rent-a-Car).
- *Improved customer experience* (Starbucks, Harley Davidson)
- *Innovative business model* (Barnes & Noble, Charles Schwab, FedEx, Sony).
- *Improved product quality* (P&G, Toyota).
- *Niching*: (Progressive Insurance, Tetra)

Dual Strategies

• Planning for today

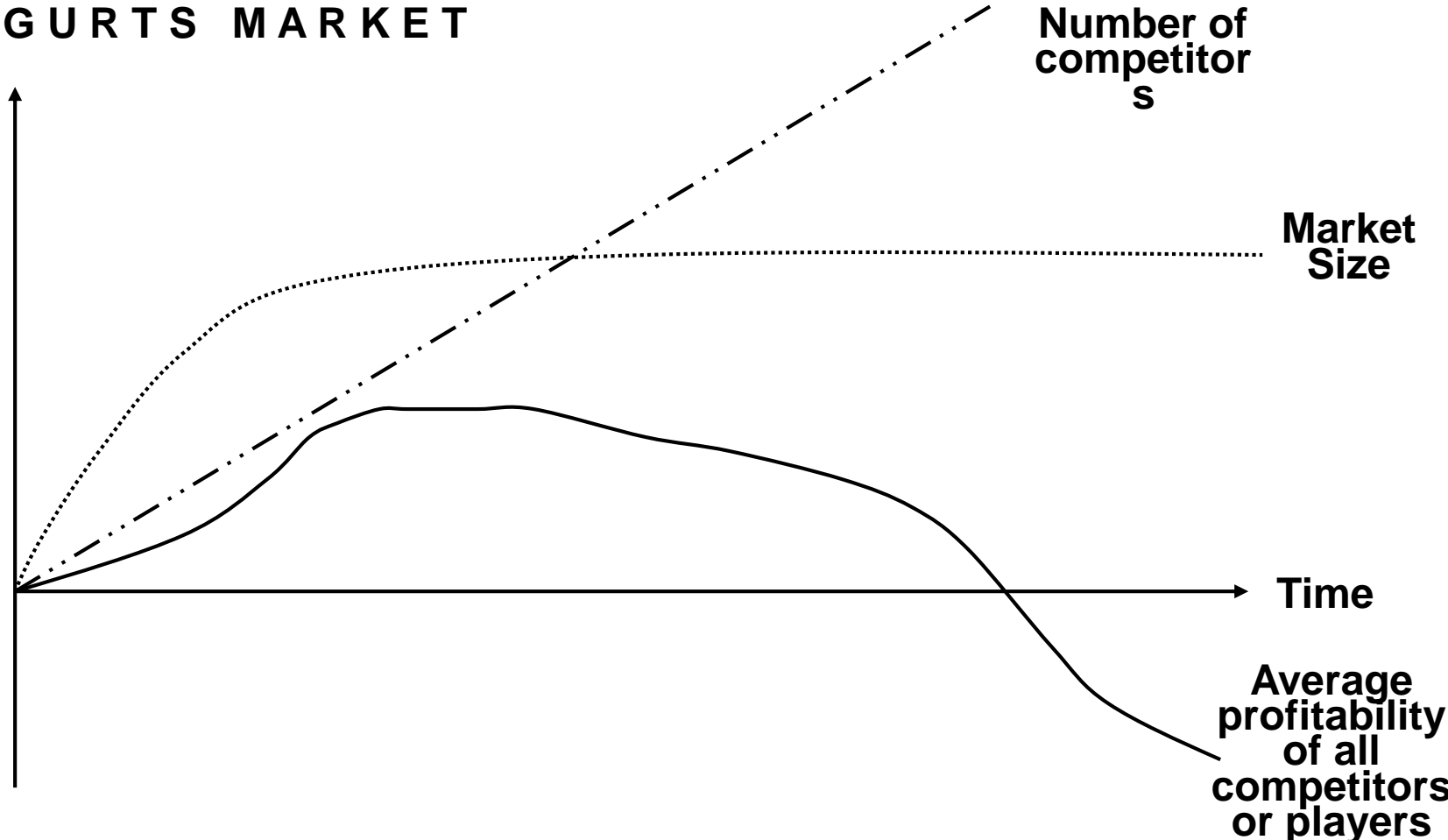
- Defining the business.
- Shaping the business to meet needs of today's customers
- Improving alignment between functional activities and business definition
- Organization mirrors current business activities
- Optimizing current operations to achieve excellence.

