23 Managing a Holistic Marketing Organization for the Long Run

Healthy long-term growth for a brand requires holistic marketers to engage in a host of carefully planned, interconnected marketing activities and satisfy a broad set of constituents and objectives. Marketers must also consider a wide range of short- and long-term effects of their actions. Corporate social responsibility and sustainability have become priorities for many. Some firms fully embrace this vision of corporate enlightenment.[1]

Patagonia, maker of high-end outdoor clothing and equipment, has always put environmental issues at the core of what it does. Company founder Yvon Chouinard, also the author of The Responsible Company, *actively promotes a post-consumerist economy in which goods are "high quality, recyclable and repairable." Under Chouinard's leadership, Patagonia even ran a full-page ad in the New York Times headlined "Don't Buy This Jacket." Below a photo of the retailer's R2 jacket was text explaining that despite its many positive features—"60% recyclable polyester, knit and sewn to high standards, and exceptionally durable"—the jacket still imposed many environmental costs (using 135 liters of water and 20 pounds of carbon dioxide to manufacture). The ad concluded by promoting the Common Threads Initiative asking consumers to engage in five behaviors: (1) reduce (what you buy); (2) repair (what you can); (3) reuse (what you have); (4) recycle (everything else); and (5) reimagine (a sustainable world). With $575 million in annual sales, privately held Patagonia is always trying to find better environmental solutions for everything it does and makes, such as offering the first wetsuits made from plant-based material as an alternative to neoprene.*

Brands such as Ben & Jerry's, Odwalla, Stonyfield Farm, Whole Foods, and Seventh Generation have embraced similar philosophies and practices. Successful holistic marketing requires effective relationship marketing, integrated marketing, internal marketing, and performance marketing. In this chapter, we consider internal and performance marketing and how to conduct them responsibly. We begin by examining changes in the way companies conduct marketing today.

Trends in Marketing Practices

With globalization, deregulation, market fragmentation, consumer empowerment, environmental concerns, and all the remarkable developments in communication technology, the world has unquestionably become a very different place for marketers.[2] Table 23.1 summarizes some important shifts in marketing realities.

In making all these shifts in marketing and business practices, firms also face ethical dilemmas and perplexing trade-offs. Consumers may value convenience, but how can they justify disposable products or elaborate packaging in a world trying to minimize waste? Increasing material aspirations can defy the need for sustainability. Smart companies are creatively designing with energy efficiency, carbon footprints, toxicity, and disposability in mind. There have been some successes.[3]

TABLE 23.1 Important Shifts in Marketing and Business Practices

- ***Reengineering.*** Appointing teams to manage customer-value-building processes and break down walls between departments
- ***Outsourcing.*** Buying more goods and services from outside domestic or foreign vendors
- ***Benchmarking.*** Studying "best practice companies" to improve performance
- ***Supplier partnering.*** Partnering with fewer but better value-adding suppliers
- ***Customer partnering.*** Working more closely with customers to add value to their operations
- ***Merging.*** Acquiring or merging with firms in the same or complementary industries to gain economies of scale and scope
- ***Globalizing.*** Increasing efforts to "think global" and "act local"
- ***Flattening.*** Reducing the number of organizational levels to get closer to the customer
- ***Focusing.*** Determining the most profitable businesses and customers and focusing on them
- ***Justifying.*** Becoming more accountable by measuring, analyzing, and documenting the effects of marketing actions
- ***Accelerating.*** Designing the organization and setting up processes to respond more quickly to changes in the environment
- ***Empowering.*** Encouraging and empowering personnel to produce more ideas and take more initiative
- ***Broadening.*** Factoring the interests of customers, employees, shareholders, and other stakeholders into the activities of the enterprise
- ***Monitoring.*** Tracking what is said online and elsewhere and studying customers, competitors, and others to improve business practices
- ***Uncovering.*** Using data mining and other analytical methods to develop deep insights into customers and how they behave

TOYOTA PRIUS Some auto experts scoffed when Toyota predicted sales of 300,000 cars within five years of launching its gas-and-electric Prius hybrid sedan in 2001. But by 2004, the Prius had a six-month waiting list. Toyota's winning formula consists of a powerful electric motor and the ability to quickly switch power sources—resulting in 55 miles per gallon for city and highway driving—with the roominess and power of a family sedan and an eco-friendly design and look for a little more than $20,000. Some consumers also liked that the Prius's distinctive design allowed them to make a visible statement about their commitment to the environment. The lesson? Functionally successful products that consumers see as also being good for the environment can offer enticing options. In both 2012 and 2013, *Consumer Reports* rated the Toyota Prius as best overall value for the automotive dollar. Toyota is now rolling out hybrids throughout its auto lineup, and U.S. automakers have followed suit.

Now more than ever, marketers must think holistically and use creative win-win solutions to balance conflicting demands. They must develop fully integrated marketing programs and meaningful relationships with a range of constituents.[4] They must do all the right things inside their company and consider the broader consequences in the marketplace, topics we turn to next.

Internal Marketing

Traditionally, marketers played the role of intermediary, charged with understanding customers' needs and transmitting their voice to various functional areas.[5] But in a networked enterprise, *every* functional area can interact directly with customers. Marketing no longer has sole ownership of customer interactions; it now must integrate all the customer-facing processes so customers see a single face and hear a single voice when they interact with the firm.[6]

Internal marketing requires that everyone in the organization accept the concepts and goals of marketing and engage in identifying, providing, and communicating customer value. Only when *all* employees realize their job is to create, serve, and satisfy customers does the company become an effective marketer.[7] "Marketing Memo: Characteristics of Company Departments That Are Truly Customer Driven" presents a tool that evaluates which company departments excel at being customer-centric.

Let's look at how marketing departments are being organized, how they can work effectively with other departments, and how firms can foster a creative marketing culture across the organization.[8]

marketing memo

Characteristics of Company Departments that Are Truly Customer Driven

R&D	___	They spend time meeting customers and listening to their problems.
	___	They welcome the involvement of marketing, manufacturing, and other departments on each new project.
	___	They benchmark competitors' products and seek "best of class" solutions.
	___	They solicit customer reactions and suggestions as the project progresses.
	___	They continuously improve and refine the product on the basis of market feedback.
Purchasing	___	They proactively search for the best suppliers rather than choose only from those who solicit their business.
	___	They build long-term relationships with fewer but more reliable high-quality suppliers.
	___	They do not compromise quality for price savings.
Manufacturing	___	They invite customers to visit and tour their plants.
	___	They visit customer factories to see how customers use the company's products.
	___	They willingly work overtime when it is important to meet promised delivery schedules.
	___	They continuously search for ways to produce goods faster, at lower costs, and with fewer adverse environmental consequences.
	___	They continuously improve product quality, aiming for zero defects.
	___	They meet customer requirements for "customization" where this can be done profitably.
Marketing	___	They study customer needs and wants in well-defined market segments.
	___	They allocate marketing effort in relationship to the long-run profit potential of the targeted segments.
	___	They develop winning offerings for each target segment.
	___	They measure company image and customer satisfaction and loyalty on a continuous basis.
	___	They continuously gather and evaluate ideas for new products, product improvements, and services to meet customers' needs.
	___	They influence all company departments and employees to be customer-centered in their thinking and practice.
Sales	___	They acquire specialized knowledge of the customer's industry.
	___	They strive to give the customer "the best solution" but make only promises they can keep.
	___	They feed customers' needs and ideas back to those in charge of product development.
	___	They serve the same customers for a long period of time.
Logistics	___	They set a high standard for service delivery time and meet it consistently.
	___	They operate a knowledgeable and friendly customer service department that can answer questions, handle complaints, and resolve problems in a satisfactory and timely manner.
Accounting	___	They prepare periodic profitability reports by product, market segment, sales territory, order size, and individual customers.
	___	They prepare invoices tailored to customer needs and answer customer queries courteously and quickly.
Finance	___	They understand and support marketing investments (like image advertising) that produce long-term customer preference and loyalty.
	___	They tailor the financial package to the customers' financial requirements.
	___	They make quick decisions on customer creditworthiness.
Public Relations	___	They disseminate favorable news about the company and handle damage control for unfavorable news.
	___	They act as an internal customer and public advocate for better company policies and practices.
Other Customer-Contact Employees	___	They are competent, courteous, cheerful, credible, reliable, and responsive.

ORGANIZING THE MARKETING DEPARTMENT

Modern marketing departments can be organized in a number of different, sometimes overlapping ways: functionally, geographically, by product or brand, by market, or in a matrix.

FUNCTIONAL ORGANIZATION In the most common form of marketing organization, functional specialists report to a marketing vice president who coordinates their activities. Figure 23.1 shows five specialists. Others might include a customer service manager, a marketing planning manager, a market logistics manager, a direct marketing manager, and a digital marketing manager.

The main advantage of a functional marketing organization is its administrative simplicity. It can be quite a challenge for the departments to develop smooth working relationships, however. This form also can result in inadequate planning as the number of products and markets increases and each functional group vies for budget and status. The marketing vice president constantly weighs competing claims and faces a difficult coordination problem.

GEOGRAPHIC ORGANIZATION A company selling in a national market often organizes its sales force (and sometimes its marketing) along geographic lines.[9] The national sales manager may supervise four regional sales managers, who each supervise six zone managers, who in turn supervise eight district sales managers, who each supervise 10 salespeople.

Some companies are adding *area market specialists* (regional or local marketing managers) to support sales efforts in high-volume markets. One such market might be Miami-Dade County, Florida, where almost two-thirds of households are Hispanic.[10] The Miami specialist would know Miami's customer and trade makeup, help marketing managers at headquarters adjust their marketing mix for Miami, and prepare local annual and long-range plans for selling all the company's products there. Some companies must develop different marketing programs in different parts of the country because geography alters their brand development so much, as noted in Chapter 8.

PRODUCT- OR BRAND-MANAGEMENT ORGANIZATION Companies producing a variety of products and brands often establish a product- (or brand-) management organization. This does not replace the functional organization but serves as another layer of management. A group product manager supervises product category managers, who in turn supervise specific product and brand managers.

A product-management organization makes sense if the company's products are quite different or there are more than a functional organization can handle. This form is sometimes characterized as a **hub-and-spoke system.** The brand or product manager is figuratively at the center, with spokes leading to various departments representing working relationships (see Figure 23.2). The manager may:

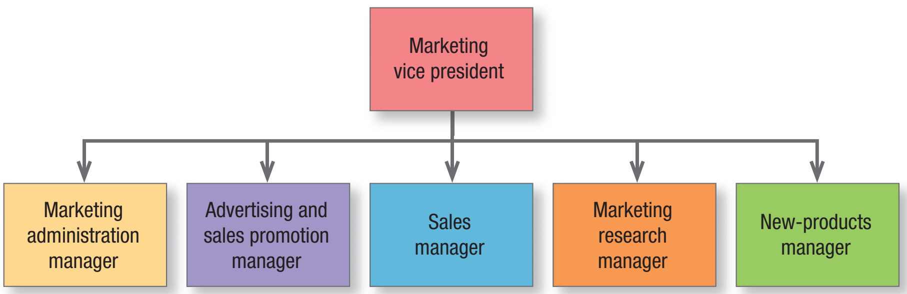
- Develop a long-range and competitive strategy for the product.
- Prepare an annual marketing plan and sales forecast.
- Work with advertising, digital, and merchandising agencies to develop copy, programs, and campaigns.
- Increase support of the product among the sales force and distributors.
- Gather continuous intelligence about the product's performance, customer and dealer attitudes, and new problems and opportunities.
- Initiate product improvements to meet changing market needs.

The product-management organization lets the product manager concentrate on developing a cost-effective marketing program and react more quickly to new products in the marketplace; it also gives the company's smaller brands a product advocate. However, it has disadvantages too:

- Product and brand managers may lack authority to carry out their responsibilities.
- They become experts in their product area but rarely achieve functional expertise.

| Fig. 23.1 |

Functional Organization



| Fig. 23.2 |

The Product Manager's Interactions

- The system often proves costly. One person is appointed to manage each major product or brand, and soon more are appointed to manage even minor products and brands.
- Brand managers normally manage a brand for only a short time. Short-term involvement leads to short-term planning and fails to build long-term strengths.
- The fragmentation of markets makes it harder to develop a national strategy. Brand managers must please regional and local sales groups, transferring power from marketing to sales.
- Product and brand managers focus the company on building market share rather than customer relationships.

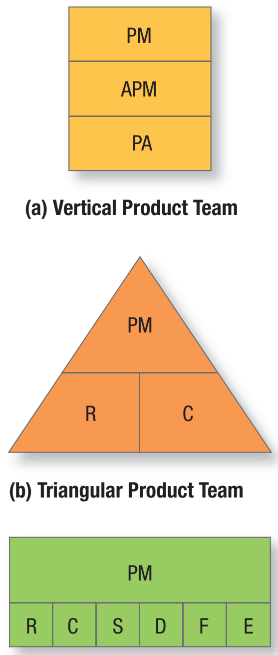
A second alternative in a product-management organization is *product teams*. There are three types: vertical, triangular, and horizontal (see Figure 23.3). The triangular and horizontal product-team approaches let each major brand be run by a **brand-asset management team (BAMT)** consisting of key representatives from functions that affect the brand's performance. The company consists of several BAMTs that periodically report to a BAMT directors committee, which itself reports to a chief branding officer. This is quite different from the way brands have traditionally been handled.

A third alternative is to eliminate product manager positions for minor products and assign two or more products to each remaining manager. This is feasible when two or more products appeal to a similar set of needs. A cosmetics company doesn't need product managers for each product because cosmetics serve one major need—beauty. A toiletries company needs different managers for headache remedies, toothpaste, soap, and shampoo because these products differ in use and appeal.

In a fourth alternative, *category management*, a company focuses on product categories to manage its brands. Procter & Gamble (P&G), a pioneer of the brand-management system, and other top packaged-goods firms have made a major shift to category management, as have firms outside the grocery channel.[11] Diageo's shift to category management was seen as a means to better manage the development of premium brands. It also helped the firm address the plight of under-performing brands.[12]

P&G cited a number of advantages to its shift to category management. By fostering internal competition among brand managers, the traditional brand-management system had created strong incentives to excel, but also internal competition for resources and a lack of coordination. The new scheme was designed to ensure adequate resources for all categories.

Another rationale is the increasing power of the retail trade, which has thought of profitability in terms of product categories. P&G felt it only made sense to deal along similar lines. Retailers and regional grocery chains such as Walmart and Dominick's embrace category management as a means to define a particular product category's strategic role within the store and address logistics, the role of private-label products, and the trade-offs between product variety and inefficient duplication.[13]



PM = product manager
APM = associate product manager
PA = product assistant
R = market researcher
C = communication specialist
S = sales manager
D = distribution specialist
F = finance/accounting specialist
E = engineer

| Fig. 23.3 |

Three Types of Product Teams

Source: © Jeff Greenberg "0 people images" / Alamy

Sales in the dairy aisle increased once marketers for General Mills' Yoplait Yogurt became category advisors to a number of major retailers.

In fact, in some packaged-goods firms, category management has evolved into aisle management and encompasses multiple related categories typically found in the same sections of supermarkets and grocery stores. General Mills' Yoplait Yogurt has served as category advisor to the dairy aisle for 24 major retailers, boosting the yogurt base footprint four to eight feet at a time and increasing sales of yogurt by 9 percent and category sales in dairy by 13 percent nationwide.[14]

MARKET-MANAGEMENT ORGANIZATION Canon sells printers to consumer, business, and government markets. Nippon Steel sells to the railroad, construction, and public utility industries. When customers fall into different user groups with distinct buying preferences and practices, a **market-management organization** is desirable. Market managers supervise several market-development managers, market specialists, or industry specialists and draw on functional services as needed. Market managers of important markets might even have functional specialists reporting to them.

Market managers are staff (not line) people, with duties like those of product managers. They develop long-range and annual plans for their markets and are judged by their market's growth and profitability. Because this system organizes marketing activity to meet the needs of distinct customer groups, it shares many advantages and disadvantages of product-management systems. Many companies are reorganizing along market lines and becoming **market-centered organizations.** Xerox converted from geographic selling to selling by industry, as did IBM and Hewlett-Packard.

When a close relationship is advantageous, such as when customers have diverse and complex requirements and buy an integrated bundle of products and services, a **customer-management organization,** which deals with individual customers rather than the mass market or even market segments, should prevail.[15] One study showed that companies organized by customer groups reported much higher accountability for the overall quality of relationships and greater employee freedom to take actions to satisfy individual customers.[16]

MATRIX-MANAGEMENT ORGANIZATION Companies that produce many products for many markets may adopt a matrix organization employing both product and market managers. The rub is that it's costly and often creates conflicts. There's the cost of supporting all the managers and questions about where authority and responsibility for marketing activities should reside—at headquarters or in the division?[17] Some corporate marketing groups assist top management with overall opportunity evaluation, provide divisions with consulting assistance on request, help divisions that have little or no marketing, and promote the marketing concept throughout the company.

RELATIONSHIPS WITH OTHER DEPARTMENTS

Under the marketing concept, all departments need to "think customer" and work together to satisfy customer needs and expectations. Yet departments define company problems and goals from their own viewpoints, so conflicts of interest and communications problems are unavoidable. The marketing vice president or the CMO must usually work through persuasion rather than through authority to coordinate the company's internal marketing activities and coordinate marketing with finance, operations, and other company functions to serve the customer.[18]

Many companies now focus on key processes rather than on departments because departmental organization can be a barrier to smooth performance. They appoint process leaders, who manage cross-disciplinary teams that include marketing and salespeople. Marketers thus may have a solid-line responsibility to their teams and a dotted-line responsibility to the marketing department.

Given the goal of providing positive customer experiences from start to finish, all areas of the organization need to work effectively together. In particular, because of the growing importance of "Big Data," marketers must work closely with those in the IT department to gain critical insights and updates.

BUILDING A CREATIVE MARKETING ORGANIZATION

Many companies realize they're not yet really market and customer driven—they are product and sales driven. Transforming into a true market-driven company requires, among other actions: (1) developing a company-wide passion for customers; (2) organizing around customer segments instead of products; and (3) understanding customers through qualitative and quantitative research.

marketing insight

The Marketing CEO

What steps can a CEO take to create a market- and customer-focused company?

