

**Executive Interview**

# Hermann Simon on Marketing: An Interview by Reinhard Hünerberg, with Commentaries

Hermann Simon has made a major impact on analytical thinking in marketing. Several of his concepts, like Power Pricing, have entered marketing language. In this interview, which took place in Bonn in the Spring of 2001, Professor Simon's responses cover a wide field, from marketing concepts and marketing models, to marketing as a profession and marketing through the Internet. A central theme running throughout the interview is the apparent difficulty of implementary marketing, of which there are many competing strategic versions, Professor Simon offers insight and observations which help to bridge the gap between theory and practice, and comments on the potential impact of new forces on marketing like globalization and the Internet. © 2001 Published by Elsevier Science Ltd, All rights reserved.

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In your book *Ceistreiches für Manager*, you quote several aphorisms from the world of marketing management and add one yourself:

"Marketing is a simple concept, but difficult to implement".

**Why is it so difficult for a company to design a marketing concept and implement it adequately? How can marketing scholars and marketing consultants like you meet this challenge?**

Marketing as a concept is intuitively appealing. So when it is explained to people, their usual response is to say it's obvious or commonsense, But if that's true, why doesn't it often work in practice?

The main reason is that most people think of only one aspect of the concept. However, there are really two: technology and consumer behaviour. The weakness is the missing link between the two. The real challenge to marketing managers is to bring technology, or internal competencies and systems, into alignment with what customers really want. Let me give you an example: I recently met with managers from one of the large mobile telephone manufacturers (*Siemens*) who were very enthusiastic about their latest gadgets. But when I asked them questions like "Who really needs these?" or "Are the customers really going to use them, and when?", I received no answers. Clearly, these managers had great ideas and great technology, but they hadn't given sufficient thought to what the customer really needed. The whole discussion was about mobile phone commerce, but the link I mentioned was missing.

The same thing happens when companies overemphasise communications and up-front positioning. They can make promises to the customer that the technology does not fulfil because they coin-cut rate on only one aspect of marketing. i.e. the customer-driven aspect. Being both technology-driven and customer-driven is the challenge of marketing - and it is very difficult to achieve.

**Would you the gap between common sense and practice is especially obvious in industrial marketing, or is it also true of the other areas such as consumer marketing and services marketing?**

It is true of all areas of marketing. My impression is that the gap is narrower in industrial marketing, where customers and vendors work more closely together, and wider in consumer marketing, where they are further apart.

**Do you think it is possible to speak of a 'marketing culture'? Can you cite any examples of companies or industry sectors where a marketing culture is truly implemented?**

I can. But first we should identify the *core* of a marketing strategy - is it high value or low price, or is it the standard economic product? Good examples of companies that implement a high value culture in marketing are General Electric (especially GE Capital), Mercedes-Benz and BMW. They unify both sides of the link rather well. Another example is Ryanair. Ryanair has no customer loyalty programme and you pay for your drinks on board. Yet it is very customer-oriented because it provides air transportation from Point A to Point B at low costs and at low prices. The German consumer electronics firm Media-Saturn is very marketing-oriented. They have a really positive image: reasonable prices, good communications and an efficient supply system. Over the last two decades, this company has grown 45 per cent a year on average. Its revenue is now close to €10 billion.

Notice that I mention Mercedes-Benz, but not DaimlerChrysler. Not all German automotive companies are the same. Mercedes is in superb shape. They have a good product line and many new models lined up. DaimlerChrysler is struggling — the Chrysler part lacks new products and has serious problems with prices and costs.

**There are a myriad of specialised approaches to marketing, such as the behavioural approach, the decision-oriented approach and microeconomics. I believe you favour the decision-oriented approach. Could you expand on this and comment on the future development of marketing as a management discipline?**

Bear in mind that I am not wholly focused on this approach. Since abandoning my professorial post in Germany six years ago to take up consultancy work, my evaluation of certain research and academic concepts has changed. Nowadays, I like to hear presentations on marketing and economic theory that give insights instead of trying to apply something empirical or showing some statistical correlation in vain.

The real challenge is to bring theory and practice together. When I compare my situation with 10 years ago, I now have considerably more data and case studies with which to do research, but I don't have the time to do it. I wish I could bring my past as an academic researcher and my present as a consultant together.

**Does your consulting firm apply theoretical concepts? If so, which ones in particular?**

I would say my company, Simon-Kucher, is among the most rigorous in applying theoretical concepts.

But we don't apply everything. As a young professor, I worked a lot with regressions and dynamic pricing models. Nowadays, we never apply dynamic pricing models. We do, however, frequently apply value measurement and conjoint measurement models — where we measure value based on conjoint choices. We use sophisticated decision support systems a lot. But we never employ causal analogies. So we apply some concepts, but others remain completely theoretical. However, it is important to be cautious. When a new theoretical concept emerges in academia, it is not possible to say whether or not it will be applicable in 10 years. For instance, in pricing, we currently apply non-linear pricing, bundling, multidimensional pricing, multi-person pricing and option pricing. When these were conceived 15-20 years ago, they sounded very theoretical. Now, with the arrival of the Internet, they are being put into practice.

**It seems that a new marketing approach comes on the scene almost every month: permission marketing, one-to-one marketing, interactive marketing to name a few. Do you think any of them are substantial?**

Very few. Of course, the new wave - Internet, e-business, e-marketing - has some substance. But terms like permission marketing do not; they are buzzwords and labels created to attract attention, but they aren't concepts around which we should build research and development.

**Marketing ethics seem to have become an issue lately; universities have even set up chairs on the subject, and companies have implemented ethical ideas in their organisations. Does it make sense to include ethical questions in marketing theory and practice?**

In my opinion, the most serious violations of ethics we have seen recently have been in the stock markets, where investors have been cheated by companies that provide false and misleading information. As far as the teaching of ethics in universities is concerned, students come to university with rather fixed and well-founded value systems. It is, therefore, not so much a matter of teaching ethics as of focusing on the development of existing values which are deeply-rooted in childhood and in families.

Case studies are valuable in showing conflict and organisational pressures that can lead to unethical behaviour. I sometimes taught a class called the 'Aircraft Brake Scandal'. It was about a company that developed an aircraft braking system, but failed to carry out adequate quality testing because they were under so much time pressure. Students can recognise this kind of social and organisational pressure, and they should learn to resist it. A company is driven by profit goals, and these can come into conflict with ethics. Making this conflict clear is valuable.

