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December 29, 2009

■ eNewsletter January 2010

Dear Reader

Happy New Year 2010! May all your wishes come true.

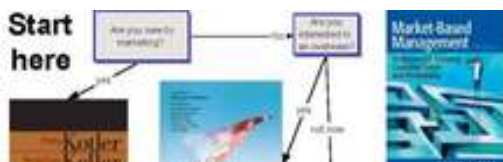
Since there is a slim chance that you have not given up all New Year resolutions yet, here are few ideas:

1. Go back to school; enroll in a marketing program to update your knowledge and grow your network. Being an educator, this is of course a highly biased recommendation. Nevertheless, lifelong learning is probably the best insurance policy in this tough job market.
2. Subscribe to the [Economist](#), the [Harvard Business Review](#), the [Financial Times](#) or the [The Wall Street Journal](#).
3. Read the stuff you just subscribed to and spend five minutes a day addressing the following question: What is the impact of what I just read for my business or my career? I promise, these five minutes are very well spent.
4. Read a book. (Do you remember linear reading? It is this thing where ink is printed on paper;-). Actually, you can also read e-books now (see the column on the right side).

In any case, I created a visual guide for selecting the very best marketing books. Just click [here to download the pdf](#) from my website.

5. Most importantly, stay creative, live well, laugh often, love much...

Kind regards
Stefan Michel

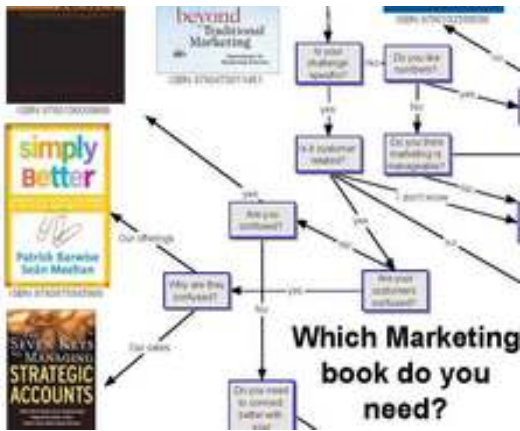


BOOKS

Free by Chris Anderson



Economists swear there is no such thing as a free lunch. Someone always pays. That may be true in the "atoms" world of physical things, but Chris Anderson explains why it does not apply in the "bits" world of the Internet, where "free" is the ruling paradigm. If, as Stewart Brand (founder of the Whole Earth Catalogue and the Whole Earth 'Lectronic Link) said, "Information wants to be free," now it is, at least in many instances, particularly online. While the idea of giving things away as a promotion or loss leader isn't new, Anderson's fresh insight is that giveaways are becoming a business



Measure Marketing: Results of a Global Survey by McKinsey

Marketing may be hard to measure, but many companies aren't even using the tools available to them. However, some companies with a clearer understanding of their spending are planning to increase it, even in the current economic environment. Many companies, the survey shows, don't use basic best practices such as clearly allocating or even defining marketing spending across the whole company or regularly reviewing the results. Further, companies typically allocate their marketing budgets based on historical allocation levels and product-level priorities, rather than campaign effectiveness or the goals of the company as a whole.



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Effect of Service Transition Strategies on Firm Value



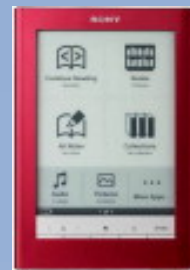
I was honored to chair the American Marketing Association's Committee selecting this year's best paper in Service Marketing. From a long list of 19 articles, we had five papers in the final round, of which the "Effect of Service Transition Strategies on Firm Value" by Eric (Er) Fang, Robert W. Palmatier, Jan-Benedict E.M. Steenkamp was selected as the winner.

Here is what they authors found out:
In the past few decades, many leading firms have added services to their existing product offerings in an

imperative that companies are going to have to accept and use. Actually, companies online and off can become immensely profitable when they give products or services away for free to bring customers in and to create the need for future ancillary product sales (in other words, take the printer and buy the ink). Anderson, author of The Long Tail and editor of Wired magazine, tells you how to make money by providing most of your offerings for free and charging for just a few of them. [getAbstract](#) recommends this perceptive, innovative, idiosyncratic book to all marketers.

