# Does Marketing Need Reform?

## Fresh Perspectives on the Future


Jagdish N. Sheth
Rajendra S. Sisodia
Editors

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Dedicated to the memory of the late Peter F. Drucker, pioneering management thinker and the true father of the marketing concept. Ideas that he first articulated over fifty years ago remain as vital and relevant to marketing practice and scholarship today as they were when first written. We hope that this book encourages marketing academics to revisit Drucker's inspirational early writings on marketing and gain a renewed appreciation for essential nobility of the marketing function and its centrality in the lives of consumers and the fortunes of businesses.

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# Does Marketing Need Reform?

CHAPTER 1

# INTRODUCTION

## Does Marketing Need Reform?

JAGDISH N. SHETH AND RAJENDRA S. SISODIA

More than thirty years ago, Peter Drucker wrote:

> Despite the emphasis on marketing and the marketing approach, marketing is still rhetoric rather than reality in far too many businesses. "Consumerism" proves this. For what consumerism demands of business is that it actually market. It demands that business start out with the needs, the realities, the values of the customer. It demands that business define its goal as the satisfaction of customer needs. It demands that business base its reward on its contribution to the customer. That after twenty years of marketing rhetoric consumerism could become a powerful popular movement proves that not much marketing has been practiced. Consumerism is the "shame of marketing." (1973, p. 64)

Drucker's characterization remains as true today as it ever was. Instead of acting as partners engaged in mutually rewarding co-destiny relationships, too many marketers and consumers continue to be locked into mistrustful, adversarial relationships in which there is a constant tug-of-war to determine which side can benefit disproportionately and unfairly.

It has been evident for many years that "marketing as usual" is simply not working anymore, and that fundamentally new thinking is needed to revive and rejuvenate this most vital and potentially noble of business functions—one that has, unfortunately, become the object of skepticism and distrust among many of its stakeholders.

Our own observations over the past decade or so have led us to conclude that marketing has been losing efficiency as well as effectiveness over time (Sheth and Sisodia 1995, 1996, 2002). In other words, marketing has been and continues to be in the throes of a productivity crisis. Other business functions (most dramatically, operations/manufacturing, but also many management support functions) have made striking advances in both efficiency and effectiveness, and have been able to "do more with less" year after year. Marketing, on the other hand, has managed to "do less with more," demanding and receiving more resources year after year, continually relying on a heavy dose of gimmicks and constant sales promotions, while delivering worse results: flat or declining customer satisfaction levels, shockingly low customer loyalty levels, and increasing numbers of alienated customers.

There was a time when marketing's current modus operandi worked, and worked rather well. It was a time when most customers were young, the rate of household formation was high, national brands were few, national distribution was limited, national media were just emerging, television was in its infancy, latent demand in many product categories was high, and producing products of reasonable quality at low cost was a challenge. None of those conditions prevail anymore. Yet, for marketers and their increasingly irritated customers, it seems every day is *Groundhog Day*—recall the movie in which Bill Murray was condemned to relive the same day every day, without end. Or, as Yogi Berra would say, "It's déjà vu all over again."

Of course, marketing *has* added new things to its bag of tricks, such as pop-up ads (which make Web surfing akin to duck shooting as users attempt to close windows faster than they appear) and a tidal wave of increasingly over-the-top and offensive email messages that fill inboxes to overflowing every morning. The problem is that marketing is too fixated on its bag of tricks. Many of those tricks were novel and may even have been interesting at one time, but they are anything but that today. Moreover, marketing's use of such tricks has increased geometrically as the Internet has greatly lowered the direct cost of doing so; more marketers than ever before are able to use these tricks with ever greater frequency, casting ever wider nets in the hope of catching a few unwary customers.

The side effects of marketing today overwhelm its intended main effects. It seems that the more a customer is marketed to, the more frustrated and irritated he or she becomes, and the more manipulated and helpless he or she feels. This is clearly no way to win customers and influence chief executive officers. Noise pollution, information overload, empty promises, outright exaggerations—marketing's negative effects on society have never been more pronounced.