**One of your best-selling management books is 'Hidden Champions'. In it, you describe the strategic advantages that small and medium-sized companies can generate if they focus on certain core competencies. Looking at the current business scene, with all the emphasis on globalisation, are you not less optimistic about the future survival of these SMEs? Haven't some of the SME success stories in Hidden Champions lost their validity?**

Actually, I am more optimistic than ever that a focused global strategy is right — for all companies. That is certainly the case for my firm. In 'Hidden Champions', I collected between 500 and 600 examples of successful SMEs, and I am still finding more. Of these, perhaps 20 have terminated in the last 5 years.

Of course, these companies are not immune from the threat of market cycles and competitive pressure. But some of these companies have flourished in quite an incredible way. Würth, the world-class world leader in assembly products, increased its revenue by DM 7 billion within five years. Stihl, the world class leader in chainsaws, more than doubled its revenues in the same period. The same with Kärcher, global leader in high-pressure water cleaners. Consumer goods companies such as Haribo, the gummibear champion, have been extremely successful.

**But those companies are no longer small or midsized. Haven't they lost their advantage by becoming large companies?**

All these companies, which I know personally, have retained their advantages. The key is to stay focused. Then it is possible to transfer the advantages of flexibility and lean structure to a larger dimension. Complexity is not so much a matter of size, but of internal management — having too many divisions, too many products, and so on.

**I would like to address market segmentation. What kind of segmentations do you recommend? So many approaches have been developed and published over the years.**

I don't recommend any because market segmentation is not a method, but an intellectual challenge. It is probably the single most important marketing issue for the future. My experience in the last six years is that many segmentation categories, such as the "emancipated young housewife" or the "double-income, no children/one-child family", are not helpful. They are good for discussion — people love discussing these images and stereotypes — but when managers are asked what it means for their strategy, the discussion evaporates. There is a lot of hot air.

It is necessary to connect consumer behaviour to observable criteria. You have to ask questions: "How much is a person willing to spend on a mobile phone?", "How does that spending relate to his income, location?", etc. In the projects my company conducts, I find such questions a difficult challenge. Let me give you an example. In a recent study we did on trucks and industrial vehicles, we discovered big differences among the buyers of various brands in how they weighted attributes like service quality, price and operating costs. It was not easy to link these differences to observable criteria such as industry, size of trucking company, education of the owner-manager, type of driver, etc. If you have segmentation and cannot build fences between the segments, it doesn't help you.

**You mentioned behavioural criteria. Nowadays/ benefit segmentation is highly recommended. What are the important criteria, and which do you personally favour? What methods do you use to measure the segments on the basis of these criteria - for example, conjoint measurement?**

We spent much time defining the set of criteria - discussing them with marketing managers, sales staff, customers, and even competitors. We look first at criteria in which we have a chance to be different. If something is standardised

and we can't change it, we leave it as it is. It doesn't matter if it is important or not because every competitor has it. The opportunities a set of criteria offer are very important. For measuring value, I believe conjoint measurement is the best method. First, how do you communicate the attributes and see their level? Take the case of the Mercedes A Class, which we studied in several countries. We developed a video in which we used cartons or parcels to demonstrate how large the loading capacities of competing cars were. We compared the size of the parking space needed for Volkswagen and Volvo and similar models. We establish 'car clinics' -we did several for DaimlerChrysler and we are currently doing one for Mercedes in various cities in Europe and the U.S. We try to simulate reality as closely as possible. The quality of the measurement is only as good as the quality of the simulation or the communication.

**You have also published on customer orientation, customer satisfaction and similar relationship marketing concepts that are currently receiving a lot of attention. How do you evaluate these concepts? How effective are they as marketing methods? And are they really still new? I should have thought they were becoming dated.**

They are no longer new, and certainly less important than I thought five years ago.

Customer satisfaction is a tricky issue. Almost uncon-

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sciously, everyone thinks of *maximising* satisfaction. But this is too costly. Simon-Kucher looks at these things from an economic viewpoint. By that I mean we rigorously compare perceived value and cost. That applies to both product and service. And what we often find is that the optimal level of satisfaction is lower than the current level. Let me cite the case of a chemical company that offered 46 distinct services. We analysed the value and cost of each service and ended up eliminating 25 because they were too expensive. Of course, they contributed to customer satisfaction - the customers liked them. But when it came to cost and willingness to pay, the value simply was not there. The next wave of thinking should be to apply economics to these concepts.

To digress on customer relationship management for a moment, of course it is better to produce first-class information, particularly with the Internet, but people often don't know what to do with it. Retailers have the same problem with scanner data, which has been around since the 1980s.

**To return to customer satisfaction. Clearly, a company's overall objective is profit, and customer satisfaction is a sub-goal that helps achieve it. But, what is optimal customer satisfaction, and do companies try to realise it?**

There are parallels between customer satisfaction and customer loyalty. Our firm has dealt with many issues that focus on controlling loyalty through such means as loyalty programmes. Both customer loyalty and satisfaction must produce measurable results. For example, frequent-flier programmes are very effective. But I personally know many loyalty programmes which are not effective because the overall value delivered is too low or the price relationship is unfavourable. In general, one should not aim too directly at customer satisfaction, but focus primarily on the value of the product and the value of service. Customer satisfaction should be a result, just like profit should be a result. Putting too much direct emphasis on profit can injure long-term profitability.

**Do you see differences in customer orientation among industrial sectors or countries? Germany is sometimes called a 'Service Desert'. Is it true that there are substantial differences?**

Yes, there are substantial differences. They reflect underlying values in national cultures. For example, American companies have a particular strength in developing a business system and then multiplying it perhaps thousands of times. It applies not only to well-known service examples such as McDonalds, but also to production facilities. Alcoa (the Aluminium Corporation of America) and Hewlett-Packard optimise a factory concept and multiply it by 50 or more times to build identical factories. Incidentally, this requires somewhat authoritarian, centralised management. There is less freedom in American

companies to implement than in German companies. German firms favour more individual and specific solutions. They are less systems-orientated and better at engineering, niche products, high-quality cars and so on. The French, too, are different - if I think of LVMH in *haute couture*. They also excel at large-scale infrastructure projects, which is possible due to their *grande école* thinking.

**Are these different business systems transferable? For example, from the US to Europe?**

Not easily. Culture plays a big role in transferability. In a marketing sense as well. Companies that are not cost-driven and enter into price competition will lose out. When Wal-Mart entered the German retailing sector, only Aldi was able to compete. All the other retail chains were not cost-optimised. Cost optimisation is not just a matter of organisation, cheaper purchasing or changing systems, but of culture. Aldi has a cost-driven culture. It cost-optimises everything.

We spoke earlier of DaimlerChrysler. I do not think it is possible to run the Daimler system, the Chrysler system and the Mercedes system alongside one another. The BMW-Rover example could be telling proof.

