customer base, employees, distributor and supplier relations, and intellectual capital. They are thus applying more metrics—brand equity, customer lifetime value, return on marketing investment—to understand and measure their marketing and business performance and a broader variety of financial measures to assess the direct and indirect value their marketing efforts create.

Company Orientation Toward the Marketplace

Given these new marketing realities, what philosophy should guide a company's marketing efforts? Let's first review the evolution of marketing philosophies.

The Production Concept

The **production concept** is one of the oldest concepts in business. It holds that consumers prefer products that are widely available and inexpensive. Managers of production-oriented businesses concentrate on achieving high production efficiency, low costs, and mass distribution. This orientation has made sense in developing countries such as China, where the largest PC manufacturer, Lenovo, has taken advantage of the country's huge, inexpensive labor pool to dominate the market. Marketers also use the production concept when they want to expand the market.

The Product Concept

The **product concept** proposes that consumers favor products offering the most quality, performance, or innovative features. However, managers are sometimes caught in a love affair with their products. They might commit the "better-mousetrap" fallacy, believing a better product will by itself lead people to beat a path to their door. As many start-ups have learned the hard way, a new or improved product will not necessarily be successful unless it's priced, distributed, advertised, and sold properly.

The Selling Concept

The **selling concept** holds that consumers and businesses, if left alone, won't buy enough of the organization's products. It is practiced most aggressively with unsought goods—goods buyers don't normally think of buying, such as insurance and cemetery plots—and when firms with overcapacity aim to sell what they make rather than make what the market wants. Marketing based on hard selling is risky. It assumes customers coaxed into buying a product not only won't return or bad-mouth it or complain to consumer organizations but might even buy it again.

The Marketing Concept

The **marketing concept** emerged in the mid-1950s as a customer-centered, sense-and-respond philosophy. The job is to find not the right customers for your products, but the right products for your customers. The marketing concept holds that the key to achieving organizational goals is being more effective than competitors in creating, delivering, and communicating superior customer value to your target markets. Harvard's Theodore Levitt drew a perceptive contrast between the selling and marketing concepts:[22]

> Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering, and finally consuming it.

The Holistic Marketing Concept

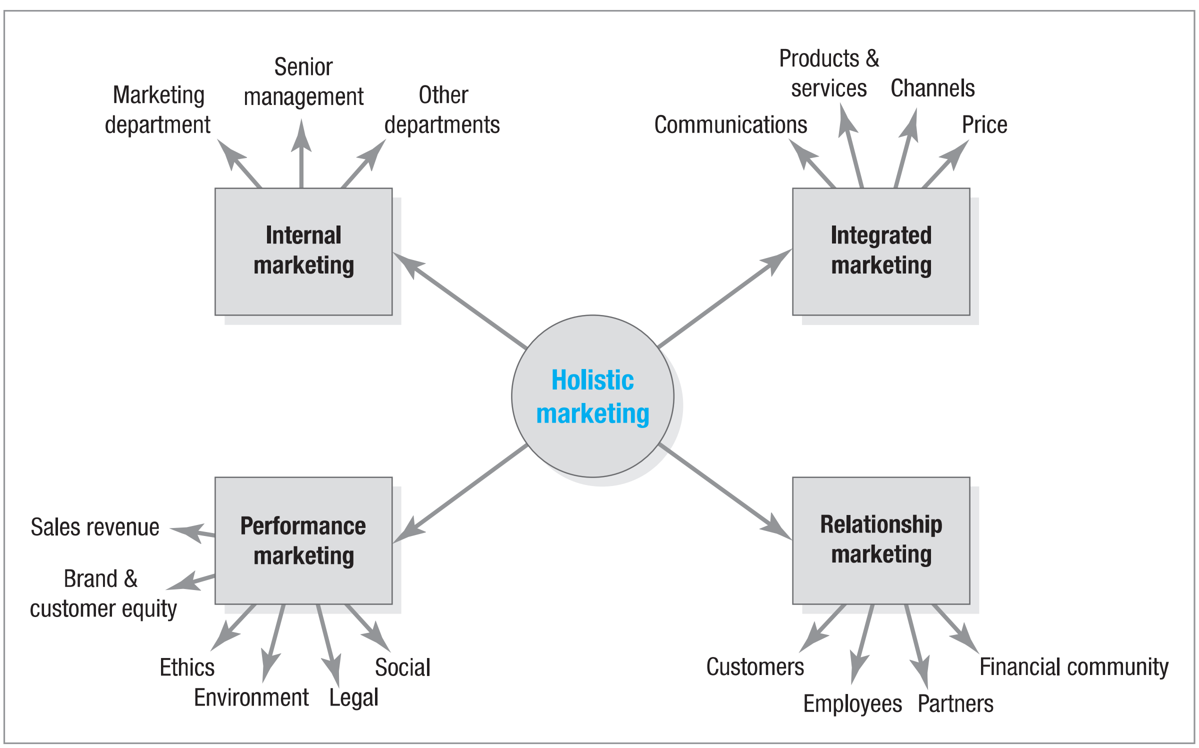
The **holistic marketing concept** is based on the development, design, and implementation of marketing programs, processes, and activities that recognize their breadth and interdependencies. Holistic marketing acknowledges that everything matters in marketing—and that a broad, integrated perspective is often necessary. Holistic marketing thus recognizes and reconciles the scope and complexities of marketing activities. Figure 1.2 provides a schematic overview of four broad components characterizing holistic marketing: relationship marketing, integrated marketing, internal marketing, and performance marketing. We'll examine these major themes throughout this book.