1. ***Convince senior management of the need to become customer focused.*** The CEO personally exemplifies strong customer commitment and rewards those in the organization who do likewise. Former CEOs Jack Welch of GE and Lou Gerstner of IBM famously spent 100 days a year visiting customers in spite of their many strategic, financial, and administrative burdens.
2. ***Appoint a senior marketing officer and marketing task force.*** The marketing task force should include the CEO; C-level executives from sales, R&D, purchasing, manufacturing, finance, and human resources; and other key individuals.
3. ***Get outside help and guidance.*** Consulting firms have considerable experience helping companies adopt a marketing orientation.
4. ***Change the company's reward measurement and system.*** As long as purchasing and manufacturing are rewarded for keeping costs low, they will resist accepting some costs required to serve customers better. As long as finance focuses on short-term profit, it will oppose major investments designed to build satisfied, loyal customers.
5. ***Hire strong marketing talent.*** The company needs a strong chief marketing officer who not only manages the marketing department but also gains respect from and influence with the other C-level executives. A multidivisional company will benefit from establishing a strong corporate marketing department.
6. ***Develop strong in-house marketing training programs.*** The company should design well-crafted marketing training programs for corporate management, divisional general managers, marketing and sales personnel, manufacturing personnel, R&D personnel, and others. Many companies such as GE, Unilever, and Accenture have centralized training facilities to run such programs.
7. ***Install a modern marketing planning system.*** The planning format will require managers to think about the marketing environment, opportunities, competitive trends, and other forces. These managers then prepare strategies and sales-and-profit forecasts for specific products and segments and are accountable for performance.
8. ***Establish an annual marketing excellence recognition program.*** Business units that believe they've developed exemplary marketing plans should submit a description of their plans and results. Winning teams should be rewarded at a special ceremony and the plans disseminated to the other business units as "models of marketing thinking." Procter & Gamble, SABMiller, and Becton, Dickinson and Company follow this strategy.
9. ***Shift from a department focus to a process-outcome focus.*** After defining the fundamental business processes that determine its success, the company should appoint process leaders and cross-disciplinary teams to reengineer and implement these processes.
10. ***Empower the employees.*** Progressive companies encourage and reward their employees for coming up with new ideas and empower them to settle customer complaints to save the customer's business. IBM lets frontline employees spend as much as $5,000 to solve a customer problem on the spot.

The task is not easy, but the payoffs can be considerable. See "Marketing Insight: The Marketing CEO" for concrete actions a CEO can take to improve marketing capabilities.

Although it's *necessary* to be customer oriented, it's not *enough.* The organization must also be creative.[19] Companies today copy each others' advantages and strategies with increasing speed, making differentiation harder to achieve and lowering margins as firms become more alike. The only answer is to build a capability in strategic innovation and imagination. This capability comes from assembling tools, processes, skills, and measures that let the firm generate more and better new ideas than its competitors.[20] Companies also try to put together inspiring work spaces that help to stimulate new ideas and foster imagination.

Companies must watch trends and be ready to capitalize on them. Nestlé was late seeing the trend toward coffeehouses such as Starbucks. Coca-Cola was slow to pick up beverage trends toward fruit-flavored drinks such as Snapple, energy drinks such as Gatorade, and designer water brands. Market leaders can miss trends when they are risk averse, obsessed about protecting their existing markets and physical resources, and more interested in efficiency than innovation.[21]

Socially Responsible Marketing

Effective internal marketing must be matched by a strong sense of ethics, values, and social responsibility.[22] Taking a more active, strategic role in corporate social responsibility is thought to benefit not just customers, employees, community, and the environment but also shareholders. Firms feel they also benefit in different ways, as Figure 23.4 illustrates.

| Fig. 23.4 |

Rationale for Investing in Corporate Social Responsibility

Rationale for Investing in Corporate Social Responsibility

- Companies need to differentiate themselves. Companies with civic virtues will be preferred.
- Companies need a decision framework for facing daily requests for sponsorships, improved health coverage, injury prevention, environmental protection, and community contributions.
- Corporate heads and boards need to understand the social pressures and opportunities facing their companies.
- Companies need to build a bank of public goodwill to offset potential criticisms.
- Employees, investors, and partners will be more motivated and loyal.

The most admired—and most successful—companies in the world abide by high standards of business and marketing conduct that dictate serving people's interests, not only their own. Procter & Gamble has made "brand purpose" a key component of the company's marketing strategies. The company has launched a number of award-winning cause programs to support its brands, such as with Downy fabric softener's "Touch of Comfort," Tide laundry detergent's "Loads of Hope," and Secret deodorant's "Mean Stinks."[23] P&G is not alone, as the following demonstrates. [24]

FIRMS OF ENDEARMENT Researchers Raj Sisodia, David Wolfe, and Jag Sheth believe humanistic companies make great companies. They see "Firms of Endearment" as those with a culture of caring that serve the interests of their stakeholders, who are defined by the acronym SPICE: Society, Partners, Investors, Customers, and Employees. Sisodia and colleagues believe Firms of Endearment create a love affair with stakeholders. Their senior managers run an open-door policy, are passionate about customers, and earn modest compensation. They pay their employees more, relate more closely to a smaller group of excellent suppliers, and give back to the communities in which they work. They actually spend less on marketing as a percentage of sales yet earn greater profits because customers who love the company do most of the marketing. The authors see the 21st-century marketing paradigm as creating value for all stakeholders and becoming a beloved firm. Table 23.2 lists firms receiving top marks as Firms of Endearment from a sample of thousands of customers, employees, and suppliers.

CORPORATE SOCIAL RESPONSIBILITY

Raising the level of socially responsible marketing calls for making a three-pronged attack that relies on proper legal, ethical, and social responsibility behavior. One company that puts social responsible marketing squarely at the center of all it does is Stonyfield Farm.[25]

TABLE 23.2 Top Firms of Endearment

Best Buy	BMW	CarMax	Caterpillar
Commerce Bank	Container Store	Costco	eBay
Google	Harley-Davidson	Honda	IDEO
IKEA	JetBlue	Johnson & Johnson	Jordan's Furniture
L.L.Bean	New Balance	Patagonia	Progressive Insurance
REI	Southwest	Starbucks	Timberland
Toyota	Trader Joe's	UPS	Wegmans
Whole Foods			

Source: Raj Sisodia, David B. Wolfe, and Jag Sheth, *Firms of Endearment: How World-Class Companies Profit from Passion and Purpose* (Upper Saddle River, NJ: Wharton School Publishing, 2007), p. 16, © 2007. Printed and electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, New Jersey.

Source: Getty Images North America

Procter & Gamble has embraced cause marketing programs, such as Tide laundry detergent's "Loads of Hope," to help its brands achieve their brand purposes.

STONYFIELD FARM Stonyfield Farm was cofounded in 1983 by long-time "CE-Yo" Gary Hirshberg on the belief that there was a business opportunity in selling all-natural organic dairy products while "restoring the environment." The company's suppliers avoid the productivity practices of agribusiness, including the use of antibiotics, growth hormones, pesticides, and fertilizers. After calculating the amount of energy used to run its plant, Stonyfield decided to make an equivalent investment in environmental projects such as reforestation, wind farms, and the company's own anaerobic wastewater digester. The company has modified the plastic lids on its yogurt, saving about a million pounds of plastic a year, and added on-package messages about global warming, the perils of hormones, and genetically modified foods. It has also added cultures or dietary supplements to help the immune system fight off illness and makes low-fat versions of its products. Stonyfield donates 10 percent of profits "to efforts that help protect and restore the Earth." Although premium-priced, the brand still lacks the margins for big budget advertising campaigns and relies on sampling (such as at the Boston marathon), PR, word of mouth, and guerilla tactics instead. Its progressive business practices have not hurt its financial performance. Stonyfield is the number-three yogurt brand in the United States and has added smoothies, milk, frozen yogurt, and ice cream. Hirshberg, now just chairman of the company, has also launched a nonprofit foundation called "Climate Counts" that scores companies annually on the basis of their voluntary actions to reverse climate change. The goal is to spur corporate responsibility and inform consumers about which companies are more engaged.

LEGAL BEHAVIOR Organizations must ensure every employee knows and observes relevant laws.[26] For example, it's illegal for salespeople to lie to consumers or mislead them about the advantages of buying a product. They may not offer bribes to purchasing agents or others influencing a B-to-B sale. Their statements must match advertising claims, and they may not obtain or use competitors' technical or trade secrets through bribery or industrial espionage. They must not disparage competitors or their products by suggesting things that are not true. Managers must make sure every sales representative knows the law and acts accordingly.

Source: Just Label It!

Stonyfield Farm co-founder Gary Hirshberg is leading the charge in labeling products which use genetically modified organism (GMO) ingredients.

ETHICAL BEHAVIOR Business practices come under attack because business situations routinely pose ethical dilemmas: It's not easy to draw a clear line between normal marketing practice and unethical behavior. Some issues can generate controversy or sharply divide critics, such as acceptable marketing to children.[27]

REGULATING FOOD AND BEVERAGE MARKETING TO CHILDREN

Amid pressure from regulators and the threat of lawsuits, food and beverage manufacturers have cut back on marketing their least healthful products to kids; developed new recipes to reduce calories, sodium, sugar, and fat in thousands of products; and made changes to place nutrition information on the front of the package. Some watch groups feel that is still not enough, and with childhood obesity an administration priority being addressed by First Lady Michelle Obama's "Let's Move!" and other programs, tight new government standards to further limit advertising to children and teens take effect in 2016. These standards require food marketed toward children ages 2 to 17 to make a "meaningful contribution" to a healthy diet by providing a certain amount of healthy items (fruits, vegetables, whole grains) and limiting unhealthy items (sodium, sugar, and saturated fat). Later regulation was proposed to ban in-school advertising for foods high in sugar, fat, and salt and to eliminate the tax deductions of advertising and marketing expenses for food and marketing companies if the products are of "poor nutritional quality" and marketed to kids. Although proposed regulations often change a great deal before taking effect, there will be increased government scrutiny of the way food and beverages are marketed to children.

Of course, certain business practices are clearly unethical or illegal. These include bribery, theft of trade secrets, false and deceptive advertising, exclusive dealing and tying agreements, quality or safety defects, false warranties, inaccurate labeling, price-fixing or undue discrimination, and barriers to entry and predatory competition.

Companies must adopt and disseminate a written code of ethics, build a company tradition of ethical behavior, and hold their people fully responsible for observing ethical and legal guidelines. In the past, a disgruntled customer might bad-mouth an unethical or poorly performing firm to 12 other people; today, via the Internet, he or she can reach thousands. The general distrust of companies among U.S. consumers is evident in research showing the percentage of those who view corporations unfavorably is almost 40 percent.[28]

Source: ASSOCIATED PRESS

A firm that prides itself on its sustainability efforts, Green Mountain Coffee Roasters is committed to reducing any adverse environmental impact of its popular K-cups.

SOCIAL RESPONSIBILITY BEHAVIOR Marketers must exercise their social conscience in specific dealings with customers and stakeholders. Some top-rated companies for corporate social responsibility are Whole Foods, Walt Disney, Coca-Cola, Johnson & Johnson, and Google.[29]

Increasingly, people want information about a company's record on social and environmental responsibility to help them decide which companies to buy from, invest in, and work for.[30] Communicating corporate social responsibility can be a challenge. Once a firm touts an environmental initiative, it can become a target for criticism. Often, the more committed a company is to sustainability and environmental protection, the more dilemmas can arise, as Green Mountain Coffee Roasters has found.[31]

GREEN MOUNTAIN COFFEE ROASTERS

Vermont-based Green Mountain Coffee Roasters prides itself on sustainability efforts that have helped it become one of the fastest-selling coffee brands around. The company supports local and global communities by offsetting 100 percent of its greenhouse gas emissions, investing in sustainably grown coffee, and allocating at least 5 percent of its pre-tax profits to social and environmental projects. Through its C.A.F.E. Time or Community Action for Employees programs, employees are encouraged to volunteer as many as 52 hours annually of company-paid service to give back to local organizations and communities. All these activities help Green Mountain fulfill its purpose statement to "create the ultimate coffee experience in every life we touch, from tree to cup—transforming the way the world views business." The firm's 2006 purchase of Keurig and its popular single-cup brewing system posed a quandary, though: The K-Cups used with the Keurig brewing system were made of totally nonrecyclable plastic and foil. Although disposal makes up only about 5 percent of their total environmental impact—more significant effects are related to brewer use, coffee cultivation, and product packaging—Green Mountain has engaged in extensive R&D and explored numerous partnerships to find a more environmentally sound solution, vowing to make K-Cup packs recyclable by 2020 while also addressing their other environmental effects in different ways.

Corporate philanthropy also can pose dilemmas. Merck, DuPont, Walmart, and Bank of America have each donated $100 million or even more to charities in a year. Yet good deeds can be overlooked—even resented—if the company is seen as exploitive or fails to live up to a "good guys" image. Some critics worry that cause marketing or "consumption philanthropy" may replace virtuous actions with less thoughtful consumer buying, reduce emphasis on real solutions, or deflect attention from the fact that markets may create many social problems to begin with.[32]

SUSTAINABILITY *Sustainability*—the ability to meet humanity's needs without harming future generations—now tops many corporate agendas. Major corporations outline in great detail how they are trying to improve the long-term impact of their actions on communities and the environment. Coca-Cola, AT&T, and DuPont have even installed Chief Sustainability Officers.[33]

As one sustainability consultant put it, "There is a triple bottom line—people, planet, and profit—and the people part of the equation must come first. Sustainability means more than being eco-friendly, it also means you are in it for the long haul."[34] Corporate actions toward achieving sustainability take all forms. For example, Whole Foods, Wegmans, Target, and Walmart no longer sell fish caught in areas subject to overfishing or in a manner likely to harm other marine life or habitats.[35]

Sustainability ratings exist, but there is no consistent agreement about what metrics are appropriate.[36] One comprehensive study used 11 factors to assemble a list of the top 100 sustainable corporations in the world: energy, water, CO_2, and waste productivity; leadership diversity; CEO-to-average-worker pay; taxes paid; sustainability leadership; sustainability pay link; innovation capacity; and transparency. Some notable global firms in the top 10 include Statoil (Norway), Adidas (Germany), and Westpac Banking (Australia).[37]

Some feel companies that score well on sustainability exhibit high-quality management in that "they tend to be more strategically nimble and better equipped to compete in the complex, high-velocity, global environment."[38] Consumer interest is also creating market opportunities, such as for organic products (see "Marketing Insight: The Rise of Organic").

marketing insight

The Rise of Organic

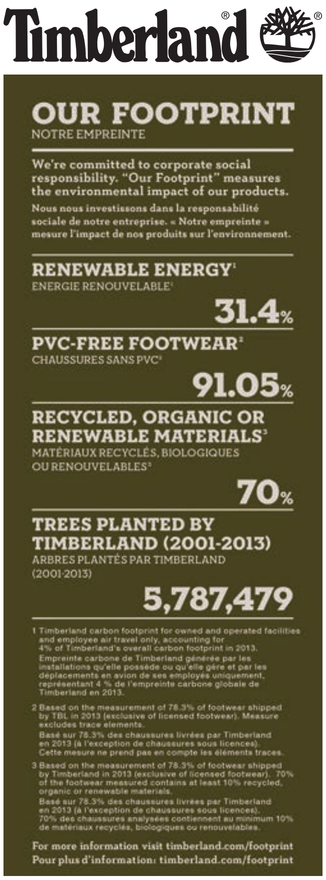
Organic and natural products have become a strong presence in many food and beverage categories. Caster & Pollux's success with organic and natural pet foods led to its distribution in major specialty retail chains such as PETCO. All-organic Honest Tea grew 50 percent a year after its founding in 1998; the firm sold 40 percent of the business to Coca-Cola in 2008. Annie's Home Grown started as an organic farm in Connecticut in 1989, went public in 2012 with an IPO raising $95 million, and was bought by General Mills for $820 million in 2014.

Many organic and natural products ground their brand positioning in sustainability and social values. Started in 1990 by avid cyclist Gary Erickson and named to honor his father, CLIF Bar set out to offer a better-tasting energy bar with wholesome, organic ingredients. CLIF Bar relies on biodiesel-powered vehicles, supports the construction of farmer- and Native American–owned wind farms through carbon offsets, and is active in its local community.

Given their premium prices and profitability, organic food and beverage products have also become big business. Erickson turned down a $120 million offer from Quaker Oats in 2000 so his firm could remain private, in part so he could continue its focus on eco-friendly practices. Other small firms have not followed suit, however, and major corporations like Cargill, ConAgra, Kraft, and M&M Mars now control much of the nation's organic food industry. Farms with annual sales of $500,000 or more account for nearly 80 percent of all organic sales, even though such farms make up only 12.5 percent of all farms.

Many nonfood companies are embracing organic ingredients to avoid chemicals and pesticides. Apparel and other nonfood items make up the second-fastest-growing category of the organic products industry. Organic nonfood grew to $2.8 billion in 2013—now 8 percent of the $35.1 billion organic products industry. Organic cotton grown by farmers who fight boll weevils with ladybugs, weed crops by hand, and use manure for fertilizer has become a hot product at retail.

Sources: Liz Webber, "USDA Survey Reveals Extent of Big Organic," *Supermarket News*, October 18, 2012; Stephanie Strom, "Has 'Organic' Been Oversized?," *New York Times*, July 7, 2012; George Avalos, "Annie's CEO Aims to Make Profit on Organic Mission," *Oakland Tribune*, June 24, 2012; Michelle Wu, "A Company Fueled by Athletes' Sweat," *Wall Street Journal*, March 22, 2010; Jessica Shambora, "The Honest Tea Guys Look Back," *Fortune*, July 26, 2010; Megan Johnston, "Hard Sell for a Soft Fabric," *Forbes*, October 30, 2006, pp. 73–80. See also Ram Bezawada and Koen Pauwels, "What Is Special about Marketing Organic Products? How Organic Assortment, Price, and Promotions Drive Retailer Performance," *Journal of Marketing* 77 (January 2013), pp. 31–51.