**Pricing is your forte. You write that it is the dominant marketing instrument in the marketing mix. You also suggest that the wrong prices can sacrifice potential profits. But how is it possible to integrate pricing into marketing when the consumer is only able to evaluate the whole offer and not just a single element?**

Although pricing is a main area of marketing research, you should always remember the other side of the coin - value to the customer. Price is only a reflection of value. Among the marketing instruments, product and price define the core, so I focus on them. Advertising, distribution and promotion are second-tier instruments around this core.

There are only three profit drivers: volume, cost and price. Wrong pricing sacrifices huge profit potential. Price receives the least amount of attention, but it is as important as cost, if not more so. Volume is less important because if you drive it up, you increase variable costs.

**But if companies are reluctant to compete based on price and choose to base their competitive strategy on customer service - which drives volume and costs up - isn't customer service on to a loser?**

I agree that customer services have cost implications. The acid test is whether customers are willing to pay more for the service? If not, the service has no value. Customers have to learn to appreciate value. My firm looked at building materials recently. Delivering building materials to the 20<sup>th</sup> floor of a building was

a service to the building contractor. He was willing to pay a higher price to solve a logistical problem and increase market share.

Customers often expect service to be free, especially in Asia and Europe, and that just intensifies the problem. That is proof that customer service has little monetary value.

**You have developed a concept of "Power Pricing". Could you summarise it for us and let us in on what's new?**

Power pricing attempts the impossible, namely to increase profit and volume simultaneously. Price and volume have a negative correlation, the so-called "price-response curve". Simply raising or lowering price alone cannot improve profits - you must go to more sophisticated price structures.

Let me give you an example. Simon-Kucher recently introduced a non-linear pricing system to a cinema chain. The price a customer pays now depends on how many movies he sees per month at a cinema in this chain. A simple card-marking system was implemented to record the number of visits. We achieved the impossible: we increased the average price from \$5.50 to \$6.30 and increased the number of visitors by 22 per cent (profits increased by 37 per cent). Such a manoeuvre can only be achieved through sophisticated schemes such as multi-dimensional pricing, bundling, multi-person pricing, etc. These schemes require accurate and detailed information. This is Power Pricing.

**Price differentiation plays an important role in Power Pricing, and in order to implement price differentiation, you must build fences between the segments. Yet customers are often creative in circumventing these fences. Is this your experience?**

Your point is critical. I prefer the system of self-selection, in which different options are offered to the customer to cure this problem. Take a look at the rail card that was introduced in Germany some years ago. Customers can now either buy a ticket at the standard price or purchase a rail card, which allows them to buy a first-class ticket for 50 per cent off. No fence is needed because the customer makes the selection.

**But German Rail is criticised for its over-complex pricing system, and there is talk of changing the policy - for example, reducing the discount to 25 per cent.**

Of course the whole pricing structure of German Rail is very complex. However, price differentiation inevitably involves a certain complexity. Finding a balance

is difficult. Incidentally, the proposal to reduce the 50 per cent discount to 25 per cent is a mistake. It is harder to divide by 4 in your head than by 2. We know from our research that the perception of a price advantage would be severely weakened.

**Now that the Euro is being introduced, how do you think the new currency will affect pricing policies? Will companies have room to manoeuvre?**

Essentially, the Euro will have three effects on pricing. The first is an international price alignment; transparency will increase the pressure on prices to converge. A second minor issue is broken prices caused by rounded figures.

*"Power pricing attempts the impossible, namely to increase profit and value simultaneously"*

For example, if a product is currently DM 1.99, the price in Euros would be 1.05 and not 0.99. The real issue - and I say this for the first time in public - is that pricing in Euros will change the whole price perception of both consumers and producers. People will be highly uncertain about the value scale of the Euro and will accept

prices they would not accept in their existing national currencies. I think the transition to the Euro will be inflationary.

Transparency will increase throughout all countries that use the Euro. But prices will not become identical. Take a can of Coca-Cola, for example. Depending on the channel, a can of Coke here in Bonn ranges anywhere from €0.30 to €1.50. So, for this mundane product, we have a price range of 500 per cent. No company should give up profit potential caused by differences across channels or countries. A uniform European price is nonsense. It might be possible for differences in car prices to diminish, but they will not disappear. It is simply too troublesome to re-import a car. Of the 50 million cars in Germany, only around one million are re-imports. That's merely two per cent.

**Your argument seems to support Denmark's and Great Britain's decision to not adopt the Euro.**

That is more a political question. If we look at it purely from a marketing point of view, the Danes are making a mistake. They will only make life more complicated for themselves. It is only a matter of time before the UK joins.

**I would like to turn our discussion to the Internet. You have referred to the Internet as a new tool, not a revolution. Do you still hold to this statement, or does the Internet represent an entirely new business model that is totally changing the way business will be conducted in the future?**

The Internet has moved beyond just being a new tool: It has taken networking to new heights and has rev-

olutionised the economics of distributing digital products to a very large number of customers. I don't think the Internet will affect business-to-business significantly. It will have more impact on business-to-consumer because of the economics of large numbers. The degree of digitisation in the whole value chain is the critical factor, but it is hardly ever discussed. The Internet has taught us a lot about old businesses.

Otherwise, the Internet is a new tool. For the mail order business, it is an addition to the telephone, postal service and fax machine.

**But there are three stages to the customers' decision-making process: pre-sales, transaction and after-sales. Doesn't the Internet make all three stages more convenient and effective for the customer? And doesn't it help in other areas, such as gathering information and customer services?**

Of course, the Internet is all part of the whole value chain. Consider customer-driven prices and the 'Price-line' model, which is a flop. First, the savings are minor, and second, the value is not attractive when the customer buys a product, such as an aeroplane ticket, and doesn't know what route or what time will be offered to him.

Consider another example: shopping robots. They have had little impact, particularly on cheaper, everyday products because customers are not willing to invest an hour of their time to save just €0.10 or €2. Shopping robots make more sense for higher-priced items such as electronic cameras. For such products, they can save customers perhaps €500 to €1000. But the Internet is still essentially a new tool. Customers are doing what they've always done. Ifs just that before, they would have used a telephone, catalogue or would have visited different shops to compare prices.

**But aren't competitors forced to offer this new tool of communication because their competitors do?**

Yes, but sometimes competitors do not offer e-commerce. Industrial auctions on the Internet are not very successful. Recently, an industrial company carried out an Internet auction for express parcel services to handle the two thousand parcels it sends out each day, and only one carrier participated - the one with the worst reputation for quality and reliability. The three leading competitors simply refused to participate. The auction had to be called off.

In strategic procurement, you need an ever-increasing integration of customer and supplier. This integration prevents customers from switching between different suppliers. Industrial auctions are suitable

only for commodities. I will give you an example:

Recently, a cement producer held a cement auction on the Internet. Cement is apparently a commodity. But the real issue was just-in-time delivery to different construction sites. The company is required to offer highly differentiated services, so the Internet auction was not appropriate.

