# Marketing in the Twenty-First Century

*We will address the following questions:*

- What are the tasks of marketing?
- What are the major concepts and tools of marketing?
- What orientations do companies exhibit in the marketplace?
- How are companies and marketers responding to the new challenges?

Change is occurring at an accelerating rate; today is not like yesterday, and tomorrow will be different from today. Continuing today's strategy is risky; so is turning to a new strategy. Therefore, tomorrow's successful companies will have to heed three certainties:

- ➤ Global forces will continue to affect everyone's business and personal life.
- ➤ Technology will continue to advance and amaze us.
- ➤ There will be a continuing push toward deregulation of the economic sector.

These three developments—globalization, technological advances, and deregulation—spell endless opportunities. But what is marketing and what does it have to do with these issues?

Marketing deals with identifying and meeting human and social needs. One of the shortest definitions of marketing is "meeting needs profitably." Whether the marketer is Procter & Gamble, which notices that people feel overweight and want tasty but less fatty food and invents Olestra; or CarMax, which notes that people want more certainty when they buy a used automobile and invents a new system for selling used cars; or IKEA, which notices that people want good furniture at a substantially lower price and creates knock-down furniture—all illustrate a drive to turn a private or social need into a profitable business opportunity through marketing.

## MARKETING TASKS

A recent book, *Radical Marketing,* praises companies such as Harley-Davidson for succeeding by breaking all of the rules of marketing.[1] Instead of commissioning expensive marketing research, spending huge sums on advertising, and operating large marketing departments, these companies stretch their limited resources, live close to their customers, and create more satisfying solutions to customers' needs. They form buyers clubs, use creative public relations, and focus on delivering quality products to win long-term customer loyalty. It seems that not all marketing must follow the P&G model.

In fact, we can distinguish three stages through which marketing practice might pass:

1. *Entrepreneurial marketing:* Most companies are started by individuals who visualize an opportunity and knock on every door to gain attention. Jim Koch, founder of Boston Beer Company, whose Samuel Adams beer has become a top-selling "craft" beer, started out in 1984 carrying bottles of Samuel Adams from bar to bar to persuade bartenders to carry it. For 10 years, he sold his beer through direct selling and grassroots public relations. Today his business pulls in nearly $200 million, making it the leader in the U.S. craft beer market.[2]
2. *Formulated marketing:* As small companies achieve success, they inevitably move toward more formulated marketing. Boston Beer recently began a $15 million television advertising campaign. The company now employs more that 175 salespeople and has a marketing department that carries on market research, adopting some of the tools used in professionally run marketing companies.
3. *Intrepreneurial marketing:* Many large companies get stuck in formulated marketing, poring over the latest ratings, scanning research reports, trying to fine-tune dealer relations and advertising messages. These companies lack the creativity and passion of the guerrilla marketers in the entrepreneurial stage.[3] Their brand and product managers need to start living with their customers and visualizing new ways to add value to their customers' lives.

The bottom line is that effective marketing can take many forms. Although it is easier to learn the formulated side (which will occupy most of our attention in this book), we will also see how creativity and passion can be used by today's and tomorrow's marketing managers.

## The Scope of Marketing

Marketing people are involved in marketing 10 types of entities: goods, services, experiences, events, persons, places, properties, organizations, information, and ideas.

*Goods*. Physical goods constitute the bulk of most countries' production and marketing effort. The United States produces and markets billions of physical goods, from eggs to steel to hair dryers. In developing nations, goods—particularly food, commodities, clothing, and housing—are the mainstay of the economy.

*Services*. As economies advance, a growing proportion of their activities are focused on the production of services. The U.S. economy today consists of a 70–30 services-to-goods mix. Services include airlines, hotels, and maintenance and repair people, as well as professionals such as accountants, lawyers, engineers, and doctors. Many market offerings consist of a variable mix of goods and services.

*Experiences*. By orchestrating several services and goods, one can create, stage, and market experiences. Walt Disney World's Magic Kingdom is an experience; so is the Hard Rock Cafe.

*Events.* Marketers promote time-based events, such as the Olympics, trade shows, sports events, and artistic performances.

*Persons.* Celebrity marketing has become a major business. Artists, musicians, CEOs, physicians, high-profile lawyers and financiers, and other professionals draw help from celebrity marketers.[4]

*Places.* Cities, states, regions, and nations compete to attract tourists, factories, company headquarters, and new residents.[5] Place marketers include economic development specialists, real estate agents, commercial banks, local business associations, and advertising and public relations agencies.