It does not have to be this way. Sound marketing practices lead to low marketing costs coupled with highly satisfied customers, minimal spillover of marketing communication to groups outside the target market, long-term co-destiny relationships between companies and their customers, and a strong emotional bond between companies and customers. Unfortunately, these have become the rare exception rather than the rule.

The harsh reality facing marketers today is that their bag of tricks has become a useless, even dangerous, relic of a bygone era. The power in the marketplace—economic, informational, and psychological—has shifted to customers. Old-style marketers have themselves become sitting ducks now, and information-savvy customers can—and do—readily exploit them to their own advantage.

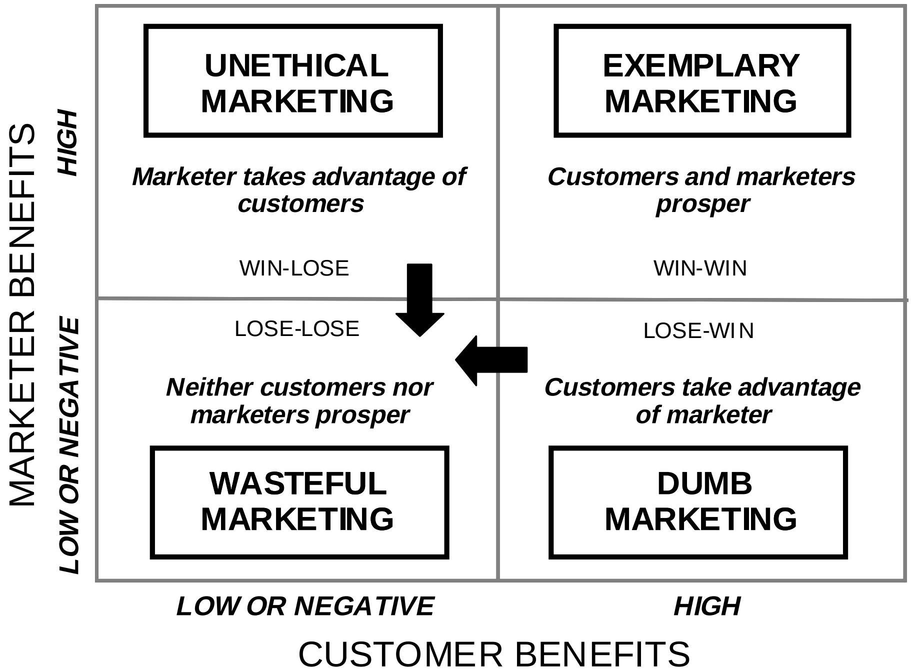
## MARKETING: THE GOOD, THE BAD, AND THE UGLY

Marketing practice today is rife with three major types of problems, as depicted in Figure 1.1. First, many marketing actions are either exploitative or downright unethical; in those cases, the marketer seeks to benefit by taking unfair advantage of the customer. Second, some marketing actions are so poorly thought out that they leave the company vulnerable to being exploited by increasingly deal-savvy consumers. We refer to these actions as "dumb marketing." And third are those marketing actions that benefit neither customers nor companies, and can only be characterized as utterly wasteful. In some cases (as with advertising so heavily as to induce a backlash against the brand), increased marketing spending not only does no good, it actually harms the company! Anheuser-Busch and Campbell Soup discovered this years ago after conducting numerous advertising experiments (Ackoff and Emshoff 1975; Eastlack and Rao 1989).

Collectively, these three types of actions represent the misalignment of marketing—and, ultimately, all of them are dumb as well as wasteful. As the figure shows, any benefits accruing to marketers or customers at the expense of each other are short-lived at best, and usually lead to subsequent losses that more than offset previous gains.