**Aren't books and travel consumer commodities that can easily be bought and sold on the Internet?**

I do not really believe the Internet will greatly impact books and travel. The percentage of the value chain which is digitisable in tourism is quite small, perhaps 10 per cent. The rest is made up of hard work, hardware, hotels, food, personnel, etc. Of course, every travel operator needs a homepage and a transaction mechanism and needs to use the Internet for information purpose, but these things are not decisive. Books are different: they are physical products, and their problem has to do with logistics (delivery), not with information. Amazon is fooling itself when its losses amount to 50 per cent of its revenue. This is not a viable business model, even with the convenience of having a book delivered to your home.

Internet trading in books has changed the competitive environment substantially, but only through companies like Amazon collecting billions of dollars from the stock market and then distributing them to customers. This temporarily changes the competitive landscape. I am pessimistic about whether, in the case of books, customers are willing to pay the actual costs of shipping.

Note that ordinary mail order works well on the basis of delivering products to individual customers. But there are differences with the Internet book business. First, the average item in mail order is much more expensive than the average Amazon book bought over the Internet. Second, mail order companies can spread their logistical costs over many products. Amazon would like to become a department store, but it is mainly perceived as a book retailer. The average book I buy from Amazon costs €10 - €15 and costs — 6 to deliver - but I don't pay for the delivery. Mail order can be successful, but it has to observe the laws of economics, and I think Amazon is far from doing that.

My firm has been in touch with Amazon to discuss its pricing policy. They have to come down to earth and develop a revenue and price model which will help them turn a profit. A company can live only temporarily off the stock market or off debt. Eventually, they have to make a profit.

**What is your assessment of the Internet's effect on**

*"The Internet will have the greatest impact in areas which are currently physical will become digital"*

**customer behaviour? Although it differs from segment to segment, many customers have transparency on prices for the first time.**

Price transparency is not the greatest result of the Internet. The Internet will have the greatest impact in areas where products which are currently physical will become digital. Napster is a precursor. If we want digital information, why do we produce and distribute hardware, like the paper newspaper? Why not electronic newspapers? One good reason is that we don't yet have the devices that connect us in a habit-compatible way with the Internet or electronic newspapers. With the advent of electricity, it took decades to develop the devices we now use: microwave ovens, hair-dryers, hi-fi equipment. To take full advantage of the Internet we need appropriate devices that are habit-compatible.

This includes publishing on demand. Consider Germany's leading daily newspaper, the *Frankfurter Allgemeine Zeitung*. 620,000 copies, each weighing 1.1 kilos, are distributed every Saturday: That's 682 tons of paper in one night. It's incredible! Besides publishing, there are other industries that produce physical products that can be made 100 per cent digital. Just imagine the impact digitalisation would have on the newspaper business: Nothing would change for the journalists and editors, but for others - the printers, the lorry drivers - their jobs would be turned upside down. However, this process will take a long time.

**I have just come back from the CEBIT convention in Hanover. One of the hot topics there was m-commerce. Do you see any great difference between m-commerce and e-commerce? What do you think the future holds for m-commerce, and where are its 'killer' applications?**

There are some valuable applications on a rather limited scale, but I don't yet see the killer applications. For example, I do not believe the mobile phone will be the main music channel of the future. Some companies now have mobile phones with MP3 players. I believe mobile phones will be important for handling emergency situations such as changing airline reservations at the last minute, but they will not, in my opinion, play a significant role in e-commerce transactions. The important question is: "What does the customer really want?"

User-to-user (consumer-to-consumer) can become a killer application (SMS). In 2001, 200 billion short messages will be sent. With an average price of €0.15, that adds up to €30 million in revenue alone.

**But SMS was not a major application in the beginning - it was discovered by chance. The same is true of i-mode, which is enjoying tremendous popularity in Japan.**

Absolutely! The Internet connects masses of people who like to chat with one another and send messages. E-mail has seen tremendous growth, inside companies as well as outside. These are the killer applications. It means that money is not made from the content of SMS because it is created by the consumers, not the service providers.

Banking and the stock markets will play an important role in the Internet. Stock markets require up-to-date information.

**I am thinking of other applications which use new standards, such as Bluetooth, that enable people to access their machines at home, standards which make it possible to be online around the clock.**

Yes, it's annoying to have to keep switching between online and offline. At the CEBIT convention, a portable, wireless pack was introduced that could be used around the house to obtain all sorts of information: telephone numbers, menus, plane schedules, etc. And the customer pays a flat rate. But is this a killer application? I don't think so. Airlines and stock markets will always provide their information free of charge.

Micropayment is the only way to get money for content. The only industry currently making money on content is sex and pornography. They rake in billions over the phone - several billion marks in Germany alone, though no one knows the exact amount. This is possible because the pornography business has a micropayment structure. The problem with micropayment is that it is more or less time-based. A value-based micropayment structure is needed. Let me reiterate that we need new devices to realise these revenue models. A taxi driver in Hamburg recently told me I could pay by mobile phone. After three minutes, I gave up. It is a lesson that the old methods - for instance, cash payments for small amounts of money - are more efficient than we thought.

**Does the fact that a killer application is lacking explain the volatility of the New Economy that we are currently experiencing?**

This volatility is caused by a combination of things: hype, a lack of common sense and disappointed expectations. I am certain we will see killer applications that we had never imagined. Ninety per cent of what was predicted 30 years ago failed to materialise, yet the things nobody predicted, such as the Internet, personal computers and Microsoft standards, came to be. We cannot foretell the future.

**Let's talk a bit about mergers and acquisitions, and the current hype surrounding them. How would you assess a marketing strategy in the context of globalisation?**

M&A can be the only way to enter other markets, especially in developed countries. So it is a very important strategy. Building a new company overseas often takes too long. There is strong consolidation in many markets, such as telecommunications, pharmaceuticals and agrochemicals. There are only seven agrochemical companies left, and soon it will be only six. Yet there are markets where M&A has not served as a strategic tool. IBM, Hewlett-Packard, SAP are in new markets and did not expand through acquisitions - they built their own empires. M&A is neither a right nor a wrong strategy. Its suitability depends on the situation of the given market.

**But haven't there been more failures than successes? What about the 'Hidden Champions' we spoke of earlier: They achieved their global leadership positions alone by seeking out interesting niches.**

*"I tend not to believe in mergers of equals"*

The Hidden Champions are focused. It is also more difficult for a company with a highly idiosyncratic structure and strong performance to find adequate M&A candidates. But not all mergers are destined to fail. Take Aventis, for example. Just yesterday I spoke with Monsieur Fortou, the co-CEO of Aventis. He pointed to a doubling of the company's share price and to a stream of new products in the pipeline. The company's fast growth has a lot to do with combining the two global salesforces of the former Hoechst and Rhone Poulenc. Deutsche Bank/Bankers Trust is another good example of a successful merger.