*Properties.* Properties are intangible rights of ownership of either real property (real estate) or financial property (stocks and bonds). Properties are bought and sold, and this occasions a marketing effort by real estate agents (for real estate) and investment companies and banks (for securities).

*Organizations.* Organizations actively work to build a strong, favorable image in the mind of their publics. Philips, the Dutch electronics company, advertises with the tag line, "Let's Make Things Better." The Body Shop and Ben & Jerry's also gain attention by promoting social causes. Universities, museums, and performing arts organizations boost their public images to compete more successfully for audiences and funds.

*Information.* The production, packaging, and distribution of information is one of society's major industries.[6] Among the marketers of information are schools and universities; publishers of encyclopedias, nonfiction books, and specialized magazines; makers of CDs; and Internet Web sites.

*Ideas.* Every market offering has a basic idea at its core. In essence, products and services are platforms for delivering some idea or benefit to satisfy a core need.

## A Broadened View of Marketing Tasks

Marketers are skilled in stimulating demand for their products. However, this is too limited a view of the tasks that marketers perform. Just as production and logistics professionals are responsible for supply management, marketers are responsible for demand management. They may have to manage negative demand (avoidance of a product), no demand (lack of awareness or interest in a product), latent demand (a strong need that cannot be satisfied by existing products), declining demand (lower demand), irregular demand (demand varying by season, day, or hour), full demand (a satisfying level of demand), overfull demand (more demand than can be handled), or unwholesome demand (demand for unhealthy or dangerous products). To meet the organization's objectives, marketing managers seek to influence the level, timing, and composition of these various demand states.

## The Decisions That Marketers Make

Marketing managers face a host of decisions in handling marketing tasks. These range from major decisions such as what product features to design into a new product, how many salespeople to hire, or how much to spend on advertising, to minor decisions such as the wording or color for new packaging.

Among the questions that marketers ask (and will be addressed in this text) are: How can we spot and choose the right market segment(s)? How can we differentiate our offering? How should we respond to customers who press for a lower price? How can we compete against lower-cost, lower-price rivals? How far can we go in customizing our offering for each customer? How can we grow our business? How can we build stronger brands? How can we reduce the cost of customer acquisition and keep customers loyal? How can we tell which customers are more important? How can we measure the payback from marketing communications? How can we improve sales-force productivity? How can we manage channel conflict? How can we get other departments to be more customer-oriented?

## Marketing Concepts and Tools

Marketing boasts a rich array of concepts and tools to help marketers address the decisions they must make. We will start by defining marketing and then describing its major concepts and tools.

## Defining Marketing

We can distinguish between a social and a managerial definition for marketing. According to a social definition, **marketing** is a societal process by which individuals and groups obtain what they need and want through creating, offering, and exchanging products and services of value freely with others.

As a managerial definition, marketing has often been described as "the art of selling products." But Peter Drucker, a leading management theorist, says that "the aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy."[7]

The American Marketing Association offers this managerial definition: **Marketing (management)** is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals.[8]

Coping with exchange processes—part of this definition—calls for a considerable amount of work and skill. We see marketing management as the art and science of applying core marketing concepts to choose target markets and get, keep, and grow customers through creating, delivering, and communicating superior customer value.

## Core Marketing Concepts

Marketing can be further understood by defining the core concepts applied by marketing managers.

### Target Markets and Segmentation

A marketer can rarely satisfy everyone in a market. Not everyone likes the same soft drink, automobile, college, and movie. Therefore, marketers start with *market segmentation*. They identify and profile distinct groups of buyers who might prefer or require varying products and marketing mixes. Market segments can be identified by examining demographic, psychographic, and behavioral differences among buyers. The firm then decides which segments present the greatest opportunity—those whose needs the firm can meet in a superior fashion.

For each chosen target market, the firm develops a *market offering*. The offering is *positioned* in the minds of the target buyers as delivering some central benefit(s). For example, Volvo develops its cars for the target market of buyers for whom automobile safety is a major concern. Volvo, therefore, positions its car as the safest a customer can buy.