Source: Timberland

Timberland has adopted practices to protect the environment across a broad range of its corporate activities.

Heightened interest in sustainability has also unfortunately resulted in *greenwashing,* which gives products the appearance of being environmentally friendly without living up to that promise. One study revealed that half the labels on allegedly green products focus on an eco-friendly benefit (such as recycled content) while omitting information about significant environmental drawbacks (such as manufacturing intensity or transportation costs).[39] Stonyfield Farm's cofounder Gary Hirshberg is leading the charge with the "Just Label It!" campaign to provide more useful information on labels about the use of GMO (genetically modified organism) ingredients.[40]

Because insincere firms have jumped on the green bandwagon, consumers bring a healthy skepticism to environmental claims. They are also unwilling to sacrifice product performance and quality, nor are they necessarily willing to pay a price premium for green products.[41] Unfortunately, green products can be more expensive because ingredients are costly and transportation costs are higher for lower shipping volumes. As Chapter 3 described, when the recession hit, sales of many green household products slid. Sales of the premium-priced Clorox Green Works line, for example, dropped from more than $100 million in 2008 to $60 million five years later.[42]

SOCIALLY RESPONSIBLE BUSINESS MODELS

Companies that innovate solutions and values in a socially responsible way are most likely to succeed.[43] Consider Timberland.[44]

TIMBERLAND Timberland, the maker of rugged boots, shoes, clothing, and gear, targets individuals who live, work, and play outdoors, so it only makes sense to do whatever it takes to protect the environment. The company's actions have blazed trails for green companies around the world. Its revolutionary initiatives include putting a "nutrition label" on its shoeboxes, measuring the brand's environmental footprint—from renewable energy used in its facilities to recycled, organic, and renewable materials in its products to trees planted around the globe. Timberland also introduced a new line of shoes called Earthkeepers, which incorporates organic cotton, recycled PET, and recycled rubber (for the soles) and later expanded across multiple Timberland product categories. Outside of product, the brand has made a major commitment to reforestation, with nearly five million trees planted worldwide. With sales topping $1.6 billion in 2013, its business accomplishments prove that socially and environmentally responsible companies can be successful.

Companies such as The Body Shop, Working Assets, and Smith & Hawken are also giving social responsibility a more prominent role, as has Newman's Own. Late actor Paul Newman's homemade salad dressing grew into a huge business. Newman's Own brand also includes pasta sauce, salsa, popcorn, and lemonade and is now sold in 15 overseas markets. The company has given away all its profits and royalties after tax—more than $400 million so far—to thousands of educational and charitable programs worldwide, including the Hole in the Wall Gang camps Newman created for children with serious illnesses.[45]

Corporate philanthropy as a whole is on the rise. After years of steady growth, even during a recession, $16.8 billion in cash and in-kind support was given in 2013.[46] In addition to these contributions, more firms are coming to believe corporate social responsibility in the form of cause marketing and employee volunteerism programs is not just the "right thing" but also the "smart thing to do."[47]

CAUSE-RELATED MARKETING

Many firms blend corporate social responsibility initiatives with marketing activities.[48] **Cause-related marketing** links the firm's contributions toward a designated cause to customers' engaging directly or indirectly in revenue-producing transactions with the firm. Cause marketing is part of *corporate societal marketing (CSM)*, which Minette Drumwright and Patrick Murphy define as marketing efforts "that have at least one noneconomic objective related to social welfare and use the resources of the company and/or of its partners."[49] Drumwright and Murphy also include traditional and strategic philanthropy and volunteerism in CSM.

One study showed that 90 percent of U.S. consumers have a more positive image of, are more loyal to, and trust more a company that supports a cause, and 54 percent have bought a product because it was associated with a cause.[50] After describing Dawn's successful cause marketing program, we next review pros and cons of such programs and some important guidelines that apply to them.[51]

DAWN Procter & Gamble's Dawn, the top dishwashing liquid in the United States, has an unusual side benefit—it can clean birds caught in oil spills. A report by the U.S. Fish and Wildlife Service called Dawn "the only bird-cleaning agent that is recommended because it removes oil from feathers; is non-toxic; and does not leave a residue." A Web site launched in 2006, www.DawnSavesWildlife.com, drew 130,000 people who formed virtual groups to encourage friends and others to stop gas and oil leaks from their cars. After the catastrophic BP oil spill in 2010, P&G donated thousands of bottles of Dawn as well as placing a code on bottles and donating $1 to Gulf wildlife causes for each code customers activated, eventually totaling $500,000. To date, the company has donated more than 50,000 bottles of Dawn to help rescue and release 75,000 animals harmed by oil pollution. Teaming up with the Marine Mammal Center and International Bird Rescue, P&G pledged $1 million for 2014, also launching the premiere of a seven-part documentary series narrated by actor Rob Lowe.

CAUSE-MARKETING BENEFITS AND COSTS A successful cause-marketing program can improve social welfare, create differentiated brand positioning, build strong consumer bonds, enhance the company's public image, create a reservoir of goodwill, boost internal morale and galvanize employees, drive sales, and increase the firm's market value.[52] Consumers may develop a strong, unique bond with the firm that transcends normal marketplace transactions.

Specifically, from a branding point of view, cause marketing can (1) build brand awareness, (2) enhance brand image, (3) establish brand credibility, (4) evoke brand feelings, (5) create a sense of brand community, and (6) elicit brand engagement.[53] It has a particularly interested audience in socially minded 18- to 34-year-old Millennial consumers who, not surprisingly, are more likely than the general population to use social media to learn about cause activities and engage with companies about them.[54]

Cause-related marketing could backfire, however, if consumers question the link between the product and the cause or see the firm as self-serving and exploitive.[55] Problems can also arise if consumers do not think a company is consistent and sufficiently responsible in all its behavior, as happened to KFC.[56]

KFC KFC's "Buckets for the Cure" program was to donate 50 cents to the Susan G. Komen for the Cure Foundation for every $5 "pink" bucket of fried chicken purchased over a one-month period. It was slotted to be the single biggest corporate donation ever to fund breast cancer research—more than $8.5 million. One problem: At virtually the same time, KFC also launched its Double Down sandwich with two pieces of fried chicken, bacon, and cheese. Critics immediately pointed out that KFC was selling a food item with excessively high calories, fat, and sodium that contributed to obesity. On the Susan G. Komen site, being overweight was flagged for increasing the risk of breast cancer by 30 percent to 60 percent in postmenopausal women, also leaving the foundation open to criticism over the partnership.

Source: © National Geographic Image Collection/Alamy

P&G has created a series of cause-related activities around its Dove dishwashing liquid, taking advantage of its unusual side benefit to clean birds caught in oil spills.

Source: © Daily Mail/Rex / Alamy

U2's Bono has been the spokesperson for the PRODUCT(RED) partnership, whereby major brands donate proceeds from sales of designated "red" products to fight HIV/AIDS in Africa.

To avoid backlash, some firms take a soft-sell approach to their cause marketing.[57] One interesting recent cause program is the PRODUCT(RED) campaign.[58]

PRODUCT(RED) The highly publicized launch of PRODUCT(RED) in 2006, championed by U2 singer and activist Bono and Bobby Shriver, chairman of DATA, raised awareness and money for the Global Fund by teaming with some of the world's most iconic brands—American Express cards, Motorola phones, Converse sneakers, Gap T-shirts, Apple iPods, and Emporio Armani sunglasses—to produce (RED)-branded products. As much as 50 percent of the profits from sales of these products go to the Global Fund to help women and children affected by HIV/AIDS in Africa. Each company that becomes PRODUCT(RED) places its logo in the "embrace" signified by the parentheses and is "elevated to the power of red." Although some critics felt the PRODUCT(RED) project was either misguided or overmarketed, more than $275 million has been donated to date, an enormous increase over donations to the Global Fund prior before the program launch. Many well-known brands have joined the cause since then, such as Bank of America, Beats by Dr. Dre, Microsoft, and Starbucks.

DESIGNING A CAUSE PROGRAM Firms must make a number of decisions in designing and implementing a cause-marketing program, such as how many and which cause(s) to choose and how to brand the cause program. "Marketing Memo: Making a Difference: Top 10 Tips for Cause Branding" provides some tips from a top cause-marketing firm.

Some experts believe the positive impact of cause-related marketing is diluted if a company is only occasionally engaged in a number of causes. Cathy Chizauskas, Gillette's director of civic affairs, states: "When you're spreading out your giving in fifty-dollar to one-thousand-dollar increments, no one knows what you are doing.… It doesn't make much of a splash."[59] Many companies focus on one or a few main causes to simplify execution and maximize impact. McDonald's has focused on children and family health and well-being through three major programs:[60]

- Ronald McDonald Houses in 35 countries and regions offer more than 8,000 rooms each night to families needing support while their child is in the hospital, saving them a total of $657 million annually in hotel costs.
- Ronald McDonald Family Rooms in 23 countries help 4,000 families each day with a place to rest and regroup at the hospital next to their sick child.
- Fifty-two Ronald McDonald Care Mobiles in nine countries provide neighborhood on-site medical care for children.

Limiting support to a single cause, however, may limit the pool of consumers or other stakeholders who can transfer positive feelings from the cause to the firm. Many popular causes also already have numerous corporate sponsors. More than 130 companies, including American Airlines, Dell, Ford, Georgia Pacific, Merck, Samsung, and Walgreens, have become corporate partners of Susan G. Komen for the Cure.[61] Thus, a brand may find itself overlooked in a sea of symbolic pink ribbons.

marketing memo

Making a Difference: Top 10 Tips for Cause Branding

Cone, a Boston-based strategic communications agency specializing in cause branding and corporate responsibility, offers these tips for developing authentic and substantive programs:

1. ***Select a focus area that aligns with your mission, goals, and organization.***
2. ***Evaluate your institutional "will" and resources.*** If you, your employees, and other allies don't believe or invest in your organization's cause, neither will your audience.
3. ***Analyze your competitors' cause positioning.*** There are few remaining wide, open spaces, but this may help you locate a legitimate societal need or an untapped element within a more crowded space that you can own.
4. ***Choose your partners carefully.*** Look for alignment in values, mission, and will. Carefully outline roles and responsibilities. Set your sights on a multiyear, sustainable relationship with annual measurement of accomplishments for both partners.
5. ***Don't underestimate the name of your program—it's key to the identity of your campaign.*** Develop a few words that say exactly what you do and create a visual identity that is simple yet memorable. The Avon Breast Cancer Crusade, American Heart Association's Go Red for Women, and Target Take Charge of Education are good examples.
6. ***To create a sustainable and effective program, start by developing a cross-functional strategy team.*** Include representatives from the office of the CEO, public affairs, human resources, marketing, public and community relations, research/measurement, and volunteer and program management, among others. If you're in silos, you will spend too much valuable time building bridges to other departments to get the real work done.
7. ***Leverage both your assets and those of your partner(s) to bring the program to life.*** Assets may include volunteers, cash and in-kind donations, special events, in-store presence, partner resources, and marketing/advertising support. And, remember, emotion is one of your greatest assets. It can help you to connect with your audience and differentiate your organization in a crowded marketplace.
8. ***Communicate through every possible channel.*** Craft compelling words *and* visuals because stirring images can penetrate the heart. Then take your messages beyond traditional media outlets and become multidimensional! Think special events, Web sites, workshops, PSAs, expert spokespersons, and even celebrity endorsements.
9. ***Go local.*** National programs reach the "grass tops," but true transformation begins at the grassroots. Engage citizens/volunteers through hands-on activities at local events, cause promotions, and fund-raisers.
10. ***Innovate.*** True cause leaders constantly evolve their programs to add energy, new engagement opportunities, and content to remain relevant and to build sustainability.

Sources: Carol C. Cone, "Top 10 Tips for Cause Branding," www.coneinc.com/10-tips-cause-branding; see also Carol L. Cone, Mark A. Feldman, and Alison T. DaSilva, "Cause and Effects," *Harvard Business Review*, July 2003, 95–101.

Source: Richard Sennott/ZUMAPRESS/Newscom

McDonald's has focused its cause marketing efforts on Ronald McDonald House Charities which includes its Ronald McDonald Care Mobiles to provide local medical care for children.

Opportunities may be greater with "orphan causes"—diseases that afflict fewer than 200,000 people.[62] Another option is overlooked diseases; pancreatic cancer is the fourth-deadliest form of cancer behind skin, lung, and breast yet has received little or no corporate support. Diabetes is linked to the deaths of many more people than breast cancer but receives significantly less funding support. Even major killers such as prostate cancer for men and heart disease for women have been relatively neglected compared to breast cancer, though some firms have begun to fill the void. The American Heart Association launched a "Go Red for Women" program, with a red dress symbol and a national "Wear Red Day" sponsored by Macy's, to draw attention from corporations and others to a disease that kills roughly 12 times as many women a year as breast cancer.[63]

Most firms choose causes that fit their corporate or brand image and matter to their employees and shareholders.[64] LensCrafters' Give the Gift of Sight program—rebranded OneSight after the company was purchased by the Italian firm Luxottica—is a family of charitable vision-care programs providing free vision screenings, eye exams, and glasses to millions of needy people in North America and developing countries around the world. Luxottica pays most of the overhead, so more than 90 percent of all donations goes directly to fund programming.[65] Barnum's Animal Crackers launched a campaign to raise awareness of endangered species and help protect the Asian tiger. Issuing special edition packaging and collaborating with the World Wildlife Fund, the Nabisco brand saw a "healthy lift in sales."[66] Here is an example of a firm that used cause marketing in part to successfully build a new business.[67]

TOMS Although Blake Mycoskie did not win the reality show contest *Amazing Race*, his return trip to Argentina in 2006 sparked a desire to start a business to help the scores of kids he saw who suffered for one simple reason—they lacked shoes. Shoeless children incur a health risk but are also disadvantaged by often being barred from school. Thus was born TOMS shoes, named to suggest "a better tomorrow," with a pledge to donate a pair of shoes to a needy child for each pair sold. Picked up by stores like Whole Foods, Nordstrom, and Neiman Marcus and also sold online, TOMS shoes are based on the rope-soled, canvas-topped *alpargata* footwear of Argentina and can now be found on the feet of more than 1 million kids in developing countries. The donations were good marketing too. The firm has garnered heaps of publicity, and AT&T and American Express even featured Mycoskie in a commercial. TOMS also sponsored "A Day Without Shoes" promotion to help people imagine what life would be like shoeless. Some critics feel the brand is treating a symptom but not really addressing the root economic problem and that it could even be undermining the local shoe economy. Nevertheless, it has moved into eyewear with the same business model and is estimated to earn $250 million in revenues annually while giving away literally millions of shoes and now eyeglasses.

SOCIAL MARKETING

Cause-related marketing supports a cause. **Social marketing** by nonprofit or government organizations *furthers* a cause, such as "say no to drugs" or "exercise more and eat better."[68] Some notable global social marketing successes are:

- A mass media campaign to promote oral rehydration therapy in Honduras significantly decreased deaths from diarrhea in children under 5.

TOMS shoes puts cause marketing at the core of what it does, donating a pair of shoes to underprivileged children in developing countries for each pair it sells.

Source: Handout/MCT/Newscom

- Social marketers created booths in marketplaces where Ugandan midwives sold contraceptives at affordable prices.
- Population Communication Services created and promoted two extremely popular songs in Latin America, "Stop" and "When We Are Together," to help young adults learn sexual responsibility.
- The National Heart, Lung, and Blood Institute successfully raised awareness in the U.S. about cholesterol and high blood pressure, which helped significantly reduce deaths.

Different types of organizations conduct social marketing in the United States. Government agencies include the Centers for Disease Control and Prevention, Departments of Health, Social, and Human Services, Department of Transportation, and the U.S. Environmental Protection Agency. The literally hundreds of nonprofit organizations include the American Red Cross, the United Way, and the American Cancer Society.

Choosing the right goal or objective for a social marketing program is critical. Should a family-planning campaign focus on abstinence or birth control? Should a campaign to fight air pollution focus on ride sharing or mass transit? Table 23.3 illustrates the range of possible objectives.

While social marketing uses a number of different tactics to achieve its goals, the planning process follows many of the same steps as for traditional products and services (see Table 23.4).[69] Some key success factors for changing behavior include:[70]

- Choose target markets that are most ready to respond.
- Promote a single, doable behavior in clear, simple terms.
- Explain the benefits in compelling terms.
- Make it easy to adopt the behavior.
- Develop attention-grabbing messages and media.
- Consider an education-entertainment approach.

One organization that has accomplished many of these goals through the application of modern marketing practices is the World Wildlife Fund.[71]

WORLD WILDLIFE FUND The World Wildlife Fund (WWF) is a Washington, D.C.-based nonprofit with 1.2 million members in the United States and 5 million globally. Its annual budget does not allow for lavish marketing, so it relies primarily on creative direct marketing to solicit contributions. The organization sends about 36 million pieces of eco-friendly mail in the United States each year, garnering 65 percent of its membership revenue in the process. It has an award-winning Web site, is active on Facebook and Twitter, and earns revenue through partnerships with a host of firms including Avon, Disney, The Gap, and Build-A-Bear Workshop. Partnerships sometimes include joint marketing programs; Coca-Cola donated $2 million for a campaign to help create safe areas for polar bears in Canada and other Arctic regions. WWF also tackles important wildlife issues head on, as with its multimedia anti-poaching campaign, which used billboards, print ads, public service announcements, and online posters with the tagline "Stop Wildlife Crime—It's Dead Serious."

TABLE 23.3 Some Possible Social Marketing Program Objectives

Cognitive Campaigns	Behavioral Campaigns
• Explain the nutritional values of different foods. • Demonstrate the importance of conservation.	• Demotivate cigarette smoking. • Demotivate use of hard drugs. • Demotivate excessive alcohol consumption.
Action Campaigns	**Value Campaigns**
• Attract people for mass immunization. • Motivate people to vote "yes" on a certain issue. • Inspire people to donate blood. • Motivate women to receive a Pap test.	• Alter ideas about abortion. • Change attitudes of bigoted people.

