PART

1

UNDERSTANDING MARKETING MANAGEMENT

IN THIS CHAPTER, WE WILL ADDRESS THE FOLLOWING QUESTIONS:

1. Why is marketing important?
2. What is the scope of marketing?
3. What are some fundamental marketing concepts?
4. How has marketing management changed?
5. What are the tasks necessary for successful marketing management?

CHAPTER 1 DEFINING MARKETING FOR THE 21ST CENTURY

one

Marketing is everywhere. Formally or informally, people and organizations engage in a vast number of activities that we could call marketing. Good marketing has become an increasingly vital ingredient for business success. And marketing profoundly affects our day-to-day lives. It is embedded in everything we do—from the clothes we wear, to the Web sites we click on, to the ads we see:

Two teenage girls walk into their local Starbucks, which happens to be in Shanghai. One goes to the crowded counter and waits to hand the barista cards for two free peppermint lattes. The other sits at a table and opens her Lenovo ThinkPad R60 notebook computer. Within a few seconds she connects to the Internet, courtesy of Starbucks' deal with China Mobile to provide its customers with wireless access to HotSpots on the China Mobile Network. Once on the Net, the girl uses Baidu.com—the Chinese search engine market leader—to search for information about the latest online game release from China's Shanda Interactive. In addition to links to various reviews, news sites, and fan pages, Baidu's search results feature a link to a chat room where hundreds of other gamers are discussing the game. The girl enters the chat room to ask whether people who have played the game recommend it. The response is overwhelmingly positive, so she clicks on a sponsored link from the results page, which > > >

Downtown Shanghai, a live demonstration of the many faces of marketing today.

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generates a sliver of paid-search revenue for Baidu and takes her to Shanda's official site, where she sets up an account.

Now her friend has returned with lattes in hand. She's eager to show off her parents' New Year's gift to her: a hot pink Motorola RAZR cell phone created by a team of young Chicago-based designers after months of market research and consumer tests. The two girls are admiring the slender phone when it receives a text ad announcing the availability of Shanda's latest game for mobile download. The girls turn to the laptop so they can gauge the online buzz for the mobile version of the game.

Good marketing is no accident, but a result of careful planning and execution. It is both an art and a science—there's a constant tension between its formulated side and its creative side. It's easier to learn the formulated side, which will occupy most of our attention in this book, but we will also describe how real creativity and passion operate in many companies. In this chapter, we lay the foundation for our study by reviewing a number of important marketing concepts, tools, frameworks, and issues.

The Importance of Marketing

Financial success often depends on marketing ability. Finance, operations, accounting, and other business functions will not really matter if there isn't sufficient demand for products and services so the company can make a profit. There must be a top line for there to be a bottom line. Many companies have now created a Chief Marketing Officer, or CMO, position to put marketing on a more equal footing with other C-level executives, such as the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Press releases from organizations of all kinds—from consumer goods makers to health care insurers and from nonprofit organizations to industrial product manufacturers—trumpet their latest marketing achievements on their Web sites. In the business press, countless articles are devoted to marketing strategies and tactics.

In stating their business priorities, CEOs acknowledge the importance of marketing. One survey of the top 10 challenges CEOs face around the world in 2006 revealed that among the top 5 were both "sustained and steady top line growth" and "customer loyalty/retention," challenges whose achievement depends heavily on marketing.[1] CEOs also recognize the importance of marketing to building brands and a loyal customer base, intangible assets that make up a large percentage of the value of a firm.

Marketing is tricky, however, and it has been the Achilles' heel of many formerly prosperous companies. Sears, Levi's, General Motors, Kodak, Sony, and Xerox all have confronted newly empowered customers and new competitors and have had to rethink their business models.

Even market leaders such as Intel, Microsoft, and Wal-Mart recognize that they cannot afford to relax as their leadership is challenged. Jack Welch, GE's former CEO, repeatedly warned his company: "Change or die."

XEROX

Xerox has had to become more than just a copier company. Now the blue-chip icon with the name that became a verb sports the broadest array of imaging products in the world and dominates the market for high-end printing systems. And it's making a huge product-line transition as it moves away from the old-line "light lens" technology to digital systems. Xerox is preparing for a world that is no longer black and white, and in which most pages are printed in color (which, not incidentally, generates five times the revenue of black and white). In addition to revamping its machines, Xerox is beefing up sales by providing annuity-like products and services that are ordered again and again: document management, ink, and toners. Having been slow at one time to respond to the emergence of Canon and the small copier market, Xerox is doing everything it can to stay ahead of the game.[2]

Making the right decisions about change isn't always easy. Marketing managers must decide what features to design into a new product, what prices to offer customers, where to sell products, and how much to spend on advertising, sales, or the Internet. They must also decide on details such as the exact wording or color for new packaging. The companies at greatest risk are those that fail to carefully monitor their customers and competitors and to continuously improve their value offerings. They take a short-term, sales-driven view of their business and ultimately they fail to satisfy their stockholders, employees, suppliers, and channel partners. Skillful marketing is a never-ending pursuit.

The Scope of Marketing

To prepare to be a marketer, you need to understand what marketing is, how it works, what is marketed, and who does the marketing.

What Is Marketing?

Marketing is about identifying and meeting human and social needs. One of the shortest good definitions of marketing is "meeting needs profitably." When eBay recognized that people were unable to locate some of the items they desired most, it created an online auction clearinghouse. When IKEA noticed that people wanted good furniture at a substantially lower price, it created knockdown furniture. These two firms demonstrated marketing savvy and turned a private or social need into a profitable business opportunity.

The American Marketing Association offers the following formal definition: *Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.*[3] Coping with these exchange processes calls for a considerable amount of work and skill. *Marketing management* takes place when at least one party to a potential exchange thinks about the means of achieving desired responses from other parties. Thus we see **marketing management** as *the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value.*

We can distinguish between a social and a managerial definition of marketing. A social definition shows the role marketing plays in society; for example, one marketer has said that marketing's role is to "deliver a higher standard of living." Here is a social definition that serves our purpose: *Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others.*

Managers sometimes think of marketing as "the art of selling products," but many people are surprised when they hear that selling is *not* the most important part of marketing! Selling is only the tip of the marketing iceberg. Peter Drucker, a leading management theorist, puts it this way:

> There will always, one can assume, be need for some selling. But the aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available.[4]

A successful new product is the result of careful marketing homework.

When Sony designed its Play Station 3 game system, when Apple launched its iPod Nano digital music player, and when Toyota introduced its Prius hybrid automobile, these manufacturers were swamped with orders because they had designed the "right" product, based on doing careful marketing homework.

What Is Marketed?

Marketing people market 10 types of entities: goods, services, events, experiences, persons, places, properties, organizations, information, and ideas. Let's take a quick look at these categories.

GOODS Physical goods constitute the bulk of most countries' production and marketing efforts. Each year, U.S. companies alone market billions of fresh, canned, bagged, and frozen food products and millions of cars, refrigerators, television sets, machines, and various other mainstays of a modern economy. Not only do companies market their goods, but thanks in part to the Internet, even individuals can effectively market goods.

RUBBER CHICKEN CARDS

A struggling actor who made ends meet by waiting tables, landing bit parts in TV series, teaching high school, and managing an office, Steve Rotblatt found a way to keep his acting dream alive by running a profitable small business out of his home. Rubber Chicken Cards (rubberchickencards.com) is a Santa Monica company that's generating online buzz with electronic greeting cards that combine voice-over acting—by Rotblatt and partner Richard Zobel—with irreverent humor. It didn't hurt that Classmates.com selected the company to develop a lighthearted card to help its 40 million members reconnect with old friends, or that the social networking site Me.com chose Rubber Chicken over dozens of competing vendors to create an electronic birthday card for its members. Founded in 2000, the company expected annual sales to reach $300,000 in 2006, up 60% from the prior year. Rotblatt and Zobel's business strategy: use our talents and spend as little as possible.[5]

SERVICES As economies advance, a growing proportion of their activities focuses on the production of services. The U.S. economy today consists of a 70–30 services-to-goods mix. Services include the work of airlines, hotels, car rental firms, barbers and beauticians, maintenance and repair people, and accountants, bankers, lawyers, engineers, doctors, software programmers, and management consultants. Many market offerings consist of a variable mix of goods and services. At a fast-food restaurant, for example, the customer consumes both a product and a service.

EVENTS Marketers promote time-based events, such as major trade shows, artistic performances, and company anniversaries. Global sporting events such as the Olympics and the World Cup are promoted aggressively to both companies and fans.

EXPERIENCES By orchestrating several services and goods, a firm can create, stage, and market experiences. Walt Disney World's Magic Kingdom represents this kind of experiential marketing, allowing customers to visit a fairy kingdom, a pirate ship, or a haunted house. There is also a market for customized experiences, such as spending a week at a baseball camp playing with retired baseball greats, conducting the Chicago Symphony Orchestra for five minutes, or climbing Mount Everest.[6]

PERSONS Celebrity marketing is a major business. Artists, musicians, CEOs, physicians, high-profile lawyers and financiers, and other professionals all get help from celebrity marketers.[7] Some people have done a masterful job of marketing themselves—think of David Beckham, Oprah Winfrey, and the Rolling Stones. Management consultant Tom Peters, himself a master at self-branding, has advised each person to become a "brand."

PLACES Cities, states, regions, and whole nations compete actively to attract tourists, factories, company headquarters, and new residents.[8] Place marketers include economic development specialists, real estate agents, commercial banks, local business associations, and advertising and public relations agencies. The Las Vegas Convention & Tourism Authority spent about $80 million on a provocative ad campaign, "What Happens Here, Stays Here." Returning to its roots as an "adult playground," Las Vegas hoped the campaign would lead to an increase from 37.4 million visitors in 2004 to 43 million visitors by 2009.[9]

PROPERTIES Properties are intangible rights of ownership of either real property (real estate) or financial property (stocks and bonds). Properties are bought and sold, and these exchanges require marketing. Real estate agents work for property owners or sellers, or they buy and sell residential or commercial real estate. Investment companies and banks market securities to both institutional and individual investors.