**What are the success factors in such cases?**

It is important to have similar underlying values. This cultural aspect is usually underestimated: Merging companies should match on a cultural level. Another success factor is the competitive situation of the market, which is not necessarily reflected in balance sheets or financial data. It is essentially a strategy issue. BMW-Rover didn't fit together, and the jury is still out on DaimlerChrysler. Sometimes we see cultural resistance, as in the case of Vodafone/Mannesmann. At the Düsseldorf location, I sense demotivation among employees, and there is even scepticism among German customers. A number of German mobile phone customers are switching from D2, which is Vodafone, to D1, which is T-Mobile, a subsidiary of Deutsche Telekom.

**Does it have something to do with the equal or unequal power of partners in a merger?**

I tend not to believe in mergers of equals. We have seen from Thyssen and Krupp in Germany that it doesn't always work. Yet there are examples where it has. Aventis was a true merger of equals, as was the merger of VIAG and Veba into EON. It is less a matter of power than how that power is applied.

**Do you see challenges for marketing in all this buying and selling of companies?**

It is a new field for marketing. My firm has been looking into an area recently which we call 'Investor Marketing'. We actually coined this new term. How do you market your company in the capital markets? It's a marketing challenge. Of course, most companies have investor relations, which is a close-knit circle of mostly financial information for finance experts on both sides. But eventually you have to communicate your company to different target groups, to institutional investors, mutual funds and private investors. That is a marketing challenge for which all the marketing concepts and tools can be applied. A company needs market segmentation, different target groups, a value view, an equity story, a corporate strategy, and branding. Deutsche Telekom and Deutsche Post have officially registered brands for their stock. Companies can implement the 'pull strategy', such as TV and radio advertising, or the 'push strategy' in that they go through institutional investors. There is the question of loyalty. Attracting investors and keeping hold of them is a really interesting and new challenge for marketing.

**I believe there are consulting companies that specialise in investor marketing. Is it profitable?**

I do not know of any such marketing firms. Advertising agencies are involved in financial communications, but I see stock marketing in a much more comprehensive marketing sense. In very recent presentations to top managers of several large European companies, we found that none of them had any idea what their investors really wanted, what their perceived values were, what their loyalty patterns could be, or even who the investors were. So there was none of the professional marketing knowledge you would normally find in product marketing.

Recently, we conducted a study for a British company on US investors. We asked them what their requirements were concerning company information. What we found is that they wanted detailed information about the company's strategy, not its balance sheet. But we also discovered that they wanted information on the key people in the companies management. The investors we interviewed were only familiar with the CEO and the Chief Financial Officer. That was it. So my firm is developing a new investor marketing strategy for the company: less financial information, less information on strategy at the corporate level, more information on strategy at the divisional level, and more up-front appearances from divisional managers. Jack Welch of General Electric always takes divisional presidents when he goes to presentations and introduces them to institutional investors and analysts.



**In your opinion, what kind of impact do marketing methods and models have on concrete management decisions? Are there differences among the various industrial areas or among different countries?**

The development I see taking place in marketing is similar to that in finance. Finance has become a more scientifically orientated management discipline over the last two decades. It applies models such as investment portfolio decision-making based on quantitative analysis. Decision support models are increasingly being applied to marketing: they are helping managers make decisions on product service configurations based on value, cost and prices. These systems and models, which try to predict market share consequences of certain actions, require a very sophisticated information base and comprehensive modelling.

In my view, three industries lead in the application of such decision support systems: pharmaceuticals, the automotive industry, and telecommunications (hardware and services). The application of these systems is one of the main avenues along which marketing will develop in the future. The people who design the models are usually external consultants rather than experts within the company.

In terms of countries, the US and Germany are the two most advanced in the application of decision support systems. The Japanese rely more on intuition and consensus. But they are becoming interested. Our Tokyo office gets more and more requests for such systems. The Japanese are curious and they have learned that their old strategies of undercutting prices don't work any longer.

**Can you give me an idea of the kind of decision support systems you currently apply or are considering applying in the future?**

Yes. For example, an automotive manufacturer may study the feasibility of replacing traditional air conditioning, which blows cold air into the car, with a roof-cooling system that lowers the ambient temperature. A value study is undertaken before any really expensive development takes place. My firm conducted

a study for a new magnetically levitated train between Hamburg and Berlin, which covers a distance of 300 kilometres. The purpose of the study was to find out how often the train must run in order for service to be optimal. We found that if the service frequency was reduced from every 10 minutes to every 20 minutes, the value-to-customer remained the same but costs were greatly reduced. Savings would amount to €1 billion. Simulations of costs, consumer behaviour, reactions towards differences in a product's design are the kind of information that is required.

**It seems that data and market research are crucial for these models and simulations. How can you ensure that the data are always reliable and valid?**

We have to use the best methods available. Of course, the more you look into the future, the more difficult the exercise becomes. Experts usually know their product well, but they often don't seem to know what the consumer needs and values. My company uses focus groups consisting of businesspeople or consumers, and we conduct detailed quantitative studies. We try to draw analogies. A good example is a study we did on the proposed magnetically-levitated train between Berlin and Hamburg. We drew an analogy to the TGV service between Paris and Dijon in France in order to establish how many daily commuters there would be between Berlin and Hamburg. Our model for Germany said travel time would be one hour. That was similar to the actual travel time between Paris and Dijon, which covers a comparable distance. While thousands of people commute each day between Paris and Dijon, a daily commute between Berlin and Hamburg is currently impossible. But the number could theoretically be thousands every day. You have to draw data from the sources that are available. Better marketing always starts with better information. And marketing is on the way to becoming a very high-intelligence game, like finance. We currently employ 35 Ph.D.s, ten of whom have a Ph.D. in physics. A high level of information and intelligence - that's the marketing of the future.

**Professor Simon, thank you very much for this discussion.**

*"A high level of information  
and intelligence — that's the  
marketing of the future"*

# COMMENTARIES

**PETER DOYLE**, *University of Warwick*

I have long been an admirer of Hermann Simon's work and it was a privilege to read his ideas in this wide-ranging interview. His views can be grouped into four headings: the marketing profession, marketing models, pricing strategy and the Internet.

