Regis McKenna

The tech marketing guru decries today's shallow marketers.

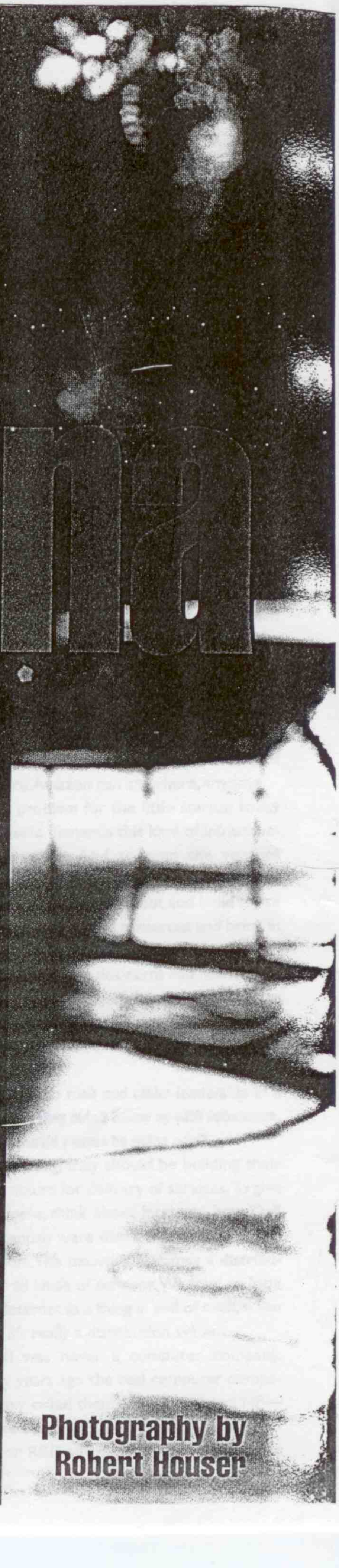
Q&A by Kathryn Dennis

To many people who have participated in or followed the technology arena, Regis McKenna is known as the father of technology marketing. Perhaps, such a statement goes too far. Undoubtedly technology companies were marketing their products long before he founded his marketing consulting firm in 1970. Still, few argue with the notion that McKenna pioneered many of the strategies that have since become technology marketing maxims.

Today many technology companies try to redefine their products/business by marketing solutions (and increasingly services) around their core technology. Well, back when Intel was a toddler of a company, McKenna helped the company beat out Motorola (which had the better microprocessor) for the deal with IBM to supply chips for the first PC. How? Instead of pitching chips, Intel presented a vision for the evolution of the microprocessor.

In that fateful meeting in late 1979, Intel showed IBM that they had a vision, assuaging concerns about upgradability and compatibility. McKenna had helped Intel redefine their product. Along with their chips, Intel would provide a development system and work toward goals for partnering, sales and targeted design wins.

McKenna calls such a plan "infrastructure development." During an interview in late August at The McKenna Group's new Mountain View digs, McKenna outlines the marketing plan he created for the launch of Apple Computer's Macintosh. At the bottom of a pyramid-like diagram, sits Apple. Then comes the foundation and the rest of a typical company's infrastructure—employees, third party developers, VARS and systems integrators, customers and beta sites, industry analysts, financial analysts and, finally, the media.



Photography by Robert Houser

"We applied that same marketing philosophy to all of our clients," says Regis McKenna, who has written four books on marketing and, in addition to remaining chairman of The McKenna Group and starting McKenna Ventures, is a venture partner with Kleiner Perkins Caufield & Byers. "We would tell them, unless you build your infrastructure first, you don't do this." You don't go to the analysts, and definitely not the media.

Of course, McKenna did go to the media with Apple, garnering coverage in *Time* when few mainstream media outlets covered technology. But first Apple worked on its infrastructure. The company, for example, signed up 130 software developers by the time it launched the Mac. And before the company went to the media, McKenna brought Apple to meet with influential analyst Ben Rosen, who ended up at Morgan Stanley (the firm that took Apple public). Positive remarks from Rosen, then, helped win over the press.

The idea was to build credibility first. Yet, as much of a no brainer as it sounds, few technology companies follow that route even today. Too many tech startups and dot-coms have been rushing to create instant brands, without building their infrastructure first.