So why is this happening, nearly half a century after the "marketing concept" became an integral part of the business vocabulary? Marketing is *supposed* to be about aligning company

Figure 1.1 **Marketer and Customer Benefits**




and customer interests. Practiced properly, it should result in happy, loyal customers, motivated and fulfilled employees, and satisfied shareholders. The norm, however, is quite different. Marketing has become synonymous with hype, gimmickry, and the primacy of image over substance; marketers at many companies wittingly or unwittingly end up exploiting their own customers or becoming exploited by them. Marketing swallows up huge resources—the financial resources of companies as well as the time, attention, and efforts of customers—while too often delivering little of value to either side in return. All chickens do eventually come home to roost, and the internal and external consequences of unethical, dumb, and wasteful marketing cannot be escaped forever. Marketing managers must alter their business practices before their companies go out of business or are forced to reform by the heavy hand of regulation. Marketing has become addicted to these unethical, dumb, and wasteful practices. Like any addict, it needs an intervention to break the addiction.

Marketing's current problems are rooted in organizational inertia, misaligned incentive systems, poorly designed value propositions, and outmoded ways of thinking about markets and customers. The culture of marketing, especially in consumer marketing, has become too corrupted and disfigured by short-term thinking and a loss of focus on the fundamental human values that require that companies and customers treat each other as allies and partners in value creation rather than as adversaries and potential victims.

### The Bad: Unethical Marketing

To achieve their sales and market share goals, more and more companies are resorting to exploitative and unethical marketing practices. Unethical marketing is that in which the marketer attempts to mislead, misinform, or otherwise take unfair advantage of customers, or knowingly engages in activities that have a harmful effect on society. In these cases, marketers seek to benefit at the *expense of* customers rather than *with* them.

Too many companies try to exploit a customer's emotions, trust, confusion, lack of organization, or lack of knowledge. Companies take advantage of vulnerable customers such as children, the elderly, and the indigent. They convey a false sense of objectivity in their advertising, engage in opportunistic pricing or price gouging, push harmful or unnecessary products, make it difficult for unhappy customers to leave them, create and exploit customer addictions, pressure customers into making hasty decisions, or unduly influence trusted advisors (such as pharmacists and doctors) to give customers poor advice.

Such hit-and-run marketing is so widespread that it sometimes appears to be the norm rather than the exception. Some examples are egregious, others somewhat subtle. Three prominent ones are: brazenly misleading advertisements (e.g., weight loss products), manipulative sales tactics (e.g., automobile retailing), and most forms of multilevel marketing. Telemarketing has earned a deservedly terrible reputation as the last refuge of hit-and-run marketers, and is estimated to result in over $50 billion of consumer fraud annually. Other frequently criticized practices include price gouging (e.g., ink cartridges for printers), advertising to children, and many pharmaceutical marketing techniques.

Unethical marketing may appear to pay off in the short run, but its long-term consequences can be deadly. There are many examples of highly successful companies demonstrating very high standards of marketing ethics. Ethical marketing is financially beneficial in the long run, as it builds customer trust. It is also essential to building employee morale and loyalty, which are prerequisites to delivering superior customer service and customer satisfaction.

### The Ugly: Dumb Marketing

Many marketing practices are detrimental to the long-run interests of the marketer, but may offer customers a (usually) temporary benefit. These situations need not involve scams or illegal activities on the part of customers. Rather, they occur when shrewd customers, behaving quite reasonably and rationally, respond to poorly conceived and implemented (i.e., dumb) offers from marketers. For example:

- Some companies indiscriminately try to "buy" customers, as the major long distance companies did in the 1990s, leading many customers to switch providers repeatedly to take advantage of the incentives. The net result was the destruction of brand loyalty in the industry.
- Many customers cherry-pick only deeply discounted "sale" items from retail stores, resulting in a loss for the retailer every time they shop at the store.
- Many marketers use coupons in such a broad, untargeted manner that even those customers who would have readily bought the product at regular price receive a windfall. Traditional coupons are also highly susceptible to fraud by some retailers.
- Retailers that run constant sales (e.g., some chains run three "sales" every week, each with its own expensive advertising circular) or make patently false claims (e.g., advertising "lowest prices of the year" every week) erode their own credibility while rendering the notion of "regular" price meaningless—and spend a great deal of money doing so.
- Blindly copying competitors' marketing tactics without assessing the full long-term impact of doing so.
- Expensive catalogs that go straight into the garbage can.