ORGANIZATIONS Organizations actively work to build a strong, favorable, and unique image in the minds of their target publics. In the United Kingdom, Tesco's "Every Little Helps" marketing program reflects the food marketer's attention to detail in everything it does, within as well as outside the store in the community and the environment. The campaign has vaulted Tesco to the top of the UK supermarket chain industry. Universities, museums, performing arts organizations, and nonprofits all use marketing to boost their public images and to compete for audiences and funds. Corporate identity campaigns are the result of intensive market research programs. This is certainly the case with Philips "Sense and Simplicity" campaign.

ROYAL PHILIPS

Philips researchers asked 1,650 consumers and 180 customers in dozens of in-depth and quantitative interviews and focus groups what was most important to them in using technology. Respondents from the UK, United States, France, Germany, the Netherlands, Hong Kong, China, and Brazil agreed on one thing: they wanted the benefits of technology without the hassles. With its "Sense and Simplicity" advertising campaign and focus, Philips believes, "our brand now reflects our belief that simplicity can be a goal of technology. It just makes sense." The campaign consists of print, online, and television advertising directed by five experts from the worlds of health care, lifestyle, and technology whose role is to provide "additional outside perspectives on the journey to simplicity."[10]

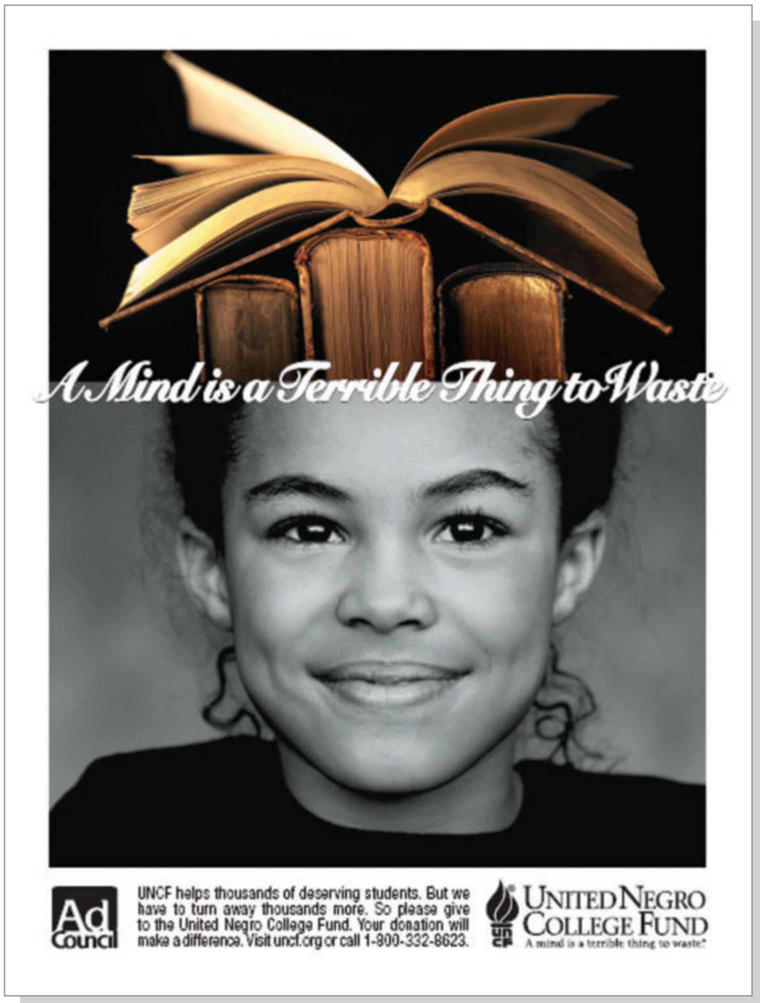
INFORMATION Information is essentially what books, schools, and universities produce, market, and distribute at a price to parents, students, and communities. Magazines such as *Road and Track, PC World,* and *Vogue* supply information about the car, computer, and fashion worlds, respectively. The production, packaging, and distribution of information are some of our society's major industries.[11] Even companies that sell physical products attempt to add value through the use of information. For example, the CEO of Siemens Medical Systems, Tom McCausland, says, "[our product] is not necessarily an X-ray or an MRI, but information. Our business is really health care information technology, and our end product is really an electronic patient record: information on lab tests, pathology, and drugs as well as voice dictation."[12]

IDEAS Every market offering includes a basic idea. Charles Revson of Revlon once observed: "In the factory, we make cosmetics; in the store we sell hope." Products and services are platforms for delivering some idea or benefit. Social marketers are busy promoting such ideas as "Friends Don't Let Friends Drive Drunk" and "A Mind Is a Terrible Thing to Waste."

Who Markets?

MARKETERS AND PROSPECTS A **marketer** is someone who seeks a response—attention, a purchase, a vote, a donation—from another party, called the **prospect**. If two parties are seeking to sell something to each other, we call them both marketers.

Marketing can help to promote powerful ideas.



Marketers are indeed skilled at stimulating demand for their company's products, but that's too limited a view of the tasks they perform. Just as production and logistics professionals are responsible for supply management, marketers are responsible for demand management. Marketing managers seek to influence the level, timing, and composition of demand to meet the organization's objectives. Eight demand states are possible:

1. ***Negative demand***—Consumers dislike the product and may even pay a price to avoid it.
2. ***Nonexistent demand***—Consumers may be unaware of or uninterested in the product.
3. ***Latent demand***—Consumers may share a strong need that cannot be satisfied by an existing product.
4. ***Declining demand***—Consumers begin to buy the product less frequently or not at all.
5. ***Irregular demand***—Consumer purchases vary on a seasonal, monthly, weekly, daily, or even hourly basis.
6. ***Full demand***—Consumers are adequately buying all products put into the marketplace.
7. ***Overfull demand***—More consumers would like to buy the product than can be satisfied.
8. ***Unwholesome demand***—Consumers may be attracted to products that have undesirable social consequences.

In each case, marketers must identify the underlying cause(s) of the demand state and then determine a plan of action to shift the demand to a more desired state.

MARKETS Traditionally, a "market" was a physical place where buyers and sellers gathered to buy and sell goods. Economists describe a *market* as a collection of buyers and sellers who transact over a particular product or product class (such as the housing market or the grain market). Modern economies abound in such markets.

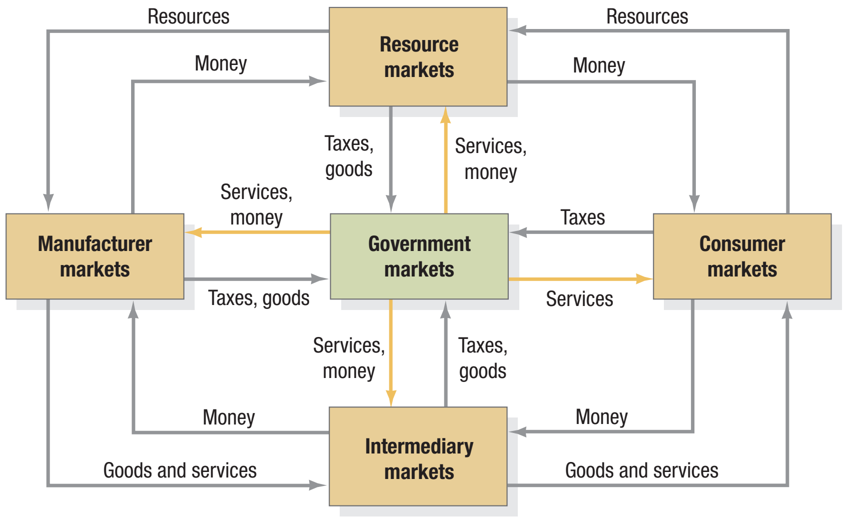


FIG. 1.1

Structure of Flows in a Modern Exchange Economy

Five basic markets and their connecting flows are shown in Figure 1.1. Manufacturers go to resource markets (raw material markets, labor markets, money markets), buy resources and turn them into goods and services, and then sell finished products to intermediaries, who sell them to consumers. Consumers sell their labor and receive money with which they pay for goods and services. The government collects tax revenues to buy goods from resource, manufacturer, and intermediary markets and uses these goods and services to provide public services. Each nation's economy, and the global economy, consists of complex interacting sets of markets linked through exchange processes.

Marketers often use the term **market** to cover various groupings of customers. They view sellers as constituting the industry and buyers as constituting the market. They talk about need markets (the diet-seeking market), product markets (the shoe market), demographic markets (the youth market), and geographic markets (the French market); or they extend the concept to cover other markets, such as voter markets, labor markets, and donor markets.

Figure 1.2 shows the relationship between the industry and the market. Sellers and buyers are connected by four flows. The sellers send goods and services and communications such as ads and direct mail to the market; in return they receive money and information such as customer attitudes and sales data. The inner loop shows an exchange of money for goods and services; the outer loop shows an exchange of information.

KEY CUSTOMER MARKETS Consider the following key customer markets: consumer, business, global, and nonprofit.

Consumer Markets Companies selling mass consumer goods and services such as soft drinks, cosmetics, air travel, and athletic shoes and equipment spend a great deal of time trying to establish a superior brand image. Much of a brand's strength depends on developing a superior product and packaging, ensuring its availability, and backing it with engaging communications and reliable service.