That sad state of affairs, however, is just one aspect of what McKenna says is wrong with technology marketing today. Sure, you've likely read elsewhere McKenna's statements about the death of marketing and the industry's wasted spending on advertising. Way back in 1989, John Sculley wrote in his book *Odyssey* that McKenna didn't believe in advertising. McKenna says that's not true and that advertising does have its place. The following Q&A with *MC* executive editor Kathryn Dennis reveals some of the nuances of his vision for marketing in the industry.

Read on to see what he has to say about the shrinking role of marketing departments in tech companies and the inability of marketers to be the most significant player in building a company's brand and, yes, its all-important infrastructure or network.

To pick one layer of the infrastructure you talk about, do a lot of companies overlook the importance of developer relations?

Absolutely. In fact, what happened was Apple later decided to be their own developer. Developers increase the market for you. The Apple II was a marvelous machine, and Apple didn't market it. It had seven empty slots. Within two years on the market, there were more than 250 developers. And that's why Apple II was successful, and why it lasted like a Volkswagen forever. Not because Apple was a great marketing company, but because they designed a product that was market creating.

So the marketing that was done 20 years ago today had much more to do with the whole infrastructure. Today people consider marketing as only this top level. It's not; it's still today all of these levels. (*He points to the diagram mentioned in the intro of this Q&A*).

Right. I wanted to ask you about that problem. So many companies have forgotten what marketing is about, don't you think.

They're mainly marketing their attention in order to get money. But they're going back now and building infrastructure. Amazon.com has to go back now to compete with the clicks-and-mortar companies. They have databases and huge inventory management and control systems. And once they synchronize those systems with their stores, online and offline, they'll be able to offer the same kinds of service Amazon can anywhere, anytime.

The problem for the little startup today is the world demands this kind of infrastructure overnight. And so even the venture funds are becoming bigger and bigger. Why? Because they want to go out and build those kinds of networks and resources and bring in partners immediately.

It's like all those dot-coms had nothing but a PowerPoint company and money and an idea with no infrastructure and no technology to create this kind of a base.

They wanted to rush and claim leadership in a market, but they didn't follow up with substance. So what should people be doing now?

For one thing, they should be building their infrastructure for delivery of services. To give an example, think about Intel and how Dell and Compaq were distributors for Intel and Microsoft. The network becomes a distributor for all kinds of services. We tend to look at the Internet as a thing in and of itself, when in fact it's really a distribution system.

Dell was never a computer company. Twenty years ago the real computer companies, they called them—DEC, IBM and HP—because they spent 15 percent of their revenues on R&D and developed their own core technologies. But as the chips got cheaper, what we all were then able to do as marketers was to come up with creative ideas for establishing new ways of using technology to create services.

We've changed from marketing products and basic technologies to marketing services and applications. If you think about it, eBay is a service, AOL is a service, Amazon.com is a service. E*Trade is a service, and it's all been enabled by technology. Marketing has always been enabled by technology. You could not have a mass market without mass production. So mass production enabled mass marketing. Unfortunately, I think the state of marketing today is they don't recognize that principle. They are still hocking products. And service marketing is different.

We're still too caught up in the medium, and we're not really formulating good messages.
Exactly. Marshall McLuhan warned us about this, right? The medium is the message.

It's cliché but it still applies.
We think the media and the medium are the same thing, and they're not. Let me tell you, one of the greatest marketing campaigns that ever existed—and its not even a company, it's called ATM. It's everywhere, and I use it and I trust it. Who is it? Where are their resources? Who's the president? What's their value on the stock exchange? I don't know, but in fact I use it several times a week. I trust it because of its presence.

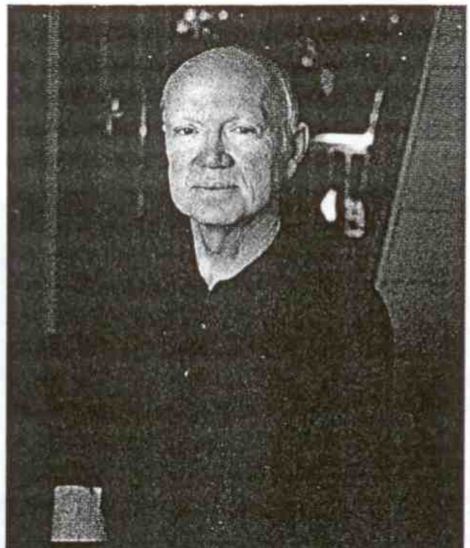
Distribution gives you presence.