- Return policies that allow customers to repeatedly purchase and return products for no good reason and without consequences.
- Dumb pricing, as in the airline business, which has totally divorced price from value in setting prices for business versus consumer travel.
- End-of-quarter deals in business-to-business marketing, which cause savvy customers to wait until the end of a quarter to get advantageous terms.

Dumb marketing is not just noisy and annoying; it is very costly to the bottom line and thus detrimental to employees and shareholders, while doing little of ultimate consequence for customers. It is usually motivated by extreme short-term thinking on the part of marketers (e.g., to make their quarterly numbers) or to cover up previous mistakes (e.g., end-of-season clearances on merchandise that customers do not want).

Smart marketers must deal with customers who behave in an unethical way toward them. Some consumers are egregious, habitual, and serial offenders. In most cases, these customers face no repercussions at all; for example, consumers continue abusing some companies' generous return/exchange policies indefinitely. Even if a company eventually detects a pattern and refuses to do business with certain customers (something that rarely happens), such customers can simply start exploiting another company. In doing so, they start with a clean slate, carrying no taint from their previous rejection.

Companies need to be able to identify and tag those consumers who:

- Repeatedly buy and return merchandise, especially apparel, after obviously using it.
- Use multiple names or variations on names in order to qualify for promotional offers multiple times (such as with music and book clubs).
- Habitually make false complaints about customer service in order to get companies to offer them free goods.
- Threaten companies with negative publicity if their (unreasonable) demands are not met.
- Have been verbally or otherwise abusive toward employees.
- Engage in other unacceptable practices such as software piracy, price tag switching, falsely claiming stolen credit cards, and so on.

### The Bad and Ugly: Wasteful Marketing

In an age when the mantra of business has been "do more with less," the marketing function has for too long been "doing less with more." In most industries today, the marketing function consumes over 50 percent of corporate resources, up from less than 25 percent around 1950.

At a macro level, marketing represents a tremendous waste of resources that could be better utilized elsewhere. In the United States, companies spend nearly $11,000 per year per family of four on advertising and sales promotion. Does all this marketing spending create incremental value, or does it just influence consumer choice behavior in ways that may not be value decreasers? How much of it fails to do even that? (Out of the fifteen hundred or so advertising messages each person is exposed to daily, how many actually have any impact on attitudes or behavior?) There is strong evidence that as much as 80 percent of that money is wasted or misspent in some way. For example, most sales promotions are so poorly designed and targeted that they achieve redemption rates of 1–2 percent or less, and most of those redeeming are not the ones that the company needs to target. Research clearly shows that many large companies waste billions of dollars on unnecessary and poorly conceived advertising. Most customer loyalty programs don't work; to the contrary, they create customers who are more mercenary than ever.

Some more evidence that marketers are spending resources poorly:

- AdWorks 2, a study conducted by Media Marketing Assessment and Information Resources Incorporated in conjunction with Nielsen Media Research found that television advertising returned only 32 cents for every dollar invested (Merrill 1999, p. 29).
- Roper Starch reports that consumer cynicism and distrust of advertising is growing. Consumers are "tuning out, turning off, and opting out" (quoted in Parker-Pope 1995, p. C1).
- Advertising agency loyalty has declined sharply as client companies look for quick fixes to their advertising woes; the average number of years that clients retain the same agency has declined from eleven years to only two-and-a-half, according to an October 2001 survey by consulting firm Pile & Co. (O'Connell 2001).
- A 1995 study by Information Resources Incorporated found that 70–80 percent of new product introductions fail, with the average failure resulting in a net loss of up to $25 million (Woodward and Clifford 2005).
- Direct marketing response rates have been falling precipitously; for example, according to BAI Global, the response rates for credit-card marketers have steadily declined, from 2.8 percent in 1992 to an all-time low of 0.6 percent in 2000 (Consumer Federation of America 2001).
- Email marketing, one of the newer weapons in the marketer's arsenal, is fast losing its effectiveness; as its use and abuse have soared, response rates over the past five years have fallen from as high as 30 percent to less than 2 percent, and in the most egregious cases of blatant "spamming," a fraction of 1 percent (Jackson 2000).

## NOTHING EXCEEDS LIKE EXCESS

Overmarketing is the cause of many of marketing's problems, and the reason for the backlash against many companies and industries, for example, the drug industry. Many companies overadvertise, even more overpromote; for example, Abraham and Lodish (1990) found that 86 percent of sales promotions lose money. Many companies oversell, using pushy tactics, overclaiming benefits, and targeting people who should not be targeted, such as young healthy men with erectile dysfunction drugs.

Overmarketing lowers the quality of life, as it distracts consumers from more relevant pursuits. If companies could eliminate dumb, wasteful, and unethical marketing, how much would be left? What would be the impact? On consumers? On companies? On society? On national competitiveness? We think there would a significant positive impact on each of these.

Marketing, in the aggregate, does benefit the economy; the evidence is pretty strong that societies with high levels of marketing activity are more productive than societies that restrict or do not permit marketing. But more is not necessarily better. Marketing cannot be given a blank check, any more than any other socially useful activity.

Some of the reasons for overspending on marketing are:

- Incremental thinking and marginal analysis
- Short-term thinking—ignoring long-term negative impacts
- Defensive mindsets—irrational fear of competitors
- Continued obsession with conquest sales when the reality is that the business will ultimately prosper only if it can keep existing customers

- Lack of faith in the company's value proposition
- Low hurdles for spending effectiveness
- Dysfunctional budgeting—the "use it or lose it" mindset
- Ignoring overflow effects of excessive marketing on noncustomers—poisoning the well
- Trying harder instead of trying smarter—overspending in one area (e.g., advertising) to compensate for a vulnerability in another (e.g., poor product quality)

Many marketers are locked into a mutually assured distraction (MAD) arms race with their customers. The more customers resist and are able to block marketing efforts, the more these marketers seek to redouble those efforts. To change this MAD pattern, they must change the paradigm—or their mental models, as Jerry Wind suggests in chapter 11 in this volume. At the company level, marketing's job should be to make itself gradually less needed over the life of a product, as awareness and "ever tried" levels rise. In that sense, a good marketer is like a good doctor, who does not make the patient dependent on him or her for continued good health.

## CONCLUSION

Must marketing always elicit negative sentiments? Is there something intrinsic to marketing that regardless of how hard we try, consumers are going to resist it? We don't think so. There are many companies that, in fact, are very well liked and even loved by their customers and other stakeholders. These companies show that it is possible to do a lot more with a lot less. We have studied thirty such exemplary marketing companies that, almost without exception, spend much less than their industry peers on marketing, yet have much more satisfied customers. These companies, featured in our book *Firms of Endearment* (Sheth, Sisodia, and Wolfe 2006) have happier employees, suppliers, communities, and investors as well.