TABLE 23.4 The Social Marketing Planning Process

Where Are We? • Choose program focus • Identify campaign purpose • Conduct an analysis of strengths, weaknesses, opportunities, and threats (SWOT) • Review past and similar efforts
Where Do We Want to Go? • Select target audiences • Set objectives and goals • Analyze target audiences and the competition
How Will We Get There? • Product: Design the market offering • Price: Manage costs of behavior change • Distribution: Make the product available • Communications: Create messages and choose media
How Will We Stay on Course? • Develop a plan for evaluation and monitoring • Establish budgets and find funding sources • Complete an implementation plan

Social marketing programs are complex; they take time and may require phased programs or actions. There were many steps involved in curbing the prevalence of smoking: release of cancer reports, labeling of cigarettes as harmful, bans on cigarette advertising, education about secondary smoke effects, bans on smoking in restaurants and planes, increased taxes on cigarettes to pay for antismoking campaigns, and states' suits against tobacco companies.

Social marketing organizations should evaluate program success in terms of their objectives, measuring criteria like incidence of adoption, speed of adoption, continuance of adoption, low cost per unit of adoption, and absence of counterproductive consequences.

In addition to its popular Christmas ads featuring playful animated polar bears, Coca-Cola also partners with the World Wildlife Fund to protect real polar bears in their native regions.

Source: ASSOCIATED PRESS

Marketing Implementation and Control

Table 23.5 summarizes the characteristics of a great marketing company, great not for what it is but for what it does. Great marketing companies know the best marketers thoughtfully and creatively devise marketing plans and then bring them to life. Marketing implementation and control are critical to making sure marketing plans have their intended results year after year.

MARKETING IMPLEMENTATION

Marketing implementation is the process that turns marketing plans into action assignments and ensures they accomplish the plan's stated objectives.[72] A brilliant strategic marketing plan counts for little if not implemented properly. Strategy addresses the *what* and *why* of marketing activities; implementation addresses the *who, where, when,* and *how*. They are closely related: One layer of strategy implies certain tactical implementation assignments at a lower level. For example, top management's strategic decision to "harvest" a product must be translated into specific actions and assignments.

Companies today are striving to make their marketing operations more efficient and their return on marketing investment more measurable (see Chapter 4). Marketing costs can amount to as much as a quarter of a company's total operating budget. Marketers need better templates for marketing processes, better management of marketing assets, and better allocation of marketing resources.

Marketing resource management (MRM) software provides a set of Web-based applications that automate and integrate project management, campaign management, budget management, asset management, brand management, customer relationship management, and knowledge management. The knowledge management component consists of process templates, how-to wizards, and best practices. Software packages can provide what some have called *desktop marketing,* giving marketers information and decision structures on computer dashboards. MRM software lets marketers improve spending and investment decisions, bring new products to market more quickly, and reduce decision time and costs.

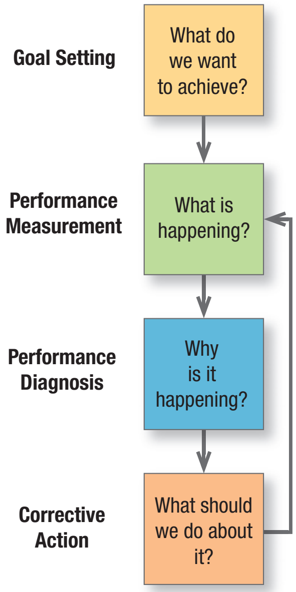
MARKETING CONTROL

Marketing control is the process by which firms assess the effects of their marketing activities and programs and make necessary changes and adjustments. Table 23.6 lists four types of needed marketing control: annual-plan control, profitability control, efficiency control, and strategic control.

TABLE 23.5 Characteristics of a Great Marketing Company
• The company selects target markets in which it enjoys superior advantages and exits or avoids markets where it is intrinsically weak.
• Virtually all the company's employees and departments are customer- and market-minded.
• There is a good working relationship between marketing, R&D, and manufacturing.
• There is a good working relationship between marketing, sales, and customer service.
• The company has installed incentives designed to lead to the right behaviors.
• The company continuously builds and tracks customer satisfaction and loyalty.
• The company manages a value delivery system in partnership with strong suppliers and distributors.
• The company is skilled in building its brand name(s) and image.
• The company is flexible in meeting customers' varying requirements.

TABLE 23.6 Types of Marketing Control

Type of Control	Prime Responsibility	Purpose of Control	Approaches
I. Annual-plan control	Top management Middle management	To examine whether the planned results are being achieved	• Sales analysis • Market share analysis • Sales-to-expense ratios • Financial analysis • Market-based scorecard analysis
II. Profitability control	Marketing controller	To examine where the company is making and losing money	Profitability by: • product • territory • customer • segment • trade channel • order size
III. Efficiency control	Line and staff management Marketing controller	To evaluate and improve the spending efficiency and impact of marketing expenditures	Efficiency of: • sales force • advertising • sales promotion • distribution
IV. Strategic control	Top management Marketing auditor	To examine whether the company is pursuing its best opportunities with respect to markets, products, and channels	• Marketing effectiveness rating instrument • Marketing audit • Marketing excellence review • Company ethical and social responsibility review



| Fig. 23.5 |

The Control Process

ANNUAL-PLAN CONTROL Annual-plan control ensures the company achieves the sales, profits, and other goals established in its annual plan. At its heart is management by objectives (see Figure 23.5). First, management sets monthly or quarterly goals. Second, it monitors performance in the marketplace. Third, management determines the causes of serious performance deviations. Fourth, it takes corrective action to close gaps between goals and performance.

This control model applies to all levels of the organization. Top management sets annual sales and profit goals; each product manager, regional district manager, sales manager, and sales rep is committed to attaining specified levels of sales and costs. Each period, top management reviews and interprets the results. Marketers today have better marketing metrics for measuring the performance of marketing plans (see Table 23.7 for some samples).[73] Four tools for the purpose are sales analysis, market share analysis, marketing expense-to-sales analysis, and financial analysis. The chapter appendix outlines them in detail.

PROFITABILITY CONTROL Companies should measure the profitability of their products, territories, customer groups, segments, trade channels, and order sizes to help determine whether to expand, reduce, or eliminate any products or marketing activities. The chapter appendix shows how to conduct and interpret a marketing profitability analysis.

EFFICIENCY CONTROL Suppose a profitability analysis reveals the company is earning poor profits in certain products, territories, or markets. Are there more efficient ways to manage the sales force, advertising, sales promotion, and distribution?

Some companies have established a *marketing controller* position to work out of the controller's office but specialize in improving marketing efficiency. These marketing controllers examine adherence to profit plans, help prepare brand managers' budgets, measure the efficiency of promotions, analyze media

TABLE 23.7 Marketing Metrics

Sales Metrics
- Sales growth
- Market share
- Sales from new products

Customer Readiness to Buy Metrics
- Awareness
- Preference
- Purchase intention
- Trial rate
- Repurchase rate

Customer Metrics
- Customer complaints
- Customer satisfaction
- Ratio of promoters to detractors
- Customer acquisition costs
- New-customer gains
- Customer losses
- Customer churn
- Retention rate
- Customer lifetime value
- Customer equity
- Customer profitability
- Return on customer

Distribution Metrics
- Number of outlets
- Share in shops handling
- Weighted distribution
- Distribution gains
- Average stock volume (value)
- Stock cover in days
- Out-of-stock frequency
- Share of shelf
- Average sales per point of sale

Communication Metrics
- Spontaneous (unaided) brand awareness
- Top-of-mind brand awareness
- Prompted (aided) brand awareness
- Spontaneous (unaided) advertising awareness
- Prompted (aided) advertising awareness
- Effective reach
- Effective frequency
- Gross rating points (GRP)
- Response rate

production costs, evaluate customer and geographic profitability, and educate marketing staff on the financial implications of marketing decisions.

STRATEGIC CONTROL Each company should periodically reassess its strategic approach to the marketplace with a good marketing audit. Companies can also perform marketing excellence reviews and ethical/social responsibility reviews.

The Marketing Audit The average U.S. corporation loses half its customers in five years, half its employees in four years, and half its investors in less than one year. Clearly, this points to some weaknesses. Companies that discover weaknesses should undertake a thorough study known as a marketing audit.[74]

A **marketing audit** is a comprehensive, systematic, independent, and periodic examination of a company's or business unit's marketing environment, objectives, strategies, and activities, with a view to determining problem areas and opportunities and recommending a plan of action to improve the company's marketing performance.

Let's examine the marketing audit's four characteristics:

1. ***Comprehensive***—The marketing audit covers all the major marketing activities of a business, not just a few trouble spots as in a functional audit. Although functional audits are useful, they sometimes mislead management. Excessive sales force turnover, for example, could be a symptom not of poor sales force training or compensation but of weak company products and promotion. A comprehensive marketing audit usually is more effective in locating the real source of problems.
2. ***Systematic***—The marketing audit is an orderly examination of the organization's macro- and micromarketing environments, marketing objectives and strategies, marketing systems, and specific activities. It identifies the most-needed improvements and incorporates them into a corrective-action plan with short- and long-run steps.

3. ***Independent***—Self-audits, in which managers rate their own operations, lack objectivity and independence. The 3M Company has made good use of a corporate auditing office, which provides marketing audit services to divisions on request.[75] Usually, however, outside consultants bring the necessary objectivity, broad experience in a number of industries, familiarity with the industry being audited, and undivided time and attention.
4. ***Periodic***—Firms typically initiate marketing audits only after failing to review their marketing operations during good times, with resulting problems. A periodic marketing audit can benefit companies in good health as well as those in trouble.

A marketing audit starts with agreement between the company officer(s) and the marketing auditor(s) on the audit's objectives and time frame and a detailed plan of who is to be asked what questions. The cardinal rule for marketing auditors is: Don't rely solely on company managers for data and opinions. Ask customers, dealers, and other outside groups. Many companies don't really know how their customers and dealers see them, nor do they fully understand customer needs.

The marketing audit examines six major components of the company's marketing situation. Table 23.8 lists the major questions.

TABLE 23.8 Components of a Marketing Audit

Part I. Marketing Environment Audit	
Macroenvironment	
A. Demographic	What major demographic developments and trends pose opportunities or threats to this company? What actions has the company taken in response to these developments and trends?
B. Economic	What major developments in income, prices, savings, and credit will affect the company? What actions has the company been taking in response to these developments and trends?
C. Environmental	What is the outlook for the cost and availability of natural resources and energy needed by the company? What concerns have been expressed about the company's role in pollution and conservation, and what steps has the company taken?
D. Technological	What major changes are occurring in product and process technology? What is the company's position in these technologies? What major generic substitutes might replace this product? What are the digital implications of how the company conducts its business and its marketing?
E. Political	What changes in laws and regulations might affect marketing strategy and tactics? What is happening in the areas of sustainability, equal employment opportunity, product safety, advertising, price control, and so forth, that affects marketing strategy?
F. Cultural	What is the public's attitude toward business and toward the company's products? What changes in customer lifestyles and values might affect the company?
Task Environment	
A. Markets	What is happening to market size, growth, geographical distribution, and profits? What are the major market segments?
B. Customers	What are the customers' needs and buying processes? How do customers and prospects rate the company and its competitors on reputation, product quality, service, sales force, and price? How do different customer segments make their buying decisions?
C. Competitors	Who are the major competitors? What are their objectives, strategies, strengths, weaknesses, sizes, and market shares? What trends will affect future competition and substitutes for the company's products?
D. Distribution and Dealers	What are the main trade channels for bringing products to customers? What are the efficiency levels and growth potentials of the different trade channels?
E. Suppliers	What is the outlook for the availability of key resources used in production? What trends are occurring among suppliers?
F. Facilitators and Marketing Firms	What is the cost and availability outlook for transportation services, warehousing facilities, and financial resources? How effective are the company's advertising agencies and marketing research firms?

TABLE 23.8 (Continued)

G. Publics	Which publics represent particular opportunities or problems for the company? What steps has the company taken to deal effectively with each public?
Part II. Marketing Strategy Audit	
A. Business Mission	Is the business mission clearly stated in market-oriented terms? Is it feasible?
B. Marketing Objectives and Goals	Are the company and marketing objectives and goals stated clearly enough to guide marketing planning and performance measurement? Are the marketing objectives appropriate, given the company's competitive position, resources, and opportunities?
C. Strategy	Has the management articulated a clear marketing strategy for achieving its marketing objectives? Is the strategy convincing? Is the strategy appropriate to the stage of the product life cycle, competitors' strategies, and the state of the economy? Is the company using the best basis for market segmentation? Does it have clear criteria for rating the segments and choosing the best ones? Has it developed accurate profiles of each target segment? Has the company developed an effective positioning and marketing mix for each target segment? Are marketing resources allocated optimally to the major elements of the marketing mix? Are enough resources or too many resources budgeted to accomplish the marketing objectives?
Part III. Marketing Organization Audit	
A. Formal Structure	Does the marketing vice president or CMO have adequate authority and responsibility for company activities that affect customers' satisfaction? Are the marketing activities optimally structured along functional, product, segment, end user, and geographical lines?
B. Functional Efficiency	Are there good communication and working relations between marketing and sales? Is the product-management system working effectively? Are product managers able to plan profits or only sales volume? Are there any groups in marketing that need more training, motivation, supervision, or evaluation?
C. Interface Efficiency	Are there any problems between marketing and manufacturing, R&D, IT, purchasing, finance, accounting, and/or legal that need attention?
Part IV. Marketing Systems Audit	
A. Marketing Information System	Is the marketing information system producing accurate, sufficient, and timely information about marketplace developments with respect to customers, prospects, distributors and dealers, competitors, suppliers, and various publics? Are company decision makers asking for enough marketing research, and are they using the results? Is the company employing the best methods for market measurement and sales forecasting?
B. Marketing Planning System	Is the marketing planning system well conceived and effectively used? Do marketers have decision support systems available? Does the planning system result in acceptable sales targets and quotas?
C. Marketing Control System	Are the control procedures adequate to ensure that the annual-plan objectives are being achieved? Does management periodically analyze the profitability of products, markets, territories, and channels of distribution? Are marketing costs and productivity periodically examined?
D. New-Product Development System	Is the company well organized to gather, generate, and screen new-product ideas? Does the company do adequate concept research and business analysis before investing in new ideas? Does the company carry out adequate product and market testing before launching new products?
Part V. Marketing Productivity Audit	
A. Profitability Analysis	What is the profitability of the company's different products, markets, territories, and channels of distribution? Should the company enter, expand, contract, or withdraw from any business segments?
B. Cost-Effectiveness Analysis	Do any marketing activities seem to have excessive costs? Can cost-reducing steps be taken?

(*Continued*)

TABLE 23.8 (Continued)

Part VI. Marketing Function Audits	
A. Products	What are the company's product line objectives? Are they sound? Is the current product line meeting the objectives? Should the product line be stretched or contracted upward, downward, or both ways? Which products should be phased out? Which products should be added? What are the buyers' knowledge and attitudes toward the company's and competitors' product quality, features, styling, brand names, and so on? What areas of product and brand strategy need improvement?
B. Price	What are the company's pricing objectives, policies, strategies, and procedures? To what extent are prices set on cost, demand, and competitive criteria? Do the customers see the company's prices as being in line with the value of its offer? What does management know about the price elasticity of demand, experience-curve effects, and competitors' prices and pricing policies? To what extent are price policies compatible with the needs of distributors and dealers, suppliers, and government regulation?
C. Distribution	What are the company's distribution objectives and strategies? Is there adequate market coverage and service? How effective are distributors, dealers, manufacturers' representatives, brokers, agents, and others? Should the company consider changing its distribution channels?
D. Marketing Communications	Is the company making enough use of mass, digital, and personal communications? What are the organization's communication objectives? Are they sound? Is the right amount being spent on communications? What do customers and the public think about the communications? Are media well chosen? Is the internal communications staff adequate? Is the communication budget adequate?
E. Sales Force	What are the sales force's objectives? Is the sales force large enough to accomplish the company's objectives? Is the sales force organized along the proper principles of specialization (territory, market, product)? Are there enough (or too many) sales managers to guide the field sales representatives? Do the sales compensation level and structure provide adequate incentive and reward? Does the sales force show high morale, ability, and effort? Are the procedures adequate for setting quotas and evaluating performance? How does the company's sales force compare to competitors' sales forces?

The Marketing Excellence Review The three columns in Table 23.9 distinguish among poor, good, and excellent business and marketing practices. The profile management creates from indicating where it thinks the business stands on each line can highlight where changes could help the firm become a truly outstanding player in the marketplace.

The Future of Marketing

Top management recognizes that marketing requires more accountability than in the past. "Marketing Memo: Major Marketing Weaknesses" summarizes companies' major deficiencies in marketing and how to find and correct them.

To succeed in the future, marketing must be more holistic and less departmental. Marketers must achieve wider influence in the company, continuously create new ideas, and strive for customer insight by treating customers differently but appropriately. They must build their brands more through performance than promotion. They must go electronic and win through building superior information and communication systems.

The coming years will see:

- The demise of the marketing department and the rise of holistic marketing
- The demise of free-spending marketing and the rise of ROI marketing
- The demise of marketing intuition and the rise of marketing science
- The demise of manual marketing and the rise of both automated *and* creative marketing
- The demise of mass marketing and the rise of precision marketing

TABLE 23.9 The Marketing Excellence Review: Best Practices

Poor	Good	Excellent
Product driven	Market driven	Market driving
Mass-market oriented	Segment-oriented	Niche-oriented and customer-oriented
Product offer	Augmented product offer	Customer solutions offer
Average product quality	Better than average	Legendary
Average service quality	Better than average	Legendary
End-product oriented	Core-product oriented	Core-competency oriented
Function oriented	Process oriented	Outcome oriented
Reacting to competitors	Benchmarking competitors	Leapfrogging competitors
Supplier exploitation	Supplier preference	Supplier partnership
Dealer exploitation	Dealer support	Dealer partnership
Price driven	Quality driven	Value driven
Average speed	Better than average	Legendary
Hierarchy	Network	Teamwork
Vertically integrated	Flattened organization	Strategic alliances
Stockholder driven	Stakeholder driven	Societally driven

marketing memo — Major Marketing Weaknesses

A number of "deadly sins" signal that the marketing program is in trouble. Here are 10 deadly sins, the signs, and some solutions.