Coke is another good example. One billion Cokes are bought every day around the world. Now take away the hundreds of thousands of distributors, bottlers and retailers, and there's no Coke. And, guess what, they sold the original franchise for $1. Coke is an open system. Entrepreneurs all over the world are basically resellers for Coke.

We haven't learned that what hasn't changed in 100 years is that marketing is dependent upon its network and its distribution. And we're still thinking that marketing is merely attention.

It's all awareness driven. And there's no relevance. Why has marketing gotten so bad?
I'm working on a book on this subject. There's no empirical evidence that proves that awareness changes behavior. But physical presence changes behavior. The TV set in the living room changes behavior, the ATM at a check-out counter changes behavior.

You talked a bit about the importance of being ever-present in your book *Real Time* back in 1997. And you've written a lot about relationships with customers. And today there's a lot of talk about how the Internet is finally providing a way to reach the marketing Holy Grail of conducting two-way conversations with customers. But it seems to me that it's still a lot more talk than reality. What do you see happening?



"Then Apple began to shrink into itself, develop its own software, rely totally on itself. The Mac became a closed system."

There is a lot more talk than reality, because the Internet—or the network is probably a better way to say it. We talk about the Internet. But if you have an interface directly with your customer, then there has to be a back-end support network between your suppliers and your people.

At first, people put web sites up because it was the thing to do. It was just like having an 800 number, and people didn't know what to say. There was an 800 number on the back of an M&Ms package and on a Hershey bar; today there's now a web site on all of those.

But what is it now, if people want to interact with that. Brands are built by the experiences customers have. An ad doesn't build brand; an ad simply leads people to want to try some part of a brand experience.

You were talking before about the Apple infrastructure plan. Today, with a web site or by putting an URL on another communications piece, marketers are still focusing too much on the top level. Only the media has changed.
Yeah. Actually, people are thinking about the result. For example, what won all the awards was the Apple "1984" commercial. But Apple went into a tailspin after that.

Yet many refer to that spot as the dawn of technology advertising.
Yeah, but it wasn't. In fact, we put Apple on television before that with Dick Cavet. Now, I'm not; the commercial was done by a friend of mine. In fact I sold my business to him, Jay Chiat. And I saw the ad before it was to be run, and I wasn't a big fan of it, because quite frankly the ad was aimed at corporate America. And Apple's problem has always been getting into corporate America. It was then, and it still is today. While the ad created more awareness about the culture of Apple, it had no value in terms of opening up the market.

Right. It just got attention with no substance.
Then, what happened was Apple began to shrink into itself, develop its own software, rely totally on itself. The Mac became a closed system. And what killed Apple over the next 10 years was the closing down of their system and their relationships. And all the ads in the world didn't help them.

Branding is a whole bunch of factors of which awareness is a piece. And awareness generally comes out of building a good infrastructure, a good business model and a solid financial model. And in fact in technology marketing, again, one of the maxims that goes back to the early 1980s: The best PR is your financial performance.

So that's always been true. Today it's more apparent because more people are watching and affecting a company's stock performance.
If you begin to lose money in the technology business, you lose customers. When IBM was on the decline, customers ran away form it. Today, customers and partners are seeking them out.

If Coke lost money, do you think people would stop buying Coke. Chrysler was almost in bankruptcy, and people were still buying their cars.

So what makes technology different?

The risk. Anytime we buy a technology product, a computer or software or a chip, there is this hope that the company is going to sustain the technology in order for us to continually move upward. There is the risk that this company will abandon me, and I won't have anywhere to turn. And it's happened in the past, I buy a product and the company is gone.

But aren't cars pretty complicated? Don't we need to be able get them fixed?

They're interchangeable. And there are huge service and support centers across the country. You can take an old car that's been out of date and still find people who will repair it and find parts for it.

In the 1920s, when people did their own repairs, yes, they wanted to be sure that Ford stayed stable. But back in those days, the average person was less aware of the financial aspects of any company, including Ford. Today, the media keeps us very much appraised of the financial comings and goings of companies. So when a company begins to lose financial credibility they generally lose their credibility with their customers.