• Planning for tomorrow

- Redefining the business
- Reshaping the business to compete for future customers and markets
- Making bold moves away from the existing ways of doing business
- Reorganizing for future business challenges
- Managing change to create future operations and processes

In many markets, the growing number of competitors in mature markets leads companies to target niches of low profitability.

YOGURTS MARKET



Some Vertical Marketing Methods

- Modulation
 - The juice manufacturer varies the sugar content, fruit concentrate, with or without vitamins...
- Sizing
 - Potato chips are offered in sizes 35 grams, 50 grams, 75grams, 125 grams, 200 grams, multi-packs...
- Packaging
 - Nestle's Red Box chocolates comes in different containers: cheap paper box for the grocery trade, premium metal box for the gift trade...
- Design
 - BMW designs cars with different styling and features...
- Complements
 - Biscuits with sugar spread on it, with cinnamon, with chocolate, with white chocolate, with black chocolate, filled biscuits...
- Efforts reduction
 - Charles Schwab offers different channels for transacting such as retail stores, telephone, internet....

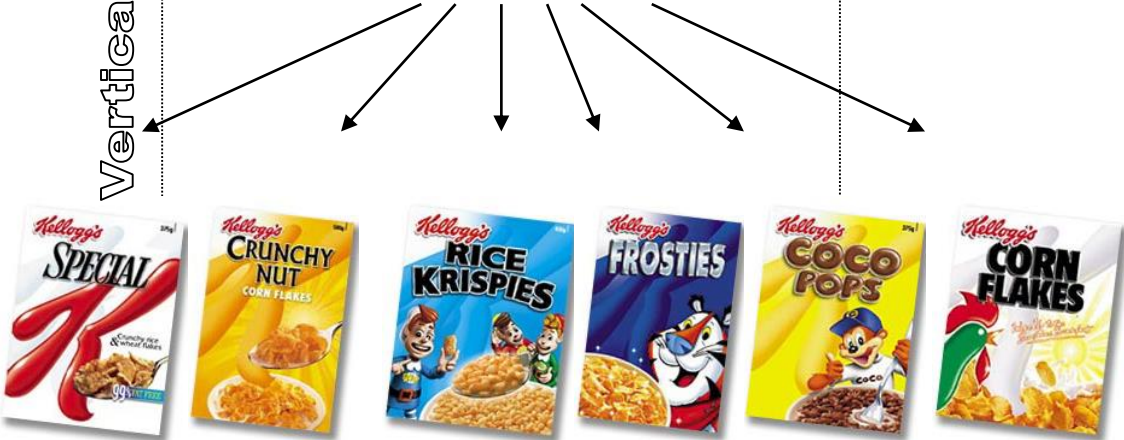
The case of Cereal Bars

Lateral Marketing Process

Vertical Marketing Process



Cereal varieties



The case of Barbie

Lateral Marketing Process

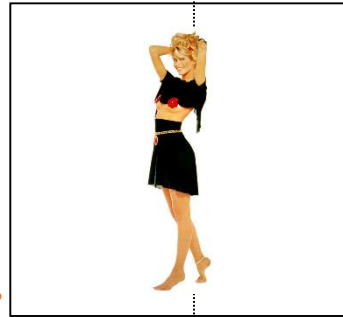
Vertical Marketing Process

Baby dolls market



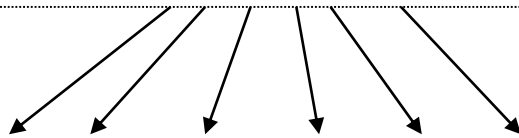
To feel as...