Traditionally, a "market" was a physical place where buyers and sellers gathered to exchange goods. Now marketers view the sellers as the *industry* and the buyers as the *market* (see Figure 1-1). The sellers send goods and services and communications (ads, direct mail, e-mail messages) to the market; in return they receive money and information (attitudes, sales data). The inner loop in the diagram in Figure 1-1 shows

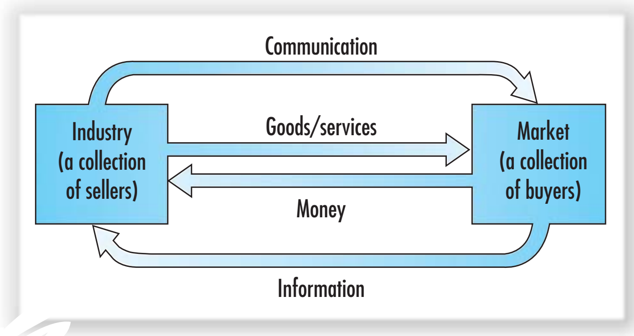


**Figure 1-1** A Simple Marketing System

an exchange of money for goods and services; the outer loop shows an exchange of information.

A *global industry* is one in which the strategic positions of competitors in major geographic or national markets are fundamentally affected by their overall global positions. Global firms—both large and small—plan, operate, and coordinate their activities and exchanges on a worldwide basis.

Today we can distinguish between a *marketplace* and a *marketspace*. The marketplace is physical, as when one goes shopping in a store; marketspace is digital, as when one goes shopping on the Internet. E-commerce—business transactions conducted on-line—has many advantages for both consumers and businesses, including convenience, savings, selection, personalization, and information. For example, on-line shopping is so convenient that 30 percent of the orders generated by the Web site of REI, a recreational equipment retailer, is logged from 10 P.M. to 7 A.M., sparing REI the expense of keeping its stores open late or hiring customer service representatives. However, the e-commerce marketspace is also bringing pressure from consumers for lower prices and is threatening intermediaries such as travel agents, stockbrokers, insurance agents, and traditional retailers. To succeed in the on-line marketspace, marketers will need to reorganize and redefine themselves.

The *metamarket*, a concept proposed by Mohan Sawhney, describes a cluster of complementary products and services that are closely related in the minds of consumers but are spread across a diverse set of industries. The automobile metamarket consists of automobile manufacturers, new and used car dealers, financing companies, insurance companies, mechanics, spare parts dealers, service shops, auto magazines, classified auto ads in newspapers, and auto sites on the Internet. Car buyers can get involved in many parts of this metamarket. This has created an opportunity for *metamediaries* to assist buyers to move seamlessly through these groups. One example is Edmund's (www.edmunds.com), a Web site where buyers can find prices for different cars and click to other sites to search for dealers, financing, and accessories. Metamediaries can serve various metamarkets, such as the home ownership market, the parenting and baby care market, and the wedding market.[9]

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## Marketers and Prospects

Another core concept is the distinction between marketers and prospects. A marketer is someone who is seeking a response (attention, a purchase, a vote, a donation) from another party, called the *prospect*. If two parties are seeking to sell something to each other, both are marketers.

## Needs, Wants, and Demands

The successful marketer will try to understand the target market's needs, wants, and demands. *Needs* describe basic human requirements such as food, air, water, clothing, and shelter. People also have strong needs for recreation, education, and entertainment. These needs become wants when they are directed to specific objects that might satisfy the need. An American *needs* food but *wants* a hamburger, French fries, and a soft drink. A person in Mauritius *needs* food but *wants* a mango, rice, lentils, and beans. Clearly, wants are shaped by one's society.

*Demands* are wants for specific products backed by an ability to pay. Many people want a Mercedes; only a few are able and willing to buy one. Companies must measure not only how many people want their product, but also how many would actually be willing and able to buy it.

However, marketers do not create needs: Needs preexist marketers. Marketers, along with other societal influences, influence wants. Marketers might promote the idea that a Mercedes would satisfy a person's need for social status. They do not, however, create the need for social status.

## Product or Offering

People satisfy their needs and wants with products. A *product* is any offering that can satisfy a need or want, such as one of the 10 basic offerings of goods, services, experiences, events, persons, places, properties, organizations, information, and ideas.

A *brand* is an offering from a known source. A brand name such as McDonald's carries many associations in the minds of people: hamburgers, fun, children, fast food, golden arches. These associations make up the brand image. All companies strive to build a strong, favorable brand image.