Deadly Sin #1: The company is not sufficiently market focused and customer driven.

Signs: There is evidence of poor identification of market segments, poor prioritization of market segments, no market segment managers, employees who think it is the job of marketing and sales to serve customers, no training program to create a customer culture, and no incentives to treat the customer especially well.
Solutions: Use more advanced segmentation techniques, prioritize segments, specialize the sales force, develop a clear hierarchy of company values, foster more "customer consciousness" in employees and company agents, and make it easy for customers to reach the company and respond quickly to any communication.

Deadly Sin #2: The company does not fully understand its target customers.

Signs: The latest study of customers is three years old; customers are not buying your product like they once did; competitors' products are selling better; and there is a high level of customer returns and complaints.
Solutions: Do more sophisticated consumer research, use more analytical techniques, establish customer and dealer panels, use customer relationship software, and do data mining.

Deadly Sin #3: The company needs to better define and monitor its competitors.

Signs: The company focuses on near competitors, misses distant competitors and disruptive technologies, and has no system for gathering and distributing competitive intelligence.
Solutions: Establish an office for competitive intelligence, hire competitors' people, watch for technology that might affect the company, and prepare offerings like those of competitors.

(*Continued*)

Deadly Sin #4: The company does not properly manage relationships with stakeholders.

Signs: Employees, dealers, and investors are not happy; and good suppliers do not come.
Solutions: Move from zero-sum thinking to positive-sum thinking; and do a better job of managing employees, supplier relations, distributors, dealers, and investors.

Deadly Sin #5: The company is not good at finding new opportunities.

Signs: The company has not identified any exciting new opportunities for years, and the new ideas the company has launched have largely failed.
Solutions: Set up a system for stimulating the flow of new ideas.

Deadly Sin #6: The company's marketing planning process is deficient.

Signs: The marketing plan format does not have the right components, there is no way to estimate the financial implications of different strategies, and there is no contingency planning.
Solutions: Establish a standard format including situational analysis, SWOT, major issues, objectives, strategy, tactics, budgets, and controls; ask marketers what changes they would make if they were given 20 percent more or less budget; and run an annual marketing awards program with prizes for best plans and performance.

Deadly Sin #7: Product and service policies need tightening.

Signs: There are too many products and many are losing money; the company is giving away too many services; and the company is poor at cross-selling products and services.
Solutions: Establish a system to track weak products and fix or drop them; offer and price services at different levels; and improve processes for cross-selling and up-selling.

Deadly Sin #8: The company's brand-building and communications skills are weak.

Signs: The target market does not know much about the company; the brand is not seen as distinctive; the company allocates its budget to the same marketing tools in about the same proportion each year; and there is little evaluation of the ROI impact of marketing communications and activities.
Solutions: Improve brand-building strategies and measurement of results; shift money into effective marketing instruments; and require marketers to estimate the ROI impact in advance of funding requests.

Deadly Sin #9: The company is not organized for effective and efficient marketing.

Signs: Staff lacks 21st-century marketing skills, and there are bad vibes between marketing/sales and other departments.
Solutions: Appoint a strong leader and build new skills in the marketing department, and improve relationships between marketing and other departments.

Deadly Sin #10: The company has not made maximum use of technology.

Signs: There is evidence of minimal use of the Internet, an outdated sales automation system, no market automation, no decision-support models, and no marketing dashboards.
Solutions: Use the Internet more, improve the sales automation system, apply market automation to routine decisions, and develop formal marketing decision models and marketing dashboards.

Source: Philip Kotler, *Ten Deadly Marketing Sins: Signs and Solutions* (Hoboken, NJ: Wiley, 2004). © Philip Kotler.

To accomplish these changes and become truly holistic, marketers need a new set of skills and competencies in:

- Customer relationship management (CRM)
- Partner relationship management (PRM)
- Database marketing and data mining
- Contact center management and telemarketing
- Digital marketing and social media
- Public relations marketing (including event and sponsorship marketing)
- Brand-building and brand-asset management
- Experiential marketing
- Integrated marketing communications
- Profitability analysis by segment, customer, and channel

The benefits of successful 21st-century marketing are many, but they will come only with hard work, insight, and inspiration. New rules and practices are emerging, and it is an exciting time. The words of 19th-century U.S. author Ralph Waldo Emerson have perhaps never been more true: "This time like all times is a good one, if we but know what to do with it."

Summary

1. The modern marketing department has evolved through the years from a simple sales department to an organizational structure where marketers work mainly on cross-disciplinary teams.
2. Some companies are organized by functional specialization; others focus on geography and regionalization, product and brand management, or market-segment management. Some companies establish a matrix organization consisting of both product and market managers.
3. Effective modern marketing organizations are marked by customer focus within and strong cooperation among marketing, R&D, engineering, purchasing, manufacturing, operations, finance, accounting, and credit.
4. Companies must practice social responsibility through their legal, ethical, and social words and actions. Cause marketing can be a means for companies to productively link social responsibility to consumer marketing programs. Social marketing is done by a nonprofit or government organization to directly address a social problem or cause.
5. A brilliant strategic marketing plan counts for little unless implemented properly, including recognizing and diagnosing a problem, assessing where the problem exists, and evaluating results.
6. The marketing department must monitor and control marketing activities continuously. Marketing plan control ensures the company achieves the sales, profits, and other goals in its annual plan. The main tools are sales analysis, market share analysis, marketing expense-to-sales analysis, and financial analysis of the marketing plan. Profitability control measures and controls the profitability of products, territories, customer groups, trade channels, and order sizes. Efficiency control finds ways to increase the efficiency of the sales force, advertising, sales promotion, and distribution. Strategic control periodically reassesses the company's strategic approach to the marketplace using marketing effectiveness and marketing excellence reviews as well as marketing audits.
7. Achieving marketing excellence in the future will require a new set of skills and competencies.

MyMarketingLab

Go to mymktlab.com to complete the problems marked with this icon ✪ as well as for additional Assisted-graded writing questions.

Applications

Marketing Debate

Is Marketing Management an Art or a Science?

Some observers maintain that good marketing is mostly an art and does not lend itself to rigorous analysis and deliberation. Others contend it is a highly disciplined enterprise that shares much with other business disciplines.

Take a position: **Marketing management is largely an artistic exercise and therefore highly subjective *versus* Marketing management is largely a scientific exercise with well-established guidelines and criteria.**

Marketing Discussion

Cause Marketing

✪ How does cause or corporate societal marketing affect your personal consumer behavior? Do you ever buy or not buy any products or services from a company because of its environmental policies or programs? Why or why not?

Marketing Excellence

>> Starbucks

Starbucks opened in Seattle in 1971, when coffee consumption in the United States had been declining for a decade and rival brands used cheaper beans to compete on price. The company's founders decided to try a new concept: selling only the finest imported coffee beans and coffee-brewing equipment. (The original store didn't sell coffee by the cup, only beans.)

Howard Schultz came to Starbucks in 1982. While in Milan on business, he had walked into an Italian coffee bar and had an epiphany: "There was nothing like this in America. It was an extension of people's front porch. It was an emotional experience." To bring this concept to the United States, Schultz set about creating an environment that would blend Italian elegance with U.S. informality. He envisioned Starbucks as a "personal treat" for its customers, a comfortable, sociable gathering spot bridging the workplace and home.

Starbucks' expansion throughout the United States was carefully planned. All stores were company-owned and operated, ensuring complete control over the product and an unparalleled image of quality. Starbucks used a "hub" strategy; coffeehouses entered a new market in a clustered group. Although this deliberate saturation often cannibalized 30 percent of one store's sales, any drop in revenue was offset by efficiencies in marketing and distribution costs and the enhanced image of convenience. A typical customer stopped by Starbucks 18 times a month. No U.S. retailer had a higher frequency rate of customer visits.

Starbucks' success is often attributed to its high-quality products and services and its relentless commitment to providing consumers the richest possible sensory experience. However, another critical component is its commitment to social responsibility.

Community: Starbucks gives back to its community in many ways starting with employees, called partners. Schultz believed that to exceed customers' expectations, the company must first exceed those of employees. Since 1990, it has provided comprehensive health care to all employees, including part-timers. (Health insurance now costs the company more each year than coffee.) A stock option plan allows employees to participate in the firm's financial success, and the company has committed to hiring 10,000 veterans and military spouses over the next five years. In 2013, employees donated 630,000 hours of community service; the company hopes to top 1 million hours by the end of 2015.

Starbucks created The Starbucks Foundation in 1997 to "create hope, discovery, and opportunity in communities," mainly by supporting literacy programs for children and families in the United States and Canada and charities worldwide. In 2013, the foundation gave $8.7 million to 144 nonprofit organizations around the world. Starbucks has donated more than $11 million to the Global Fund through its partnership with PRODUCT(RED), a global initiative to help stop the spread of HIV in Africa.

Ethical Sourcing: Starbucks collaborates with Conservation International (CI), a nongovernmental organization, and follows Coffee and Farmer Equity (C.A.F.E.) Practices, a comprehensive coffee-buying program, to purchase high-quality coffee from farmers who meet social, economic, and environmental standards. Of 396 million pounds of coffee Starbucks purchased in 2013, 95 percent was ethically sourced. The company also works continuously with farmers to improve responsible methods of farming, such as by planting trees along rivers and using shade-growing techniques to help preserve forests. Over the years, Starbucks has invested more than $70 million in collaborative farmer programs and activities.

Environment: Starbucks is considered a leader in green initiatives, building new LEED-certified green buildings, reducing waste, and improving water conservation. The world's first recycled beverage cup made of 10 percent postconsumer fiber, 10 years in the making, and a new hot-cup paper sleeve that requires fewer materials to make conserve approximately 100,000 trees a year. Now the team is working to ensure that customers recycle. Jim Hanna, Starbucks's director of environmental impact, explained, "[Starbucks] defines a recyclable cup not by what the cup is made out of but by our customers actually having access to recycling services." Starbucks's goal: to make 100 percent of its cups recycled or reused by 2015.

Howard Schultz stepped down as CEO in 2000 but returned as CEO, president, and chairman in 2008 to help restore growth and excitement to the powerhouse chain. Today, more than 3 billion customers visit Starbucks' 20,000 stores in 65 countries annually. The company has more than 200,000 employees and brought in $14.9 billion in revenue in 2013. To achieve its international growth goals, Schultz believes Starbucks must retain a passion for coffee and a sense of humanity and continue to prove that the company "stands for something more than just profitability."

Questions

1. Starbucks makes business decisions that are both ethical and responsible. Has it done a good job communicating its efforts to consumers? Do consumers believe Starbucks is a socially responsible company? Why or why not?

2. Where does a company like Starbucks draw the line on supporting socially responsible programs? How much of its annual budget should go toward these programs? How much time should employees focus on them? Which programs should it support?
3. How do you measure the results of Starbucks's socially responsible programs?

Sources: Howard Schultz, "Dare to Be a Social Entrepreneur," *Business 2.0*, December 2006, p. 87; Edward Iwata, "Owner of Small Coffee Shop Takes on Java Titan Starbucks," *USA Today*, December 20, 2006; "Staying Pure: Howard Schultz's Formula for Starbucks," *Economist*, February 25, 2006, p. 72; Diane Anderson, "Evolution of the Eco Cup," *Business 2.0*, June 2006, p. 50; Bruce Horovitz, "Starbucks Nation," *USA Today*, May 19, 2006; Theresa Howard, "Starbucks Takes Up Cause for Safe Drinking Water," *USA Today*, August 2, 2005; Howard Schultz and Dori Jones Yang, *Pour Your Heart into It: How Starbucks Built a Company One Cup at a Time* (New York: Hyperion, 1997); "At MIT-Starbucks Symposium, Focus on Holistic Approach to Recycling," *MIT*, www.mit.edu, May 12, 2010; Starbucks Global Responsibility Report 2013; Starbucks 2013 Annual Report.

Marketing Excellence

>> Virgin Group

Virgin roared onto the British stage in the 1970s with the innovative Virgin Records, the brainchild of entrepreneur Richard Branson, a high school dropout who signed unknown artists and began a marathon of publicity that continues to this day. The flamboyant Briton sold Virgin Records in 1992 and has gone on to launch more than 400 companies worldwide whose combined revenues exceeded $24 billion in 2012.

The Virgin name—the third most respected brand in Britain—and the Branson personality help sell the company's diverse portfolio of branded air travel, railroads, financial services, music, mobile phones, cars, wine, publishing, and medical devices. The Virgin Group looks for new opportunities in markets with underserved, overcharged customers and complacent competition. Branson explained, "Wherever we find them, there is a clear opportunity area for Virgin to do a much better job than the competition. We introduce trust, innovation, and customer friendliness where they don't exist."

Some marketing and financial critics have pointed out that Branson dilutes the brand and covers too many businesses. There have been some fumbles: Virgin Cola, Virgin Cosmetics, Virgin Vodka, and Virgin Brides have all but disappeared. But despite the diversity, all Virgin Group's brands stand for quality, innovation, and fun.

Branson is a master of the strategic publicity stunt and knows photographers will turn up if he gives them a good reason. When he took on stodgy British Airways in 1984, he wore World War I–era flying gear to announce the formation of Virgin Atlantic. The first Virgin flight took off laden with celebrities, media, a brass band in full swing, waiters from Maxim's dressed in white tie and tails, and free-flowing champagne. The airborne party enjoyed international press coverage and millions of dollars' worth of free publicity.

When Branson launched Virgin Cola in the United States in 1998, he steered an army tank down New York's Fifth Avenue and blew up a Coca-Cola sign, garnering interviews on network TV news shows the next morning. In 2002, he plunged into Times Square from a crane to announce his new mobile phone business. In 2004, he appeared at a New York City nightclub wearing flesh-colored tights and a strategically placed portable CD player to introduced a line of hip techie gadgets called Virgin Pulse. Branson has attended press conferences dressed in an astronaut's suit and angel's wings, driven across the English Channel in an amphibious car, and even bared his bottom to the press when Virgin Atlantic landed in Canada for the first time. His good-natured humor and flamboyant personality attract media attention and customer admiration around the globe. Reports say Virgin's press coverage equates to $1.6 billion in media value per year.

Although Branson avoids traditional market research, he stays in touch through constant customer contact. When he first set up Virgin Atlantic, he called 50 customers every month to chat and get their feedback. He appeared in airports to rub elbows with customers, and if a plane was delayed, he handed out gift certificates to a Virgin Megastore or discounts on future travel.

Virgin Unite is a nonprofit foundation that tackles global, social, and environmental problems with an entrepreneurial approach. A team of scientists, entrepreneurs, and environmental enthusiasts work with Virgin to reinvent the way "we live and work to help make people's lives better." Virgin Green Fund is a private equity firm investing in renewable energy and resource efficiency sectors. Virgin established the Earth Challenge in 2007 to award $25 million to any person or group who develops a safe, long-term, commercially viable way to remove greenhouse gases from the atmosphere. Submissions are being reviewed by a team of scientists, professors, and environmental professionals.

Now knighted by the Queen of England, Sir Richard never does anything small and quiet. He once said, "Lavish praise on people and people will flourish; criticize and they shrivel up." This philosophy has led him to many successes both in business and in life. Whether looking for a new business, generating publicity in his characteristic style, or encouraging research to help the planet, Branson does it with a bang.

Questions

1. How is Virgin unique in its quest to be a socially responsible and sustainable company?
2. Discuss the contradiction between Virgin's negative environmental impact (via air and rail) and the green message and communication efforts behind endeavors such as the Earth Challenge.

Sources: Peter Elkind, "Branson Gets Grounded," *Fortune*, February 5, 2007, pp. 13–14; Alan Deutschman, "The Enlightenment of Richard Branson," *Fast Company*, September 2006, p. 49; Andy Serwer, "Do Branson's Profits Equal His *Joie de Vivre*?," *Fortune*, October 17, 2005, p. 57; Kerry Capell with Wendy Zellner, "Richard Branson's Next Big Adventure," *BusinessWeek,* March 8, 2004, pp. 44–45; Melanie Wells, "Red Baron," *Forbes,* July 3, 2000, pp. 151–60; Sam Hill and Glenn Rifkin, *Radical Marketing* (New York: HarperBusiness, 1999); "Branson Pledges Three Billion Dollars to Develop Cleaner Energy," *Terra Daily,* September 21, 2006; Richard Wachman, "Virgin Brands: What Does Richard Branson Really Own?," *The Guardian,* January 7, 2012; Carmine Gallo, "The Key to a Lasting Relationship in Business and in Marriage," *Forbes,* April 10, 2014; Virgin, www.virgin.com.

Appendix

TOOLS FOR MARKETING CONTROL

In this appendix, we provide detailed guidelines and insights about how to best conduct several marketing control procedures.

ANNUAL PLAN CONTROL

Four sets of analyses can be useful for annual plan control.

SALES ANALYSIS **Sales analysis** measures and evaluates actual sales in relationship to goals. Two specific tools make it work.

Sales-variance analysis measures the relative contribution of different factors to a gap in sales performance. Suppose the annual plan called for selling 4,000 widgets in the first quarter at $1 per widget, for total revenue of $4,000. At quarter's end, only 3,000 widgets were sold at $.80 per widget, for total revenue of $2,400. How much of the sales performance gap is due to the price decline, and how much to the volume decline? This calculation answers the question:

Variance due to price decline: ($1.00 − $.80) (3,000)	= $ 600	37.5%
Variance due to volume decline: ($1.00)(4,000 − 3,000)	= $1,000	62.5%
	= $1,600	100.0%

Almost two-thirds of the variance is due to failure to achieve the volume target. The company should look closely at why it failed to achieve expected sales volume.

Microsales analysis looks at specific products, territories, and so forth, that failed to produce expected sales. Suppose the company sells in three territories, and expected sales were 1,500 units, 500 units, and 2,000 units, respectively. Actual volumes were 1,400 units, 525 units, and 1,075 units, respectively. Thus, territory 1 showed a 7 percent shortfall in terms of expected sales; territory 2, a 5 percent improvement over expectations; and territory 3, a 46 percent shortfall! Territory 3 is causing most of the trouble. Maybe the sales rep in territory 3 is underperforming, a major competitor has entered this territory, or business is in a recession there.