## The Marketing Profession

His comment 'marketing is a simple concept, but difficult to implement' captures why so many firms still lack a market orientation. In my view the root of the problem is that marketing is still seen predominantly as a functional activity rather than an overarching business philosophy that should guide all managers in the firm. As the CEO of Hewlett-Packard once put it 'marketing is too important to leave to the marketing department.' Peter Drucker explained it even more clearly when he wrote,

Marketing is so basic that it cannot be considered a separate function within the business on a par with others such as manufacturing or personnel. Marketing requires separate work and a distinct group of activities. But it is first, a central dimension of the entire business. It is the whole business seen from the point of view of its final result, that is, from the customer's point of view. Concern and responsibility must therefore permeate all areas of the enterprise.<sup>1</sup>

This explains why the engineers, that Simon talks about, come up with gadgets that consumers do not want. These companies are functionally orientated -the engineers see their role as producing high quality products, marketing is viewed as the job of another department. Creating a marketing culture requires breaking down these functional silos. It is more about training engineering, production and technical staff to think about customers than investing in bigger marketing departments.

Marketing departments can never create the products and services that represent genuinely new and superior ways of meeting customer needs. This always requires the commitment of the technologists. Marketing department innovations are invariably marginal - line extensions, different packaging or new promotional techniques. Genuine consumer innovation has to be based upon a cross-functional contribution.

Dr. Simon also rightly criticises the passing fads, fashions and buzzwords that characterise marketing. But there is one change that has transformed marketing theory and practice in recent years. This is relationship-or loyalty-based marketing. Before the empirical studies of Reichheld and others, marketing tended to focus on winning new customers.<sup>2</sup> The research on relationship marketing demonstrated that focussing on increasing loyalty among existing customers usually has a dramatic effect in lowering costs, improving margins and enhancing the firm's growth potential. Customer relationship management has blossomed into a subject that dominates marketing strategy in many industries. Increasingly top companies see success as less about winning customers and rather about building relationships that allow them to keep them.

Simon makes a telling point about customer satisfaction. Marketing texts and even marketing professionals appear to believe that the goal of business is to maximise customer satisfaction. But as he says this is too costly. Seeking to maximise customer satisfaction leads to marketing encouraging the firm to offer too many services, too low prices and excessive spending on advertising. Marketers have to understand that the task is to maximise long-run shareholder value not satisfaction or market share.<sup>3</sup> The optimal level of customer satisfaction and sales is generally far less than the maximum. When marketing managers express objectives that are clearly sub-optimal in terms of long-run economic profit they lose credibility and influence in the boardroom.

Another interesting change is the apparent polarisation of marketing and production in more and more industries. Increasingly companies are having to choose whether they want to be manufacturers or to focus on marketing and brands. Companies like Nike, IBM, HP and Microsoft are now outsourcing production to low cost, specialist manufacturers like Flextronics, Solectron and SCI. These manufacturers produce the hardware for well-known branded goods companies. Both parties appear to benefit. Dedicated manufacturers benefit from minimising overheads, achieving high growth and very satisfactory profits. The branded goods companies can then focus on what they do best, especially design and marketing.

Firms are increasingly becoming networks - another

aspect of the new relationship marketing. While satisfying customers requires engineering, production, IT, selling and marketing, the question managers now ask is who should we partner to get these tasks undertaken? Today the three key issues managers have to resolve are: where are the growth opportunities for our business; who shall we partner to capture these opportunities, and how can we develop our brand?

## Marketing Models

Simon is ambiguous about the potential of sophisticated marketing models. I believe he is right in his scepticism about the vain search for correlations which characterises much of the academic research in marketing. Like him I look for presentations on marketing and economic theory that provide real insights into the issues facing managers. These are much more likely to come from consultants than the academic literature. Unfortunately the gap between academic theory and practice shows little sign of closing.

Paradoxically he is optimistic about scientifically-orientated decision support systems that predict the market shares arising from specific marketing strategies. He cites pharmaceuticals, the automotive industry and telecommunications as being particularly advanced in their use. I will bow to his superior judgement, but I do not come across examples of marketing strategies being developed from such models. Of course market research departments in these large companies do buy these models and play with them a few times. But I have never found senior managers with real profit responsibility trusting such models in their decisions.

The problem with these models is that they all rely on the correlations that Simon criticised earlier in the interview. Such correlations are highly unreliable because they are normally based on historical data, are not sufficiently comprehensive in the variables included, and because they cannot deal effectively with competitive dynamics.

Conjoint analysis has been perhaps the most widely reviewed model in marketing in recent years, and indeed Hermann Simon has been a particular advocate of it in his studies. Both managers and researchers have found the model an attractive method for understanding how consumers choose products and trade-off different features. But it has the problem of most marketing models in that it gives a static result. For example, conjoint analysis can come up with the optimal price or set of product features at a point in time. Unfortunately this can lead to dangerous short-term decision-making in that, for example, the price that maximises profits in the short-run is commonly above the long-run optimising price. These models do not handle the

dynamic relationships that are often the key to successful strategy.

## Pricing

Dr Simon's major contribution has been in pricing. His book *Power Pricing* is the outstanding modern text on the subject. As he remarks, managers often underestimate the importance of price in determining a firm's marketing performance. Typically a 5 per cent increase in price improves operating profit by over 50 per cent.<sup>4</sup> This is a much higher profit leverage than is gained from similar improvements in market share or costs. Even if the price elasticity is  $-1$  (typical for a major brand), a 5 per cent price increase would still lift profits by over 20 per cent.

In fact, one could argue that the purpose of marketing is to achieve higher prices. This is not as mischievous as it sounds. After all the most important way to higher prices is through developing innovations that offer greater value to customers. Simon's work illustrates a range of practical techniques for optimising prices. These range from methods of estimating customers' responsiveness to different prices, to price customisation, nonlinear pricing, price bundling and international pricing.

The two key concepts in pricing appear to me as segmentation and value pricing. Managers have a dangerous tendency to generalise about customers. For example, they will say 'customers are sensitive to the price of our product.' But Simon rightly emphasises the invariable importance of segmentation. In any market some customers are much more sensitive to price than others. The key to higher profits is to tailor different offers to different segments and to charge different prices.

He also emphasises the importance of pricing on the basis of value rather than cost. Value pricing recognises that consumers do not want products they want solutions. Excess global supply in so many markets today makes it very difficult to earn decent returns from selling products. The only solution is to understand the customer's business or lifestyle sufficiently that one can offer a service that increases his bottom line or quality of life. For example, computers have become commodities but companies will still pay very high prices for vendors that can provide IT solutions that will transform their supply chains to generate higher returns to their shareholders.

## The Internet

Like many people, the bust in Internet stocks has led Dr Simon to be increasingly sceptical about the online revolution. Looking back, we can see that many

of us - managers, academics, journalists and investors were caught up in a fervour and belief that the Internet changes everything. Many believed that the fundamental rules for judging investments and business strategies no longer applied. The result was that many new dot-coms were set up with inflated valuations, whereas in fact they were offering no real value to consumers and hence were non-viable business models.