## Value and Satisfaction

In terms of marketing, the product or offering will be successful if it delivers value and satisfaction to the target buyer. The buyer chooses between different offerings on the basis of which is perceived to deliver the most value. We define *value* as a ratio between what the customer *gets* and what he *gives*. The customer gets *benefits* and assumes *costs*, as shown in this equation:

$$\text{Value} = \frac{\text{Benefits}}{\text{Costs}} = \frac{\text{Functional benefits + emotional benefits}}{\text{Monetary costs + time costs + energy costs + psychic costs}}$$

Based on this equation, the marketer can increase the value of the customer offering by (1) raising benefits, (2) reducing costs, (3) raising benefits and reducing costs, (4) raising benefits by more than the raise in costs, or (5) lowering benefits by less than the reduction in costs. A customer choosing between two value offerings, $V_1$ and $V_2$, will examine the ratio $V_1/V_2$. She will favor $V_1$ if the ratio is larger than one; she will favor $V_2$ if the ratio is smaller than one; and she will be indifferent if the ratio equals one.

## Exchange and Transactions

*Exchange*, the core of marketing, involves obtaining a desired product from someone by offering something in return. For exchange potential to exist, five conditions must be satisfied:

1. There are at least two parties.
2. Each party has something that might be of value to the other party.
3. Each party is capable of communication and delivery.

4. Each party is free to accept or reject the exchange offer.
5. Each party believes it is appropriate or desirable to deal with the other party.

Whether exchange actually takes place depends upon whether the two parties can agree on terms that will leave them both better off (or at least not worse off) than before. Exchange is a value-creating process because it normally leaves both parties better off.

Note that exchange is a process rather than an event. Two parties are engaged in exchange if they are negotiating—trying to arrive at mutually agreeable terms. When an agreement is reached, we say that a transaction takes place. A *transaction* involves at least two things of value, agreed-upon conditions, a time of agreement, and a place of agreement. Usually a legal system exists to support and enforce compliance among transactors. However, transactions do not require money as one of the traded values. A barter transaction, for example, involves trading goods or services for other goods or services.

Note also that a transaction differs from a transfer. In a *transfer, A* gives a gift, a subsidy, or a charitable contribution to *B* but receives nothing tangible in return. Transfer behavior can also be understood through the concept of exchange. Typically, the transferer expects something in exchange for his or her gift—for example, gratitude or seeing changed behavior in the recipient. Professional fund-raisers provide benefits to donors, such as thank-you notes. Contemporary marketers have broadened the concept of marketing to include the study of transfer behavior as well as transaction behavior.

Marketing consists of actions undertaken to elicit desired responses from a target audience. To effect successful exchanges, marketers analyze what each party expects from the transaction. Suppose Caterpillar, the world's largest manufacturer of earth-moving equipment, researches the benefits that a typical construction company wants when it buys such equipment. The items shown on the prospect's want list in Figure 1-2 are not equally important and may vary from buyer to buyer. One of Caterpillar's marketing tasks is to discover the relative importance of these different wants to the buyer.

As the marketer, Caterpillar also has a want list. If there is a sufficient match or overlap in the want lists, a basis for a transaction exists. Caterpillar's task is to formulate an offer that motivates the construction company to buy Caterpillar equipment. The construction company might, in turn, make a counteroffer. This process of negotiation leads to mutually acceptable terms or a decision not to transact.

### Relationships and Networks

Transaction marketing is part of a larger idea called relationship marketing. *Relationship marketing* aims to build long-term mutually satisfying relations with key parties—customers, suppliers, distributors—in order to earn and retain their long-term preference and business.[10] Effective marketers accomplish this by promising and delivering high-quality products and services at fair prices to the other parties over time. Relationship marketing builds strong economic, technical, and social ties among the parties. It cuts down on transaction costs and time. In the most successful cases, transactions move from being negotiated each time to being a matter of routine.