MARKET SHARE ANALYSIS Company sales don't reveal how well the company is performing relative to competitors. For this, management needs to track its market share in one of three ways.

Overall market share expresses the company's sales as a percentage of total market sales. **Served market share** is sales as a percentage of the total sales to the market. The **served market** is all the buyers able and willing to buy the product, and served market share is always larger than overall market share. A company could capture 100 percent of its served market and yet have a relatively small share of the total market. **Relative market share** is market share in relationship to the largest competitor. A relative market share of exactly 100 percent means the company is tied for the lead; more than 100 percent indicates a market leader. A rise in relative market share means a company is gaining on its leading competitor.

Conclusions from market share analysis, however, are subject to qualifications:

- ***The assumption that outside forces affect all companies in the same way is often not true.*** The U.S. Surgeon General's report on the harmful consequences of smoking depressed total cigarette sales, but not equally for all companies.
- ***The assumption that a company's performance should be judged against the average performance of all companies is not always valid.*** A company's performance is best judged against that of its closest competitors.
- ***If a new firm enters the industry, every existing firm's market share might fall.*** A decline in market share might not mean the company is performing any worse than other companies. Share loss depends on the degree to which the new firm hits the company's specific markets.
- ***Sometimes a market share decline is deliberately engineered to improve profits.*** For example, management might drop unprofitable customers or products.
- ***Market share can fluctuate for many minor reasons.*** For example, it can be affected by whether a large sale occurs on the last day of the month or at the beginning of the next month. Not all shifts in market share have marketing significance.[76]

A useful way to analyze market share movements is in terms of four components:

$$\textit{Overall market share} = \textit{Customer penetration} \times \textit{Customer loyalty} \times \textit{Customer selectivity} \times \textit{Price selectivity}$$

where:

Customer penetration	Percentage of all customers who buy from the company
Customer loyalty	Purchases from the company by its customers as a percentage of their total purchases from all suppliers of the same products
Customer selectivity	Size of the average customer purchase from the company as a percentage of the size of the average customer purchase from an average company
Price selectivity	Average price charged by the company as a percentage of the average price charged by all companies

Now suppose the company's dollar market share falls during the period. The overall market share equation provides four possible explanations: The company lost some customers (lower customer penetration); existing customers are buying less from the company (lower customer loyalty); the company's remaining customers are smaller in size (lower customer selectivity); or the company's price has slipped relative to competition (lower price selectivity).

MARKETING EXPENSE-TO-SALES ANALYSIS Annual-plan control requires making sure the company isn't overspending to achieve sales goals. The key ratio to watch is *marketing expense-to-sales.* In one company, this ratio was 30 percent and consisted of five component expense-to-sales ratios: sales force-to-sales (15 percent), advertising-to-sales (5 percent), sales promotion-to-sales (6 percent), marketing research-to-sales (1 percent), and sales administration-to-sales (3 percent).

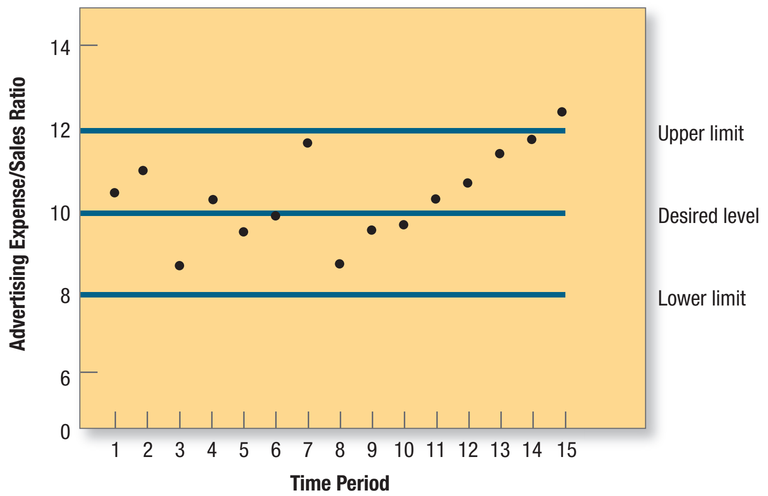
Fluctuations outside the normal range are cause for concern. Management needs to monitor period-to-period fluctuations in each ratio on a *control chart* (see Figure 23.6). This chart shows the advertising expense-to-sales ratio normally fluctuates between 8 percent and 12 percent, say 99 of 100 times. In the 15th period, however, the ratio exceeded the upper control limit. Either (1) the company still has good expense control and this situation represents a rare chance event, or (2) the company has lost control over this expense and should find the cause. If there is no investigation, the risk is that some real change might have occurred, and the company will fall behind.

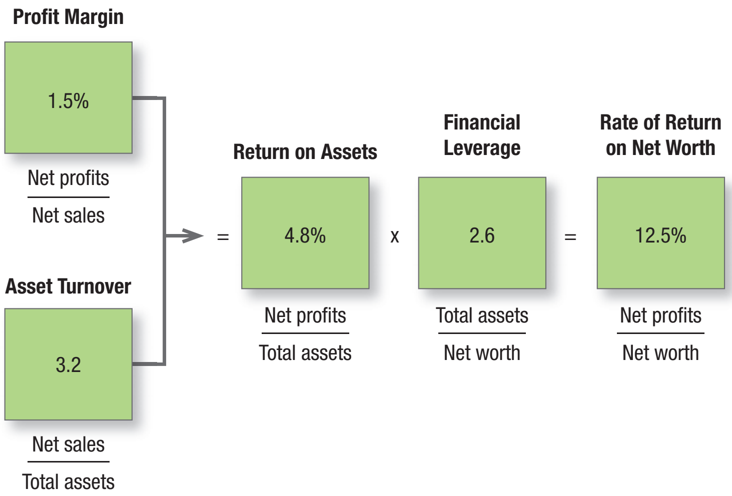
Managers should make successive observations even within the upper and lower control limits. Note in Figure 23.6 that the level of the expense-to-sales ratio rose steadily from the 8th period onward. The probability of encountering six successive increases in what should be independent events is only 1 in 64.[77] This unusual pattern should have led to an investigation sometime before the 15th observation.

FINANCIAL ANALYSIS Marketers should analyze the expense-to-sales ratios in an overall financial framework to determine how and where the company is making its money. They can, and are increasingly, using financial analysis to find profitable strategies beyond building sales.

| Fig. 23.6 |

The Control-Chart Model





| Fig. 23.7 |

Financial Model of Return on Net Worth

Management uses financial analysis to identify factors that affect the company's *rate of return on net worth.*[78] The main factors are shown in Figure 23.7, along with illustrative numbers for a large chain-store retailer. The retailer is earning a 12.5 percent return on net worth. The return on net worth is the product of two ratios, the company's *return on assets* and its *financial leverage.* To improve its return on net worth, the company must increase its ratio of net profits to assets or increase the ratio of assets to net worth. The company should analyze the composition of its assets (cash, accounts receivable, inventory, and plant and equipment) to see whether it can improve its asset management.

The return on assets is the product of two ratios, the *profit margin* and the *asset turnover.* The profit margin in Figure 23.7 seems low, whereas the asset turnover is more normal for retailing. The marketing executive can seek to improve performance in two ways: (1) increase the profit margin by increasing sales or cutting costs, and (2) increase the asset turnover by increasing sales or reducing assets (inventory, receivables) held against a given level of sales.

PROFITABILITY CONTROL

MARKETING PROFITABILITY ANALYSIS We will illustrate the steps in marketing profitability analysis with the following example: The marketing vice president of a lawn mower company wants to determine the profitability of selling through three types of retail channels: hardware stores, garden supply shops, and department stores. The company's profit-and-loss statement is shown in Table 23.10.

TABLE 23.10 A Simplified Profit-and-Loss Statement

Sales		$60,000
Cost of goods sold		39,000
Gross margin		$21,000
Expenses		
Salaries	$9,300	
Rent	3,000	
Supplies	3,500	
		15,800
Net profit		$ 5,200

TABLE 23.11 Mapping Natural Expenses into Functional Expenses

Natural Accounts	Total	Selling	Advertising	Packing and Delivery	Billing and Collecting
Salaries	$ 9,300	$5,100	$1,200	$1,400	$1,600
Rent	3,000	—	400	2,000	600
Supplies	3,500	400	1,500	1,400	200
	$15,800	$5,500	$3,100	$4,800	$2,400

Step 1: Identifying Functional Expenses Assume the expenses listed in Table 23.10 are incurred to sell the product, advertise it, pack and deliver it, and bill and collect for it. The first task is to measure how much of each expense was incurred in each activity.

Suppose most of the salary expense went to sales representatives and the rest to an advertising manager, packing and delivery help, and an office accountant. Let the breakdown of the $9,300 be $5,100, $1,200, $1,400, and $1,600, respectively. Table 23.11 shows the allocation of the salary expense to these four activities.

Table 23.11 also shows the rent account of $3,000 allocated to the four activities. Because the sales reps work away from the office, none of the building's rent expense is assigned to selling. Most of the expenses for floor space and rented equipment are for packing and delivery. The supplies account covers promotional materials, packing materials, fuel purchases for delivery, and home office stationery. The $3,500 in this account is reassigned to functional uses of the supplies.

Step 2: Assigning Functional Expenses to Marketing Entities The next task is to measure how much functional expense was associated with selling through each type of channel. Consider the selling effort, indicated by the number of sales in each channel. This number is in the selling column of Table 23.12. Altogether, 275 sales calls were made during the period. Because the total selling expense amounted to $5,500 (see Table 23.12), the selling expense averaged $20 per call.

We can allocate advertising expense according to the number of ads addressed to different channels. Because there were 100 ads altogether, the average ad cost $31.

The packing and delivery expense is allocated according to the number of orders placed by each type of channel. This same basis was used for allocating billing and collection expense.

TABLE 23.12 Bases for Allocating Functional Expenses to Channels

Channel Type	Selling	Advertising	Packing and Delivery	Billing and Collecting
Hardware stores	200	50	50	50
Garden supply shops	65	20	21	21
Department stores	10	30	9	9
	275	**100**	**80**	**80**
Functional expense ÷ No. of units	$5,500	$3,100	$4,800	$2,400
	275	100	80	80
equals	**$ 20**	**$ 31**	**$ 60**	**$ 30**

Step 3: Preparing a Profit-and-Loss Statement for Each Marketing Entity We can now prepare a profit-and-loss statement for each type of channel (see Table 23.13). Because hardware stores accounted for half of total sales ($30,000 out of $60,000), charge this channel with half the cost of goods sold ($19,500 out of $39,000). This leaves a gross margin from hardware stores of $10,500. From this we deduct the proportions of functional expenses hardware stores consumed.

According to Table 23.12, hardware stores received 200 of 275 total sales calls. At an imputed value of $20 a call, hardware stores must bear a $4,000 selling expense. Table 23.12 also shows hardware stores were the target of 50 ads. At $31 an ad, the hardware stores are charged with $1,550 of advertising. The same reasoning applies in computing the share of the other functional expenses. The result is that hardware stores gave rise to $10,050 of the total expenses. Subtracting this from gross margin, we find the profit of selling through hardware stores is only $450.

Repeat this analysis for the other channels. The company is losing money in selling through garden supply shops and makes virtually all its profits through department stores. Notice that gross sales is not a reliable indicator of the net profits for each channel.

DETERMINING CORRECTIVE ACTION It would be naive to conclude the company should drop garden supply shops and hardware stores to concentrate on department stores. We need to answer the following questions first:

- To what extent do buyers buy on the basis of type of retail outlet versus brand?
- What trends affect the relative importance of these three channels?
- How good are the company's marketing strategies for the three channels?

Using the answers, marketing management can evaluate five alternatives:

1. Establish a special charge for handling smaller orders.
2. Give more promotional aid to garden supply shops and hardware stores.
3. Reduce sales calls and advertising to garden supply shops and hardware stores.
4. Ignore the weakest retail units in each channel.
5. Do nothing.

Marketing profitability analysis indicates the relative profitability of different channels, products, territories, or other marketing entities. It does not prove the best course of action is to drop unprofitable marketing entities or capture the likely profit improvement of doing so.

TABLE 23.13 Profit-and-Loss Statements for Channels

	Hardware Stores	Garden Supply Shops	Dept. Stores	Whole Company
Sales	$30,000	$10,000	$20,000	$60,000
Cost of goods sold	19,500	6,500	13,000	39,000
Gross margin	$10,500	$ 3,500	$ 7,000	$21,000
Expenses				
Selling ($20 per call)	$ 4,000	$ 1,300	$ 200	$ 5,500
Advertising ($31 per advertisement)	1,550	620	930	3,100
Packing and delivery ($60 per order)	3,000	1,260	540	4,800
Billing ($30 per order)	1,500	630	270	2,400
Total expenses	$10,050	$ 3,810	$ 1,940	$15,800
Net profit or loss	$ 450	$ (310)	$ 5,060	$ 5,200

DIRECT VERSUS FULL COSTING Like all information tools, marketing profitability analysis can lead or mislead, depending on how well marketers understand its methods and limitations. The lawn mower company chose bases somewhat arbitrarily for allocating the functional expenses to its marketing entities. It used "number of sales calls" to allocate selling expenses, generating less record keeping and computation, when in principle "number of sales working hours" is a more accurate indicator of cost.

A far more serious decision is whether to allocate full costs or only direct and traceable costs in evaluating a marketing entity's performance. The lawn mower company sidestepped this problem by assuming only simple costs that fit with marketing activities, but we cannot avoid the question in real-world analyses of profitability. We distinguish three types of costs:

1. Direct costs—We can assign direct costs directly to the proper marketing entities. Sales commissions are a direct cost in a profitability analysis of sales territories, sales representatives, or customers. Advertising expenditures are a direct cost in a profitability analysis of products to the extent that each advertisement promotes only one product. Other direct costs for specific purposes are sales force salaries and traveling expenses.
2. Traceable common costs—We can assign traceable common costs only indirectly, but on a plausible basis, to the marketing entities. In the example, we analyzed rent this way.
3. Nontraceable common costs—Common costs whose allocation to the marketing entities is highly arbitrary are nontraceable common costs. To allocate "corporate image" expenditures equally to all products would be arbitrary because all products don't benefit equally. To allocate them proportionately to the sales of the various products would be arbitrary because relative product sales reflect many factors besides corporate image making. Other examples are top management salaries, taxes, interest, and other overhead.

No one disputes the inclusion of direct costs in marketing cost analysis. There is some controversy about including traceable common costs, which lump together costs that would and would not change with the scale of marketing activity. If the lawn mower company drops garden supply shops, it would probably continue to pay the same rent. Its profits would not rise immediately by the amount of the present loss in selling to garden supply shops ($310).

The major controversy is about whether to allocate the nontraceable common costs to the marketing entities. Such allocation is called the *full-cost approach*, and its advocates argue that all costs must ultimately be imputed in order to determine true profitability. However, this argument confuses the use of accounting for financial reporting with its use for managerial decision making. Full costing has three major weaknesses:

1. The relative profitability of different marketing entities can shift radically when we replace one arbitrary way to allocate nontraceable common costs by another.
2. The arbitrariness demoralizes managers, who feel their performance is judged adversely.
3. The inclusion of nontraceable common costs could weaken efforts at real cost control.

Operating management is most effective in controlling direct costs and traceable common costs. Arbitrary assignments of nontraceable common costs can lead managers to spend their time fighting cost allocations instead of managing controllable costs well.

Companies show growing interest in using marketing profitability analysis or its broader version, activity-based cost accounting (ABC), to quantify the true profitability of different activities.[79] Managers can then reduce the resources required to perform various activities, make the resources more productive, acquire them at lower cost, or raise prices on products that consume heavy amounts of support resources. The contribution of ABC is to refocus management's attention away from using only labor or material standard costs to allocate full cost and toward capturing the actual costs of supporting individual products, customers, and other entities.

Appendix

SONIC MARKETING PLAN AND EXERCISES

The Marketing Plan: An Introduction

As a marketer, you'll need a good marketing plan to provide direction and focus for your brand, product, or company. With a detailed plan, any business will be better prepared to launch an innovative new product or increase sales to current customers. Nonprofit organizations also use marketing plans to guide their fund-raising and outreach efforts. Even government agencies put together marketing plans for initiatives such as building public awareness of proper nutrition and stimulating area tourism.

The Purpose and Content of a Marketing Plan

A marketing plan has a more limited scope than a business plan, which offers a broad overview of the entire organization's mission, objectives, strategy, and resource allocation. The marketing plan documents how the organization's strategic objectives will be achieved through specific marketing strategies and tactics, with the customer as the starting point. It is also linked to the plans of other organizational departments. Suppose a marketing plan calls for selling 200,000 units annually. The production department must gear up to make that many units, finance must arrange funding to cover the expenses, human resources must be ready to hire and train staff, and so on. Without the appropriate level of organizational support and resources, no marketing plan can succeed.

Although the exact length and layout vary from company to company, a marketing plan usually contains the sections described in Chapter 2. Smaller businesses may create shorter or less formal marketing plans, whereas corporations generally require highly structured marketing plans. To guide implementation effectively, every part of the plan must be described in considerable detail. Sometimes a company will post its marketing plan on an internal Web site so managers and employees in different locations can consult specific sections and collaborate on additions or changes.

The Role of Research

To develop innovative products, successful strategies, and action programs, marketers need up-to-date information about the environment, the competition, and the selected market segments. Often, analysis of internal data is the starting point for assessing the current marketing situation, supplemented by marketing intelligence and research investigating the overall market, the competition, key issues, threats, and opportunities. As the plan is put into effect, marketers use research to measure progress toward objectives and to identify areas for improvement if results fall short of projections.

Finally, marketing research helps marketers learn more about their customers' requirements, expectations, perceptions, satisfaction, and loyalty. This deeper understanding provides a foundation for building competitive advantage through well-informed segmenting, targeting, and positioning decisions. Thus, the marketing plan should outline what marketing research will be conducted and when, as well as how, the findings will be applied.