Business Markets Companies selling business goods and services often face well-trained and well-informed professional buyers who are skilled at evaluating competitive offerings. Business buyers buy goods in order to make or resell a product to others at a profit. Business marketers must demonstrate how their products will help these buyers achieve

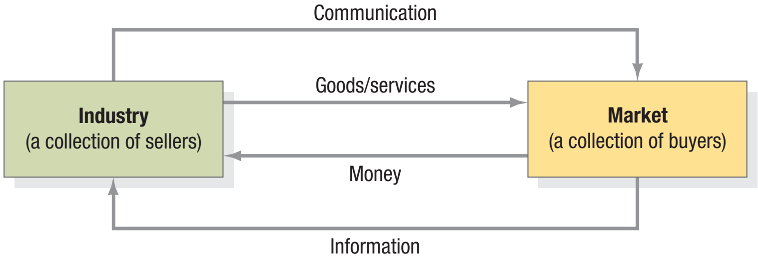


FIG. 1.2

A Simple Marketing System

higher revenue or lower costs. Advertising can play a role, but the sales force, price, and the company's reputation for reliability and quality may play a stronger one.

Global Markets Companies selling goods and services in the global marketplace face additional decisions and challenges. They must decide which countries to enter; how to enter each (as an exporter, licenser, joint venture partner, contract manufacturer, or solo manufacturer); how to adapt their product and service features to each country; how to price their products in different countries; and how to adapt their communications to fit different cultures. They make these decisions in the face of different requirements for buying, negotiating, owning, and disposing of property; different culture, language, and legal and political systems; and currencies that might fluctuate in value. Yet, the payoff for doing all this additional legwork can be huge.

ALASKA DEPARTMENT OF COMMERCE, WAL-MART

In 2005 alone, China accounted for $337 million of Alaska's exports—from seafood and fishmeal to minerals, fertilizers, and wood—and surpassed Canada to become Alaska's third-largest export partner. Noting the huge market potential of China, especially with the 2008 Olympics in Beijing and the 2010 World Expo slated for Shanghai, Wal-Mart purchased about $140,000 of Alaska seafood for its China stores. In order to compete with white fish and farmed salmon from Norway, five Wal-Mart stores hired Alaska officials to host cooking demonstrations of wild Alaska sockeye salmon and black cod during a 14-day span. Although they were labor intensive, the demonstrations gave an immediate taste test to China's young, sophisticated urban residents, who can pay the high prices these fish command.[13]

Nonprofit and Governmental Markets Companies selling their goods to nonprofit organizations such as churches, universities, charitable organizations, and government agencies need to price carefully, because these buyers have limited purchasing power. Lower selling prices affect the features and quality the seller can build into the offering. Much government purchasing calls for bids, and buyers often favor the lowest bid in the absence of extenuating factors.

MARKETPLACES, MARKETSPACES, AND METAMARKETS The *marketplace* is physical, such as a store you shop in; *marketspace* is digital, as when you shop on the Internet.[14]

Northwestern University's Mohan Sawhney has proposed the concept of a *metamarket* to describe a cluster of complementary products and services that are closely related in the minds of consumers, but spread across a diverse set of industries. The automobile metamarket consists of automobile manufacturers, new car and used car dealers, financing companies, insurance companies, mechanics, spare parts dealers, service shops, auto magazines, classified auto ads in newspapers, and auto sites on the Internet.

In purchasing a car, a buyer will get involved in many parts of this metamarket, and this creates an opportunity for *metamediaries* to assist buyers in moving seamlessly through these groups, although they are disconnected in physical space. One example is Edmund's (www.edmunds.com), a Web site where a car buyer can find the stated features and prices of different automobiles and easily click to other sites to search for the lowest-price dealer for financing, for car accessories, and for used cars at bargain prices. Metamediaries also serve other metamarkets, such as the home ownership market, the parenting and baby care market, and the wedding market.[15]

Marketing in Practice

How is marketing done? Increasingly, marketing is *not* done only by the marketing department. Marketing needs to affect every aspect of the customer experience, meaning that marketers must properly manage all possible touch points—store layouts, package designs, product functions, employee training, and shipping and logistics methods. Marketing must also be heavily involved in key general management activities, such as product innovation and new-business development.

To create a strong marketing organization, marketers must think like executives in other departments, and executives in other departments must think more like marketers.[16] CMO and later CEO of WalMart.com, Carter Cast, noted that what surprised him

Edmund's is a metamediary Web site that helps prospective car buyers navigate the automobile metamarket online.

most when he became CMO was "that I would interact so much with functions outside of marketing. I didn't realize it is a holistic assignment. Then I realized I really had to understand things like product supply, cost break-evens, and accounting."[17]

Companies generally establish a marketing department to be responsible for creating and delivering customer value, but as the late David Packard of Hewlett-Packard observed, "Marketing is far too important to leave to the marketing department." Companies now know that every employee has an impact on the customer and must see the customer as the source of the company's prosperity. So they're beginning to emphasize interdepartmental teamwork to manage key processes. They're also placing more emphasis on the smooth management of core business processes, such as new-product realization, customer acquisition and retention, and order fulfillment.

In practice, marketing follows a logical process. The marketing *planning* process consists of analyzing marketing opportunities, selecting target markets, designing marketing strategies, developing marketing programs, and managing the marketing effort. In highly competitive marketplaces, however, marketing planning is more fluid and is continually refreshed. Companies must always be moving forward with marketing programs, innovating products and services, staying in touch with customer needs, and seeking new advantages rather than relying on past strengths.

The changing new marketing environment is putting considerable demands on marketing executives. Marketers must have diverse quantitative and qualitative skills, an entrepreneurial attitude, and a keen understanding of how marketing can create value within their organization.[18] They must work in harmony with the sales function.

There are five key functions for a CMO in leading marketing within the organization:

1. Strengthening the brands
2. Measuring marketing effectiveness
3. Driving new product development based on customer needs
4. Gathering meaningful customer insights
5. Utilizing new marketing technology

Harvard's John Quelch and Gail McGovern note that there is tremendous variability in the responsibilities and job descriptions for CMOs.[19] They offer eight ways to improve CMO success (see Figure 1.3).

FIG. 1.3

Improving CMO Success

Source: Gail McGovern and John A. Quelch, "The Fall and Rise of the CMO," *Strategy&Business*, Winter 2004. Reprinted by permission.

1. Make the mission and responsibilities clear. Be certain that the case for having a CMO is strong and the mission is well understood by leaders in the organization, particularly the CEO, the board, and line management. Without a clear need (real or perceived), the role will be rejected by the organization.

2. Fit the role to the marketing culture and structure. Avoid having a CMO in a marketing-led company that has many individual brands rather than a single corporate umbrella—unless the person appointed to the position is a well-connected insider.

3. Choose a CMO who is compatible with the CEO. Beware of the CEO who wants to hire a CMO but doesn't want to relinquish any marketing control. Find a CEO who recognizes his or her responsibility to be the cheerleader for marketing and the brand, but realizes the need to be guided and coached by a marketing specialist.

4. Remember that showpeople don't succeed. The CMO should work hard to ensure the CEO is successful at being the principal cheerleader for the brand.

5. Match the personality with the CMO type. Be certain that the chief marketer has the right skills and personality for whichever of the three CMO models he or she might fill (VP of Marketing Services, Classic CMO, or "Super" CMO). There is little tolerance for on-the-job training.

6. Make line managers marketing heroes. By stretching their marketing budgets, CMOs can improve a division's marketing productivity and help business unit leaders increase their top-line revenues.

7. Infiltrate the line organization. Have the CMO support the placement of marketing professionals from the corporate marketing department into divisional marketing roles. Provide input from the CMO into the annual reviews of line marketers.

8. Require right-brain and left-brain skills. The most successful CMO will have strong creative and technical marketing expertise, be politically savvy, and have the interpersonal skills to be a great leader and manager.

Core Marketing Concepts

To understand the marketing function, we need to understand the following core set of concepts.

Needs, Wants, and Demands

Needs are the basic human requirements. People need air, food, water, clothing, and shelter to survive. People also have strong needs for recreation, education, and entertainment. These needs become *wants* when they are directed to specific objects that might satisfy the need. A consumer in the United States needs food but may want a hamburger, french fries, and a soft drink. A person in Mauritius needs food but may want a mango, rice, lentils, and beans. Wants are shaped by our society.

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

These distinctions shed light on the frequent criticism that "marketers create needs" or "marketers get people to buy things they don't want." Marketers do not create needs: Needs preexist marketers. Marketers, along with other societal factors, influence wants. Marketers might promote the idea that a Mercedes would satisfy a person's need for social status. They do not, however, create the need for social status.

Understanding customer needs and wants is not always simple. Some customers have needs of which they are not fully conscious, or they cannot articulate these needs, or they use words that require some interpretation. What does it mean when the customer asks for a "powerful" lawnmower, a "fast" lathe, an "attractive" bathing suit, or a "restful" hotel? The marketer must probe further. We can distinguish among five types of needs:

1. Stated needs (The customer wants an inexpensive car.)
2. Real needs (The customer wants a car whose operating cost, not its initial price, is low.)
3. Unstated needs (The customer expects good service from the dealer.)

4. Delight needs (The customer would like the dealer to include an onboard navigation system.)
5. Secret needs (The customer wants friends to see him as a savvy consumer.)

Responding only to the stated need may shortchange the customer. Many consumers do not know what they want in a product. Consumers did not know much about cellular phones when they were first introduced, and Nokia and Ericsson fought to shape consumer perceptions of them. Simply giving customers what they want isn't enough any more—to gain an edge companies must help customers learn what they want.

Target Markets, Positioning, and Segmentation

A marketer can rarely satisfy everyone in a market. Not everyone likes the same cereal, hotel room, restaurant, automobile, college, or movie. Therefore, marketers start by dividing the market into segments. They identify and profile distinct groups of buyers who might prefer or require varying product and service mixes by examining demographic, psychographic, and behavioral differences among buyers.