The ultimate outcome of relationship marketing is the building of a unique company asset called a marketing network. A *marketing network* consists of the company and its supporting *stakeholders* (customers, employees, suppliers, distributors, university scientists, and others) with whom it has built mutually profitable business relationships. Increasingly, competition is not between companies but rather between marketing networks, with the profits going to the company that has the better network.[11]

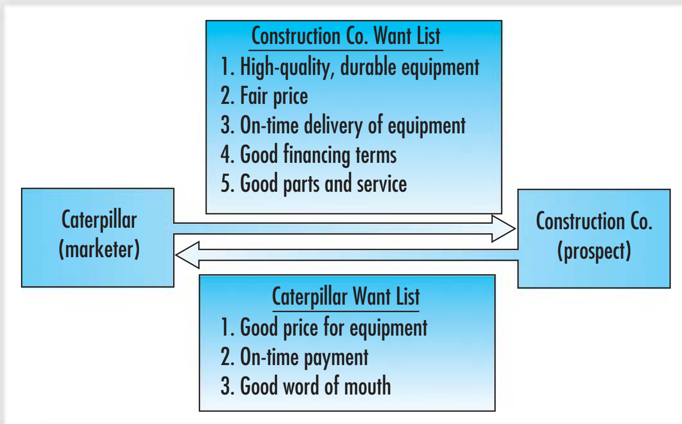


**Figure 1-2** Two-Party Exchange Map Showing Want Lists of Both Parties

### Marketing Channels

To reach a target market, the marketer uses three kinds of marketing channels. *Communication channels* deliver messages to and receive messages from target buyers. They include newspapers, magazines, radio, television, mail, telephone, billboards, posters, fliers, CDs, audiotapes, and the Internet. Beyond these, communications are conveyed by facial expressions and clothing, the look of retail stores, and many other media. Marketers are increasingly adding *dialogue channels* (e-mail and toll-free numbers) to counterbalance the more normal *monologue channels* (such as ads).

The marketer uses *distribution channels* to display or deliver the physical product or service(s) to the buyer or user. There are physical distribution channels and service distribution channels, which include warehouses, transportation vehicles, and various *trade channels* such as distributors, wholesalers, and retailers. The marketer also uses *selling channels* to effect transactions with potential buyers. Selling channels include not only the distributors and retailers but also the banks and insurance companies that facilitate transactions. Marketers clearly face a design problem in choosing the best mix of communication, distribution, and selling channels for their offerings.

### Supply Chain

Whereas marketing channels connect the marketer to the target buyers, the *supply chain* describes a longer channel stretching from raw materials to components to final products that are carried to final buyers. For example, the supply chain for women's purses starts with hides, tanning operations, cutting operations, manufacturing, and the marketing channels that bring products to customers. This supply chain represents a *value delivery system*. Each company captures only a certain percentage of the total value generated by the supply chain. When a company acquires competitors or moves upstream or downstream, its aim is to capture a higher percentage of supply chain value.

### Competition

Competition, a critical factor in marketing management, includes all of the actual and potential rival offerings and substitutes that a buyer might consider. Suppose an automobile company is planning to buy steel for its cars. The car manufacturer can buy from U.S. Steel or other U.S. or foreign integrated steel mills; can go to a minimill such as Nucor to buy steel at a cost savings; can buy aluminum for certain parts of the car to lighten the car's weight; or can buy some engineered plastics parts instead of steel.

Clearly U.S. Steel would be thinking too narrowly of competition if it thought only of other integrated steel companies. In fact, U.S. Steel is more likely to be hurt in the long run by substitute products than by its immediate steel company rivals. U.S. Steel also must consider whether to make substitute materials or stick only to those applications in which steel offers superior performance.

We can broaden the picture by distinguishing four levels of competition, based on degree of product substitutability:

1. *Brand competition:* A company sees its competitors as other companies that offer similar products and services to the same customers at similar prices. Volkswagen might see its major competitors as Toyota, Honda, and other manufacturers of medium-price automobiles, rather than Mercedes or Hyundai.
2. *Industry competition:* A company sees its competitors as all companies that make the same product or class of products. Thus, Volkswagen would be competing against all other car manufacturers.
3. *Form competition:* A company sees its competitors as all companies that manufacture products that supply the same service. Volkswagen would see itself competing against manufacturers of all vehicles, such as motorcycles, bicycles, and trucks.
4. *Generic competition:* A company sees its competitors as all companies that compete for the same consumer dollars. Volkswagen would see itself competing with companies that sell major consumer durables, foreign vacations, and new homes.

## Marketing Environment

Competition represents only one force in the environment in which all marketers operate. The overall marketing environment consists of the task environment and the broad environment.

The *task environment* includes the immediate actors involved in producing, distributing, and promoting the offering, including the company, suppliers, distributors, dealers, and the target customers. Material suppliers and service suppliers such as marketing research agencies, advertising agencies, Web site designers, banking and insurance companies, and transportation and telecommunications companies are included in the supplier group. Agents, brokers, manufacturer representatives, and others who facilitate finding and selling to customers are included with distributors and dealers.