[Click here to buy the book from Amazon.](#)

Sony Reader Touch



While I don't think that electronic readers will shake up the book and newspaper market as much as iTunes and iPod changed the music business, e-books are here to stay.

This month I am not recommending a book, but . While the reviews for Sony's Reader Touch are mixed, I love it. I can easily download hundreds of pdf files and books and

attempt to provide total customer solutions and thus improve their competitiveness and performance. The resultant service-based initiatives have been successful in many cases, but there also are noticeable failures. The authors investigate the effectiveness of service transition strategies for generating shareholder value by evaluating 477 publicly traded manufacturing firms during 1990-2005. Specifically, they capture a firm's progress in implementing a service-based strategy by using the portion of a firm's total sales revenue that results from the sale of services. The average service ratio in their sample increases steadily from 9% in 1990 to 42% in 2005.

The results support the notion that transitioning to services positively affects firm value, but there are two important caveats. First, the effects on firm value become pronounced only after the level of services sales reaches a critical mass, which averages approximately 20%-30% of total firm sales. Shifting to services typically requires managers to allocate their limited resources from existing product opportunities to new service initiatives, even though they have little prior experience evaluating or managing service-based projects. These new service initiatives also demand different and possibly conflicting organizational elements, which can undermine motivation and productivity. These negative mechanisms become less salient as managers and employees gain more experience or more service-minded replacements join the organization. In addition, as service sales increase to a meaningful level, organizational elements can be optimized for service offerings (e.g., separate business units), which reduces product-service conflicts. Thus, until the service ratio reaches a critical mass, its effects on firm value remain minimal or negative, but after that point, the synergistic benefits of offering products and services and the inherent benefits of services become more dominant, such that the service ratio provides an accelerating positive effect on firm value.

The second important caveat to the received wisdom regarding the value-enhancing qualities of service transition strategies is that the effects of service sales on firm value are highly contingent on the firm and industry. Transitioning to services is substantially more effective for firms that offer services related to their core product business. Sales of unrelated services have little impact on firm value over the full range of meaningful service ratios, which suggests that without some spillover from existing products, any benefits of the inherent characteristics of services cannot overcome the costs of launching and maintaining a new service business. Without these spillover or

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[IMD](#) is ranked number one worldwide in executive education (Financial Times, 2008). IMD's MBA is ranked second worldwide (The

synergistic benefits, product-centric firms likely find themselves hard pressed to compete against more focused, service-only firms.

Economist, 2009).

Generating firm value from service transition strategies also depends heavily on the characteristics of the firm's core product industry. Adding services to a core product offering is most effective for firms in slow-growth and turbulent industries, but in other conditions, service transition strategies may decrease firm value. Firms in high-growth industries can destroy firm value by shifting focus and the resources needed to cater to the persistent growth in the core product markets to services initiatives. In stable industries, adding services also has a negative effect on firm value because product suppliers have minimal insider's knowledge to arbitrage into spillover benefits, cannot offer substantial advantages by bundling products and services, and achieve little advantage from the reduced volatility of service compared with product sales.

Published in the [Journal of Marketing](#), Volume 72, Number 5, September 2008

■ **Advanced Strategic Management (ASM)**



IMD's program "Advance Strategic Management" is for executives taking on new and significant leadership responsibilities, who are looking to sharpen their analytical skills and strategic leadership effectiveness. These may be business-unit, region, division or country leaders.

Only a wide, interconnected view of your business and the world in which it operates can help you to become an effective, operational and visionary leader. By having a better view of the world, markets, industries, consumers and business as a sustainable institution, you will be able to further define a comprehensive strategy for the success of your organization, develop your ability as an influential leader and build a stronger, committed leadership team.

Faculty:

[Prof. Arturo Bris, Finance](#)

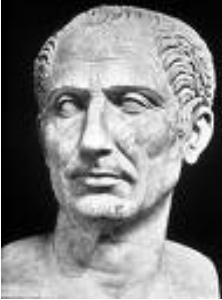
[Prof. Bala Chakravarthy, Strategy](#)

[Prof. Albrecht Enders, Strategy](#)

[Prof. Stefan Michel, Marketing](#)

Dates in 2010:
Mar 8 - Mar 26, 2010
Apr 19 - May 7, 2010
Oct 25 - Nov 12, 2010

■ **Latin for Managers, Lesson 6**



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