WAL-MART

Wal-Mart uses segmentation to reach customers in different geographic markets, with its new Store of the Community concept. Now over two dozen Wal-Mart stores have been designed to reflect the communities in which they are located. For instance, there's a Wal-Mart with a Western flair in Ft. Collins, Colorado, and a two-level art-deco-inspired unit to draw in wealthy African Americans in Baldwin Hills, California. In an effort to cater to the country's fourth-largest Amish community, the Middlefield, Ohio, Wal-Mart offers hitching posts outside for horse and buggies, block ice for refrigerators, and a huge assortment of denim fabric for making work pants.

After identifying market segments, the marketer then decides which present the greatest opportunity—which are its *target markets*. For each, the firm develops a *market offering* that it *positions* in the minds of the target buyers as delivering some central benefit(s). For example, Volvo develops its cars for buyers to whom safety is a major concern. Volvo, therefore, positions its car as the safest a customer can buy. Companies do best when they choose their target market(s) carefully and prepare tailored marketing programs.

Offerings and Brands

Companies address needs by putting forth a **value proposition**, a set of benefits that they offer to customers to satisfy their needs. The intangible value proposition is made physical by an *offering*, which can be a combination of products, services, information, and experiences.

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

Value and Satisfaction

The offering will be successful if it delivers value and satisfaction to the target buyer. The buyer chooses between different offerings based on

The art-deco styling of this new Wal-Mart store is meant to appeal to the wealthy shoppers in its California neighborhood.

which she perceives to deliver the most value. *Value* reflects the sum of the perceived tangible and intangible benefits and costs to customers. It's primarily a combination of quality, service, and price ("qsp"), called the "customer value triad." Value increases with quality and service and decreases with price, although other factors can also play an important role in our perceptions of value.

Value is a central marketing concept. We can think of marketing as the identification, creation, communication, delivery, and monitoring of customer value. *Satisfaction* reflects a person's judgments of a product's perceived performance (or outcome) in relationship to expectations. If the performance falls short of expectations, the customer is dissatisfied and disappointed. If it matches expectations, the customer is satisfied. If it exceeds them, the customer is delighted.

Marketing Channels

To reach a target market, the marketer uses three kinds of marketing channels. *Communication channels* deliver and receive messages from target buyers and include newspapers, magazines, radio, television, mail, telephone, billboards, posters, fliers, CDs, audiotapes, and the Internet. Beyond these, just as we convey messages by our facial expressions and clothing, firms communicate through the look of their retail stores, the appearance of their Web sites, and many other media. Marketers are increasingly adding dialogue channels such as e-mail, blogs, and toll-free numbers to familiar monologue channels such as ads.

The marketer uses *distribution channels* to display, sell, or deliver the physical product or service(s) to the buyer or user. They include distributors, wholesalers, retailers, and agents.

The marketer also uses *service channels* to carry out transactions with potential buyers. Service channels include warehouses, transportation companies, banks, and insurance companies that facilitate transactions. Marketers clearly face a design challenge in choosing the best mix of communication, distribution, and service channels for their offerings.

Supply Chain

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

Competition

Competition includes all the actual and potential rival offerings and substitutes a buyer might consider. Suppose an automobile company is planning to buy steel for its cars. There are several possible levels of competitors. The manufacturer can buy steel from U.S. Steel in the United States, it can buy from a foreign firm in Japan or Korea, it can buy from a minimill such as Nucor at a cost savings, or it can buy aluminum from Alcoa for certain parts to reduce the car's weight or engineered plastics from Saudi Basic Industries Corporation (SABIC), purchasers of GE Plastics, for bumpers instead of steel. Clearly, U.S. Steel would be thinking too narrowly about its competition if it thought only of other integrated steel companies. In fact, in the long run U.S. Steel is more likely to be hurt by substitute products than by other steel companies.

Marketing Environment

The marketing environment consists of the task environment and the broad environment. The *task environment* includes the actors engaged in producing, distributing, and promoting the offering. These are the company, suppliers, distributors, dealers, and the target customers. In the supplier group are material suppliers and service suppliers, such as marketing research agencies, advertising agencies, banking and insurance companies, transportation companies, and telecommunications companies. Distributors and dealers include agents, brokers, manufacturer representatives, and others who facilitate finding and selling to customers.

The *broad environment* consists of six components: demographic environment, economic environment, physical environment, technological environment, political-legal environment, and social-cultural environment. Marketers must pay close attention to the trends and developments in these environments and make timely adjustments to their marketing strategies.

::: The New Marketing Realities

We can say with some confidence that "the marketplace isn't what it used to be." Marketers must attend and respond to a number of significant developments.

Major Societal Forces

Today the marketplace is radically different as a result of major, and sometimes interlinking, societal forces that have created new behaviors, new opportunities, and new challenges:

- ***Network information technology.*** The digital revolution has created an Information Age. The Industrial Age was characterized by mass production and mass consumption, stores stuffed with inventory, ads everywhere, and rampant discounting. The Information Age promises to lead to more accurate levels of production, more targeted communications, and more relevant pricing.
- ***Globalization.*** Technological advances in transportation, shipping, and communication have made it easier for companies to market in other countries, and easier for consumers to buy products and services from marketers in other countries.
- ***Deregulation.*** Many countries have deregulated industries to create greater competition and growth opportunities. In the United States, laws restricting financial services, telecommunications, and electric utilities have all been loosened in the spirit of greater competition.
- ***Privatization.*** Many countries have converted public companies to private ownership and management to increase their efficiency, such as British Airways and British Telecom in the United Kingdom.
- ***Heightened competition.*** Brand manufacturers are facing intense competition from domestic and foreign brands, resulting in rising promotion costs and shrinking profit margins. They are being further buffeted by powerful retailers that command limited shelf space and are putting out their own store brands in competition with national brands. Many strong brands are extending into related product categories, creating megabrands with much presence and reputation.
- ***Industry convergence.*** Industry boundaries are blurring at an incredible rate as companies are recognizing that new opportunities lie at the intersection of two or more industries. The computing and consumer electronics industries are converging as the giants of the computer world such as Dell, Gateway, and Hewlett-Packard release a stream of entertainment devices—from MP3 players to plasma TVs and camcorders. The shift to digital technology is fueling this massive convergence.[20]
- ***Consumer resistance.*** A 2004 Yankelovich study found record levels of marketing resistance from consumers.[21] A majority of those surveyed reported negative opinions about marketing and advertising, stating that they avoid products that they feel overmarket. The increased popularity of digital video recorders such as TiVo make it easier for consumers to skip or "zap" TV commercials, in part reflecting their desire for marketing avoidance.
- ***Retail transformation.*** Small retailers are succumbing to the growing power of giant retailers and "category killers." Store-based retailers face competition from catalog houses; direct-mail firms; newspaper, magazine, and TV direct-to-customer ads; home shopping TV; and e-commerce on the Internet. In response, entrepreneurial retailers are building entertainment into their stores with coffee bars, lectures, demonstrations, and performances, marketing an "experience" rather than a product assortment.

MAC COSMETICS INC.

A division of cosmetics giant Estée Lauder, MAC Cosmetics is considered a significant reason for Lauder's 13% net makeup sales increase. Yet, MAC's 1,000 stores worldwide don't simply sell Small Eye Shadow, Studio Fix, Lustreglass, and Pro Longwear Lipcoulour. Instead, they rely on highly paid "artists" to bond with each customer during a free makeup consultation and application lesson. Although this tack is hardly new in the world of retail makeup, what's unique is that MAC's artists are not out there to bump up their commissions and load customers down with more products. Rather, they're trained to collaborate with customers so they'll leave the store with $50 or more of MAC products *and* the feeling, "I can definitely do this at home." The goal, says Matthew Waitesmith, MAC's head of "artist training and development," is for each customer to feel she's had an authentically artistic experience "that hopefully means they'll return to the place that makes them feel like an artist."[22]

- ***Disintermediation.*** The amazing success of early online dot-coms, such as AOL, Amazon.com, Yahoo!, eBay, E*TRADE, and dozens of others that created *disintermediation* in the delivery of products and services by intervening between the traditional flow of goods through distribution channels, struck terror into the hearts of many established manufacturers and retailers. In response, many traditional companies engaged in *reintermediation* and became "brick-and-click" retailers, adding online services to their existing offerings. Many brick-and-click competitors became stronger contenders than pure-click firms, because they had a larger pool of resources to work with and well-established brand names.

The societal forces that spawned this Information Age have resulted in many new consumer and company capabilities.

New Consumer Capabilities

Customers today perceive fewer real product differences and show less brand loyalty, and they are becoming more price and quality sensitive in their search for value. Consider what consumers have today that they didn't have yesterday:

- ***A substantial increase in buying power.*** Buyers are only a click away from comparing competitor prices and product attributes on the Internet. They can even name their price for a hotel room, airline ticket, or mortgage. Business buyers can run a *reverse auction* in which sellers compete to capture their business. They can readily join with others to aggregate their purchases and achieve deeper volume discounts.
- ***A greater variety of available goods and services.*** Amazon.com quickly became the world's largest bookstore but has since branched into retail sales of music and movies, clothing and accessories, consumer electronics, health and beauty aids, and home and garden products. Buyers can order goods online from anywhere in the world, bypassing limited local offerings and realizing great savings by ordering in countries with lower prices.
- ***A great amount of information about practically anything.*** People can read almost any newspaper in any language from anywhere in the world. They can access online encyclopedias, dictionaries, medical information, movie ratings, consumer reports, and countless other information sources.
- ***Greater ease in interacting and placing and receiving orders.*** Today's buyers can place orders from home, office, or mobile phone 24 hours a day, 7 days a week, and quickly receive goods at their home or office.
- ***An ability to compare notes on products and services.*** Social networking sites bring together buyers with a common interest. At CarSpace.com auto enthusiasts talk about chrome rims, the latest BMW model, and where to find a great mechanic in their local area. Marketers are eying the success of the site, given that 35% of young, first-time car buyers consider the Internet their most important shopping tool.[23]
- ***An amplified voice to influence peer and public opinion.*** The Internet fuels personal connections and user-generated content through social media such as MySpace and single-use social networks such as Flickr (photos), Del.cio.us (links), Digg (news stories),

Wikipedia (encyclopedia articles), and YouTube (video).[24] In late 2004, Kryptonite, a firm that makes high-priced bike locks, found itself in an awkward position when several blogs showed how the firm's U-shaped locks could be easily picked using only the plastic casing of a Bic pen.[25]

KFC, CONVERSE, WM. WRIGLEY JR.