Relationship Marketing **Relationship marketing** aims to build mutually satisfying long-term relationships with key constituents in order to earn and retain their business.[23] Four key constituents for relationship marketing are customers, employees, marketing partners (channels, suppliers, distributors, dealers, agencies), and members of the financial community (shareholders, investors, analysts). Marketers must create prosperity among all these constituents and balance the returns to all key stakeholders.

The ultimate outcome of relationship marketing is a unique company asset called a **marketing network**, consisting of the company and its supporting stakeholders—customers, employees, suppliers, distributors, retailers, and others—with whom it has built mutually profitable business relationships. The operating principle is simple: build an effective network of relationships with key stakeholders, and profits will follow.[24] Thus, more companies are choosing to own brands rather than physical assets, and they are subcontracting activities to firms that can do them better and more cheaply while retaining core activities at home.

Companies are also shaping separate offers, services, and messages to *individual customers,* based on information about their past transactions, demographics, psychographics, and media

FIGURE 1.2 Holistic Marketing Dimensions



and distribution preferences. By focusing on their most profitable customers, products, and channels, these firms hope to achieve profitable growth, capturing a larger share of each customer's expenditures by building high customer loyalty. They estimate individual customer lifetime value and design their market offerings and prices to make a profit over the customer's lifetime. Marketing must skillfully conduct not only customer relationship management but partner relationship management as well. Companies are deepening their partnering arrangements with suppliers and distributors, seeing them as partners in delivering value to final customers so everybody benefits.

Integrated Marketing Integrated marketing occurs when the marketer devises activities and programs to create, communicate, and deliver value for consumer such that "the whole is greater than the sum of its parts." Two key themes are that (1) many different marketing activities can create, communicate, and deliver value; and (2) marketers should design and implement each marketing activity with all other activities in mind. When a hospital buys an MRI machine from General Electric, for instance, it expects good installation, maintenance, and training services to go with the purchase. All company communications also must be integrated so they reinforce and complement each other. A marketer might selectively employ television, radio, and print advertising, public relations and events, and PR and Web site communications so each contributes on its own and improves the effectiveness of the others while delivering a consistent brand message at every contact.

Internal Marketing **Internal marketing**, an element of holistic marketing, is the task of hiring, training, and motivating able employees who want to serve customers well. Smart marketers recognize that marketing activities within the firm can be as important as, or even more important than, those directed outside the company.

Performance Marketing **Performance marketing** requires understanding the financial and nonfinancial returns to business and society from marketing activities and programs. As noted previously, top marketers are increasingly going beyond sales revenue to interpret what is happening to market share, customer loss rate, customer satisfaction, product quality, and other measures. They are also considering the legal, ethical, social, and environmental effects of marketing activities and programs.

When they founded Ben & Jerry's, Ben Cohen and Jerry Greenfield embraced the performance marketing concept by dividing the traditional financial bottom line into a "double bottom line" that also measured the environmental impact of their products and processes. That later expanded into a "triple bottom line" to represent the positive and negative social impacts of the firm's entire range of business activities. Some firms have failed to live up to their legal and ethical responsibilities, and consumers are demanding more responsible behavior. One research study reported that at least one-third of consumers around the world believed that banks, insurance providers, and packaged-food companies should be subject to stricter regulation.[25]

Updating The Four Ps

Many years ago, McCarthy classified various marketing activities into *marketing-mix* tools of four broad kinds, which he called *the four Ps* of marketing: product, price, place, and promotion.[26] The marketing variables under each P are shown in Figure 1.3.

Given the breadth, complexity, and richness of marketing, however—as exemplified by holistic marketing—clearly these four Ps are not the whole story anymore. Updating them to reflect the holistic marketing concept results in a more representative set that encompasses modern marketing realities: people, processes, programs, and performance, as in Table 1.2.