So how do you maintain strong financials? You gotta show constant progress. You can start out losing money today, but you can't maintain that for long periods of time. I can remember Steve calling me up from Next and saying, "How long do I have here to show some progress after I introduce my product? And I said, "It's probably pushing it for six months."

Let's go back to the idea of branding and what's wrong with it now. You haven't said it this way. But the way I see it, the ads and messages from tech companies were about technology for technology's sake. Then, they got smarter about the applications idea and the solutions idea, and they started talking about benefits. And, then, they caught the branding wave, and the big media budgets came, and now it's like we're just seeing branding for branding's sake. What do you think?

There's a love affair, as it has been with the technology companies and Hollywood, there's a love affair with consumer marketing, where the brand is independent of the product. What we forget is that Tide, Marlboro were built in the '50s and '60s on television. And even in the consumer world in recent years, have we seen a brand grow to that kind of longevity? Even Tide is losing marketshare.

Yes a lot of consumer companies are in trouble. Even Coke. So what does the focus on consumer-style branding mean for tech outfits?

Without the tangible, fundamental presence in the marketplace on a continuing basis, you don't have a brand. And what happened with brand was that this love affair with consumer marketing rotted in. And people who really didn't understand the technology or the value of the technology led marketing. So technology itself, the network technology became divorced from branding.

> **"The person who is going to be more responsible for brand in the future is the CIO and less the marketing person."**

In fact, what is happening to marketing is it's losing functions. Increasingly, marketing is becoming software, CRM, customer resource management. Meanwhile, most companies today have a business development manager, and he doesn't report to marketing anymore, he reports to the CEO. Distribution today is logistics management...

And alliance responsibilities are breaking out of the marketing department as well.

Right, partnering. And pricing is turning into brokering products on the network. What's been happening is that marketing is marginalized to advertising and PR. I've been introduced to so many companies today where the vp of marketing is really a marcomm person. The vp of marketing 20 years ago was someone who really did understand the technology. They may not have understood advertising or PR, and they may not have understood Madison Avenue, but they understood their products and they knew their customers.

Today as technology moves into mass markets, marketing has moved away from this understanding of the technology to purely an understanding of branding—branding as naming and promotion only.

Let's say marketers do know better, even if we don't see enough evidence of it. What can they do to make sure they're key brand strategists?

In *Relationship Marketing*, I think it was seven years ago when it came out, I said marketers have to look at themselves more and more as systems integrators. They're responsible for integrating the product and service, the continuing development, the distribution, the customer, the partner—all of the aspects that are involved, not simply one narrow segment of the business.

Instead, marketing is becoming associated purely with promotion.

Is marketing becoming more associated with promotion and awareness because too many marketers have made it just that?

Yes. And a lot of people on the technical side say, well, I don't understand it, so they must. Somehow people in the technical world are in love with attention.

You know I went out and interviewed a lot of CEOs recently doing my book, and the most common complaint I heard about marketing people is that they don't understand the product. So what's happening is that they are hiding behind this veil of we understand brand and we understand communication. You don't; you're the technical people.

So will marketers ever have a part in developing strategy again? Or will they be doomed to a support function?

Take an example. If I'm a Starbucks and I'm setting up thousands of stores across the country, and I want to make sure my product is consistent across all those stores, is that going to be the responsibility of the marketing guy or the responsibility of whoever controls the network, the logistics manager.

Consistency of delivery and presence *is* brand. And so the people who are going to become more responsible for brand in the future is going to be the CIO and less the marketing person. Because marketing people today don't have the technical capability at all.

So the role of marketers is shrinking? Where do they fit in, are they designing the top level of the network, the interface?

They can create networks that integrate the customer. But increasingly marketing doesn't have enough breadth and control or power within an organization to marshal the technical and network resources to engage a customer 24/7. They just don't have it. What they do have is big media budgets.

But do the technologists understand the customer as well as the marketers?

Why would they understand the customer better than anyone else. I wrote an article for the *Harvard Business Review* called "Marketing is everything." Marketing should be like quality control; it should not be a specific function in the company, it should be everybody's job. In a company, the CEO is the chief quality guy because he drives the program and sets the standards.