The *broad environment* consists of six components: *demographic environment, economic environment, natural environment, technological environment, political-legal environment,* and *social-cultural environment.* These environments contain forces that can have a major impact on the actors in the task environment, which is why smart marketers track environmental trends and changes closely.

## Marketing Mix

Marketers use numerous tools to elicit the desired responses from their target markets. These tools constitute a marketing mix:[12] **Marketing mix** is the set of marketing tools that the firm uses to pursue its marketing objectives in the target market. As shown in Figure 1-3, McCarthy classified these tools into four broad groups that he called the four Ps of marketing: product, price, place, and promotion.[13]

Marketing-mix decisions must be made to influence the trade channels as well as the final consumers. Typically, the firm can change its price, sales-force size, and advertising expenditures in the short run. However, it can develop new products and modify its distribution channels only in the long run. Thus, the firm typically makes fewer


**Figure 1-3** The Four P Components of the Marketing Mix

period-to-period marketing-mix changes in the short run than the number of marketing-mix decision variables might suggest.

Robert Lauterborn suggested that the sellers' four Ps correspond to the customers' four Cs.[14]

| **Four Ps** | **Four Cs** |
|---|---|
| Product | Customer solution |
| Price | Customer cost |
| Place | Convenience |
| Promotion | Communication |

Winning companies are those that meet customer needs economically and conveniently and with effective communication.

## COMPANY ORIENTATIONS TOWARD THE MARKETPLACE

Marketing management is the conscious effort to achieve desired exchange outcomes with target markets. But what philosophy should guide a company's marketing efforts? What relative weights should be given to the often conflicting interests of the organization, customers, and society?

For example, one of Dexter Corporation's most popular products was a profitable grade of paper used in tea bags. Unfortunately, the materials in this paper accounted for 98 percent of Dexter's hazardous wastes. So while Dexter's product was popular with customers, it was also detrimental to the environment. Dexter assigned an employee task force to tackle this problem. The task force succeeded, and the company increased its market share while virtually eliminating hazardous waste.[15]

Clearly, marketing activities should be carried out under a well-thought-out philosophy of efficient, effective, and socially responsible marketing. In fact, there are five competing concepts under which organizations conduct marketing activities: production concept, product concept, selling concept, marketing concept, and societal marketing concept.

### The Production Concept

The **production concept,** one of the oldest in business, holds that consumers prefer products that are widely available and inexpensive. Managers of production-oriented businesses concentrate on achieving high production efficiency, low costs, and mass distribution. This orientation makes sense in developing countries, where consumers are more interested in obtaining the product than in its features. It is also used when a company wants to expand the market. Texas Instruments is a leading exponent of this concept. It concentrates on building production volume and upgrading technology in order to bring costs down, leading to lower prices and expansion of the market. This orientation has also been a key strategy of many Japanese companies.

### The Product Concept

Other businesses are guided by the **product concept,** which holds that consumers favor those products that offer the most quality, performance, or innovative features. Managers in these organizations focus on making superior products and improving them over time, assuming that buyers can appraise quality and performance.

Product-oriented companies often design their products with little or no customer input, trusting that their engineers can design exceptional products. A General Motors executive said years ago: “How can the public know what kind of car they want until they see what is available?” GM today asks customers what they value in a car and includes marketing people in the very beginning stages of design.

However, the product concept can lead to *marketing myopia.*[16] Railroad management thought that travelers wanted trains rather than transportation and overlooked the growing competition from airlines, buses, trucks, and automobiles. Colleges, department stores, and the post office all assume that they are offering the public the right product and wonder why their sales slip. These organizations too often are looking into a mirror when they should be looking out of the window.

## The Selling Concept

The **selling concept,** another common business orientation, holds that consumers and businesses, if left alone, will ordinarily not buy enough of the organization’s products. The organization must, therefore, undertake an aggressive selling and promotion effort. This concept assumes that consumers must be coaxed into buying, so the company has a battery of selling and promotion tools to stimulate buying.

The selling concept is practiced most aggressively with unsought goods—goods that buyers normally do not think of buying, such as insurance and funeral plots. The selling concept is also practiced in the nonprofit area by fund-raisers, college admissions offices, and political parties.