Although Chinese citizens are still prohibited from criticizing the government online, they have thousands of online forums for airing grievances about poor customer service, misleading ad campaigns, shoddy products, safety standards, and more. Chinese consumers are vocal and active, and when enough of them voice a complaint, companies listen. When a Chinese TV spot for Yum! Brand Inc.'s KFC Corp. depicted a hard-working student who didn't pass his exams and two carefree children who enjoyed KFC fried chicken and did, KFC received so many complaints for suggesting hard work doesn't pay that it changed the ad to show all three children doing well. Smart companies are enlisting their opinionated Internet consumers to give input before a product is launched. Converse and Wm. Wrigley Jr. conducted a joint promotion encouraging Chinese consumers to come up with their own cool designs for Converse sneakers that featured Wrigley's Juicy Fruit logo. [26]

New Company Capabilities

New forces also have combined to generate a new set of capabilities for today's companies:

- Marketers can use the Internet as a powerful information and sales channel, augmenting their geographical reach to inform customers and promote their businesses and products worldwide. By establishing one or more Web sites, they can list their products and services, history, its business philosophy, job opportunities, and other information of interest to visitors.
- Researchers can collect fuller and richer information about markets, customers, prospects, and competitors. They can also conduct fresh marketing research using the Internet to arrange for focus groups, send out questionnaires, and gather primary data in several other ways.
- Managers can facilitate and speed internal communication among their employees by using the Internet as a private intranet. Employees can query one another, seek advice, and download or upload needed information from and to the company's main computer.
- Companies can also facilitate and speed external communication among customers by creating online and off-line "buzz" through brand advocates and user communities. In 2003, the Rock Bottom Brew pub chain reported a 76% jump in revenues after hiring BzzAgent and 1,000-plus of its "agents" to launch a 13-week word-of-mouth campaign.[27] BzzAgent has assembled a nationwide volunteer army of 260,000 consumers who join promotional programs for products and services they deem worth talking about.[28]
- Target marketing and two-way communication are easier thanks to the proliferation of special-interest magazines, TV channels, and Internet newsgroups. Extranets linking suppliers and distributors let firms send and receive information, place orders, and make payments more efficiently. The company can also interact with each customer individually to *personalize* messages, services, and the relationship. Discount brokerage Charles Schwab spent 25% of its marketing communication budget online in 2005 to support its "Talk to Chuck" campaign, up from 8% in 2003.[29]
- Marketers can send ads, coupons, samples, and information to customers who have requested them or have given the company permission to send them. They can now assemble information about individual customers' purchases, preferences, demographics, and profitability. British supermarket giant Tesco is outpacing its rival store, Sainsbury, by using its Clubcard data to personalize offers according to individual customer attributes.[30]
- Companies can reach consumers on the move with mobile marketing. Using GPS technology, for instance, consumers can download company logos so they can spot brands such as Dunkin' Donuts or Baskin Robbins when they're on the road.[31] Firms can also advertise on video iPods and reach consumers on their cell phones through mobile marketing.[32] General Motors Corp. launched its Pontiac G6 with a promotion asking consumers to

More and more companies can produce individually differentiated goods, even consumer products like these.

take photos of the sports sedan on their camera phones and send them to GM in return for a free classic punk rock ring tone and a chance to win $1 million in cash. About 18,500 photos were sent, mostly from the G6 target market of young males under the age of 25.[33]

- Firms can produce individually differentiated goods, whether they're ordered in person, on the phone, or online, thanks to advances in factory customization, computers, the Internet, and database marketing software. For a price, customers can buy M&M candies with their names on them, Wheaties boxes or Jones soda cans with their pictures on the front, and Heinz ketchup bottles with customized messages.[34] BMW's technology now allows buyers to design their own models from among 350 variations, with 500 options, 90 exterior colors, and 170 trims. The company claims that 80% of the cars bought by individuals in Europe and up to 30% bought in the United States are built to order.
- Managers can improve purchasing, recruiting, training, and internal and external communications. Aerospace and defense contractor Boeing has joined large, high-profile companies Walt Disney, General Motors, and McDonald's in embracing corporate blogging to communicate with the public, customers, and employees. External blogs allow dialogues with a marketing vice president and a glimpse into the flight testing of the new 777 model; internal blogs allow conversations on hot topics and anonymous feedback.[35]
- Corporate buyers can achieve substantial savings by using the Internet to compare sellers' prices and to purchase materials at auction or by posting their own terms. Companies can improve logistics and operations to reap substantial cost savings, at the same time improving accuracy and service quality.
- Firms can also recruit new employees online, and many are also preparing Internet training products for download to employees, dealers, and agents.

Company Orientation toward the Marketplace

Given these new marketing realities, what philosophy should guide a company's marketing efforts? Increasingly, marketers operate consistent with a holistic marketing concept. Let's review the evolution of earlier marketing ideas.

The Production Concept

The production concept is one of the oldest concepts in business. It holds that consumers will prefer products that are widely available and inexpensive. Managers of production-oriented businesses concentrate on achieving high production efficiency, low costs, and mass distribution. This orientation makes sense in developing countries such as China, where the largest PC manufacturer, Lenovo, and domestic appliances giant Haier take advantage of the country's huge and inexpensive labor pool to dominate the market. Marketers also use the production concept when a company wants to expand the market.[36]

The Product Concept

The product concept proposes that consumers favor products that offer the most quality, performance, or innovative features. Managers in these organizations focus on making superior products and improving them over time. However, these managers are sometimes caught up in a love affair with their products. They might commit the "better-mousetrap" fallacy, believing that a better mousetrap will lead people to beat a path to their door. 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. The organization must, therefore, undertake an aggressive selling and promotion effort. The selling concept is expressed in the thinking of Sergio Zyman, Coca-Cola's former vice president of marketing, who said: "The purpose of marketing is to sell more stuff to more people more often for more money in order to make more profit."[37]

The selling concept is practiced most aggressively with unsought goods, goods that buyers normally do not think of buying, such as insurance, encyclopedias, and cemetery plots. Most firms also practice the selling concept when they have overcapacity. Their aim is to sell what they make, rather than make what the market wants. However, marketing based on hard selling carries high risks. It assumes that customers who are coaxed into buying a product will like it, and that if they don't, they not only won't return or bad-mouth it or complain to consumer organizations, but they might even buy it again.

The Marketing Concept

The marketing concept emerged in the mid-1950s.[38] Instead of a product-centered, "make-and-sell" philosophy, business shifted to a customer-centered, "sense-and-respond" philosophy. The job is not to find the right customers for your products, but to find the right products for your customers. Dell Computer doesn't prepare a perfect computer for its target market. Rather, it provides product platforms on which each person customizes the features he desires in the computer.

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 chosen target markets.

Theodore Levitt of Harvard drew a perceptive contrast between the selling and marketing concepts:

> Selling focuses on the needs of the seller; marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert his product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering, and finally consuming it.[39]

Several scholars have found that companies that embrace the marketing concept achieve superior performance.[40] This was first demonstrated by companies practicing a *reactive market orientation*—understanding and meeting customers' expressed needs. Some critics say this means companies develop only very basic innovations. Narver and his colleagues argue that more advanced, high-level innovation is possible if the focus is on customers' latent needs. Narver calls this a *proactive marketing orientation*.[41] Companies such as 3M, Hewlett Packard, and Motorola have made a practice of researching latent needs through a "probe-and-learn" process. Companies that practice both a reactive and a proactive marketing orientation are implementing a *total market orientation* and are likely to be the most successful.

The Holistic Marketing Concept

Without question, the trends and forces defining the 21st century are leading business firms to a new set of beliefs and practices. Today's best marketers recognize the need to have a more complete, cohesive approach that goes beyond traditional applications of the marketing concept. "Marketing Memo: Marketing Right and Wrong" suggests where companies go wrong—and how they can get it right—in their marketing.

The **holistic marketing** concept is based on the development, design, and implementation of marketing programs,

To learn how Tata applied the marketing concept to deepen its understanding of customers in India, visit www.pearsoned.co.in/marketingmanagementindia.

Nike is widely acknowledged as one of the most skilled marketers around.

MARKETING **MEMO** | MARKETING RIGHT AND WRONG

The Ten Deadly Sins of Marketing	The Ten Commandments of Marketing
1. The company is not sufficiently market focused and customer driven.	**1.** The company segments the market, chooses the best segments, and develops a strong position in each chosen segment.
2. The company does not fully understand its target customers.	**2.** The company maps its customers' needs, perceptions, preferences, and behavior and motivates it stakeholders to obsess about serving and satisfying the customers.
3. The company needs to better define and monitor its competitors.	**3.** The company knows its major competitors and their strengths and weaknesses.
4. The company has not properly managed its relationships with its stakeholders.	**4.** The company builds partners out of its stakeholders and generously rewards them.
5. The company is not good at finding new opportunities.	**5.** The company develops systems for identifying opportunities, ranking them, and choosing the best ones.
6. The company's marketing plans and planning process are deficient.	**6.** The company manages a marketing planning system that leads to insightful long-term and short-term plans.
7. The company's product and service policies need tightening.	**7.** The company exercises strong control over its product and service mix.
8. The company's brand-building and communications skills are weak.	**8.** The company builds strong brands by using the most cost-effective communication and promotion tools.
9. The company is not well organized to carry on effective and efficient marketing.	**9.** The company builds marketing leadership and a team spirit among its various departments.
10. The company has not made maximum use of technology.	**10.** The company constantly adds technology that gives it a competitive advantage in the marketplace.

Adapted Source: Philip Kotler, *Ten Deadly Marketing Sins* (Hoboken, NJ: John Wiley & Sons, 2004).

processes, and activities that recognizes their breadth and interdependencies. Holistic marketing recognizes that "everything matters" in marketing—and that a broad, integrated perspective is often necessary.

Holistic marketing is thus an approach that attempts to recognize and reconcile the scope and complexities of marketing activities. Figure 1.4 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. Successful companies will be those that can keep their marketing changing with the changes in their marketplace—and marketspace. "Breakthrough Marketing: Nike" describes how that company has successfully changed—and thrived—through the years.

Relationship Marketing

Increasingly, a key goal of marketing is to develop deep, enduring relationships with people and organizations that could directly or indirectly affect the success of the firm's marketing activities. **Relationship marketing** aims to build mutually satisfying long-term relationships with key constituents in order to earn and retain their business.[42]

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 respect the need to create prosperity among all these constituents and develop policies and strategies to balance the

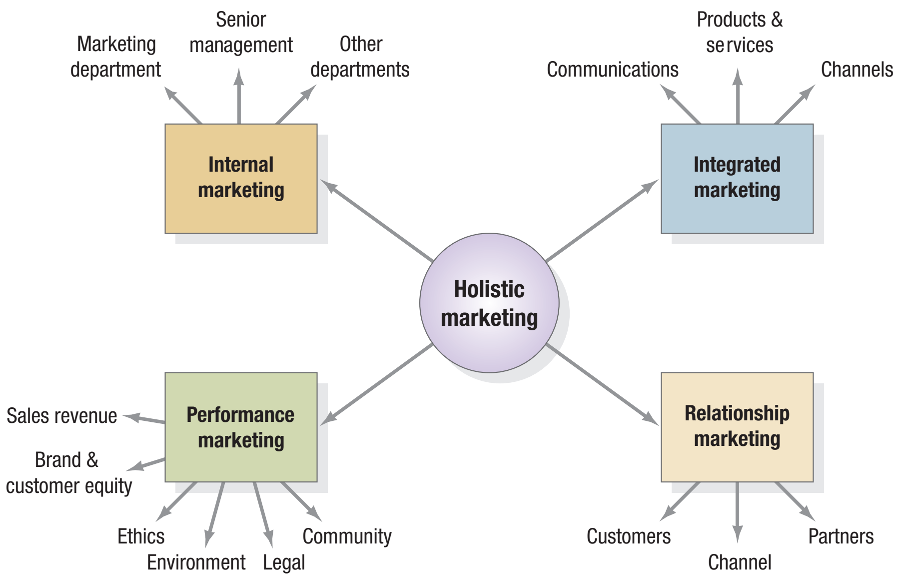


FIG. **1.4**

Holistic Marketing Dimensions

BREAKTHROUGH **MARKETING** — NIKE

Nike hit the ground running in 1962. Originally known as Blue Ribbon Sports, the company focused on providing high-quality running shoes designed especially for athletes by athletes. Founder Philip Knight believed that high-tech shoes for runners could be manufactured at competitive prices if imported from abroad. The company's commitment to designing innovative footwear for serious athletes helped it build a cult following among U.S. consumers.

Nike believed in a "pyramid of influence" where product and brand choices were influenced by the preferences and behavior of a small percentage of top athletes. Therefore, from the start, Nike's marketing campaigns featured winning athletes as spokespeople. Nike's first spokesperson, runner Steve Prefontaine, had an irreverent attitude that matched the company's spirit.

In 1985, Nike signed up then-rookie guard Michael Jordan as a spokesperson. Jordan was still an up-and-comer, but he personified superior performance. Nike's bet paid off: The Air Jordan line of basketball shoes flew off the shelves, with revenues of over $100 million in the first year alone.

In 1988, Nike aired the first ads in its $20 million "Just Do It" ad campaign. The campaign, which ultimately featured 12 TV spots in all, subtly challenged a generation of athletic enthusiasts to chase their goals; it was a natural manifestation of Nike's attitude of self-empowerment through sports.

As Nike began expanding overseas to Europe, however, it found that its U.S.-style ads were seen there as too aggressive. Nike realized it had to "authenticate" its brand in Europe the way it had in the United States. That meant building credibility and relevance in European sports, especially soccer (known outside the United States as football). Nike became actively involved as a sponsor of youth leagues, local clubs, and national teams.

Authenticity also required that consumers see athletes using the product, especially athletes who win. The big break came in 1994, when the Brazilian team (the only national team for which Nike had any real sponsorships) won the World Cup. That victory in the world's most popular sport helped Nike succeed in other international markets such as China, where Nike came to command 10% of the shoe market. By 2003 overseas revenues surpassed U.S. revenues for the first time, and by 2006 international divisions generated nearly $7.3 billion in revenue, compared to $5.7 billion from the United States.

In addition to expanding overseas, Nike moved into new athletic footwear, apparel, and equipment product categories. These included the Nike Golf brand of footwear, apparel, and equipment, which were all endorsed by megastar Tiger Woods. In 2005, Nike introduced an urban-themed collection of retro footwear and apparel bearing the name of the original company, Blue Ribbon Sports. Blue Ribbon Sports designs—which included jeans, belts, sweaters, and woven shirts—were sold at high-end retailers such as Barney's and Fred Segal.

Today, Nike dominates the athletic footwear market. Swooshes abound on everything from wristwatches to golf clubs to swimming caps. As a result of its expansion across geographic markets and product categories, Nike is the top athletic apparel and footwear manufacturer in the world, with corporate fiscal 2007 revenues of nearly $16 billion.

Sources: Justin Ewers and Tim Smart, "A Designer Swooshes In," *U.S. News & World Report,* January 26, 2004, p. 12; "Corporate Media Executive of the Year," *Delaney Report,* January 12, 2004, p. 1; "10 Top Nontraditional Campaigns," *Advertising Age,* December 22, 2003, p. 24; Chris Zook and James Allen, "Growth Outside the Core," *Harvard Business Review* 8 (December 2003): 66.

returns to all key stakeholders. To develop strong relationships with these constituents requires an understanding of their capabilities and resources, as well as their needs, goals, and desires.

The ultimate outcome of relationship marketing is a unique company asset called a marketing network. A **marketing network** consists of the company and its supporting stakeholders—customers, employees, suppliers, distributors, retailers, ad agencies, university scientists, 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.[43] Following this reasoning, more companies are choosing to own brands rather than physical assets. They are also increasingly subcontracting activities to outsourcing firms that can do them better and more cheaply, while retaining core activities.

A growing number of today's companies are also shaping separate offers, services, and messages to *individual customers,* based on information about past transactions, demographics, psychographics, and media 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.

These activities fall under what Columbia Business School professor Larry Selden and his wife and business consulting partner, Yoko Sugiura Selden, call "customer centricity." They offer the Royal Bank of Canada as an example:

ROYAL BANK OF CANADA

In thinking of its business in terms of customer segments rather than product segments, Royal Bank of Canada (RBC) has tagged each of its roughly 11 million clients and put them into meaningful segments. Now it can focus on measuring and managing the customer profitability of these segments. In the process, RBC discovered a sizeable subsegment of customers hidden within its broader categories of "wealth preservers" and "wealth accumulators." Dubbed "snowbirds," these individuals spent a number of months each winter in Florida, where they were experiencing difficulties establishing credit as well as missing their Canadian communities, particularly the familiarity of the French-Canadian accent and fluency in French. In order to meet their unique needs, RBC created a Canadian banking experience in Florida.[44]

Another goal of relationship marketing is to place much more emphasis on customer retention. Attracting a new customer may cost five times as much as doing a good enough job to retain an existing one. A bank aims to increase its share of the customer's wallet; the supermarket aims to capture a larger share of the customer's "stomach." Companies build customer share by offering a larger variety of goods to existing customers. They train their employees in cross-selling and up-selling.

Marketing must skillfully conduct not only customer relationship management (CRM), but partner relationship management (PRM) as well. Companies are deepening their partnering arrangements with key suppliers and distributors, thinking of these intermediaries not as customers but as partners in delivering value to final customers so everybody benefits. For example, tired of having its big rigs return empty as often as 15% of the time after making a delivery, General Mills entered a program with Fort James and a dozen other companies to combine one-way shipping routes into a cross-country loop served by a tag team of contracted trucks. As a result, General Mills reduced its empty-truck time to 6%, saving 7% on shipping costs in the process.[45]

Integrated Marketing

The marketer's task is to devise marketing activities and assemble fully integrated marketing programs to create, communicate, and deliver value for consumers. Marketing activities come in all forms.[46] McCarthy classified these activities as *marketing-mix* tools of four broad kinds, which he called *the four Ps* of marketing: product, price, place, and promotion.[47]

FIG. **1.5**

The Four P Components of the Marketing Mix

The particular marketing variables under each P are shown in Figure 1.5. Marketers make marketing-mix decisions for influencing their trade channels as well as their final consumers. Once they understand these groups, marketers make or customize an offering or solution, inform consumers—recognizing that many other sources of information also exist—set a price that offers real value, and choose places where the offering will be accessible.

The firm can change its price, sales force size, and advertising expenditures in the short run. It can develop new products and modify its distribution channels only in the long run. Thus the firm typically makes fewer period-to-period marketing-mix changes in the short run than the number of marketing-mix decision variables might suggest.

The four Ps represent the sellers' view of the marketing tools available for influencing buyers. From a buyer's point of view, each marketing tool is designed to deliver a customer benefit. A complementary breakdown of marketing activities has been proposed that centers on customers. Its four dimensions (SIVA) and the corresponding customer questions these are designed to answer are:[48]

1. Solution: How can I solve my problem?
2. Information: Where can I learn more about it?
3. Value: What is my total sacrifice to get this solution?
4. Access: Where can I find it?

Winning companies satisfy customer needs and surpass their expectations economically and conveniently and with effective communication.

Two key themes of integrated marketing are that (1) many different marketing activities communicate and deliver value and (2) when coordinated, marketing activities maximize their joint effects. In other words, marketers should design and implement any one marketing activity with all other activities in mind.

For example, using an integrated communication strategy means choosing communication options that 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 that each contributes on its own as well as improving the effectiveness of the others. Each communication must also deliver a consistent brand image to customers at every brand contact. Applying an integrated channel strategy ensures that direct and indirect channels, such as online and retail sales, work together to maximize sales and brand equity.

Online marketing activities play an increasingly prominent role in building brands and selling products and services. Created for $300,000 and no additional promotional expense, online site Carnival Connections made it easy for cruise fans to compare notes on cruise destinations and onboard entertainment, from casinos to conga lines. In a few short months, 2,000 of the site's 13,000 registered users planned trips aboard Carnival's 22 ships, generating an estimated $1.6 million in revenue for the company.[49]

Carnival Connections' online marketing activities include an interactive site where cruise fans can compare notes. The site has generated about $1.6 million in bookings.

Internal Marketing

Holistic marketing incorporates *internal marketing*, ensuring that everyone in the organization embraces appropriate marketing principles, especially senior management. Internal 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 company can be as important or even more important than marketing activities directed outside the company. It makes no sense to promise excellent service before the company's staff is ready to provide it.

Internal marketing must take place on two levels. At one level, the various marketing functions—sales force, advertising, customer service, product management, marketing research—must work together. Too often, the sales force thinks product managers set prices or sale quotas "too high"; or the advertising director and a brand manager cannot agree on an advertising campaign. All these marketing functions must be coordinated from the customer's point of view. The following example highlights the coordination problem:

> The marketing vice president of a major European airline wants to increase the airline's traffic share. His strategy is to build up customer satisfaction by providing better food, cleaner cabins, better-trained cabin crews, and lower fares, yet he has no authority in these matters. The catering department chooses food that keeps food costs down; the maintenance department uses cleaning services that keep cleaning costs down; the human resources department hires people without regard to whether they are naturally friendly; the finance department sets the fares. Because these departments generally take a cost or production point of view, the vice president of marketing is stymied in his efforts to create an integrated marketing mix.

At the second level, other departments must embrace marketing; they must also "think customer." Marketing is not a department so much as a company orientation.[50] See Table 1.1.

Internal marketing thus requires vertical alignment with senior management and horizontal alignment with other departments, so everyone understands, appreciates, and supports the marketing effort. As former Yahoo! CMO Cammie Dunaway states, "You

TABLE 1.1

Assessing Which Company Departments Are Customer Minded

H & D

- They spend time meeting customers and listening to their problems.
- They welcome the involvement of marketing, manufacturing, and other departments to 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.
- They build long-term relationships with fewer but more reliable, high-quality suppliers.
- They don't compromise quality for price savings.

Manufacturing

- They invite customers to visit and tour their plants.
- They visit customer plants.
- They willingly work overtime to meet promised delivery schedules.
- They continuously search for ways to produce goods faster and/or at lower cost.
- They continuously improve product quality, aiming for zero defects.
- They meet customer requirements for "customization" where possible.

Marketing

- They study customer needs and wants in well-defined market segments.
- They allocate marketing effort in relation to the long-run profit potential of the targeted segments.
- They develop winning offers for each target segment.
- They measure company image and customer satisfaction on a continuous basis.
- They continuously gather and evaluate ideas for new products, product improvements, and services.
- They urge all company departments and employees to be customer centered.

Sales

- They have specialized knowledge of the customer's industry.
- They strive to give the customer "the best solution."
- They make only promises that they can keep.
- They feed back customers' needs and ideas 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 this standard 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, geographic areas (regions, sales territories), order sizes, channels, and individual customers.
- They prepare invoices tailored to customer needs and answer customer queries courteously and quickly.

Finance

- They understand and support marketing expenditures (e.g., image advertising) that produce long-term customer preference and loyalty.
- They tailor the financial package to the customer's financial requirements.
- They make quick decisions on customer creditworthiness.

Public Relations

- They send out favorable news about the company and "damage control" unfavorable news.
- They act as an internal customer and public advocate for better company policies and practices.

Source: Philip Kotler, *Kotler on Marketing* (New York: Free Press, 1999), pp. 21–22. Reprinted with permission of The Free Press, a Division of Simon & Schuster Adult Publishing Group.

FIG. 1.6

Types of Marketing Organizations (percent of sample population in parentheses)

Source: Based on *Booz Allen Hamilton/Assn. of National Advertisers Marketing Profiles,* in conjunction with *Brandweek* from Constantine von Hoffman, "Armed with Intelligence," *Brandweek*, May 29, 2006, pp. 17–20.

Growth Champions (14.7%) emphasize growth-support functions, leading such general-management activities as product innovation and new-business development.

Marketing Masters (38.4%) oversee company-wide marketing efforts and the customer-focused side of new product and service launches, although are typically not involved with strategic decisions.

Senior Counselors (16.9%) specialize in marketing strategy, advising the CEO and individual businesses, and may drive major communication programs, although not typically new product development.

Best Practices Advisors (8.9%) work with individual business units to improve their marketing effectiveness and, but are less likely to be linked with above-average growth than both the Growth Champions and the Marketing Masters.

Brand Builders (12.2%) support brands by providing marketing services like communications strategy, creative output, and campaign execution, but exhibit little strategic leadership.

Service Providers (14.7%) coordinate marketing communications, but often work in firms with lower revenue growth and profitability.

want to be connecting at the very senior levels of the organization, and you also want to be connecting in with the engineers and scientists who are doing a lot of the work on the front lines." Dunaway also emphasizes the importance of integrated marketing, comparing her job to that of an orchestra conductor: "You have to figure out how to pull all those instruments together in a way that's delivering great marketing accountability and engaging marketing programs."[51]

A study conducted by Booz Allen Hamilton and the Association of National Advertisers, in conjunction with *Brandweek* magazine, asked 2,000 executives to describe the marketing structure within their organizations and to detail the tasks they consider integral to their missions. The researchers identified six types of marketing organizations (see Figure 1.6 for a breakdown and descriptions). In the most successful type, Growth Champions, marketing heavily influenced all aspects of the organization. Growth Champions were 20% more likely to deliver revenue growth and profitability than the other types of marketing organizations.

Performance Marketing

Holistic marketing incorporates *performance marketing* and understanding the returns to the business from marketing activities and programs, as well as addressing broader concerns and their legal, ethical, social, and environmental effects. Top management is going beyond sales revenue to examine the marketing scorecard and interpret what is happening to market share, customer loss rate, customer satisfaction, product quality, and other measures.

FINANCIAL ACCOUNTABILITY Marketers are thus being increasingly asked to justify their investments to senior management in financial and profitability terms, as well as in terms of building the brand and growing the customer base.[52] As a consequence, they're employing a broader variety of financial measures to assess the direct and indirect value their marketing efforts create. They're also recognizing that much of their firms' market value comes from intangible assets, particularly their brands, customer base, employees, distributor and supplier relations, and intellectual capital.

SOCIAL RESPONSIBILITY MARKETING The effects of marketing clearly extend beyond the company and the customer to society as a whole. Marketers must carefully consider their role in broader terms, and the ethical, environmental, legal, and social context of their activities.[53] Increasingly, consumers demand such behavior, as Starbucks Chairman Howard Schultz has observed:[54]

> We see a fundamental change in the way consumers buy their products and services. . . . Consumers now commonly engage in a cultural audit of providers. People want to know your value and ethics demonstrated by how you treat employees, the community in which you operate. The implication for marketers is to strike the balance between profitability and social consciousness and sensitivity. . . . It is not a program or a quarterly promotion, but rather a way of life. You have to integrate this level of social responsibility into your operation.

This realization calls for a new term that enlarges the marketing concept. We propose calling it the "societal marketing concept." The *societal marketing concept* holds that the organization's task is to determine the needs, wants, and interests of target markets and to deliver the desired satisfactions more effectively and efficiently than competitors in a way that preserves or enhances the consumer's and society's long-term well-being. Sustainability has become a major corporate concern in the face of challenging environmental forces. Firms such as Hewlett-Packard have introduced recyclable computers and printers and reduced greenhouse emissions; McDonald's strives for a "socially responsible supply system" encompassing everything from healthy fisheries to redesigned packaging.[55]

The societal marketing concept calls upon marketers to build social and ethical considerations into their marketing practices. They must balance and juggle the often conflicting criteria of company profits, consumer want satisfaction, and public interest. Table 1.2 displays some different types of corporate social initiatives, illustrated by McDonald's.[56]

As goods become more commoditized, and as consumers grow more socially conscious, some companies—including the Body Shop, Timberland, and Patagonia—are adding social responsibility as a way to differentiate themselves from competitors, build consumer preference, and achieve notable sales and profit gains. They believe customers will increasingly look for signs of good corporate citizenship.