Marketing ultimately comes down to a company's attitude toward its customers and how well it serves them. One of the companies we studied is Google. Without spending a dollar on advertising, Google has become the most valuable brand in the world, according to Interbrand. Everything that Google does is demonstrably in the best interests of its customers. It blocks pop-up ads. It will not take a company's money if its ad is not drawing any response. Advertisers can only earn the top position through clickthroughs, not by paying more. Thus, only the most relevant messages move up that chain because the company views advertising as a service to its customers and not as an intrusion or something that exists merely to subsidize the company's free search service. Or consider Jordan's Furniture, a highly successful regional furniture retailer in the Northeast. The average furniture retailer spends approximately 7 percent of gross revenue on marketing and advertising; Jordan's spends only 2 percent. Despite this, it is by far the best-known and most successful company in the business. It turns its inventory over thirteen times a year, compared to one to two times for most furniture retailers. It never has sales; with a philosophy of "underprices" (everyday fair prices), it generates sales of almost $1,000 per square foot, compared to the industry average of $100–200. The company equates retailing with entertainment, has well-paid, highly motivated, and loyal employees, and is a beloved member of its community, receiving dozens of awards for its work (Jordans.com).

So there appears to be no correlation between marketing spending and customer happiness with a company, or necessarily between marketing spending and the creation of valuable marketing assets. When it comes to marketing, it is a matter of doing it right and doing it at the right volume. Or, as Drucker would say, do the right things and do them right. What matters is not the *quantity* of marketing dollars spent, but the *quality* of the marketing thinking that pervades decision making in companies.

All marketers must strive for exemplary marketing, that which is effective, efficient, and ethical. They must figure out how to align the interests of the company with those of its customers, so that they do not have to expend all of their energies getting customers to do things that are ultimately not in their best interests. To achieve this, they will have to shift their priorities and redirect their energies. Marketing has become almost exclusively about representing the company to the customer, and putting a positive spin on everything the company does. It needs to be primarily about representing the customer to the company. Marketers need to achieve deep empathy and emotional understanding of their customers, and then translate that knowledge into company actions that will improve their customers' quality of life. Marketing is a powerful force, backed up by huge resources. It must be entrusted only to those with the wisdom to use it well.

### Restoring Marketing Virtues, or Kinder, Gentler Marketing

To conclude, we would quote Martin Luther King, Jr., who said, "We must pursue peaceful ends through peaceful means." This sentiment applies to marketing as well. Forget all the old ideas about marketing warfare, customer conquest and capture, or aggressive marketing tactics of any kind. Indeed, aggressive sentiments and mindsets have no place in marketing. Marketing must be about pursuing desirable ends (delighted customers, undamaged societal interests, fair returns to shareholders) through desirable means. The values of the marketing profession must embrace seemingly forgotten but timeless virtues such as:

- Truth: "Marketing" and "truth" have become words you cannot use in the same sentence; this has to change. If marketing is ever to gain a measure of credibility, the phrase "truthful marketing" cannot be an oxymoron any more.
- Integrity: Companies are becoming painfully aware of the need for uncompromising integrity in their dealings with the financial community, yet many continue to show little concern for maintaining the same standard of integrity in their dealings with customers.
- Authenticity: Many marketing communications are intended to appear as though they are personalized. Of course, the vast majority of customers see right through this façade. Customers can innately sense the human presence (or lack thereof) behind marketing communications. Marketing must strive for authenticity in all customer dealings.
- Trust: This is probably the one virtue that is most lacking in the relationship between companies and their customers. Without mutual trust, it is a joke to speak of "relationship marketing," and an egregious waste to spend hundreds of millions of dollars on "customer relationship management" systems, as many companies have done in recent years to little effect.
- Respect: The legendary advertising executive David Ogilvy wrote, "The customer is not an idiot, she is your wife." Many marketers have indeed been guilty of treating their customers as idiots. Marketers must give respect in order to earn respect. They must respect their customers, of course, but they must also respect their suppliers and even their competitors.
- Reciprocal empathy and vulnerability: To maximize goodwill, marketers and customers must empathize with one another, and both must be (or make themselves) equally vulnerable.
- True dialogue: Most companies are very good (or so they think) at speaking to their customers, but exceedingly few are any good at truly listening to them. Without listening, there is no learning and certainly no relationship.
- Manners: Marketing is rarely polite or deferential; instead, it is usually loud, boorish, in-your-face, insensitive. Marketers constantly interrupt customers' lives with their incessant communications. Marketers routinely bad mouth their competitors, and insult

the intelligence of their customers—hardly the sort of behavior that comprises civilized discourse.