Michael Porter has shown that generally the Internet is bad for average industry profitability because it strengthens the power of buyers.<sup>5</sup> While it can improve operational efficiency, it is difficult to translate this into competitive advantage because such gains are available to all competitors. Consumers rather than the firm then win such efficiency gains. Many of the new companies exacerbated this problem by disastrous strategies based upon competing on price.

As Simon observes, it is more appropriate to see the Internet as a complement rather than a substitute for existing ways of doing business. Customers value a combination of on-line services, personnel services and physical locations over stand-alone web distribution. Firms too want to use a combination of Inter-

net and traditional methods in operating their buying, production and sales processes.

This value of integrating traditional and Internet methods appears to be shifting the balance of advantage to established companies. It is easier for them to integrate Internet technology than for the new dot-coms to adopt and integrate traditional assets.

Dr Simon's work is particularly insightful because he combines extensive consulting experience in major companies with an outstanding academic record. His ideas demonstrate a unique combination of theory and practice.

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*" Michael Porter has shown that generally the Internet is bad for average industry profitability because it strengthens the power of buyers "*

## **JOHN WALSH, IMD, Lausanne**

One of the most-depressing aspects of the marketing academician's profession must be the dearth of practical applications of academic marketing work. Other disciplines generate a reasonable level of excitement from industry. Think of the numerous collaborative efforts between academics in engineering or medicine and their counterparts in industry. Even within the sphere of business disciplines, our academic colleagues in finance collaborate much more with Wall Street or The City than we do with marketing professionals. With this in mind, I particularly enjoyed reading Reinhard Hünerberg's interview with Hermann Simon, for Dr. Simon is one of the few people in the marketing discipline who has straddled both sides of this 'divide', and who has made great progress in bringing them closer together. He especially caught my attention with his comments on two of marketing's oldest concepts, segmentation and customer satisfaction, and two of its recent challenges, globalization and the Internet.

Dr. Simon talks of marketing being a simple concept, but one that's difficult to implement. I agree. In my experience managers have particular difficulty implementing the simple concept of segmentation. In segmenting a market, there is indeed the dilemma of choosing the dimensions along which to segment, and as Dr. Simon states, choosing criteria that are observable has huge advantages - salespeople can be more efficient, for example, as they can target different segments appropriately. But, does a company need to have the same segmentation scheme for all decisions? I would argue different segmentation schemes might be appropriate for different decisions. For example, product design decisions might categorize people by taste, an unobservable, whereas advertising decisions might focus on demographics, an observable. What drives peoples' preference for hot or iced tea might be unobservable. However, a tea manufacturer must make one or both to succeed. He may choose to sell these products, or many brands of them, differently to segments that differ along observable dimensions. By ignoring the bipolar breakdown of taste along unobservable dimensions, he runs the risk of producing lukewarm tea that will appeal to nobody.

Implementation has not been a problem with customer satisfaction programs. Many companies that come to IMD have introduced customer satisfaction programs and avidly track the trend of their scores. I was pleased to read Dr. Simon's perspective that customer satisfaction should not be a goal in and of itself - it should be linked to the economics of the business. All too often companies consider high customer satisfaction as the end point. It is simply a means to an end, to higher profit. Indeed, it is often difficult to interpret customer satisfaction scores in isolation. Has customer satisfaction increased because all the dissatisfied customers have left? Are the dissatis-

fied customers the unprofitable ones who use up all of our customer and technical service staffs time? And, would we be better off sending them to the competition to decrease their profits? Finally, how does customer satisfaction impact a customer's behavior? A few years ago I consulted with a telecom firm that was proud of the very high satisfaction scores its customers awarded it. However, those very same customers left in droves when solicited by a competitor's telemarketers offering substantially lower rates. Satisfaction does not guarantee loyalty.

Looking to the future, the unrelenting forces of globalization and the potential of the Internet are two factors that will dramatically influence marketing. Dr. Simon talks of the relative advantages of companies in different regions - better customer service from American firms and better engineering from German ones. Products spread geographically more easily, as it is primarily an issue of distribution. Service is more complicated, involving training of staff and often, greater investment. This is why it's easier to find a Coke than a Big Mac in the remotest parts of the world. And, why you can buy Kodak mm anywhere, but not always get it developed in one hour.

What does this mean for the coming decade? While we'll continue to see increased worldwide distribution of best-of-breed products, I believe service companies will catch up in the next ten years. We will see excellent service companies become more-dominant on a worldwide basis than they currently are, as they expand across countries and continents.

The Internet will help in this spread of elevated customer service as customers all over the world can receive the same experience. And therefore, it will dearly impact the role of the marketer. As Dr. Simon points out, the digitization of products will greatly impact their distribution from businesses to customers. This will greatly impact the value chain. In fact, many companies already face serious issues of channel conflict as they trade-off the possibility of electronic distribution with the resulting ire of their current distributors and retailers. On the business side, personally I would be less dismissive than Dr. Simon of the role of the Internet. I do not agree that industrial auctions are suitable only for commodities. In fact, most pure commodities already have long-established efficient, liquid exchanges where they can be bought and sold. Online auctions would only make these transactions more expensive. Instead, I see online auctions offering the most value where products are slightly more customized, where the costs associated with setting up a one-off event are more than offset by taking inefficiencies out of the transaction. FreeMarkets, a US-based online auction operator, conducts auctions valued at approximately US\$3 billion per quarter, mostly for products that require some up-front speci-

fication, like printed circuit boards and injection-molded plastics. FreeMarkets continues in the dot.com tradition of making losses and only time will tell whether it will eventually make a profit. However, auction volumes at these levels suggest strong demand for its services. Indeed, if FreeMarkets disappears, ironically it will probably be because its customers bring the services in-house rather than choose not to perform online auctions at all.

If we consider where academia has offered most to marketing professionals, it seems to be in the application of marketing research techniques to address marketing questions. Conjoint analysis is probably the poster child in this domain, used to consider pricing, product design, new product introduction etc. Simulated marketplaces based on conjoint analysis have helped many product managers with difficult decisions. Of course, the downside of conjoint and many other market

research techniques has been the time and cost associated with data collection, analysis and interpretation. The Internet will change this to a great degree.

Transaction data has been collected electronically in stores for some time now and market research firms like IRI and AC Nielsen have been working hard to make sense of it all. Clickstream data from the internet provides not only transaction data analogous to supermarket scanner data, but the sequence of screens that the purchaser saw prior to making his choice. The challenge to market researchers now is to provide industry with a battery of analytical tools that can make sense of this daily avalanche of data, and ideally provide automated reports that feed directly into the decision-making process. To get to this point, academics and practitioners need to work closely together. More people should follow Hermann Simon's example.