Most firms practice the selling concept when they have overcapacity. Their aim is to sell what they make rather than make what the market wants. In modern industrial economies, productive capacity has been built up to a point where most markets are buyer markets (the buyers are dominant) and sellers have to scramble for customers. Prospects are bombarded with sales messages. As a result, the public often identifies marketing with hard selling and advertising. But marketing based on hard selling carries high risks. It assumes that customers who are coaxed into buying a product will like it;

and if they don't, that they won't bad-mouth it or complain to consumer organizations and will forget their disappointment and buy it again. These are indefensible assumptions. In fact, one study showed that dissatisfied customers may bad-mouth the product to 10 or more acquaintances; bad news travels fast, something marketers that use hard selling should bear in mind.[17]

## The Marketing Concept

The marketing concept, based on central tenets crystallized in the mid-1950s, challenges the three business orientations we just discussed.[18] The **marketing concept** holds that the key to achieving organizational goals consists of the company being more effective than its competitors in creating, delivering, and communicating customer value to its chosen target markets.

Theodore Levitt of Harvard drew a perceptive contrast between the selling and marketing concepts: "Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering and finally consuming it."[19]

The marketing concept rests on four pillars: *target market, customer needs, integrated marketing,* and *profitability.* The selling concept takes an inside-out perspective. It starts with the factory, focuses on existing products, and calls for heavy selling and promoting to produce profitable sales. The marketing concept takes an outside-in perspective. It starts with a well-defined market, focuses on customer needs, coordinates activities that affect customers, and produces profits by satisfying customers.

### Target Market

Companies do best when they choose their target market(s) carefully and prepare tailored marketing programs. For example, when cosmetics giant Estee Lauder recognized the increased buying power of minority groups, its Prescriptives subsidiary launched an "All Skins" line offering 115 foundation shades for different skin tones. Prescriptives credits All Skins for a 45 percent sales increase since this product line was launched.

### Customer Needs

A company can carefully define its target market yet fail to correctly understand the customers' needs. Clearly, understanding customer needs and wants is not always simple. Some customers have needs of which they are not fully conscious; some cannot articulate these needs or use words that require some interpretation. We can distinguish among five types of needs: (1) stated needs, (2) real needs, (3) unstated needs, (4) delight needs, and (5) secret needs.

Responding only to the stated need may shortchange the customer. For example, if a customer enters a hardware store and asks for a sealant to seal glass window panes, she is stating a solution, not a need. If the salesperson suggests that tape would provide a better solution, the customer may appreciate that the salesperson met her need and not her stated solution.

A distinction needs to be drawn between *responsive marketing, anticipative marketing,* and *creative marketing.* A responsive marketer finds a stated need and fills it, while an anticipative marketer looks ahead to the needs that customers may have in the near future. In contrast, a creative marketer discovers and produces solutions that customers did not ask for, but to which they enthusiastically respond. Sony exemplifies a creative marketer because it has introduced many successful new products that customers never asked for or even thought were possible: Walkmans, VCRs, and so on. Sony goes beyond customer-led marketing: It is a *market-driving* firm, not just a market-driven firm. Akio Morita, its founder, proclaimed that he doesn't serve markets; he creates markets.[20]

Why is it supremely important to satisfy the needs of target customers? Because a company's sales come from two groups: new customers and repeat customers. One estimate is that attracting a new customer can cost five times as much as pleasing an existing one.[21] And it might cost 16 times as much to bring the new customer to the same level of profitability as that of the lost customer. *Customer retention* is thus more important than *customer attraction*.

### Integrated Marketing

When all of the company's departments work together to serve the customers' interests, the result is *integrated marketing*. Integrated marketing takes place on two levels. First, the various marketing functions—sales force, advertising, customer service, product management, marketing research—must work together. All of these functions must be coordinated from the customer's point of view.

Second, marketing must be embraced by the other departments. According to David Packard of Hewlett-Packard: "Marketing is far too important to be left only to the marketing department!" Marketing is not a department so much as a companywide orientation. Xerox, for example, goes so far as to include in every job description an explanation of how each job affects the customer. Xerox factory managers know that visits to the factory can help sell a potential customer if the factory is clean and efficient. Xerox accountants know that customer attitudes are affected by Xerox's billing accuracy.

To foster teamwork among all departments, the company must carry out internal marketing as well as external marketing. *External marketing* is marketing directed at people outside the company. *Internal marketing* is the task of hiring, training, and motivating able employees who want to serve customers well. In fact, internal marketing must precede external marketing. It makes no sense to promise excellent service before the company's staff is ready to provide it.