The Role of Relationships

Although the marketing plan shows how the company will establish and maintain profitable customer relationships, it also affects both internal and external relationships. First, it influences how marketing personnel work with each other and with other departments to deliver value and satisfy customers. Second, it affects how the company works with suppliers, distributors, and partners to achieve the plan's objectives. Third, it influences the company's dealings with other stakeholders, including government regulators, the media, and the community at large. All these relationships are important to the organization's success and must be considered when developing a marketing plan.

From Marketing Plan to Marketing Action

Most companies create yearly marketing plans, though some plans cover a longer period. Marketers start planning well in advance of the implementation date to allow time for marketing research, analysis, management review, and coordination between departments. Then, after each action program begins, marketers monitor ongoing results, investigate any deviation from the projected outcome, and take corrective steps as needed. Some marketers also prepare contingency plans for implementation if certain conditions emerge. Because of inevitable and sometimes unpredictable environmental changes, marketers must be ready to update and adapt marketing plans at any time.

For effective implementation and control, the marketing plan should define how progress toward objectives will be measured. Managers typically use budgets, schedules, and marketing metrics for monitoring and evaluating results. With budgets, they can compare planned expenditures with actual expenditures for a given period. Schedules allow management to see when tasks were supposed to be completed and when they were actually completed. Marketing metrics track the actual outcomes of marketing programs to see whether the company is moving forward toward its objectives.

Sample Marketing Plan for Sonic

This section takes you inside the sample marketing plan for Sonic, a hypothetical start-up company. The company's first product is the Sonic 1000, a state-of-the-art, fully loaded multimedia smart phone. Sonic will be competing with Apple, Samsung, LG, Motorola, HTC, and other well-established rivals in a crowded, fast-changing marketplace where smart phones have many communication and entertainment capabilities. The annotations explain more about what each section of the plan should contain.

This section summarizes market opportunities, marketing strategy, and marketing and financial objectives for senior managers who will read and approve the marketing plan.

1.0 Executive Summary

Sonic is preparing to launch a major new state-of-the-art multimedia smart phone, the Sonic 1000, in a mature market. We can effectively compete with many types of smart phones because our product offers a unique combination of advanced features and functionality at a very competitive value-added price. We are targeting specific segments in the consumer and business markets, taking advantage of the growing interest in a single powerful but affordable device with extensive communication, organization, and entertainment benefits.

The primary marketing objective is to achieve first-year U.S. market share of 1 percent with unit sales of 800,000. The primary financial objectives are to achieve first-year sales revenues of $200 million, keep first-year losses to less than $40 million, and break even early in the second year.

The situation analysis describes the market, the company's capability to serve targeted segments, and the competition.

2.0 Situation Analysis

Sonic, founded 18 months ago by two well-known entrepreneurs with telecommunications experience, is about to enter the highly competitive smart-phone market. Multifunction cell phones are increasingly popular for both personal and professional use, with more than 968 million smart phones sold worldwide in 2013. Competition is increasingly intense even as technology evolves, industry consolidation continues, and pricing pressures squeeze profitability. To gain market share in this dynamic environment, Sonic must carefully target specific segments with valued features and plan for a next-generation product to keep brand momentum going.

Market summary includes size, needs, growth, and trends. Describing the targeted segments in detail provides context for marketing strategies and programs discussed later in the plan.

2.1 MARKET SUMMARY Sonic's market consists of consumers and business users who prefer to use a powerful but affordable single device for fully functional communication, information storage and exchange, organization, and entertainment on the go. Specific segments being targeted during the first year include professionals, corporations, students, entrepreneurs, and medical users. Exhibit A.1 shows how the Sonic 1000 addresses some of the most basic needs of targeted consumer and business segments in a cost-effective manner. The additional communication and entertainment benefits of the product just enhance its appeal to those segments.

| Exh. A.1 |

Needs and Corresponding Features/Benefits of Sonic Smart Phone

Targeted Segment	Customer Need	Corresponding Feature/Benefit
Professionals (consumer market)	■ Stay in touch while on the go	■ Wireless e-mail to conveniently send and receive messages from anywhere; cell phone capability for voice communication from anywhere
	■ Record information while on the go	■ Voice recognition for no-hands recording
Students (consumer market)	■ Perform many functions without carrying multiple gadgets	■ Compatible with numerous applications and peripherals for convenient, cost-effective functionality
	■ Express style and individuality	■ Case wardrobe of different colors and patterns allows users to make a fashion statement
Corporate users (business market)	■ Input and access critical data on the go	■ Compatible with widely available software
	■ Use for proprietary tasks	■ Customizable to fit diverse corporate tasks and networks
Entrepreneurs (business market)	■ Organize and access contacts, schedule details	■ No-hands, wireless access to calendar and address book to easily check appointments and connect with contacts
Medical users (business market)	■ Update, access, and exchange medical records	■ No-hands, wireless recording and exchange of information to reduce paperwork and increase productivity

Smart-phone purchasers can choose between models based on several different operating systems. The biggest-selling smart-phone operating system is Android. Android's smaller rivals include BlackBerry OS, iOS, and the Windows Phone OS. Storage capacity (hard drive or flash drive) is an expected feature, so Sonic is equipping its first product with an ultra-fast 64-gigabyte drive that can be supplemented by extra storage. Technology costs are decreasing even as capabilities are increasing, which makes value-priced models more appealing to consumers and to business users with older smart phones who want to trade up to new, high-end multifunction units.

2.2 STRENGTHS, WEAKNESSES, OPPORTUNITIES, AND THREAT ANALYSIS Sonic has several powerful strengths on which to build, but our major weakness is lack of brand awareness and image. The major opportunity is demand for multifunction communication, organization, and entertainment devices that deliver a number of valued benefits at a lower cost. We also face the threat of ever-higher competition and downward pricing pressure.

Strengths Sonic can build on three important strengths:

Strengths are internal capabilities that can help the company reach its objectives.

1. *Innovative product*—The Sonic 1000 offers a combination of features that are hard to find in single devices, with extensive telecommunications capabilities and highest-quality digital video/music/TV program storage/playback.
2. *Security*—Our smart phone uses a Linux-based operating system that is less vulnerable to hackers and other security threats that can result in stolen or corrupted data.
3. *Pricing*—Our product is priced lower than competing smart phones—none of which offer the same bundle of features—which gives us an edge with price-conscious customers.

Weaknesses By waiting to enter the smart-phone market until considerable consolidation of competitors has occurred, Sonic has learned from the successes and mistakes of others. Nonetheless, we have two main weaknesses:

Weaknesses are internal elements that may interfere with the company's ability to achieve its objectives.

1. *Lack of brand awareness*—Sonic has no established brand or image, whereas Samsung, Apple, Motorola, and others have strong brand recognition. We will address this issue with aggressive promotion.
2. *Heavier and thicker unit*—The Sonic 1000 is slightly heavier and thicker than most competing models because it incorporates so many telecommunication and multimedia features. To counteract this weakness, we will emphasize our product's benefits and value-added pricing, two compelling competitive strengths.

Opportunities are areas of buyer need or potential interest in which the company might perform profitably.

Opportunities Sonic can take advantage of two major market opportunities:

1. *Increasing demand for state-of-the-art multimedia devices with a full array of communication functions*—The market for cutting-edge multimedia, multifunction devices is growing rapidly. Smart phones are already commonplace in public, work, and educational settings; in fact, users who bought entry-level models are now trading up.
2. *Lower technology costs*—Better technology is now available at a lower cost than ever before. Thus, Sonic can incorporate advanced features at a value-added price that allows for reasonable profits.

Threats are challenges posed by an unfavorable trend or development that could lead to lower sales and profits.

Threats We face three main threats at the introduction of the Sonic 1000:

1. *Increased competition*—More companies are offering devices with some but not all of the features and benefits provided by the Sonic 1000. Therefore, Sonic's marketing communications must stress our clear differentiation and value-added pricing.
2. *Downward pressure on pricing*—Increased competition and market share strategies are pushing smart-phone prices down. Still, our objective of breaking even with second-year sales of the original model is realistic, given the lower margins in the smart-phone market.
3. *Compressed product life cycle*—Smart phones are reaching the maturity stage of their life cycle more quickly than earlier technology products. Because of this compressed life cycle, we plan to introduce an even greater-enhanced media-oriented second product during the year following the Sonic 1000's launch.

This section identifies key competitors, describes their market positions, and provides an overview of their strategies.

2.3 COMPETITION The emergence of well-designed multifunction smart phones, including the Apple iPhone, has increased competitive pressure. Competitors are continually adding features and sharpening price points. Key competitors:

- *Apple:* The leader in smart-phone market share, Apple takes pride in being forward thinking, innovative, and consumer-centric. Its latest iPhone 5s features an impressively thin and lightweight metallic design, fingerprint identity sensor, dual LED flash, and CPU power up to two times faster than the previous generation.
- *Samsung*: A strong competitor in the smart-phone industry, Samsung ranks as a top 10 global brand and has plans to reach $400 billion in revenue by 2020. The Galaxy S5 features a whopping 16-megapixel camera and the first-ever built-in heart rate monitor.
- *LG*: Founded in 1958, LG Electronics strives to be a worldwide leader in the digital market and in 2014 ranked third in total smart-phone subscribers, behind Apple and Samsung. Its G2 smart phone features a large 5.2-inch full HD IPS display and ergonomically positioned rear key control on the back.
- *Motorola*: Motorola pioneered the mobile communications industry and invented the first mobile phone in 1973. Today, the company prides itself on creating value with comfortable, approachable, and powerful devices. The Moto X is first smart phone to be designed, engineered, and assembled entirely in the United States.
- *HTC*: Founded in 1997, HTC is a relatively new competitor to the industry but still ranks fifth in smart-phone market share. HTC built its reputation on providing high-quality products that garnered recommendations and referrals from both retailers and consumers. Its HTC One (M8) smart phone comes with a 5.0-inch full HD 1080p display and is curved to fit in the palm of the hand.

Despite strong competition, Sonic can carve out a definitive image and gain recognition among targeted segments. Our appealing combination of state-of-the-art features and low price is a critical point of differentiation for competitive advantage. Our second product will be even more media-oriented to appeal to segments where we will have strong brand recognition. Exhibit A.2 shows a sample of competitive products and prices.

This section summarizes the main features of the company's various products.

2.4 PRODUCT OFFERINGS The Sonic 1000 offers the following standard features:

- Voice recognition for hands-free operation
- Full array of apps
- Complete organization functions, including linked calendar, address book, synchronization

| Exh. A.2 |

Selected Smart-Phone Products and Pricing

	Apple iPhone 5s	Samsung Galaxy S5	LG G2	Motorola Moto X	HTC One (M8)
Built-in Storage	64 GB	32 GB, micro SD up to 128 GB	32 GB	16 GB	32 GB, micro SD up to 128 GB
Display	4" IPS LCD	5.1" Super AMOLED	5.2" IPS LCD	4.7" AMOLED	5.0" IPS LCD
Camera	8.0 MP	16 MP	13 MP	10 MP	4 MP
Price	$399.99	$199.99	$399.99	$399.99	$199.99

- Digital music/video/television recording, wireless downloading, and instant playback
- Wireless Web and e-mail, text messaging, instant messaging
- Four-inch high-quality color touch screen
- Ultra-fast 64-gigabyte drive and expansion slots
- Integrated 12-megapixel camera with flash and photo editing/sharing tools

First-year sales revenues are projected to be $200 million, based on sales of 800,000 of the Sonic 1000 model at a wholesale price of $250 each. Our second-year product will be the Sonic All Media 2000, stressing enhanced multimedia communication, networking, and entertainment functions. The Sonic All Media 2000 will include Sonic 1000 features plus additional features such as:

- Built-in media beaming to share music, video, and television files with other devices
- Webcam for instant video capture and uploading to popular video Web sites
- Voice-command access to popular social networking Web sites

2.5 DISTRIBUTION Sonic-branded products will be distributed through a network of retailers in the top 50 U.S. markets. Among the most important channel partners being contacted are:

Distribution explains each channel for the company's products and mentions new developments and trends.

- ***Office supply superstores.*** Office Depot and Staples will all carry Sonic products in stores, in catalogs, and online.
- ***Computer stores.*** Independent computer retailers will carry Sonic products.
- ***Electronics specialty stores.*** Best Buy will feature Sonic smart phones in its stores, online, and in its media advertising.
- ***Online retailers.*** Amazon.com will carry Sonic smart phones and, for a promotional fee, will give Sonic prominent placement on its homepage during the introduction.

Distribution will initially be restricted to the United States, with appropriate sales promotion support. Later, we plan to expand into Canada and beyond.

3.0 Marketing Strategy

Objectives should be defined in specific terms so management can measure progress and take corrective action to stay on track.

3.1 OBJECTIVES We have set aggressive but achievable objectives for the first and second years of market entry.

- ***First-Year Objectives.*** We are aiming for a 1 percent share of the U.S. smart-phone market through unit sales volume of 800,000.
- ***Second-Year Objectives.*** Our second-year objective is to achieve break-even on the Sonic 1000 and launch our second model.

3.2 TARGET MARKETS Sonic's strategy is based on a positioning of product differentiation. Our primary consumer target for the Sonic 1000 is middle- to upper-income professionals who need one fully loaded device to coordinate their busy schedules, stay in touch with family and

All marketing strategies start with segmentation, targeting, and positioning.

colleagues, and be entertained on the go. Our secondary consumer target is high school, college, and graduate students who want a multimedia, dual-mode device. This segment can be described demographically by age (16–30) and education status. Our Sonic All Media 2000 will be aimed at teens and twentysomethings who want a device with features to support social networking and heavier, more extensive entertainment media consumption.

The primary business target for the Sonic 1000 is mid- to large-sized corporations that want to help their managers and employees stay in touch and input or access critical data when out of the office. This segment consists of companies with more than $25 million in annual sales and more than 100 employees. A secondary target is entrepreneurs and small business owners. Also we will target medical users who want to update or access patients' medical records.

Each of the marketing-mix strategies conveys Sonic's differentiation to these target market segments.

Positioning identifies the brand, benefits, points-of-difference, and points-of-parity for the product or line.

3.3 POSITIONING Using product differentiation, we are positioning the Sonic smart phone as the most versatile, convenient, value-added model for personal and professional use. Our marketing will focus on the value-priced multiple communication, entertainment, and information capabilities differentiating the Sonic 1000.

3.4 STRATEGIES

Product strategy includes decisions about product mix and lines, brands, packaging and labeling, and warranties.

Product The Sonic 1000, including all the features described in the earlier Product Offerings section and more, will be sold with a one-year warranty. We will introduce the Sonic All Media 2000 during the following year, after we have established our Sonic brand. The brand and logo (Sonic's distinctive yellow thunderbolt) will be displayed on our products and packaging as well as in all marketing campaigns.

Pricing strategy covers decisions about setting initial prices and adapting prices in response to opportunities and competitive challenges.

Pricing The Sonic 1000 will be introduced at a $250 wholesale price and a $300 estimated retail price per unit. We expect to lower the price of this model when we expand the product line by launching the Sonic All Media 2000, to be priced at $350 wholesale per unit. These prices reflect a strategy of (1) attracting desirable channel partners and (2) taking share from established competitors.

Distribution strategy includes selection and management of channel relationships to deliver value to customers.

Distribution Our channel strategy is to use selective distribution, marketing Sonic smart phones through well-known stores and online retailers. During the first year, we will add channel partners until we have coverage in all major U.S. markets and the product is included in the major electronics catalogs and Web sites. We will also investigate distribution through cell-phone outlets maintained by major carriers such as Verizon Wireless. In support of channel partners, we will provide demonstration products, detailed specification handouts, and full-color photos and displays featuring the product. Finally, we plan to arrange special payment terms for retailers that place volume orders.

Marketing communications strategy covers all efforts to communicate to target audiences and channel members.

Marketing Communications By integrating all messages in all media, we will reinforce the brand name and the main points of product differentiation. Research about media consumption patterns will help our advertising agency choose appropriate media and timing to reach prospects before and during product introduction. Thereafter, advertising will appear on a pulsing basis to maintain brand awareness and communicate various differentiation messages. The agency will also coordinate public relations efforts to build the Sonic brand and support the differentiation message. To generate buzz, we will host a user-generated video contest on our Web site. To attract, retain, and motivate channel partners for a push strategy, we will use trade sales promotions and personal selling. Until the Sonic brand has been established, our communications will encourage purchases through channel partners rather than from our Web site.

The marketing mix includes tactics and programs that support product, pricing, distribution, and marketing communications strategy.

3.5 MARKETING MIX The Sonic 1000 will be introduced in February. Here are summaries of action programs we will use during the first six months to achieve our stated objectives.

- ***January.*** We will launch a $200,000 trade sales promotion campaign and participate in major industry trade shows to educate dealers and generate channel support for the product launch in February. Also, we will create buzz by providing samples to selected product reviewers, opinion leaders, influential bloggers, and celebrities. Our training staff will work with retail sales personnel at major chains to explain the Sonic 1000's features, benefits, and advantages.

- ***February.*** We will start an integrated print/radio/Internet/social media campaign targeting professionals and consumers. The campaign will show how many functions the Sonic smart phone can perform and emphasize the convenience of a single, powerful handheld device. This multimedia campaign will be supported by point-of-sale signage as well as online-only ads and video tours.
- ***March.*** As the multimedia advertising campaign continues, we will add consumer sales promotions such as a contest in which consumers post videos to our Web site, showing how they use the Sonic in creative and unusual ways. We will also distribute new point-of-purchase displays to support our retailers.
- ***April.*** We will hold a trade sales contest offering prizes for the salesperson and retail organization that sell the most Sonic smart phones during the four-week period.
- ***May.*** We plan to roll out a new national advertising campaign this month. The radio ads will feature celebrity voices telling their Sonic smart phones to perform functions such as initiating a phone call, sending an e-mail, playing a song or video, and so on. The stylized print and online ads will feature avatars of these celebrities holding their Sonic smart phones. We plan to repeat this theme for next year's product launch.
- ***June.*** Our radio campaign will add a new voice-over tagline promoting the Sonic 1000 as a graduation gift. We will exhibit at the semiannual electronics trade show and provide retailers with new competitive comparison handouts as a sales aid. In addition, we will analyze the results of customer satisfaction research for use in future campaigns and product development efforts.