So the CEO is going to be the chief marketer?

He is today. Who runs corporate strategy today? Who's the key strategist at Cisco [Systems] today? [Cisco CEO] John Chambers. Who sets the strategy at Microsoft? [Steve] Ballmer and [Bill] Gates. Who at Federal Express? Fred Smith. It used to be that we didn't even know. Look at IBM.

The CEO is the chief strategist. And sometimes the CEO becomes part of a company's brand.

Yeah, but why? Because he changes the strategy. Did Lou Gerstner have a brand or image before he did that at IBM. No, it was the overall success that then gave him his position. It's a chicken and egg issue for me.

Let's talk about a CEO who came in with certain expectations, like Carly Fiorina at HP.

Her position in the industry will either be enhanced or decreased based on the performance the company.

It still comes down to the basics.

It's nothing magic. You can go out and create it. [Jill Barad, the ex-CEO] of Mattel got huge amounts of attention. And the company went into a tailspin. She had a brand, but she was not able to set a strategy that could turn the company into a profitable organization. So the need for a leader who sets the strategy for the company is certainly important. Does that person have to be widely known? No, they have to be widely experienced. And, then, if the company is successful, they become known.

What about being a visionary? Does vision equate strategy?

Yes, but, again, vision is hard to define. We tend to apply vision to people in hindsight. We call Bill Gates a visionary. And Bill Gates said no computer will ever need more than 64K of memory at one point.

Your vision is only as good as your performance. So it's kind of a maxim.

Do you think all good performers receive the attention they deserve (*chuckle*)? I know I'm asking about attention.

No, because the media is still caught up in personality. They don't do a lot of their homework on good fundamental understanding.

"We apply vision in hindsight. We call Bill Gates a visionary. And Gates once said no computer will ever need more than 64K of memory."

Let me give you an example. BEA Systems, it's a hugely successful company. They own 70 percent or something close to that of the Java server marketplace. Now the financial market recognizes it, but you don't read a lot about them in the media.

Is that a problem for BEA?

No. They're growing. And customers know what they can do. Everybody uses them. They're the web platform of choice. They're much like an operating system or an Oracle database in that other people are building applications on top of them. And so you see their stock has continued to do well through this whole downturn.

So having your customers support you, continuing to innovate, building your infrastructure—those are the fundamentals that don't go away. The market will cycle, beyond your ability to control it. Customers will change; competitors will change. But your ability to build a culture of constant innovation and an infrastructure of distribution can stay forever.

Let's take a step back. When did marketing become strategic in the tech industry? I'm told the industry was slow to catch on...

I don't think that's true. Again, that's outside people coming in, and we didn't do national ad campaigns. How do you think the tech industry grew and got to where it is today? It's a trillion-dollar industry. And it's a shame, I don't know how we got this far without consumer marketing.

And so the notion that technology people are somehow poor marketers is just bullshit. It's just not true. We're pretty good at it actually. We don't think we are, but we're pretty good at it.

What does the industry do badly?

Quite frankly, we're not very good at service. It takes a huge investment in technology and infrastructure to improve the quality of service. And it takes a while to see results.

I've been around a few companies that have made the investment, but they get pressured with the quarterly earnings. And the fastest way to improve earnings is to sell more packages, rather than investing in service.

Generally, not just in tech, do you think there's too much short sightedness—what's the stock value, what's the earnings you're providing this quarter. Is that harmful to business?

I think it sharpens business. Businesses have to perform. I've used this analogy before; when you run a marathon, you strengthen yourself by running sprints. So the focus of quarter-to-quarter means you have to operate in certain constraints. By learning to do that, it gives you muscle to go for the long haul.

Do you think we'll see more muscular, smarter marketing now that people are more focused on performance.

Definitely. All business is constantly working what's the formula. And the formula for any business model is always in progress. Your constantly adjusting it and tweaking it. And that requires a lot of experimentation.

And in the so-called networked economy, that experimentation is more feasible.

I just think it is a time to take a deep breath and take a fresh look at things. The Internet is really radically new. It is not like any of the other media we have seen. For the first time, we have an interactive medium. And there's nothing to keep me captive to a 30-second commercial with the infinite amounts of information available to me. So the model has to really radically change. MC