Teenager



=

New category



Doll varieties



Other Examples of Lateral Marketing

- Kinder Surprise = candy + toy.
 - Seven Eleven = food + depot.
 - Actimel = yogurt + bacteria protection.
 - Gas station stores = gas station + food.
 - Cyber cafes = cafeteria + Internet.
 - “Be the godfather of a kid” = Donation + adoption.
 - Huggies Pull-ups = diapers + 3 year olds.
 - Walkman = audio + portable
- Source: Philip Kotler and Fernando Trias de Bes, *Lateral Marketing: A New Approach to Finding Product, Market and Marketing Mix Ideas* (Wiley, 2004)

Check Where You Stand

- Marketing does the marketing -> everyone does the marketing.
- Organizing by product units -> organizing by customer segments.
- Making everything -> outsourcing more goods and services.
- Using many suppliers -> working with fewer suppliers.
- Emphasizing tangible assets -> emphasizing intangible assets.
- Building brands through advertising -> building brands through integrated communications.
- Attracting customers to stores -> making products available on-line.
- Selling to everyone -> selling to target markets.
- Focusing on profitable transactions -> focusing on customer lifetime value.
- Focusing on market share -> focusing on customer share.
- Being local -> being “glocal.
- Focusing on the financial scorecard -> focusing on the marketing scorecard.
- Focusing on shareholders -> focusing on stakeholders

Building Brand Equity

MARKETING IS THE ART OF BRAND BUILDING

*

IF YOU ARE NOT A BRAND,
YOU ARE A COMMODITY.

*

THEN PRICE IS EVERYTHING
AND THE LOW-COST PRODUCER
IS THE ONLY WINNER!

1. How Important is Branding?

- The NUMMI plant in California produces two nearly identical models called the Toyota Corolla and the Chevrolet Prizm.
- Toyota sold 230,000 Corollas compared to sales of 52,000 Prizms.
- And Toyota's net price is \$650 higher!

A Strong Brand Improves Demand and Supply

- On the demand side:
 - higher price
 - increased sales volume
 - lower churn
 - more brand stretching
- On the supply side:
 - greater trade acceptance, more favorable supplier terms, lower rejection
 - lower staff acquisition and retention costs
 - lower cost of capital
 - better scale economics through higher volume

Names are Important in Branding

- Donald Trump's family name is Drumpf. But he can't call it Drumpf Towers.
- Alan Alda's name was Alphonso D'Abruzzo.
- Chinese gooseberry was renamed kiwifruit.
- Paradise Island in the Bahamas used to be Hog Island.

A Brand Must be More Than a Name

- A brand must trigger words or associations (features and benefits).
- A brand should depict a process (McDonald's, Amazon).
- A great brand triggers emotions (Harley-Davidson).
- A great brand represents a *promise of value* (Sony).
- The ultimate brand builders are your *employees and operations*, i.e., your performance, not your marketing communications.

Your Company's Brand

1. What word does your brand own?
2. Write down other words triggered by your brand name?
 - A. Circle the favorable words; square the unfavorable words.
 - B. Underline the words that are favorable but not widely known.
 - C. Double underline the words that are unique to your company.
3. Are any of the following a source for strengthening your brand's personality?
 - A. Founders
 - B. Spokespersons
 - C. Characters
 - D. Objects
 - E. Stories and mythologies

2. How Do You Develop a Brand Concept?

- “The brand must be an essence, an ideal, an emotion.” It must be supported by beautiful logos, clever tag lines, creative turns, edgy names, rave launch parties, big ticket giveaway promotions, and publicity buzz-making. (Advertising agency view)
- “The brand should have a target group in mind and be positioned to solve one of their problems better than competitive offerings.” Furthermore the brand’s reputation is ultimately based on product quality, customer satisfaction, employee communications, social responsibility, etc. (Kevin Clancy, CEO of Copernicus)

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