Programs should coordinate with the resources and activities of other departments that contribute to customer value for each product.

3.6 MARKETING RESEARCH Using research, we will identify specific features and benefits our target market segments value. Feedback from market tests, surveys, and focus groups will help us develop and fine-tune the Sonic All Media 2000. We are also measuring and analyzing customers' attitudes toward competing brands and products. Brand awareness research will help us determine the effectiveness and efficiency of our messages and media. Finally, we will use customer satisfaction studies to gauge market reaction.

This section shows how marketing research will support the development, implementation, and evaluation of marketing strategies and programs.

4.0 Financials

Financials include budgets and forecasts to plan for marketing expenditures, scheduling, and operations.

Total first-year sales revenue for the Sonic 1000 is projected at $200 million, with an average wholesale price of $250 per unit and variable cost per unit of $150 for unit sales volume of 800,000. We anticipate a first-year loss of as much as $40 million. Break-even calculations indicate that the Sonic 1000 will become profitable after the sales volume exceeds 267,500 during the product's second year. Our break-even analysis assumes per-unit wholesale revenue of $250 per unit, variable cost of $150 per unit, and estimated first-year fixed costs of $26,750,000. With these assumptions, the break-even calculation is:

$$\frac{26{,}750{,}000}{\$250 - \$150} = 267{,}500 \text{ units}$$

5.0 Controls

Controls help management measure results and identify any problems or performance variations that need corrective action.

Controls are being established to cover implementation and the organization of our marketing activities.

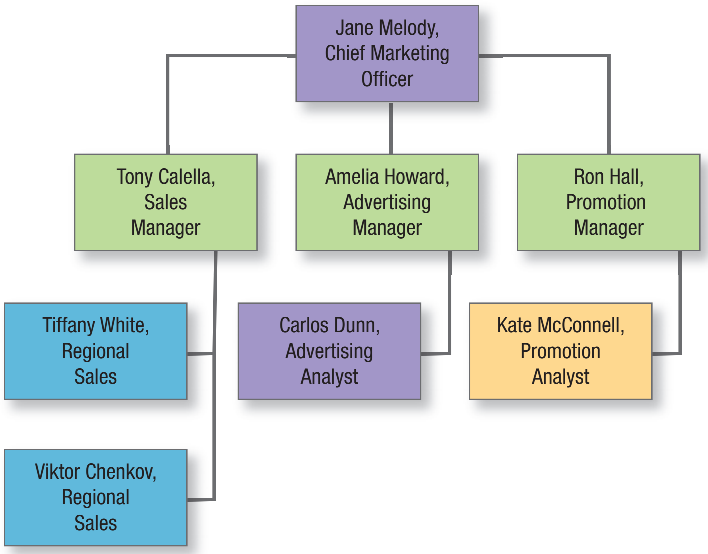
5.1 IMPLEMENTATION We are planning tight control measures to closely monitor quality and customer service satisfaction. This will enable us to react very quickly in correcting any problems that may occur. Other early warning signals that will be monitored for signs of deviation from the plan include monthly sales (by segment and channel) and monthly expenses.

5.2 MARKETING ORGANIZATION Sonic's chief marketing officer, Jane Melody, holds overall responsibility for all of the company's marketing activities. Exhibit A.3 shows the structure of the eight-person marketing organization. Sonic has hired Worldwide Marketing to handle national sales campaigns, digital, trade and consumer sales promotions, and public relations efforts.

The marketing department may be organized by function, as in this sample, or by geography, product, customer, or some combination of these.

| Exh. A.3 |

Sonic's Marketing Organization



Sonic Marketing Plan Chapter Assignments

Chapter 2: Developing Marketing Strategies and Plans

As an assistant to Jane Melody, Sonic's chief marketing officer, you've been assigned to draft a mission statement for top management's review.[1] This should cover the competitive spheres within which the firm will operate and your recommendation of an appropriate generic competitive strategy. Using your knowledge of marketing, the information you have about Sonic, and library or Internet resources, answer the following questions.

- What should Sonic's mission be?
- In what competitive spheres (industry, products and applications, competence, market-segment, vertical, and geographic) should Sonic operate?
- Which of Porter's generic competitive strategies would you recommend Sonic follow in formulating overall strategy?

As your instructor directs, enter your answers and supporting information in a written marketing plan to document your ideas.

Chapter 3: Collecting Information and Forecasting Demand

Jane Melody asks you to scan Sonic's external environment for early warning signals of new opportunities and emerging threats that could affect the success of the Sonic 1000 smart phone. Using Internet or library sources (or both), locate information to answer three questions about key areas of the macroenvironment.

- What demographic changes are likely to affect Sonic's targeted segments?
- What economic trends might influence buyer behavior in Sonic's targeted segments?
- How might the rapid pace of technological change alter Sonic's competitive situation?

Enter your answers about Sonic's environment in the appropriate sections of a written marketing plan to record your comments.

Chapter 4: Conducting Market Research

Your next task is to consider how marketing research can help Sonic support its marketing strategy. Jane Melody also asks you how Sonic can measure results after the marketing plan is implemented. She wants you to answer the following three questions.

- What surveys, focus groups, observation, behavioral data, or experiments will Sonic need to support its marketing strategy? Be specific about the questions or issues that Sonic needs to resolve using marketing research.
- Where can you find suitable secondary data about total demand for smart phones over the next two years? Identify at least two sources (online or offline), describe what you plan to draw from each source, and indicate how the data would be useful for Sonic's marketing planning.
- Recommend three specific marketing metrics for Sonic to apply in determining marketing effectiveness and efficiency.

Enter this information in the marketing plan you've been writing to document your responses.

Chapter 5: Creating Long-Term Loyalty Relationships

Sonic has decided to focus on total customer satisfaction as a way of encouraging brand loyalty in a highly competitive marketplace. With this in mind, you've been assigned to analyze three specific issues as you continue working on Sonic's marketing plan.

- How (and how often) should Sonic monitor customer satisfaction?
- Would you recommend that Sonic use the Net Promoter method? Explain your reasoning.
- Which customer touch points should Sonic pay particularly close attention to, and why?

Consider your answers in the context of Sonic's current situation and the objectives it has set. Then enter your latest decisions in the written marketing plan.

Chapter 6: Analyzing Consumer Markets

You're responsible for researching and analyzing the consumer market for Sonic's smart-phone product. Look again at the data you've already entered about the company's current situation and macroenvironment, especially the market being targeted. Now answer these questions about the market and buyer behavior.

- What cultural, social, and personal factors are likely to most influence consumer purchasing of smart phones? What research tools would help you better understand the effect on buyer attitudes and behavior?
- Which aspects of consumer behavior should Sonic's marketing plan emphasize, and why?
- What marketing activities should Sonic plan to coincide with each stage of the consumer buying process?

After you've analyzed these aspects of consumer behavior, consider the implications for Sonic's marketing efforts to support the launch of its smart phone. Finally, document your findings and conclusions in the written marketing plan.

Chapter 7: Analyzing Business Markets

You've been learning more about the business market for Sonic's smart phone. Jane Melody has defined this market as mid- to large-sized corporations that want their employees to stay in touch and be able to input or access data from any location. Respond to the following three questions based on your knowledge of Sonic's current situation and business-to-business marketing.

- What types of businesses appear to fit Melody's market definition? How can you research the number of employees and find other data about these types of businesses?
- What type of purchase would a Sonic smart phone represent for these businesses? Who would participate in and influence this type of purchase?
- Would demand for smart phones among corporate buyers tend to be inelastic? What are the implications for Sonic's marketing plan?

Your answers to these questions will affect how Sonic plans marketing activities for the business segments to be targeted. Take a few minutes to note your ideas in the written marketing plan.

Chapter 8: Tapping into Global Markets

As Jane Melody's assistant, you're researching how to market the Sonic 1000 smart-phone product outside the United States within a year. You've been asked to answer the following questions about Sonic's use of global marketing.

- As a start-up company, should Sonic use indirect or direct exporting, licensing, joint ventures, or direct investment to enter the Canadian market next year? To enter other markets? Explain your answers.
- If Sonic starts marketing its smart phone in other countries, which of the international product strategies is most appropriate? Why?
- Although some components are made in Asia, Sonic's smart phones will be assembled in Mexico through a contractual arrangement with a local factory. How are country-of-origin perceptions likely to affect your marketing recommendations?

Think about how these global marketing issues fit into Sonic's overall marketing strategy. Now document your ideas in the marketing plan you've been writing.

Chapter 9: Identifying Market Segments and Targets

Identifying suitable market segments and selecting targets are critical to the success of any marketing plan. As Jane Melody's assistant, you're responsible for market segmentation and targeting. Look back at the market information, buyer behavior data, and competitive details you previously gathered as you answer the following questions.

- Which variables should Sonic use to segment its consumer and business markets?
- How can Sonic evaluate the attractiveness of each identified segment? Should Sonic market to one consumer segment and one business segment or target more than one in each market? Why?
- Should Sonic pursue full-market coverage, market specialization, product specialization, selective specialization, or single-segment concentration? Why?

Next, consider how your decisions about segmentation and targeting will affect Sonic's marketing efforts. Depending on your instructor's directions, summarize your conclusions in the written marketing plan.

Chapter 10: Crafting the Brand Positioning

As before, you're working with Jane Melody on Sonic's marketing plan for launching a new smart phone. Now you're focusing on Sonic's brand positioning by answering three specific questions.

- In a sentence or two, what is an appropriate brand positioning for the Sonic 1000 smart phone?
- Create a perceptual map to diagram points-of-parity and points-of-difference between Sonic and its competitors. Are there any opportunities based on your findings?
- How can Sonic create differentiation from competitors using emotional branding?

Document your ideas in the written marketing plan. Note any additional research you may need to determine how to proceed after the Sonic 1000 has been launched.

Chapter 11: Creating Brand Equity

Sonic is a new brand with no prior brand associations, which presents a number of marketing opportunities and challenges. Jane Melody has given you responsibility for making recommendations about three brand equity issues that are important to Sonic's marketing plan.

- What brand elements would be most useful for differentiating the Sonic brand from competing brands?
- How can Sonic sum up its brand promise for the new smart phone?
- Should Sonic add a brand for its second product or retain the Sonic name?

Be sure your brand ideas are appropriate in light of what you've learned about your targeted segments and the competition. Then add this information to your written marketing plan.

Chapter 12: Addressing Competition and Driving Growth

Knowing that the smart-phone market is likely to remain highly competitive, Jane Melody wants you to look ahead at how Sonic can develop new products outside the smart-phone market. Review the competitive situation and the market situation before you continue working on the Sonic marketing plan.

- List three new-product ideas that build on Sonic's strengths and the needs of its various target segments. What criteria should Sonic use to screen these ideas?
- Develop the most promising idea into a product concept, and explain how Sonic can test this concept. What particular dimensions must be tested?
- Assume that the most promising idea tests well. Now develop a marketing strategy for introducing it, including a description of the target market; the product positioning; the estimated sales, profit, and market share goals for the first year; your channel strategy; and the marketing budget you will recommend for this new-product introduction. If possible, estimate Sonic's costs and conduct a break-even analysis.

Document all the details of your new-product development ideas in the written marketing plan.

Chapter 13: Setting Product Strategy

Introducing a new product entails a variety of decisions about product strategy, including differentiation, ingredient branding, packaging, labeling, warranty, and guarantee. Your next task is to answer the following questions about Sonic's product strategy.

- Which aspect of product differentiation would be most valuable in setting Sonic apart from its competitors, and why?
- Should Sonic use ingredient branding to tout the Linux-based operating system that it says makes its smart phone more secure than smart phones based on some other operating systems?
- How can Sonic use packaging and labeling to support its brand image and help its channel partners sell the smart-phone product more effectively?

Once you've answered these questions, incorporate your ideas into the marketing plan you've been writing.

Chapter 14: Designing and Managing Services

You're planning customer support services for Sonic's new smart-phone product. Review what you know about your target market and its needs; also think about what Sonic's competitors are offering. Then respond to these three questions about designing and managing services.

- What support services are buyers of smart-phone products likely to want and need?
- How can Sonic manage gaps between perceived service and expected service to satisfy customers?
- What postsale service arrangements must Sonic make, and how would you expect these to affect customer satisfaction?

Consider how your service strategy will support Sonic's overall marketing efforts. Summarize your recommendations in the written marketing plan to document your ideas.

Chapter 15: Introducing New Market Offerings

Sonic is a new entrant in an established industry characterized by competitors with relatively high brand identity and strong market positions. Use research and your knowledge of how to deal with competitors to consider three issues that will affect the company's ability to successfully introduce its first product:

- What factors will you use to determine Sonic's strategic group?
- Should Sonic select a class of competitor to attack on the basis of strength versus weakness, closeness versus distance, or good versus bad? Why is this appropriate in the smart-phone market?
- As a start-up company, what competitive strategy would be most effective as Sonic introduces its first product?

Take time to analyze how Sonic's competitive strategy will affect its marketing strategy and tactics. Now summarize your ideas in the written marketing plan.

Chapter 16: Developing Pricing Strategies and Programs

You're in charge of pricing Sonic's product for its launch early next year. Review the SWOT analysis you previously prepared as well as Sonic's competitive environment, targeting strategy, and product positioning. Now continue working on your marketing plan by responding to the following questions.

- What should Sonic's primary pricing objective be? Explain your reasoning.
- Are smart-phone customers likely to be price sensitive? What are the implications for your pricing decisions?
- What price adaptations (such as discounts, allowances, and promotional pricing) should Sonic include in its marketing plan?

Make notes about your answers to these questions and then document the information in the written marketing plan.

Chapter 17: Designing and Managing Integrated Marketing Channels

At Sonic, you have been asked to develop a marketing channel system for the new Sonic 1000 smart phone. Based on what you know about designing and managing integrated marketing channels, answer the three questions that follow.

- Do you agree with Jane Melody's decision to use a push strategy for the new product? Explain your reasoning.
- How many channel levels are appropriate for Sonic's targeted consumer and business segments?
- In determining the number of channel members, should you use exclusive, selective, or intensive distribution? Why?

Be sure your marketing channel ideas support the product positioning and are consistent with the goals that have been set. Record your recommendations in the written marketing plan.

Chapter 18: Managing Retailing, Wholesaling, and Logistics

At this point, you need to make more specific decisions about managing the marketing intermediaries for Sonic's first product. Formulate your ideas by answering the following questions.

- What types of retailers would be most appropriate for distributing Sonic's smart phone? What are the advantages and disadvantages of selling through these types of retailers?

- What role should wholesalers play in Sonic's distribution strategy? Why?
- What market-logistics issues must Sonic consider for the launch of its first smart phone?

Summarize your decisions about retailing, wholesaling, and logistics in the marketing plan you've been writing.

Chapter 19: Designing and Managing Integrated Marketing Communications

Jane Melody has assigned you to plan integrated marketing communications for Sonic's new-product introduction. Review the data, decisions, and strategies you previously documented in your marketing plan before you answer the next three questions.

- What communications objectives are appropriate for Sonic's initial campaign?
- How can Sonic use personal communications channels to influence its target audience?
- Which communication tools would you recommend using after Sonic's initial product has been in the market for six months? Why?

Confirm that your marketing communications plans make sense in light of Sonic's overall marketing efforts. Now, as your instructor directs, summarize your thoughts in the written marketing plan.

Chapter 20: Managing Mass Communications: Advertising, Sales Promotions, Events and Experiences, and Public Relations

Mass communications will play a key role in Sonic's product introduction. After reviewing your earlier decisions and thinking about the current situation (especially your competitive circumstances), respond to the following questions to continue planning Sonic's marketing communications strategy.

- Once Sonic begins to use consumer advertising, what goals would be appropriate?
- Should Sonic continue consumer and trade sales promotion after the new product has been in the market for six months? Explain your reasoning.
- Jane Melody wants you to recommend an event sponsorship possibility that would be appropriate for the new-product campaign. What type of event would you suggest, and what objectives would you set for the sponsorship?

Record your ideas about mass communications in the marketing plan you've been writing.

Chapter 21: Managing Digital Communications: Online, Social Media, and Mobile

Digital communications strategies will be essential to Sonic's marketing plan as brand awareness can be generated quickly through online channels, social media, and word of mouth. Jane Melody is especially interested in your answers to the following questions.

- How should Sonic use word of mouth to generate brand awareness and encourage potential buyers to visit retailers to see the new smart phone in person?
- Which social media platforms and networks should Sonic pursue based on their target audiences? Explain your reasoning.
- Is mobile marketing a viable strategy for Sonic's smart phone? Why or why not?

Consider your overall marketing objectives as you compile your answers. Document your ideas in your marketing plan.

Chapter 22: Managing Personal Communications: Direct and Database Marketing and Personal Selling

Sonic needs a strategy for managing personal communications during its new-product launch. This is the time to look at direct marketing, database marketing, and personal selling. Answer these three questions as you consider Sonic's personal communications strategy.

- Which forms of direct marketing are appropriate for Sonic, given its objectives, mass communications arrangements, and channel decisions?
- Should Sonic use database marketing to identify and cultivate prospects? What are the opportunities and potential downsides of this approach?
- Does Sonic need a direct sales force or can it sell through agents and other outside representatives?

Look back at earlier decisions and ideas before you document your comments about personal communications in your written marketing plan.

Chapter 23: Managing a Holistic Marketing Organization for the Long Run

With the rest of the marketing plan in place, you're ready to make recommendations about how to manage Sonic's marketing activities. Here are some specific questions Jane Melody wants you to consider.

- How can Sonic drive customer-focused marketing and strategic innovation throughout the organization?
- What role should social responsibility play in Sonic's marketing?
- How can Sonic evaluate its marketing? Suggest several specific steps the company should take.

To complete your written marketing plan, enter your answers to these questions. Finally, draft the executive summary of the plan's highlights.