Managers who believe the customer is the company's only true "profit center" consider the traditional organization chart—a pyramid with the CEO at the top, management in the middle, and front-line people and customers at the bottom—obsolete. Master marketing companies invert the chart, putting customers at the top. Next in importance are the front-line people who meet, serve, and satisfy the customers; under them are the middle managers, who support the front-line people so they can serve the customers; and at the base is top management, whose job is to hire and support good middle managers.

### Profitability

The ultimate purpose of the marketing concept is to help organizations achieve their objectives. In the case of private firms, the major objective is profit; in the case of nonprofit and public organizations, it is surviving and attracting enough funds to perform useful work. Private firms should aim to achieve profits as a consequence of creating superior customer value, by satisfying customer needs better than competitors. For example, Perdue Farms has achieved above-average margins marketing chicken—a commodity if there ever was one! The company has always aimed to control breeding and other factors in order to produce tender-tasting chickens for which discriminating customers will pay more.[22]

How many companies actually practice the marketing concept? Unfortunately, too few. Only a handful of companies stand out as master marketers: Procter & Gamble, Disney, Nordstrom, Wal-Mart, Milliken & Company, McDonald's, Marriott Hotels, American Airlines, and several Japanese (Sony, Toyota, Canon) and European companies (IKEA, Club Med, Nokia, ABB, Marks & Spencer). These companies focus on the customer and are organized to respond effectively to changing customer needs. They all have well-staffed marketing departments, and all of their other departments—manufacturing, finance, research and development, personnel, purchasing—accept the customer as king.

Most companies do not embrace the marketing concept until driven to it by circumstances. Various developments prod them to take the marketing concept to heart, including sales declines, slow growth, changing buying patterns, more competition, and higher expenses. Despite the benefits, firms face three hurdles in converting to a marketing orientation: organized resistance, slow learning, and fast forgetting.

Some company departments (often manufacturing, finance, and research and development) believe a stronger marketing function threatens their power in the organization. Resistance is especially strong in industries in which marketing is being introduced for the first time—for instance, in law offices, colleges, deregulated industries, and government agencies. In spite of the resistance, many companies manage to introduce some marketing thinking into their organization. Over time, marketing emerges as the major function. Ultimately, the customer becomes the controlling function, and with that view, marketing can emerge as the integrative function within the organization.

### The Societal Marketing Concept

Some have questioned whether the marketing concept is an appropriate philosophy in an age of environmental deterioration, resource shortages, explosive population growth, world hunger and poverty, and neglected social services. Are companies that successfully satisfy consumer wants necessarily acting in the best, long-run interests of consumers and society? The marketing concept sidesteps the potential conflicts among consumer wants, consumer interests, and long-run societal welfare.

Yet some firms and industries are criticized for satisfying consumer wants at society's expense. Such situations call for a new term that enlarges the marketing concept. We propose calling it the **societal marketing concept,** which holds that the organization's task is to determine the needs, wants, and interests of target markets and to deliver the desired satisfactions more effectively and efficiently than competitors in a way that preserves or enhances the consumer's and the society's well-being.

The societal marketing concept calls upon marketers to build social and ethical considerations into their marketing practices. They must balance and juggle the often conflicting criteria of company profits, consumer want satisfaction, and public interest. Yet a number of companies have achieved notable sales and profit gains by adopting and practicing the societal marketing concept.

Some companies practice a form of the societal marketing concept called *cause-related marketing.* Pringle and Thompson define this as "activity by which a company with an image, product, or service to market builds a relationship or partnership with a 'cause,' or a number of 'causes,' for mutual benefit."[23] They see it as affording an opportunity for companies to enhance their corporate reputation, raise brand awareness, increase customer loyalty, build sales, and increase press coverage. They believe that customers will increasingly look for demonstrations of good corporate citizenship. Smart companies will respond by adding "higher order" image attributes than simply rational and emotional benefits. Critics, however, complain that cause-related marketing might make consumers feel they have fulfilled their philanthropic duties by buying products instead of donating to causes directly.

## HOW BUSINESS AND MARKETING ARE CHANGING

We can say with some confidence that "the marketplace isn't what it used to be." It is changing radically as a result of major forces such as technological advances, globalization, and deregulation. These forces have created new behaviors and challenges: