SECTION I

MARKETING AND THE FIRM

SECTION I — MARKETING AND THE FIRM — comprises two chapters: Marketing and the Firm — Chapter 1 and The Value of Customers: Optimizing Shareholder Value — Chapter 2.

Chapter 1 introduces two marketing concepts that form the basis for *Managing Marketing: An Applied Approach* — marketing as a *philosophy* and marketing as *six imperatives* — the *must-do* activities the firm performs in marketing. Chapter 1 also presents four marketing principles and shows the relationship between customer value and shareholder value.

Chapter 2 focuses on the value of customers to the firm and introduces the customer-lifetime-value (CLV) concept. The chapter discusses various ways to enhance CLV, paying special attention to customer retention. The chapter concludes with the role of customer relationship management (CRM) systems in driving customer loyalty.

Managing Marketing: An Applied Approach

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CHAPTER I

INTRODUCTION TO MANAGING MARKETING

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LEARNING OUTCOMES

When you have completed this chapter, you will be able to:

- Define the term *marketing*.
- Explain the fundamental business model.
- Articulate why marketing is so important for business organizations.
- Explain how success in attracting, retaining, and growing customers improves shareholder value.
- Articulate how marketing as a philosophy embraces an external orientation.
- Understand how an external orientation differs from various internal orientations.
- Be ready to act on the six marketing imperatives.
- Identify the four marketing principles.
- Understand the book's structure and additional features to enhance learning.

OPENING CASE
Starbucks

By 2014, Starbucks operated 20,000 stores globally and was active in India and many other Asian countries. It all started 30 years earlier, in 1982, when 28-year-old Howard Schultz joined Seattle's specialty coffee emporium, Starbucks Coffee, Tea & Spice (formed 1971), as director of retail operations and marketing — selling coffee beans to coffee aficionados. In 1983, while on a buying trip to Milan, Schultz became fascinated by Italy's espresso bars — people gathered to read newspapers, converse, and socialize while drinking coffee. Schultz persuaded Starbucks' owners to transplant the concept to downtown Seattle; it was wildly successful. Schultz left Starbucks to form his own firm but, in 1987, together with local investors, purchased Starbucks and renamed the firm Starbucks Coffee Company. Starbucks began a major store expansion: In 1992, when Starbucks went public, it had 140 stores in the northwest and Chicago. By 2006, Starbucks was the world's leading retailer, roaster, and brand of specialty coffee with 7,950 stores in the U.S. and over 11,000 globally. In 2012, Starbucks opened its first store in India at Mumbai through a 50:50 joint venture with Tata Global Beverages.

To fulfill its primary goal of providing high-quality coffee to customers, Starbucks purchases coffee direct from growers, roasts all its coffee, and distributes to its stores. Howard Schultz commented: "We own and operate almost all our own stores — the only exceptions are in foreign countries, where we have partnership and licensing agreements with local business people, and in licensed locations in the U.S., such as campus bookstores and airports, where we cannot own and operate the store outright. All people in company-owned stores work for Starbucks.[1]

Schultz continued: "Starbucks is one of the world's great experience brands … . All the stores are similar, yet they're also all different. A Starbucks on Wall Street in downtown Manhattan doesn't look exactly like one in Berkeley, or in Barcelona, but they all have the same spirit." He added, "In 1989, when we had only 50 stores, we decided to bring all of our architecture and design work in-house. We have over 200 architects … and more people in our own design studio."

Schultz talked about the meaning of the Starbucks brand: "We decided early on that the equity of the brand is linked to all of the cues of the brand experience, from the overall look of the store and subtle visual cues, to the senses of aroma and the sound of the music that we have playing … . [They are] a very significant component of the customer's experience. And that became a very, very large competitive advantage, because there wasn't a competitor around that was willing or able to spend the amount of money that we spent on these things and that we continue to spend."

For Schultz, Starbucks should be its customers' *third place* — after home and work. "As a customer, I walk into the store and I'm swept away for a minute, even if I get a coffee to go, because I'm part of this experience that makes me feel better. A missing part of our lives as consumers is that we don't feel valued. So we really take notice when someone touches us and says, 'I appreciate you, I respect you, and I can help you.' … We have to ensure that there's incredible consistency without having every location seem like a fast-food franchise. That is part of the genius of Starbucks."

Starbucks enhances customer experience value by focusing on its employees — *partners*. Schultz observed: "The keys are the culture and values of our company that allow our people to feel the way they do about Starbucks, so that they genuinely want to convey the attributes, the characteristics, the aspirational qualities of what we offer the customer … . We've made a very large investment over the last 20 years in training. We've spent more money every year on training than we do on advertising." Early on, Starbucks did no advertising, preferring to let its clusters of stores fulfill the communications function. Schultz went on: "Starbucks has the lowest attrition of any retail restaurant in North America. We do a cultural, internal audit every year where we go to our people, and we ask them to evaluate our behavior and practices and their trust and confidence in management. And we share those scores with the company.

"The training is twofold. One path is on the fundamentals of what we do — how to make great coffee; how to explain the differences in features and benefits between different coffee makers, different coffees, all that stuff. The other piece is who we are, what we expect, how customers experience the store … . [We work on] hiring the right kind of people and not just filling shifts. A colleague said it best: 'We're not in the coffee business; we're in the people business serving coffee.' … People recognize when they get in the company that this is a special place and they want to protect it, so … good people are hired and developed." Starbucks offers comprehensive healthcare and stock options to all employees, including part-timers. Said Schultz, "That was the transformational event, where everyone then had a stake in the company. This brought all employees into one company-wide conversation about serving customers better."

Starbucks continues to look for new market segments. Schultz explained: "Several years ago we were in the morning day-part business.[2] And we had no business to speak of in the afternoon. Our stores closed at seven at night, and we were done for the day. Customers started driving a new business for us by using our stores in multiple day-parts … We had to create an afternoon beverage business and an after-dinner dessert business." Product innovation is also very important to Starbucks — it has introduced many new products, some not related to coffee. A major success is Frappuccino, sold widely in supermarkets under an agreement with PepsiCo. Starbucks also added recorded music and occasional events to the store experience.

Starbucks works hard to transfer best practice. Said Schultz: "At our first global conference, it was like the United Nations at Starbucks — 30 countries … we had a mini Starbucks trade show with booths for every country to show their best practices. The people from Japan showed us how to utilize small spaces. The people from the Philippines, our best food market, shared how they achieve such high-quality food."

CASE QUESTIONS

- What Indian firms have grown as successfully as Starbucks?
- What accounts for their success?

Seeking fast growth, by the mid-2000s Starbucks made a series of decisions that harmed the brand. Starbucks relaxed location criteria and over-expanded, introduced drive-through windows, added breakfast sandwiches, put in automated espresso machines, ceased coffee grinding, and made the stores less comfy. Strong competitors emerged — Dunkin' Donuts and McDonalds, and as its stock price plunged in the 2008 recession, Starbucks fired its CEO and Howard Schultz returned. Schultz took several actions — gave stores more local-ness; closed under-performing stores; refocused on the customer experience; introduced Via instant coffee in Starbucks outlets, supermarkets, and mass merchandisers; undertook disciplined expansion in Asia; slimmed the supply chain; and reinvigorated a second brand, *Seattle's Best*.

vin101

More than 40 million customers monthly frequent Starbucks locations around the world. The most loyal customers visit Starbucks an average of 18 times a month. Starbucks customer loyalty has brought significant financial success. In 2013, revenues were $14.9 billion; Starbucks' share price was several times greater than its 2009 low. vin101

1.1 WHAT DOES MARKETING MEAN TODAY?

Marketing plays a critical role in today's business environment, where maximizing **shareholder value** is an increasingly important goal. The essence of marketing focuses on how firms attract, retain, and enhance their relationships with customers. Success in delivering **customer value** leads directly to improving shareholder value and long-run firm prosperity. In *Managing Marketing: An Applied Approach*, we explore both the strategic aspects of marketing and the tactical decisions that marketers make every day. But first, we investigate two quite different but related meanings of marketing.

MARKETING AS A PHILOSOPHY embraces the view that marketing is the guiding force or orientation for the entire organization. Firms with a marketing philosophy operate with an external orientation. Such firms focus their attention and resources *outside* the corporation — to acquire, retain, and grow customers, but take careful account of competitors and the broader external environment. By contrast, internally oriented firms focus largely on internal issues like products, services, and processes.[3] *Managing Marketing: An Applied Approach* embraces the *marketing-as-philosophy* perspective. The authors believe, and have seen in their own careers, how powerful and effective a business can be when the entire organization is attuned to the external world. Such agile firms not only sense critical environmental factors but also adapt and change to address them.

Marketing is a guiding philosophy for the firm as a whole.

In addition to the philosophical perspective, marketers must possess the tools and decision-making skills to get the marketing job done. Effective marketers implement six marketing imperatives.

MARKETING IMPERATIVES describe the specifics of the marketing job. Executives with marketing and product management titles generally focus on these *must dos* of marketing. We identify two groups:

STRATEGIC MARKETING

- **Imperative 1:** Determine and recommend which markets to address.
- **Imperative 2:** Identify and target market segments.
- **Imperative 3:** Set strategic direction and positioning.

IMPLEMENTING THE MARKET STRATEGY

- **Imperative 4:** Design the market offer.
- **Imperative 5:** Secure support from other functions.
- **Imperative 6:** Monitor and control execution and performance.

As a broader framework when thinking about markets and marketing, marketers must also consider the **four principles** of marketing. These principles should form the basis of marketing decision-making. They act as guidelines for executing the six imperatives:

- **Principle 1:** Selectivity and Concentration
- **Principle 2:** Customer Value
- **Principle 3:** Differential Advantage
- **Principle 4:** Integration

Discussion of these issues in Chapter 1 sets the stage for the entire book.

- Marketing is a set of six imperatives — the *must dos* of marketing.
- Four marketing principles guide execution of the six imperatives.

Choose two familiar Indian firms, one that exemplifies the old way and one that exemplifies the new way. What criteria led you to identify these firms? Why?

1.2 THE CHANGING VIEW

Old Way	New Way
Accounting profit is critical	Shareholder value is critical
Core of marketing job is the marketing mix	The marketing job encompasses six marketing imperatives
Customers are a necessary evil	Customers are the firm's core assets
Firm must manage the status quo	Firm must manage change
Firm operates to suit managers' goals	Firm operates to deliver value to customers
Internal orientations are acceptable	An external orientation is critical for success
Marketing department does the marketing orientation	All firm employees have a marketing
Marketing is one of the firm's functions	Marketing is a philosophy as well as a function
Organizational survival is a major firm objective	Shareholder value is the major firm objective
Seller power dominates	Customer power dominates
Shareholder value is an issue for finance	Shareholder value is an issue for marketing
Suppliers choose options	Customers choose options

1.3 THE MARKETING JOB

Dunkin' Donuts (DD) is now a significant player in many Asian countries. But before its founding, William Rosenberg, DD's pioneering entrepreneur, had a very simple philosophy: "The boss is the customer." By implementing Rosenberg's philosophy, DD's franchise operates 11,000 restaurant outlets in more than 30 countries (18,000 distribution points in 60 countries) and sells 4 million donuts and 3 million cups of coffee daily. In its 5,500 Asian outlets, DD has continued Rosenberg's philosophy. DD customizes products to local tastes by offering sweet potato, sweet soybean, green apple, and pineapple donuts, and in China, pork shredded donuts.

Many executives are confused about marketing.[4] It seems so intuitive. Can't anybody be a marketer? Real people at real companies told us:

- "Marketing is just advertising."
- "Marketing is giving away tee-shirts, products, and concert tickets to potential clients."
- "Marketing's job is to support our sales force."
- "Marketing is what consumers do at the supermarket on a Saturday morning."

These activities relate to the two broader meanings of marketing that we just discussed — *marketing as a philosophy*, and *marketing as six imperatives* — but none really captures the true essence of marketing.

What marketing question would you like to ask your favorite CEO? How do you think the CEO would answer?

Figure 1.1 demonstrates that marketing's focus on customers makes it the firm's fundamental activity.[5] When marketing delivers *customer value* to satisfy customer needs, the firm *attracts, retains, and grows customers*.[6] If costs are in line, *profits* follow. Profits help the firm *survive* as an independent entity and secure resources to *grow*. Of course, if the firm does not earn profits consistently, it will go bankrupt; indeed, many Indian firms go out of business every year. Survival and growth are the critical links between earning profits and enhancing *shareholder value* by increasing stock price.[7,8] Enhanced shareholder value makes funds available for investment.[9]

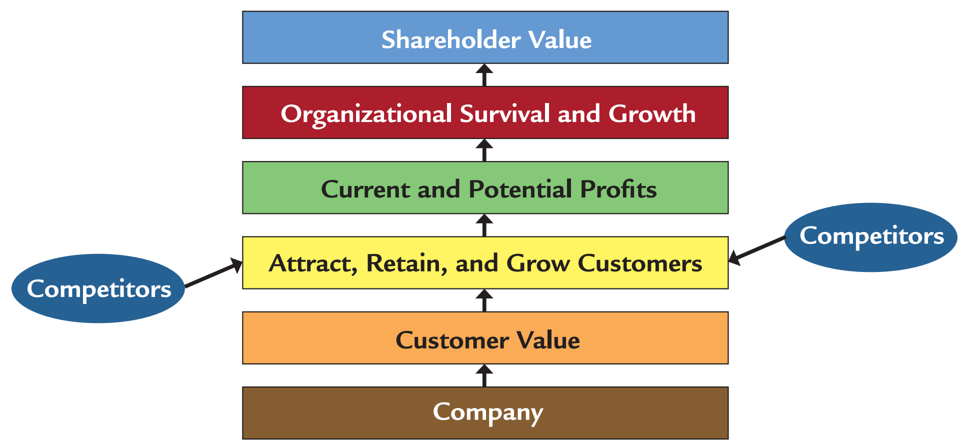

Figure 1.1 The Fundamental Business Model.

Marketing's role includes identifying opportunities, figuring out customer needs, understanding the competition, developing appealing products and services, and communicating value to potential customers. When these tasks are done well, shareholder value increases. Re-read the Opening Case to see how Howard Schultz accomplished these tasks at Starbucks and the success he achieved. Well-known authors Tracy and Wiersema state that "Creating shareholder wealth is not the purpose of the business. It is the reward for creating customer value."[10] And Flipkart (successful Indian e-commerce firm) CEO Sachin Bansal emphasizes that focus on customer satisfaction and owning the entire customer experience has benefited his firm.[11]

Pluto Inc. (fictional electronics firm) spends $100 million annually on R&D. Pluto management believes that eliminating all R&D will increase profits by $80 million in the current year. What would happen to Pluto's stock price? Why?

Figure 1.1 also demonstrates the process for achieving the firm's goal of enhancing shareholder value, both for private firms with few shareholders and public firms with many. Growth and long-run profits are the means. Increasing profits in the short run is easy: Just reduce R&D (research and development), cut advertising, and fire half the sales force — but such decisions typically lead to long-run problems. For forward-looking businesses seeking long-run profits, customers are the core assets. Of course, *competitors* seek these same customers. The competitive battle to attract, retain, and grow customers is central to all business activity.

- The firm's major task is to attract, retain, and grow customers by developing and delivering valued offers.
- The firm enhances shareholder value by successfully attracting, retaining, and growing customers.

The critical weapon in the battle for customers is straightforward in concept, but may be complex and difficult in execution. Quite simply, the firm must deliver to customers greater value than competitors. Customers reward firms that deliver greater value by purchasing their products and services, today and tomorrow. This **exchange** is the basis of all markets. Customers prefer the value inherent in the firm's products and services to their own money or other resources: The firm prefers the customer's money or other resources to its own products and services.[12]

In sum, when the firm delivers greater customer value than competitors, it should earn profits, survive and grow, and make shareholders very happy. If customers perceive that competitors deliver greater value, ultimately the firm will perish. Don't just take the authors' word for the power of this framework. Lou Gerstner, who led IBM's rejuvenation from a near-death experience, stated, "Everything starts with the customer."[13]

Pre-eminent management theorist, the late Peter Drucker, is generally credited with developing the customer orientation and modern marketing perspective.[14] Drucker stated, "If we want to know what a business is, we have to start with its purpose. There is only one valid definition of business purpose — *to create a customer*. It is the customer who determines what a business is. For it is the customer, and he alone, who through being willing to pay for a good or service, converts economic resources into wealth, things into goods." Drucker added, "What the business thinks it produces is not of first importance — especially not to the future of the business and its success. What the customer thinks he is buying, what he considers *value* is decisive … . Because it is [the purpose of a business] to create a customer, [the] business enterprise has two, and only these two, basic functions — marketing and innovation."[15]

The firm has two basic functions:

- Marketing
- Innovation

In addition, today's customers are the firm's core assets — attracting, retaining, and growing customers is critical to a firm's health.[16] But this task is even more difficult. Competition is growing in depth and scope as the firm's environment becomes increasingly more complex and changes more quickly. Globalization, the rise of BRICI (Brazil, Russia, India, China, Indonesia) and other national economies, Internet-based and mobile solutions, and deep structural changes in the world economy are driving increased competition.[17] Many countries and industries are shifting from *scarcity of supply* to *scarcity of demand*. When supply is scarce, the firm's critical skill is production; when demand is scarce, the firm's critical skill is marketing.

Notwithstanding increased competition, today's customers are more aware and knowledgeable about competitive offers and prices, in part because of the Internet. Airline travelers can easily compare prices on Cleartrip, MakeMyTrip, Yatra, and the airlines' own websites. Consumers in advanced affluent societies have ever-increasing numbers of discretionary product and service options and may choose among expensive clothes, an iPad, or a European vacation. And, in future, intelligent agents may make buying decisions and shop for us.

Marketing is critical for a firm's success in today's increasingly complex and fast-changing environment.

Marketing encompasses a wide variety of activities the firm undertakes to attract, retain, and grow customers — of course, competitors are trying to do the same thing. If the firm is more successful than its competitors in creating customer value, it will make profits, survive and grow, and enhance shareholder value.[18]

1.4 MARKETING AND SHAREHOLDER VALUE

Many Indians send information free by using their telephones to make *missed calls* — the caller lets the phone ring once or twice, then disconnects — signal transmitted at no cost. For example, one person may make a *missed call* to an employee, family member, or friend. ZipDial successfully uses the *missed-call* concept to create value for firms and consumers. ZipDial provides firms with phone numbers that consumers may use to make *missed calls*. Firms respond immediately via automated messages, contests, coupons, and/or updates. According to ZipDial co-founder Valerie Wagoner, "ZipDial has created engagement for 100 percent of consumers … ZipDialling is a 100 percent accessible interaction."[19] ZipDial customers include Cafe Coffee Day, Disney, Gillette, MakeMyTrip.com, P&G, and Unilever. Success in India has led ZipDial to expand internationally to Bangladesh and Sri Lanka; other Asian and Africa countries will follow. In 2014, Fast Company ranked ZipDial as the eighth most innovative company globally.

U.S. insurer Progressive identified a relationship between people's credit history and driving record, then used this insight to profitably insure customers rejected by mainstream insurers — mainly young drivers and those with poor driving records. Progressive gained significant market share and considerably enhanced shareholder value.

The shareholder-value perspective is increasingly widespread around the world.

The central focus on shareholder value is deeply rooted in many capitalist countries — particularly the U.S. The **shareholder-value perspective** defines management's job as maximizing returns for the firm's owners — its shareholders.[20] When this perspective dominates, government regulations tend to favor owners. Active shareholder opposition, CEO departures, and unfriendly takeover bids tend to occur when the firm underperforms in shareholder value.[21]

The firm also has other *stakeholders*, like management, labor, and the public at large. In some countries, these stakeholders are more favored than shareholders. Regulation in these countries generally favors managers and protects them from unwelcome mergers and acquisitions. The stakeholder view is particularly popular in Asia, where many firms and politicians are ardent advocates of managerial power.

In recent years, developing global capital markets have favored the shareholder-value perspective. Conservative Japanese electronics giant Panasonic has share-repurchase plans, provides stock options for senior executives, and links managers' salaries to stock market performance.[22] Even in China, stock markets are now firmly established. The shareholder-value perspective is also having a significant impact on public companies in France, Italy, the Netherlands, and Germany. Restrictions on corporate acquisitions have diminished, and when new owners take control, significant corporate restructuring often occurs.

Can you identify some firms that work especially hard to enhance shareholder value by focusing on creating customer value? Specifically, what do they do?

> Rheinmetall (RM), a family-controlled Düsseldorf (Germany)-based industrial conglomerate, had $4 billion revenues; but stockmarket value was only $300 million! A New York investment group purchased 7.8 percent ownership and demanded improved profits. Management took strategic action by shedding many peripheral businesses and making several global alliances for its three main divisions. Shareholder value increased significantly.

Increased globalization will inevitably spread the shareholder-value perspective. Enhanced share ownership will give shareholders greater political power — both directly as individual investors and indirectly via third-party investment vehicles like mutual funds.

Earlier, we asserted that customers are the firm's core assets. Traditionally, we find assets on the firm's balance sheet. Balance-sheet assets (current and fixed) include cash, accounts receivable, inventory, land, and plant and equipment — they do not include customers! Balance-sheet assets may be important, but none is absolutely crucial! The only critical asset the firm has to have is paying customers. Customers are the sole source of firm revenues; all firm activities are costs. Balance-sheet assets are assets only because they contribute to attracting, retaining, and growing customers.

- Customers are the sole source of firm revenues; relatedly, all firm activities are costs.
- Customers are the firm's core assets, yet they do not appear on the balance sheet.
- Some balance-sheet assets act as strategic liabilities.

But what if balance-sheet assets are not *assets*? What if they are really *strategic liabilities*? Consider the following: Firm A builds a factory to meet market demand for its E*k* product. Later, customers shift their preferences to A*ur*. Firm A focuses its efforts on trying to persuade customers that they really need E*k*. By contrast, competitors B and C each develop their own versions of A*ur*. Firm A's factory investment constrains its actions — it fails to invest to meet customer needs for A*ur*. The E*k* factory was not a real asset — it was a *strategic liability*.[23] The retail book industry provides a good illustration. In the 1980s, Barnes & Noble (B&N) became the dominant U.S. bookseller using a bricks-and-mortar strategy. But as the Internet grew, B&N was slow to embrace purchasing books online. Seeing an opportunity, Jeff Bezos launched Amazon.com. Amazon is the premier online bookseller and has developed online businesses far beyond books. B&N eventually reacted and now has a decent online book business, but is a distant second to Amazon.

The firm increases shareholder value only if incoming cash flows earn a return on investment at least equal to its **cost of capital** (the weighted average of the firm's cost of equity and cost of debt).[24] When the firm fails to earn its cost of capital, it destroys shareholder value. Unfortunately, managers sometimes forget that the only source of firm cash flows (except new debt and equity) comes from attracting, retaining, and growing customers. Customers provide revenues and cash flow when they believe the firm's products and services offer better value than competitive alternatives.

Customers are the critical source of cash inflows.

Of course, the firm's strategy and operations must conform to a business model that allows it to earn its cost of capital.[25] Many Internet organizations have secured large numbers of customers but do not have such models. When eBay acquired Skype (2005) for $2.6 billion, Skype had 54 million users and $60 million revenues, but in 2007 eBay wrote down its investment by more than $1 billion. In 2009, Skype had 500 million users and over $500 million in revenues, but eBay decided to divest (to Microsoft). In 2014, WhatsApp had 450 million users but minimal revenues compared to Facebook's acquisition price of $19 billion.

MARKETING QUESTIONS

LinkedIn is a publicly traded social networking firm. What value does LinkedIn provide for customers? What value do customers provide LinkedIn's shareholders?

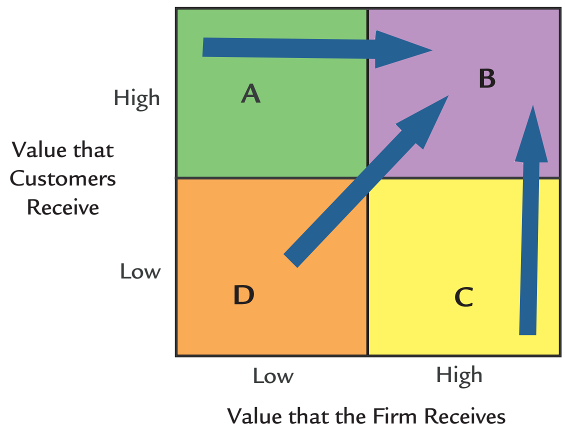

Figure 1.2 Value that Customers Receive; Value that the Firm Receives.

KEY IDEAS

Value has two sides:

- When the firm delivers high customer value, it attracts, retains, and grows customers.
- When the firm attracts, retains, and grows customers, it earns high value for shareholders.

Figure 1.2 shows the relationship between the *value that customers receive* and the *value that the firm receives* as revenues and profits. Cells B and D represent stable situations:

CELL B. Customers receive high value. The firm attracts, retains, and grows these customers — it also receives high value. The firm should continue to deliver significant customer value by innovating new products and services and enhancing its offers.

CELL D. Both customers and the firm receive low value. Perhaps the firm's resources are poorly matched to customer needs. Better alignment can move the firm to Cell B, but these may not be good customers for the firm to serve.

The other two cells are essentially unstable positions:

CELL C. Customers receive low value but the firm receives high value, perhaps because of long-term relationships. Ultimately, competitors will offer greater value and customers will switch suppliers.

CELL A. Customers receive high value from the firm, but the firm receives low value. Perhaps prices are too low — the firm should convince customers of its value or possibly reduce service.

If customers believe competitors offer greater value they will simply take their business elsewhere. If marketing fails to deliver superior value, the firm will go out of business — by bankruptcy, merger, or acquisition. Today, more than ever, customer value and shareholder value are closely intertwined. Increased acceptance of the shareholder-value perspective has raised the stakes considerably. Quite simply, if marketing does not perform consistently well, the firm should anticipate a bleak future.

1.5 MARKETING AS A PHILOSOPHY: EXTERNAL AND INTERNAL ORIENTATIONS

You just learned that the firm enhances shareholder value by attracting, retaining, and growing customers. At a *philosophical* level, each employee has some responsibility and marketing is *everybody's* business. At a personal level, because customers are the firm's only revenue source, they also pay everyone's salary! To quote Drucker again, "Marketing is so basic that it cannot be considered a separate function (i.e., a separate skill or work) within the business … it is, first, a central dimension of the entire business. It is the whole business … seen from the customer's point of view. Concern and responsibility for marketing must, therefore, permeate all areas of the enterprise."[26] More recently, David Haines, brand czar of Vodafone, the world's largest mobile phone service provider, said, "Marketing is too important to be left to the marketers. It's the obligation of every single individual in the company, whether you're a phone operator, the CEO, or anyone else in the company."[27]

KEY IDEAS

External and *internal* orientations are core concepts for examining the firm's basic philosophy.

Marketing as a philosophy concerns the firm's entire *orientation*. A firm embracing marketing as a philosophy has an **external orientation**. Other firms focusing on internal business drivers have one of several **internal orientations**.

The External Orientation

> Although IBM was a global technology leader, Lou Gerstner described the IBM he inherited as CEO: "[IBM had a] … general disinterest in customer needs, accompanied by a preoccupation with internal politics … a bureaucratic infrastructure that defended turf instead of promoting collaboration, and a management class that presided rather than acted."[28] Gerstner described one of his key strategic decisions: "Drive all we did from the customer back, and turn IBM into a market-driven rather than an internally focused, process-driven enterprise."[29]

The externally oriented firm looks outward to the environment and knows that customers are central to its future — Gerstner really understood this aspect of marketing. Marketing is the *point person*[30] — and marketing must gain insight into customers, competitors, and broader environmental factors. The externally oriented firm knows that its current products, services, and processes are the reasons for past and present success. This firm also knows that as the external environment changes, its products, services, and processes must also change. The externally oriented firm does not fear change — it knows that change is inevitable and that new opportunities are its *lifeblood*. The externally oriented firm invests in new capabilities and competencies to exploit opportunities and create and serve customers.[31] (See Marketing Enrichment me101 for a measurement approach.)

MARKETING ENRICHMENT

The C4I: Capon's Customer-Centric CEO Index me101

me101

In difficult economic times, when profits are under pressure, many firms cut spending and investment. The externally oriented firm invests. It may increase its marketing budget, acquire weaker rivals, and/or cut prices. In recent recessions, several firms invested in customers and markets and swept past more internally oriented competitors[32]:

- Developer of products to power the Internet, U.S.-based Cisco invested in Asia as competitors were contracting. Within one year Cisco had lead market share in many countries.
- Coca-Cola CEO Muhtar Kent said, "We don't cut marketing in this crisis around the world. We make sure our brands stay healthy and that we exit this tunnel with more market share than when we went in."[33]
- Intel maintained R&D and production spending. Said then Intel CEO Craig Barrett: "You never save your way out of a recession. The only way to get out of a recession stronger than when you went in is to have great new products."[34]
- By restructuring to develop a customer-centric organization and invest in customer relationships, Tata Consultancy Services, (India's largest IT services firm) came out ahead after the 2008 recession.

- Said then Xerox CEO Anne Mulcahy, "Everywhere I went, lenders and investors were demanding I cut R&D spending. But Xerox innovation is sacred … investing in innovation was the best decision I ever made."[35]

Spending on Marketing — Investment or Expense?

A graduating Columbia MBA joined an FMCG firm. Her first job was to shepherd a new product from development to launch. The firm believed it had one year's lead time over competitors. As she developed her launch plan, the MBA realized the sales force was working at capacity. The new product would get insufficient attention and would not secure adequate retail distribution. Her innovative solution was to hire a temporary sales force. These salespeople would gain distribution; the regular sales force would later perform maintenance. Her financials showed a first-year loss, but then profits rose steadily. She presented her launch plan to senior management.

Senior managers were unhappy about the first-year loss. But, by eliminating the temporary sales force and using the regular sales force, the financials worked. The firm launched on this basis, and the first year showed a modest profit. Unexpectedly, the first competitor entered after six months, and within one year, the firm had three competitors. Two years after launch, the firm exited the market.

MARKETING QUESTIONS

How did senior managers view the temporary sales force? Did they view these expenditures as an investment — returns expected in the future? Or, did they think of them as expenses — returns expected in the short term?

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CEOs and top managers are generally responsible for establishing an external orientation as the overarching corporate thrust. Leaders of firms like Amazon, Google, P&G, and Starbucks understand this; they really *get it*.[36] Only a CEO like James Burke at Johnson & Johnson (J&J) can make customer concerns central to the firm. In the 1982 Tylenol cyanide-lacing crisis, J&J immediately withdrew Tylenol capsules until it developed fail-safe packaging.[37] J&J's $250 million write-off demonstrated a long-term investment in customers, and it quickly returned to market leadership. vin102

Some of the world's most successful companies practice marketing as a philosophy. P&G spends $350 million annually seeking customer and market insight. A senior executive at global pharmaceutical firm Pfizer asserted: "Our strong belief at Pfizer is that marketing is really an investment, not an expense. Our most recent former CEO believed it was important to invest in R&D. He also believed it was equally important to invest in marketing. He said if you are best at both, there's no way you can be beat! We invest billions and billions of dollars in R&D to have better science and develop innovative products. We have always had the leading industry investment in marketing. We parallel our R&D spending with a similar investment in research about markets and customers. What separates us from competitors is an assiduous pursuit of information, knowledge, and understanding of our customer."[38]

KEY IDEAS

The firm should view marketing expenditures as an investment, not as an expense.

Table 1.1 shows general characteristics of internal and external orientations.[39]

Table 1.1 General Characteristics of Internal and External Orientations[40]

Dimension	Internal	External
Customer perspective	Transactional	Relational
Focus	Products	Markets
Know-how	Inherent in patents, machinery	Inherent in people, processes
Measurement	Profit, margin, volume	Customer value, satisfaction, retention
Organizational philosophy	Bureaucracy	Adhocracy
Priorities	Efficiency and productivity	Flexibility and responsiveness
Process	Mass production	Mass customization

Internal Orientations

J&J pioneered the stent — a metal scaffold that holds open human arteries to allow blood flow. Two years later, J&J had 91 percent market share and $1 billion revenues. Five years after entry, J&J's market share was 8 percent! What happened? Competitors responded to physicians' newfound needs for different sizes and materials; J&J ignored these concerns. J&J's internal orientation had a direct and negative impact on profits and shareholder value.[41]

In a small and simply organized firm, the sole proprietor (SP) or owner conducts most activities. The SP seeks and serves customers, arranges financing, performs operational functions, and manages the payroll. At a visceral level, the SP knows that customers are critical assets and operates with an external orientation almost by instinct. Can you recall an occasion when your local garage, dry cleaner, hardware store, or other small business treated you personally as an important and valuable asset?[42]

As firms grow, they seek efficiency through specialization and differentiation — operations, sales, product design, finance, legal, technology, and other functions have specific responsibilities. Typically, these functions develop their own missions, objectives, systems and processes, and business philosophies. Rather than work together to deliver customer value, they may pursue their own agendas, spurred by local cultural norms, and management systems that measure, motivate, and reward securing departmental objectives. Nonproductive differentiation that history and internal political rivalries exacerbate may trump a customer focus.

An externally oriented firm goes beyond a customer focus. It works hard to understand competitors, markets, and environmental forces in general.

Frequently, internal functions act in mutually inconsistent ways. The sales department tries to increase sales, but operations, working to produce acceptable-quality products at low cost, cuts down on product varieties; and R&D sees no reason to hurry the new product development process. Marketing wants to increase advertising spending, but finance reduces budgets to meet financial targets. These individual functions are often important strengths for the firm, but some, like accounting and R&D, are organizationally distant from customers. Focusing too heavily on one function versus another often leads to problems. The common denominator when firms operate in silos (stovepipes) is that delivering customer value often takes a back seat. These firms follow an **internal orientation**.

A former Microsoft vice president described difficulties in securing in-house acceptance of ClearType, a broadly applicable, innovative way to display text on a screen that received much public praise, internal promotions, and patents. "It annoyed other Microsoft groups that felt threatened by our success. Engineers in the Windows group falsely claimed it made the display go haywire when certain colors were used. The head of Office Products said it was fuzzy and gave him headaches. The vice president for Pocket Devices was blunter: He'd support ClearType and use it, but only if I transferred the program and the programmers to his control."[43]

At internally oriented firms, you often hear the statement, "That's the way we do things around here." Regardless of changes in customer needs, competitor actions, and/or the external environment in general, the firm continues on its current course. Let's look at several internal orientations — operations, sales, finance, and technology.

Wholly owned by its growers, Zespri is New Zealand's sole kiwifruit exporter. Many Zespri customers requested fruit with higher proportions of pulp to liquid. But growers were highly reluctant to change agricultural practices to produce these products.

OPERATIONS ORIENTATION. The firm with an *operations orientation* typically focuses on reducing unit costs. There is nothing wrong with cutting costs — indeed, low costs allow firms to reduce prices and/or earn higher profit margins. Cutting costs is particularly

- Long-run success is difficult for internally oriented firms.
- Internal orientations often focus on operations, sales, finance, and/or technology.

important when customers are price-sensitive and/or competitors compete on price. But cost-cutting should not be a priority when the firm introduces new products or when product varieties, promotional effort, and short delivery times are crucial for attracting, retaining, and growing customers.

The problem occurs when the firm fails to think through its cost-cutting program. Pruning the product line, taking design shortcuts, reducing customer service, curbing promotional spending, and/or lengthening delivery times typically reduce costs. But they do not deliver greater customer value — they may create dissatisfaction. Union Pacific Railroad (U.S.) employees met operating budgets by canceling cargo pickups and sending out trains with insufficient locomotive power! The plant manager at a leading mobile phone supplier replaced a crucial part with a cheaper alternative; the phone failed.

> U.S. snack food leader Nabisco developed a new corporate policy for many countries including India. Regardless of where products were made and sold, recipes, raw materials, process control, and quality standards were identical to the U.S. But in China, market conditions were very different. Nabisco did not focus on customer needs, made overly optimistic forecasts, had significant excess capacity, and suffered major losses. Said a spokesperson for competitor Danone: "I'm grateful to Nabisco. Their actions have strengthened our position!"[44]

SALES ORIENTATION. Increasing sales is a worthy objective. After all, sales revenues and cash flow are critical for enhancing shareholder value. The problem: Firms with a *sales orientation* focus on short-term sales volume. They are less concerned with profits and long-run customer relationships. They set prices too low and offer excessive discounts and/or too-favorable credit terms — and may create a perception of low quality. They spend little on marketing research and planning, target customers indiscriminately, offer too many products, and over-invest in finished-goods inventories. Taiwan-based Chi Mei was this sort of firm — but became very profitable by abandoning its sales orientation:

> Chi Mei's Chairman Wu made a plant visit. In the warehouse, he found many acrylic sheets cut to various sizes — *excessive* attention to customer needs. Wu ordered the plant to refocus on four types of sheets, accounting for 70 percent of sales — and set premium prices for special sheet sizes. As production and inventory costs dropped, Chi Mei reduced prices. Market share and profits increased dramatically. Chi Mei is now one of the world's largest plastics producers.

Interview an executive. Identify examples where functional silos hurt performance — and where different functions worked well together. Why did these different behaviors occur?

The sales-oriented firm places excessive effort on *getting customers to buy what the firm has to offer*; the externally oriented firm focuses on *getting the firm to offer what customers want to buy*.

FINANCE ORIENTATION. The firm with a *finance orientation* focuses too heavily on short-term profits. When a firm *manages by the numbers*, it tends to avoid expenditures with long-term payoff. The finance-oriented firm mortgages its future by indiscriminately cutting back on R&D, capital investment, marketing research, and/or advertising. Pricing focuses on short-term profits, and planning processes are weak or nonexistent.[45] Sometimes a single-minded focus on short-term profits and cash flow is the right approach — if the firm consistently loses money or makes marginal profits. In other cases, the finance-oriented firm makes insufficient long-term investments and is vulnerable to competitors.[46] J&J's stents (p. 14) exemplifies a firm that focused on short-term profits and paid a heavy long-term price. Dunlap is another example:

> At Scott Paper (U.S.), CEO *Chainsaw* Al Dunlap laid off 35,000 people (11 percent of the workforce) and sold assets worth $3.5 billion. ROI and shareholder value increased. Kimberly-Clark purchased Scott Paper and Dunlap became CEO of small-appliance manufacturer Sunbeam (U.S.). Dunlap applied the same approach but major problems soon emerged. As Sunbeam's share price dropped precipitously, Dunlap was unceremoniously fired.[47]

TECHNOLOGY ORIENTATION. Bill Joy, co-founder of Sun Microsystems (U.S.) (now part of Oracle), often called the *Edison of the Internet*, said, "My own biggest mistake in the last 20 years was that sometimes I designed solutions for problems that people didn't yet know they had. That's why some of the things that could've made a difference couldn't find a market."[48] A firm with a *technology orientation* focuses on RD&E (research, development, and engineering) and pays little attention to customer value. Engineering and manufacturing make new product and facility decisions; marketing has little role in product development and product planning is inadequate.[49] The firm's products are often over-engineered, but customers will not pay for unneeded features. First-class products are critical for attracting, retaining, and growing customers, but the firm's product development efforts must center on customer requirements.[50] Panasonic learned this lesson:

MARKETING QUESTIONS

Name some firms you believe are internally oriented; name some firms you believe are externally oriented. Why did you select the ones you did?

> Panasonic (Japan) engineers believed that lots of buttons and technical gadgets would add value to camcorders and increase market share. Sales stagnated because customers wanted easy-to-use products and manuals in everyday language. Philips (Netherlands) had a similar orientation but conducted more than 200,000 customer interviews and refocused on what they wanted — sense and simplicity.

1.6 THE SIX MARKETING IMPERATIVES

The job of putting the marketing philosophy into practice normally falls to people with marketing and/or product-management titles.[51] These people tend to engage in many marketing activities, like securing data on customers and competitors, developing advertising campaigns, designing direct-mail brochures, meeting with R&D on new products, devising online and mobile strategies, setting prices, and/or preparing persuasive messages for the sales force. Certainly these activities often enhance the firm's market position, but deciding how to allocate marketers' time and/or other resources requires answers to several questions:

- Which of these activities is critical?
- Do these activities represent the core elements of marketing?
- What critical tasks must the firm perform to truly accomplish its marketing agenda?
- In what order should the firm perform these tasks?

We now discuss the six marketing imperatives — the firm's *must dos* — that are the core elements for *managing marketing in the 21st century*. The first three imperatives focus on *strategic marketing*; the remaining three imperatives zero in on *implementing the market strategy*.

The Six Marketing Imperatives

Strategic Marketing

- Imperative 1: Determine and recommend which markets to address.
- Imperative 2: Identify and target market segments.
- Imperative 3: Set strategic direction and positioning.

Implementing the Market Strategy

- Imperative 4: Design the market offer.
- Imperative 5: Secure support from other functions.
- Imperative 6: Monitor and control.

Strategic Marketing — Imperative 1: Determine and Recommend Which Markets To Address

Until the late 1990s, the Japanese antidepressant market was untapped. To the Japanese, *depression* (*Utsubyo*) was a bad word — a social stigma. Other pharmaceutical firms avoided Japan, but GlaxoSmithKline (GSK) saw a market opportunity. Using a consistent message, GSK changed the way Japanese think about depression — "Does your soul have a cold (*Kokoro no Kaze*) … depression is a disease that anyone can get. It can be cured by medicine. Early detection is important." For four years, 1,300 GSK salespeople visited selected doctors twice a week with this message. In three years, GSK's Paxil sales almost tripled — from $108 million to $298 million. GSK's message hit home — online bulletin boards had as many conversations about depression as performance!

Simply put, the firm must choose those markets where it will compete — as GSK chose the Japanese antidepressant market. To help make these choices, the firm should ask: What businesses are we in? What businesses do we want to be in? Market-choice decisions are typically strategic for the firm, or at least for individual business units. Choosing markets is often more important than choosing technologies and/or products. Given the choice of owning a market or owning a factory, most senior executives would prefer owning a market.

KEY IDEAS

Imperative 1. Marketing should identify market opportunities and advise top management on potential strategic actions.

The firm must continually make market-choice decisions. Faster environmental change opens up new market opportunities but may also lead the firm to exit current markets. IBM has been very successful in the information-technology services market — but exited PCs by divesting to China's Lenovo. Market-choice decisions can totally transform a corporation. Nokia exited its traditional paper-making, rubber-goods, and electric-cable markets as it evolved from a diversified conglomerate to global leadership in wireless communication. But Nokia failed in smartphones and sold its operations to Microsoft.

The firm must decide where to invest — to compete or not, in various markets, and decide how much to invest. The firm must answer critical questions about its business and market portfolio:

- In which new businesses and markets shall we invest — people, time, dollars?
- In which current businesses and markets shall we continue to invest?
- How much investment shall we make in these various businesses and markets?
- From which businesses and markets shall we disinvest or withdraw?

Typically, marketing does not make these decisions. Top management has this responsibility but marketing must provide good advice. For Imperative 1, marketing plays two key roles:

- **Identify opportunities.** Marketing is the only function with explicit responsibility to focus attention outside the firm. Marketing personnel should research the environment to identify potential opportunities and bring these to top management's attention. They should also collect and analyze data that bear on entry decisions. Marketing should be intimately involved with the firm's current markets and businesses and advise on investment and exit decisions.
- **Advise on proposed strategic actions.** Many firm functions develop strategic initiatives. Finance may suggest acquisitions and divestitures; R&D may propose strategic alliances; and the sales force may champion a new distribution system. Marketing has the responsibility to insert itself into these decisions. The firm should fully explore the marketing ramifications of its decisions or disaster may ensue.

MARKETING QUESTIONS

In recent years the Tata Group has divested and acquired several businesses. How do you assess Tata's choices regarding Marketing Imperative 1?

Strategic Marketing — Imperative 2: Identify and Target Market Segments

Boeing (U.S. aerospace and defense firm) purchased de Havilland Canada (DHC) to address the market segment for smaller, regional aircraft (under 20 to 90 seats). Boeing believed DHC's family of Dash 8 turbo-prop planes satisfied customer needs. During the following six years, Boeing lost nearly $1 billion on the DHC acquisition, then sold DHC to Bombardier. Potential customers for Dash 8 planes were new to Boeing, but Bombardier already operated in this segment. Bombardier tripled the Dash 8 family's turbo-prop market share to 35 percent — Dash 8 then accounted for two-thirds of regional planes sold worldwide.

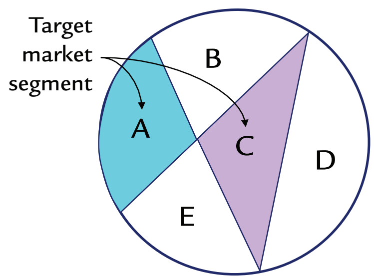
In any **B2B** or **B2C** market, customers have a diverse set of needs. A single offer directed at the overall market may satisfy some customers, but typically many customers are dissatisfied. Imperative 2 states that marketing must identify **market segments** — groups of customers with similar needs who value similar benefits, with similar levels of priority. When the firm does **market segmentation** well, the needs, benefits, and values that define one segment are quite different from the needs, benefits, and values that define other segments. Once the firm has identified market segments, it must decide which to target.

KEY IDEAS

- **Imperative 2.** Marketing must identify market segments — groups of customers with similar needs that value similar benefits, with similar levels of priority.
- The firm should target those market segments where it can best use its strengths and exploit competitor weakness.

Note the two elements of Imperative 2: A *creative and analytic* part — identifying market segments; and a *decision-making* part — choosing which segments to target, based on the firm's ability to deliver customer value. The Dash 8 example demonstrates both elements quite clearly. Both Boeing and Bombardier did a good job of identifying the small, regional segment of the overall aircraft market. Bombardier had the appropriate skills and resources to target this market segment; Boeing did not. This lesson is important — a market segment may be attractive to one firm but unattractive to another.

Figure 1.3 illustrates segmentation and targeting by noting several segments, then showing a firm targeting a subset of those segments. Once top management has decided which markets to address (Imperative 1), market segmentation and targeting is arguably the most critical imperative. Effective segmentation and targeting drive profits.



Note: The entire pie represents the population of existing and potential customers. Each slice or segment — A,B,C,D,E — reflects specific needs and required benefits of customers in that segment. Note that each segment may contain sub-segments.

Figure 1.3 Market Segmentation and Targeting.

Strategic Marketing — Imperative 3: Set Strategic Direction and Positioning

P&G's Gillette brand is the global leader in both men's and women's shaving markets. Gillette continually introduces higher-value products in advanced countries. In the U.S., Gillette offers Trac II, Atra, and Sensor brands (two blades), Mach3 and battery-operated M3Power (three blades), and Fusion and Fusion Power (five blades). In less-developed countries, Gillette offers double-edge blades, twin- and four-blade shaving systems, and disposable razors. vin103

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Imperative 3. Marketing should fix the firm's strategic direction and positioning. These decisions set the stage for designing the market offer.

In Imperative 3, the firm decides how to compete in those market segments it has targeted. For each target segment, marketing must formulate performance objectives. These objectives guide the firm's strategic decisions in the target segments. Second, the firm must decide on its positioning for each segment. It must identify target customers and target competitors, design a more persuasive value proposition than competitors, and provide reasons for customers to believe the firm can deliver that value. Together with Imperative 2, positioning completes the critical STP triumvirate — **s**egmentation, **t**argeting, and **p**ositioning.

Typically, individual market segments are at different developmental stages and hence require different approaches. The appropriate way to address a growing market segment is quite different from a mature or declining segment. In addition, decisions about strategic direction also include questions of branding — how the firm wants customers to view the corporate entity and its products. Top management increasingly views the firm's brands as major corporate assets; hence, **branding** issues are among its most important strategic decisions.

Of course, the firm does not make these decisions only once. It faces an ever-changing environmental landscape: Customer needs evolve and competitors enter, exit, and adopt different strategies. The firm's products also evolve as target segments grow, mature, and decline. The firm must continually assess its strategic direction and make necessary course corrections.

Implementing the Market Strategy — Imperative 4: Design the Market Offer

> In 1998, Indian watch firm Titan introduced the Fastrack brand of watches to appeal to youthful consumers. Success with watches led Titan to develop Fastrack into a youth fashion brand comprising many product lines — bags, belts, helmets, sunglasses, wallets, and watches. Fastrack product designs, advertising, retail channels, and pricing are carefully chosen to appeal to the youth market. Indeed, Fastrack has opened more than 150 exclusive stores in major cities. Realizing that target consumers were active on social media, Fastrack was an early Indian user of Facebook and Twitter; Fastrack has a six-million-strong fan base. Youth icons like cricketer Virat Kohli and Bollywood actress Genelia D'Souza promote Fastrack products. Promotional campaigns appeal to Indian youth; they are provocative and designed to shock. Fastrack is Titan's fastest growing business: Revenues 2004-5 — 0.20 crore; 2011-12 — 600 crore. In 2013, Brand Equity ranked Fastrack as India's fourth Most Exciting Brand.

Identify three examples each of well-integrated and poorly-integrated market offers.

Imperative 4 focuses on design of the **market offer**. The market offer is the total benefit package the firm provides customers. Tools for designing the offer are the most well-known part of marketing. If you took a previous marketing course, the professor probably spent significant time talking about the **marketing mix** (aka the **4Ps**). The marketing mix is an important part of marketing, but note: The marketing mix represents just *one* out of *six* marketing imperatives. Marketing-mix elements comprise the basic building blocks of the firm's offer:

Imperative 4. The firm designs the market offer using the tools of the marketing mix:

- Product
- Promotion
- Distribution (Place)
- Price

- **Product.** In general, the product embodies the major benefits the firm offers to satisfy customer needs — these benefits provide value to customers. If the firm offers greater value than its competitors, customer purchases increase. The term *product* typically embraces both physical products and services — like airline travel, packaging, and additional customer service. Hence, FedEx's core offering is overnight package delivery — but special handling, insurance, tracking, and other customer services are important competitive weapons.[52]
- **Promotion.** Promotion embraces the various ways the firm communicates with customers — informing and persuading them to purchase its products. Promotion

includes *mass and digital communications* like advertising, sales promotions, and social media; and *personal communications* like the sales force. In addition to informing and persuading, communications may add customer value directly by providing imagery, status, and reassurance.[53]

- **Distribution.** Distribution focuses on how and where customers secure the product. To conform to the 4Ps nomenclature, marketers sometimes refer to *distribution* as *place*.
- **Price.** Price is what customers pay. The firm establishes the feasible price by the equivalent amount of value it offers through its product, promotion, and distribution.

The Fastrack example shows marketing design elements' many interrelationships. If the firm offers significant benefits and high customer value from its product, communications, and distribution, it can set a high price. But if customer benefits and value are low, price must also be low. When the firm designs good market offers, customers purchase its products.

When the firm targets multiple market segments, it should design multiple offers. In many Asian countries, Toyota offers the Camry for one segment and the Lexus for a quite different segment. These cars have different physical designs and customers have different buying experiences. Even the type and location of dealerships is different. Customers receive different values and, accordingly, pay different prices. When targeting a market segment, the firm can combine marketing-mix elements in an infinite number of ways. Creativity, imagination, innovation, and capability are core ingredients.

Marketing and Other Functions: The Architect and the Builder

A useful metaphor for capturing marketing's organizational role is *architect* and *builder*. Marketing is the architect — designs the house. The other functions represent the builder — build the house. Certainly, builders could build houses on their own but the architect provides significant design value. Similarly, in the firm, marketing designs the offer; other functions implement the offer.

Implementing the Market Strategy — Imperative 5: Secure Support from Other Functions

Integrating across firm functions is a critical organizational value at Valeo, a major French car-parts manufacturer. Said a senior executive, "Customers expect seamless delivery, and they don't care how we're organized. We have to work as a team and forget our internal battles." Valeo bases its organization on seven principal *domains* — broad product areas that have separate functions inside a car.[54]

Imperatives 1, 2, 3, and 4 concern *where* and *how* questions. Imperatives 1, 2, and 3 focus on *where* the firm will place its resources. Imperative 4 concerns *how* the firm will use its resources to design the market offer. Imperative 5 focuses on how firm functions work together to ensure the firm executes the market offer as designed. Marketing requires two very different types of support:

- **Support for design** — relates to technical, operational, and economic feasibility.
- **Support for implementation** — assumes the design is agreed upon and fixed.

SUPPORT FOR DESIGN. Imperative 4 focuses on designing the market offer that best meets customer needs in a target segment. The firm's ability to deliver the market offer depends on its abilities and resources. The *best* design for customers may require a product feature the firm cannot make. When the best design is not feasible, marketing must develop extraordinary strength to keep the firm focused on satisfying customer needs —

KEY IDEAS

- **Imperative 5.** Marketing must keep the firm focused on customer needs, regardless of current feasibility.
- Marketing must exercise leadership to encourage cooperation across multiple functions.

and push specific functions to evolve their capabilities.[55] In the face of short-run pressures for a less demanding route, marketing must commit to this long-run task.

> Pete Swenson, new product head at leading U.S. industrial floor cleaner Tennant, developed a new carpet scrubber using innovative cleaning technology. A major customer and four senior executives including Swenson's boss told him to kill the project. Swenson persevered and ReadySpace became Tennant's best selling carpet cleaner.

SUPPORT FOR IMPLEMENTATION. We often call this support *internal marketing*, or getting *buy-in*. In many firms, marketing designs the offer — but has little authority to implement the design. Marketers must possess the leadership and interpersonal skills to encourage and stimulate cooperation across multiple functions. After all, *the chain is only as strong as its weakest link*. If a key function does not perform, other functions may waste their efforts.

We should not underestimate the importance of Imperative 5. Many firms suffer from interdepartmental strife and rivalry driven by *silo thinking*. Destructive internal conflicts siphon off precious management time the firm could spend addressing external opportunities and threats. Some firms address the *silo* problem head-on by forming cross-functional teams — like marketing, operations, and R&D. Others redesign their organizations. At GE, CEO Jack Welch introduced the *boundaryless* organization and boundarylessness became a core value.[56] Most approaches use some form of team-based evaluation to encourage cooperation.

Implementing the Market Strategy — Imperative 6: Monitor and Control

> Pfizer has a strong reputation for optimizing spending on the marketing mix. Pfizer continually tests different budgets for selling effort and advertising and promotion. Says a senior Pfizer executive, "We're measurement-intense. So 'metrics are us.' We believe in it. We measure everything. That is the root of our business."[57]

Imperative 6. Marketing must monitor and control the firm's actions and performance to keep it on track.

It's one thing to plan and implement, but figuring out the firm's performance is quite another. Imperative 6 focuses on *monitor and control* — is the firm achieving its desired results? All things equal, if the firm is successful, it should keep on going; otherwise, it should make changes.

Essentially, marketing should continually secure answers to three questions and act accordingly:

- Are the firm's various functions and departments *implementing* the market offer?
- Are the firm's market and financial *performance* reaching planned objectives?
- Based on the current *environment*, are the firm's objectives, strategies, and implementation plans on track, or should it make changes?

IMPLEMENTATION. The firm may have many implementation problems, like lack of buy-in, Imperative 5. But even with excellent buy-in, antiquated or inappropriate management systems create implementation difficulties. For example, if the firm sets unrealistic sales force objectives, salespeople may be unmotivated and lack effort. Ratchet-based compensation systems — success in one year leads automatically to higher sales targets for the following year — are a prime example. In mature and declining markets, ratchet-based systems generate significant dissatisfaction and low motivation.

POOR PERFORMANCE. If the firm is not achieving market and/or financial performance objectives, marketing may require more data and further analysis. If environmental change is low, marketing should focus on course corrections by fine-tuning its strategy and/or modifying implementation plans.

ENVIRONMENTAL CHANGE. The firm bases objectives, strategy, and implementation on its best insight into customer needs, competitive offers, and the external environment. A good strategy should accommodate evolutionary changes — more significant change may require new objectives and strategies.

How good a job has Google done in implementing the six Marketing Imperatives?

1.7 THE FOUR PRINCIPLES OF MARKETING

You just learned that six imperatives are the *must dos* of marketing. Four marketing principles serve as guidelines for implementing these imperatives:

The Four Principles of Marketing

- Principle 1: Selectivity and Concentration
- Principle 2: Customer Value
- Principle 3: Differential Advantage
- Principle 4: Integration

Principle 1: Selectivity and Concentration

Dr. A. M. Arun founded a general healthcare clinic in 2001, but then narrowed focus to eye care — Vasan Eye Care. Vasan rapidly expanded across India by providing high quality patient care at reasonable prices. Buoyed by its eye-care success, Vasan added a second specialty — dental care. Vasan now operates more than 170 eye care centers and more than 30 dental care centers in India. Vasan's success, earned by focusing on narrow market segments, has allowed it to expand internationally to Sri Lanka and the UAE.

Providing advice on market selection (Imperative 1) and deciding which market segments to target (Imperative 2) are among marketing's primary responsibilities. The basic principle underlying these imperatives is the **Principle of Selectivity and Concentration**.[58]

Two aspects comprise the Selectivity and Concentration principle:

- **Selectivity.** Marketing must carefully choose targets for the firm's efforts.
- **Concentration.** The firm should concentrate resources against those targets.

Principle 1: Selectivity and Concentration

- **Selectivity.** Marketing must carefully choose targets for the firm's efforts.
- **Concentration.** The firm should concentrate its resources against those targets.

This principle is about choosing the firm's battles. It is dangerous to dissipate limited resources over too many alternatives by trying to do too much. No organization, no matter how large or successful, has infinite resources. Each must make timely choices. The selectivity element is fundamental to recommending which markets to target — Imperative 1, but the best-known manifestation is identifying and targeting market segments — Imperative 2. Market segmentation is a fundamental topic in marketing, but we repeat the distinction between two related, but quite different, issues:

- **Market segmentation process.** The firm divides the market into groups of customers — segments. In each segment, customers have similar needs and value similar benefits with similar levels of priority.
- **Targeting market segments.** Good segmentation only *allows* for better strategic decisions; it does not guarantee them — *selectivity* is crucial. Which segment(s) should the firm select for effort? Which should it *target*?[59] The firm that skillfully implements this principle probes selected segment(s) in greater depth and uncovers hidden opportunities.

Small firms that concentrate their slender resources on specific market segments often gain leverage over larger competitors, like eBay and Google did in their early years. Small firms concentrate their limited resources by default. Large firms have greater resources but often spread themselves too thin because they have difficulty concentrating.

Of course, concentration involves risk. When the firm concentrates resources on some opportunities, it forgoes others.[60] The firm will fail with some chosen options — and options it does not choose will be successful for others. Get used to this fact: As a marketer, you are a gambler. You make bets on markets and segments — your reward is market share and profit. Gamblers in Atlantic City, Macau, Monte Carlo, and Las Vegas play against an impersonal house and win only by chance. You play against living, breathing, unpredictable competitors and shift the odds in your favor by practicing your marketing craft well.

As markets become increasingly competitive, hedging bets by allocating small amounts of resources to a broad set of options will certainly fail. For this reason, some experts have relabeled this principle *Concentration and Concession*. Not only must the firm concentrate its resources in chosen segments, it should affirmatively concede other segments to competitors.

> Samsung is a highly successful Korean electronics firm — it ruthlessly practices selectivity and concentration. Said a senior marketing executive, "We had an explicit strategy to get out of low-end commodity-oriented channels. We actually withdrew from places like Walmart, even though these were a big source of revenues. Instead, we focused on electronic specialists, and several regional electronics chains. We establish deep relationships with our true value-added channel partners. This focus provides them direct benefits from our marketing."[61]

Principle 2: Customer Value

> In its ongoing battles with HP and Lenovo, Dell focuses on delivering high levels of customer value. Said a senior marketing executive, "We're very centered on truly understanding customer behavior and having a deep level of customer insights. We use those insights and customer access to align the entire organization. We're really the only major player with a totally seamless link from the customer back to the component manufacturer, so we're the best placed to really deliver customer value. We have a knowledge base that enables us to meet customer needs better than anyone else. At the highest level, we understand what customers want. We tailor our product offerings and our suppliers' product offerings to what customers want. We have a pretty tight set of feedback loops. Our account executives talk to customers regularly and feed that back. Our Platinum Council (Customer Advisory Board) of our best customers meets periodically and looks at our forward-looking product roadmaps. The members give us feedback on whether these product development plans are geared to their needs. In a very real sense, the Council is part of a virtual product development organization — they really shape our priorities at a fairly early stage and enable us to ratchet up our ability to deliver customer value."[62] vin104

KEY IDEAS

Principle 2: Customer Value

- The firm earns success by providing value to customers.
- The firm develops, produces, and delivers products and services, but customers perceive value only in the benefits these products and services provide.

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According to the **Principle of Customer Value**, the firm's marketplace success depends on providing value to customers. This principle is central to marketing's job. Customer insight should drive design and implementation of market offers. Customer value should drive the firm's product and investment decisions — and its performance evaluations. The firm develops, produces, and delivers products and services, but customers perceive value only in the benefits these products and services provide. To be very clear: Customers *do not want* the firm's products; they only want *the value* those products deliver.

Customer value is a moving target. As the environment changes, customers accumulate experience and their needs evolve — the values they seek also evolve. World-class companies continuously invest in marketing research to probe deeply into customer needs, priorities, expectations, and experiences. They feed these results into the product development process to produce greater value for customers.

Cisco (U.S.) continues to be the market-share leader and a major force in high technology. Said an important Wall Street analyst, "They [Cisco] don't have the best technology, but they do have the best [customer] relationships."[63] Dell also has an extraordinary focus on customer value. Firms that take their eye off the *customer ball* can get into serious trouble. Sears and Kmart (U.S.) and Sainsbury's and Marks & Spencer (Great Britain) were once powerful and successful retailers. In recent years, each has been in crisis. In India, Shoppers Stop, Aditya Birla Retail, and Reliance Retail have closed many unprofitable stores in recent years.

Principle 3: Differential Advantage

A senior executive explained ExxonMobil's efforts to secure differential advantage. "We woke up and realized that people didn't care about our product. The government wrote standards for fuel specification, so the consumer said 'hey, fuel is fuel.' We started to think, not about the product, but about people's experience. All of our research around the world confirmed the same thing. It's a mobile society, everybody's in a rush. We moved from being auto-centric — we're here to serve the car, tires, batteries, and fan belts, to driver-centric — we'll give you gas and fuel, but also clean restrooms, telephones, the things you need to enhance your life on the move. Our convenience stores were the same as competitors', nice designs and colors — everything inside is great, but it's a box. The stuff we sell is the same. What we bring to the party is location — we make it convenient and give you the right experience. If you just want gasoline and are in a hurry, use your speed pass, pay at the pump, get in and get out. If you want to get out of traffic for a minute, or feel like a cup of coffee, need a restroom, then we welcome you inside. We will take as good care of you inside the store as when you are outside."[64]

The **Principle of Differential Advantage** is closely related to the Principle of Customer Value. Differential advantage is similar to having a *competitive advantage*, a *unique selling proposition* (USP), or an *edge*. Differential advantage lies at the heart of every successful market strategy. The Principle of Differential Advantage asserts that the firm should offer customers something they value but cannot get elsewhere.

KEY IDEAS

Principle 3: Differential Advantage

- To secure differential advantage, customers must perceive greater value in the firm's offer than in competitor offers.

More formally, *a differential advantage is a net benefit or cluster of benefits, offered to a sizable group of customers, which they value and are willing to pay for but cannot get, or believe they cannot get, elsewhere*. To implement this principle, the firm must develop well-designed market offers based on the marketing-mix elements we discussed earlier. If the firm achieves a differential advantage, it should secure improved prices.[65] This principle leads to several implications:

- **Competition.** The principle emphasizes competition. Offering customer value is not enough. To avoid competitive parity, the firm must offer greater value than competitors. The firm must create and re-create its differential advantage to beat competitors.
- **Superiority of differential advantages.** Some differential advantages are better than others. A differential advantage based on product design, or product availability may be more sustainable than one based on communications. A differential advantage based on an organizational process like Dell's low-cost, made-to-order manufacturing systems — or parts delivery, good customer relationships, qualified technicians, and/or a willingness-to-serve culture may be even more sustainable.[66]

Groupon and SnapDeal each target restaurants and have similar business models. Suppose you were able to invest $5,000 in either Groupon or SnapDeal. Which would you choose? Why?

But in an increasingly complex, competitive, and changing world, the firm's true differential advantage may belong in a meta-level adaptive ability to create a series of differential advantages over time.[67]

- **Eroding differential advantages.** Competition will eventually erode away even the apparently most sustainable differential advantage.[68] Motorola had a 2004 hit with the super-thin RAZR phone; but Motorola failed to produce a follow-up advantage — Google acquired Motorola Mobility (later sold to Lenovo). Maintaining differential advantage is marketing's most fundamental challenge, and the search for differential advantage must be ongoing. Ideally, the firm should have a hidden differential advantage, ready to trump the competitor's ace![69]
- **Cannibalizing a differential advantage.** To stay ahead of competition, the firm must be willing to cannibalize its own offers. Many firms will not do so, in part because of strong political constituencies for the status quo. Adhering to the sentiment "If it ain't broke, don't fix it" runs the risk of passing marketplace initiative to a competitor.[70]
- **Differential advantage and difference.** A *differential advantage* is not the same as a *difference*. To develop a different market offer may not be difficult. The firm's differences must create benefits that customers recognize, value, and are willing to pay for.[71]

Principle 4: Integration

> Integration is critical to U.S. retailer Target's success. "Every one of us, in every functional group, from Stores to Merchandising, from Logistics to Support, identifies with the role as marketing. We're all attempting to build better relationships with our guest [Target's term for customer]. And every decision starts with the guest, so everyone becomes a marketer. We instill that attitude with evangelical passion and great consistency — the evangelizing starts at the top with our Chairman and CEO. Our core brand promise since 1962 has been 'Expect more, pay less.' We live it — every single function of this company lives it. We search the globe for the best products to serve our guest needs and everyone in the store is hard-wired to meet guest expectations at all times."[72]

The **Principle of Integration** — critical for all marketing efforts — has two dimensions:

- **At the customer.** The firm must carefully integrate and coordinate all design and executional elements of the offer it makes to customers. Poor advertising can ruin an excellent product; delayed promotional materials can doom a product launch; and improper pricing can cause havoc with sales forecasts. *New York Magazine* designed a new-subscriber promotion — offer free magazines for six weeks and then follow with a subscription request. Unfortunately, the subscription request arrived before the first free magazine!
- **In the firm.** To achieve integration at the customer, the firm must carefully integrate and coordinate all internal functional activities — this is often very difficult.[73] Different functions and/or departments often squabble over priorities — and senior management may send ambiguous messages. A senior executive at a well-known multinational described the situation to his incoming superior: "There have been too many years of business units versus corporate, too many years of control versus trust, too many years of operating in silos, too many years of manipulating the facts to serve personal interests, and too many years of defending internal turf at the expense of market share and position."[74]

Principle 4: Integration

- The firm must carefully integrate all elements in the design and execution of its market offer.
- To achieve integration at customers, the firm must coordinate and integrate internal functional activities.

Examples of insufficient integration are legion. Consider the following dialogue involving one of the authors at an in-house seminar for a major U.S. computer firm. During the presentation, a participant asked several questions about sales forecasting. The following exchange occurred:

Author: "How come you're so interested in sales forecasting?"

Participant: "Well, I have a sales forecasting department, and since you were here, I thought I might learn something."

Author: "That's fine, but tell me, what's your position in the firm?"

Participant: "I'm the Production Director."

Author: "Oh! That's a little unusual. I'd have thought the sales forecasting department might have been in marketing or in sales."

Participant: "Sure, they have one too. But we can't believe a word they say, so we have to have our own."

Or consider this scenario in a major electronics firm: Business unit (A) shared salespeople with a sister business unit (B). But senior managers in business unit (B) would not allow these salespeople or their managers to attend business unit (A)'s annual strategy conference!

Firms with an external orientation are more likely to achieve integration because the shared value of serving customers promotes a common purpose. Sharing responsibility for designing and implementing market offers drives agreement on priorities, together with close and cooperative working relationships.

Apple's success has made it one of the world's most admired firms. How do you assess Apple's adherence to the four marketing principles?

KEY MESSAGES

- Firms that deliver greater customer value than competitors are more successful in attracting, retaining, and growing customers.
- Firms that successfully attract, retain, and grow customers earn profits. They are more likely to survive and grow, and enhance shareholder value.
- Value has two sides. When firms deliver customer value, they attract, retain, and grow customers. When firms attract, retain, and grow customers, they create shareholder value.
- Marketing as a philosophy embraces an external orientation — all organizational members have a responsibility for delivering customer value.
- Six marketing imperatives are *must dos* for the firm.
- Four marketing principles provide the guiding framework within which the firm implements the six marketing imperatives.

What other messages did you glean from this chapter?

VIDEOS AND AUDIOS

Marketing Careers	v102	Ellen	Columbia Business School
Pharmaceutical Marketing	v103	Robert Essner	Wyeth; Columbia Business School
The Role of Marketing	a101		
The Externally Oriented Firm	a102		
Four Marketing Principles	a103		

v102

v103

a101

a102

a103

QUESTIONS FOR STUDY AND DISCUSSION

Can you answer the questions implied by this chapter's learning objectives? Check!

1. Select a well-known Indian FMCG firm. From its financial statements, identify the book value of its assets. Also identify the firm's market value based on its stock price. Is there a difference? What accounts for this difference? Do these findings change the way you think about marketing's role in delivering value?
2. The chapter describes how Barnes & Noble's (U.S.) balance-sheet assets became strategic liabilities and allowed Amazon to succeed. Describe an Indian example. What was the outcome? What would you have done differently? Would it have been easy to implement your decisions? Why or why not? How would your decisions have affected firm employees? Can you identify firms facing similar challenges?
3. Does your school approach the market for new students in a systematic way? How could it use the six marketing imperatives to improve its efforts?
4. Identify a successful local merchant. Use the six marketing imperatives to explain its success.
5. Why did Tech Mahindra lag behind its peers? Which marketing principle(s) did it neglect? What would you have done differently? How do you assess Tech Mahindra's merger with Satyam? Compare Tech Mahindra's performance with Wipro's — what accounts for the performance differences?
6. How has the Internet and mobile marketing affected marketing practice in India?
7. Describe the challenges and opportunities that marketing faces in your school or firm.

TRUE / FALSE QUESTIONS

Answers on page A1.

1. The firm only increases shareholder value if its incoming cash flows earn a return on investment at least equal to its cost of capital. ❑ **True** ❑ **False**
2. Firms with a sales orientation focus on short-term sales volume and are less concerned with profits and long-run customer relationships. ❑ **True** ❑ **False**
3. A firm with a finance orientation focuses on research, development, and engineering and pays little attention to customer value. ❑ **True** ❑ **False**
4. The marketing offer is the total benefit package the firm provides to its customers. ❑ **True** ❑ **False**
5. Firms with an internal orientation are more likely to achieve integration because the shared value of serving customers promotes a common purpose. ❑ **True** ❑ **False**

MULTIPLE CHOICE QUESTIONS

Answers on page A1.

1. All of the following represent critical questions required to be answered about a firm's business and market portfolio for Imperative 1 EXCEPT:
   a. In which businesses and markets shall we invest?
   b. From which businesses and markets shall we withdraw?
   c. Is the firm's market and financial performance reaching planned objectives?
   d. In which current businesses and markets shall we continue to invest?

2. The firm with a(n) ________________ is typically less concerned with profits and long-run customer relationships.
   a. sales orientation
   b. operations orientation
   c. finance orientation
   d. technology orientation
3. Which of the following is NOT one of the marketing mix elements that comprise the basic building blocks of a firm's offer?
   a. product
   b. promotion
   c. position
   d. price
4. Which of the following four Principles of Marketing emphasizes competition?
   a. The Principle of Selectivity and Concentration
   b. The Principle of Customer Value
   c. The Principle of Differential Advantage
   d. The Principle of Integration