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*" Has customer satisfaction  
increased because all the  
dissatisfied customers have  
left? "*

**REINHARD HUNERBERG, *University of Kassel, Germany***

The interview with Hermann Simon contains his reflections on eight eclectic areas of marketing:

- Marketing concepts and marketing culture
- Approaches to marketing and marketing methods
- Hidden champions
- Market segmentation
- Customer orientation
- Pricing
- Internet marketing
- Mergers and acquisitions

The split between a technology-driven and customer-driven perspective is a big obstacle to adequately implementing a customer concept: it is essential for marketers to reconcile the two. But what does the customer really want? Neither supplier nor customer seem to know. Technology-driven product offerings with no obvious customer requirement can succeed - witness the Walkman and the Internet. Marketing culture should recognise this 'marketing from conviction' as long as it is executed systematically. A high value-low price decision may correspond to customer perception, but medium positions on the value-price scale are more likely to be sustained.

Hermann urges the acceptance of a variety of approaches to marketing and its methods, however sophisticated. This may reflect his academic background. But which is best involves complex evaluation of data gathering and processing. Care should be taken in using market research methods in concrete company situations.

As far as ethics in marketing are concerned, the situation is complicated by marketing using rather subtle techniques from observations of the behavioural sciences. For example, it may be unethical to exploit behavioural characteristics of consumers that they are not aware of - such as in conditional learning. Should consumer satisfaction be limited in some cases? Perhaps consumer policy organisations should be involved in making marketing ethics a reality. Permission marketing is relevant here; it concerns marketing efforts of companies, especially in communications, which are transparent and have consumer acceptance.

Hermann's conception of 'hidden champions' has become a cornerstone of marketing strategy: it demonstrates a means by which small- to medium-sized companies survive global competition. But is it being small that really counts? Hermann expands on this to say that *focus* is a more important factor - which can include large companies too. Würth is such a company with 246 subsidiaries in 77 countries and 36,000 employees. It also has competent internal management. The question which suggests itself is:

which is the more competitive company, large with

focus or small with focus? Can small hidden champions survive the long run? The market context is surely important here.

Market segmentation is important to hidden champions. The search for new segments to innovate in is important. Ansoff's matrix demonstrates this, requiring also a high degree of transparency. Benefit segmentation and conjoint measurement are fashionable and have produced impressive results, although there are theoretical and practical weaknesses, eg., it is difficult to visualise service components.

Customer- and competitor-orientation are one aspect of marketing. Another is the entrepreneurial approach. As far as the former is concerned, companies and their advisers must consider objectives derived from customer orientation, like customer satisfaction and loyalty, since they obviously have profit implications. But customer satisfaction is a perception and does not imply objective value. Even what appear to be 'hard facts', like product characteristics, have different meanings and importance for different customers. I would argue that customer satisfaction matters more to the design of marketing concepts than Hermann gives credit for. The standardisation of marketing concepts is only customer-relevant if customers have fairly similar needs, or there is little competition. Modular customisation has much to be said for it since it combines cost advantages and individual solutions.

As far as culture is concerned, we should be clear on our terms: is it company culture, regional culture, national culture, sub-global culture, or anything else? A general business culture, such as one which includes a standard knowledge of marketing, tends to dominate globally and be transferable.

Hermann's involvement in the analysis of pricing is long-standing. When he argues it is necessary to price adequately to stay profitable, few would disagree. But additional customer service, easy distribution and good information also affect purchasing decisions and are therefore important marketing tools. Price is less relevant to customers if they are similar, if there is little transparency or if there are particular non-price attractions. Even when customers expect free services, they still have value since the customers expect this value to be priced into the product. Although companies need to compare costs and benefits, there are customer services which are cost-free (like friendliness). When profit is considered, it can lead to price differentiation, such as conceived of as early as Pigou and Gossen. But price differentiation can be out-manoeuvred by the product and price surveys of consumer organisations, by customer co-operation, re-imports, the mis-use of

cards and permits, and so on. The introduction of the euro should improve price transparency for customers and expand their market horizons. However, smart pricing policy or 'power pricing' will still remain important.

As far as the Internet is concerned, there is, of course, much discussion and speculation, often contradictory in nature. On current results, business-to-business is in the lead: it often matches current practice. Business-to-consumer is lagging behind. But in both areas, the Internet primarily offers increased convenience. Customer attitudes, behaviour and communication are becoming less traditional. New businesses, which support the Internet, are coming into play, and retail formats and the structure of other industrial and service areas are changing. It all appears to put pressure on companies to join the game and compete in the new context.

As Hermann correctly points out, the basics of cost,

price and profit have not altered. The difference is that creative marketing concepts are required to bridge the digitised and physical worlds, and to solve new problems of payments, logistics and contracts. It is here that the fact that the customer doesn't really know what he wants, is important. Note innovative developments like m-business and potential killer applications. Although Internet services may encounter technical difficulties, their nature invites many interesting applications.

Finally, to mergers and acquisitions - always in the headlines - each case should be examined separately for such aspects as degree of integration, market power and standardisation. The crucial success factor is *fit* and how likely it is to achieve it. Investor Marketing, as Hermann describes it, is an attempt to use marketing principles in the selling and buying of companies. But should not they also be applied to all corporate stakeholders concerned?

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*" Can small hidden champions  
survive the long-run? "*



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Hermann Simon (born 10 February 1947) is a German author and businessperson. He is chairman of Simon-Kucher & Partners, a strategy and marketing consultancy. He is a strategy, marketing and pricing consultant. An ongoing online German-language survey voted him the second-most influential management thinker. Simon has authored numerous books and writes articles for international newspapers and business magazines. 1947 Born in Hasborn/Eifel, Germany. Hermann Simon (born 10 February 1947) is a German author and business leader. He is chairman of Simon-Kucher & Partners, Strategy & Marketing Consultants. Simon is an expert in strategy, marketing and pricing. An ongoing online survey (in German language countries) voted him the most influential management thinker after Peter Drucker.[1] Simon has authored numerous books and writes articles for international newspapers and business magazines. Hermann Simon is chief executive officer of Simon, Kucher & Partners, strategy and marketing consultants, in Cambridge, Massachusetts, and Bonn, Germany, and a visiting professor at London Business School. References.Â D.M. Hanssens, L.J. Parsons, and R.L. Schultz, *Market Response Models: Econometric and Time Series Analysis* (Amsterdam, The Netherlands: Kluwer Academic Publishers, 1990); T.A. Oliva, R.L. Oliver, and I. MacMillan, "A Catastrophe Model for Developing Service Strategies," *Journal of Marketing*, volume 56, July 1992, pp. 83â€"95