TABLE 1.2 Corporate Social Initiatives

Type	Description	Example
Corporate social marketing	Supporting behavior change campaigns	McDonald's promotion of a statewide childhood immunization campaign in Oklahoma
Cause marketing	Promoting social issues through efforts such as sponsorships, licensing agreements, and advertising	McDonald's sponsorship of Forest (a gorilla) at Sydney's Zoo—a 10-year sponsorship commitment, aimed at preserving this endangered species
Cause-related marketing	Donating a percentage of revenues to a specific cause based on the revenue occurring during the announced period of support	McDonald's earmarking of $1 for Ronald McDonald Children's Charities from the sale of every Big Mac and pizza sold on McHappy Day
Corporate philanthropy	Making gifts of money, goods, or time to help nonprofit organizations, groups, or individuals	McDonald's contributions to Ronald McDonald House Charities
Corporate community involvement	Providing in-kind or volunteer services in the community	McDonald's catering meals for firefighters in the December 1997 bushfires in Australia
Socially responsible business practices	Adapting and conducting business practices that protect the environment and human and animal rights	McDonald's requirement that suppliers increase the amount of living space for laying hens on factory farms

Source: Philip Kotler and Nancy Lee, *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause* (Hoboken, NJ: Wiley, 2004). Copyright © 2005 by Philip Kotler and Nancy Lee. Used by permission of John Wiley & Sons, Inc.

BEN & JERRY'S

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, which would include a measurement of the environmental impact of their products and processes. That "double bottom line" later expanded into a "triple bottom line," to represent in objective terms the social impacts, both negative and positive, of the firm's entire range of business activities. Cohen and Greenfield informed their senior managers that they were going to be held accountable to maintain two bottom lines: "To improve the quality of life in the communities in which we operate, and to make a reasonable profit." Ben & Jerry's also recognized that just as companies require outside auditors to measure financial performance, they also require outside auditors to measure their performance along the environmental and social dimensions. As one of those outside auditors later recalled: "Measurement is a key tool to convince boards of directors and core executives that the socially responsible company is a sound business strategy. As companies make more data from their efforts available, the story becomes more compelling. . . . To advocate transparency in business and for all of us to ascribe to that—that's the ultimate acid test."[57]

Marketing Management Tasks

With the holistic marketing philosophy as a backdrop, we can identify a specific set of tasks that make up successful marketing management and marketing leadership. We'll use the following situation to illustrate these tasks in the context of the plan of the book. (The "Marketing Memo: Marketers' Frequently Asked Questions" is a good checklist for the questions marketing managers ask, all of which we examine in this book.)

> Zeus Inc. (name disguised) operates in several industries, including chemicals, cameras, and film. The company is organized into SBUs. Corporate management is considering what to do with its Atlas camera division, which produces a range of 35 mm and digital cameras. Although Zeus has a sizable share and is producing revenue, the 35 mm market itself is rapidly declining and its market share is slipping. In the faster-growing digital camera segment, Zeus faces strong competition and has been slow to gain sales. Zeus's corporate management wants Atlas's marketing group to produce a strong turnaround plan for the division.

Developing Marketing Strategies and Plans

The first task facing Atlas is to identify its potential long-run opportunities, given its market experience and core competencies (see Chapter 2). Atlas can design its cameras with better features. It can make a line of video cameras, or it can use its core competency in optics to design a line of binoculars and telescopes. Whichever direction it chooses, it must develop concrete marketing plans that specify the marketing strategy and tactics going forward.

Capturing Marketing Insights

Atlas needs a reliable marketing information system to closely monitor its marketing environment. Its microenvironment consists of all the players who affect its ability to produce and sell cameras—suppliers, marketing intermediaries, customers, and competitors. Its macroenvironment includes demographic, economic, physical, technological, political-legal, and social-cultural forces that affect sales and profits (see Chapter 3).

Atlas also needs a dependable marketing research system. To transform marketing strategy into marketing programs, marketing managers must measure market potential, forecast demand, and make basic decisions about marketing expenditures, marketing activities, and marketing allocation.[58] To make these allocations, marketing managers may use sales-response functions that show how the amount of money spent in each application will affect sales and profits (see Chapter 4).

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MARKETING **MEMO** | MARKETERS' FREQUENTLY ASKED QUESTIONS

1. How can we spot and choose the right market segment(s)?
2. How can we differentiate our offerings?
3. How should we respond to customers who buy on price?
4. How can we compete against lower-cost, lower-price competitors?
5. How far can we go in customizing our offering for each customer?
6. How can we grow our business?
7. How can we build stronger brands?
8. How can we reduce the cost of customer acquisition?
9. How can we keep our customers loyal for longer?
10. How can we tell which customers are more important?
11. How can we measure the payback from advertising, sales promotion, and public relations?
12. How can we improve sales force productivity?
13. How can we establish multiple channels and yet manage channel conflict?
14. How can we get the other company departments to be more customer oriented?

Connecting with Customers

Atlas must consider how to best create value for its chosen target markets and develop strong, profitable, long-term relationships with customers (see Chapter 5). To do so, it needs to understand consumer markets (see Chapter 6). Who buys cameras, and why do they buy? What are they looking for in the way of features and prices, and where do they shop? Atlas also sells cameras to business markets, including large corporations, professional firms, retailers, and government agencies (see Chapter 7), where purchasing agents or buying committees make the decisions. Atlas needs to gain a full understanding of how organizational buyers buy. It needs a sales force that is well trained in presenting product benefits.

Atlas will not want to market to all possible customers. It must divide the market into major market segments, evaluate each one, and target those it can best serve (see Chapter 8).

Building Strong Brands

Atlas must understand the strengths and weaknesses of the Zeus brand as customers see it (see Chapter 9). Is its 35 mm film heritage a handicap in the digital camera market? Suppose Atlas decides to focus on the consumer market and develop a positioning strategy (see Chapter 10). Should it position itself as the "Cadillac" brand, offering superior cameras at a premium price with excellent service and strong advertising? Should it build a simple, low-priced camera aimed at more price-conscious consumers? Or something in between?

Atlas must also pay close attention to competitors (see Chapter 11), anticipating its competitors' moves and knowing how to react quickly and decisively. It may want to initiate some surprise moves, in which case it needs to anticipate how its competitors will respond.

Shaping the Market Offerings

At the heart of the marketing program is the product—the firm's tangible offering to the market, which includes the product quality, design, features, and packaging (see Chapter 12). To gain a competitive advantage, Atlas may provide leasing, delivery, repair, and training as part of its product offering (see Chapter 13).

A critical marketing decision relates to price (see Chapter 14). Atlas must decide on wholesale and retail prices, discounts, allowances, and credit terms. Its price should match well with the offer's perceived value; otherwise, buyers will turn to competitors' products.

Delivering Value

Atlas must also determine how to properly deliver to the target market the value embodied in its products and services. Channel activities include those the company undertakes to make the product accessible and available to target customers (see Chapter 15). Atlas must identify, recruit, and link various marketing facilitators to supply its products and services efficiently to the target market. It must understand the various types of retailers, wholesalers, and physical-distribution firms and how they make their decisions (see Chapter 16).

Communicating Value

Atlas must also adequately communicate to the target market the value embodied by its products and services. It will need an integrated marketing communication program that maximizes the individual and collective contribution of all communication activities (see Chapter 17). Atlas needs to set up mass communication programs consisting of advertising, sales promotion, events, and public relations (see Chapter 18). It also needs to plan more personal communications, in the form of direct and interactive marketing, as well as hire, train, and motivate salespeople (see Chapter 19).

Creating Long-Term Growth

Based on its product positioning, Atlas must initiate new-product development, testing, and launching as part of its long-term view (see Chapter 20). The strategy should take into account changing global opportunities and challenges (see Chapter 21).

Finally, Atlas must build a marketing organization that's capable of implementing the marketing plan (see Chapter 22). Because surprises and disappointments can occur as marketing plans unfold, Atlas will need feedback and control to understand the efficiency and effectiveness of its marketing activities and how it can improve them.[59]

SUMMARY

1. From a managerial point of view, marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. Marketing management is the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value.
2. Marketers are skilled at managing demand: they seek to influence the level, timing, and composition of demand. Marketers are involved in marketing many types of entities: goods, services, events, experiences, persons, places, properties, organizations, information, and ideas. They also operate in four different marketplaces: consumer, business, global, and nonprofit.
3. Marketing is not done only by the marketing department. Marketing needs to affect every aspect of the customer experience. To create a strong marketing organization, marketers must think like executives in other departments, and executives in other departments must think more like marketers.
4. Today's marketplace is fundamentally different as a result of major societal forces that have resulted in many new consumer and company capabilities. These forces have created new opportunities and challenges, and marketing management has changed significantly in recent years as companies seek new ways to achieve marketing excellence.
5. There are five competing concepts under which organizations can choose to conduct their business: the production concept, the product concept, the selling concept, the marketing concept, and the holistic marketing concept. The first three are of limited use today.
6. 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 recognizes that "everything matters" with marketing and that a broad, integrated perspective is often necessary. Four components of holistic marketing are relationship marketing, integrated marketing, internal marketing, and socially responsible marketing.
7. The set of tasks necessary for successful marketing management includes developing marketing strategies and plans, capturing marketing insights, connecting with customers, building strong brands, shaping the market offerings, delivering and communicating value, and creating long-term growth.

APPLICATIONS

Marketing Debate Does Marketing Create or Satisfy Needs?

Marketing has often been defined in terms of satisfying customers' needs and wants. Critics, however, maintain that marketing goes beyond that and creates needs and wants that did not exist before. According to these critics, marketers encourage consumers to spend more money than they should on goods and services they really do not need.

Take a position: Marketing shapes consumer needs and wants *versus* Marketing merely reflects the needs and wants of consumers.

Marketing Discussion

Consider the broad shifts in marketing. Are there any themes that emerge in these shifts? Can they be related to the major societal forces? Which force has contributed to which shift?