- Forgiveness: Marketers must ask customers for forgiveness, given their past trespasses and indiscretions. Over time, customers will learn to forgive marketers' occasional lapses and see them against the backdrop of overall good behavior. Otherwise, the friction between marketers and customers will remain, as the cartilage between them has worn thin after years of abuse.
- Courage and patience: Changing decades-old practices will take courage, as marketers seek to counter conventional wisdom and the skepticism of colleagues. For example, it takes courage for a company to stop overpromising and underdelivering (as is the norm) and actually start underpromising and overdelivering. It will also take patience; much like a down-on-its-luck professional sports team must go through a painful rebuilding process, the marketing function will have to endure a lengthy adjustment period as it seeks to rebuild its reputation with customers and with other functional areas.
- Gratitude and recognition: Marketers need to show their gratitude and appreciation to their customers, and also put in place mechanisms whereby customers can do the same for their best employees. Some airlines, for example, give their best customers employee appreciation vouchers, which they can hand out to exemplary employees.
- Humility: Marketing must shed its hubris and embrace humility. Consider the definition of the word "hubris": *Exaggerated pride or self-confidence, often resulting in retribution; overbearing presumption; arrogance.* These words fit traditional marketing like a glove.
- Perspective: By adopting a customer-centric perspective, marketing professionals can make marketing a positive force in the quality of life of consumers, instead of the nuisance it is often perceived to be.

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# PART 1

# MIRROR, MIRROR ON THE WALL

## Marketing's Image, Excess, and Resistance Problems

Marketing faces three fundamental problems: it suffers from a poor image with consumers as well as with business professionals; it seems to run to excess; and it is now encountering serious resistance from consumers. The chapters in this section address these problems, as well as provide some possible solutions.

Marketing as an institution has been always been under critical surveillance due to its close association with selling, persuasion, and the profit motive. It has, however, invited further criticism recently due to the macro trends of globalization, market-driven government policies (especially after the collapse of communism), and the emergence of the Internet. The Internet is both a richer medium and has greater reach than other mass media. It is a powerful, affordable, and universal medium of information, communication, and transaction that has enabled new and innovative marketing approaches that neither society nor consumers could imagine.

In our first chapter in this section, J. Walker Smith, President of Yankelovich Partners, presents results of a groundbreaking Monitor Omniplus study that examined marketing from a consumer perspective. In other words, what do consumers think of today's marketing practices? Overwhelmingly, 60 percent agreed that their opinion of advertising and marketing had become more negative today than just a few years ago. Sixty-one percent said that the amount of marketing and advertising had gotten out of control. Even worse, 45 percent said that the amount of marketing they are exposed to detracts from their experiences of everyday life. The Yankelovich study also found that the negative perception of marketing held by consumers was not reflected in their survey of marketing directors at well-known companies. Smith believes that this lack of concurrence between consumers and marketers, unless corrected soon, will encourage consumers to be even more resistant to marketing.

A study carried out by Sheth, Sisodia, and Barbulescu also provided similar results about the image of marketing. Using the framework of the "tragedy of the commons," the authors suggest that overutilization of the same marketing tactics and tools by everyone seems to be the underlying reason for the negative image of marketing. This is especially true with respect to telemarketing, junk mail, and pop-up advertising. At the same time, consumers do enjoy free samples and Super Bowl ads. In fact, most of them look forward to them with positive anticipation. It seems that the easier and cheaper it is for a marketing tactic to be executed, the more "junklike" it becomes in the eyes of consumers. This suggests that a way of alleviating this problem would be to raise the cost of marketing approaches such as spam and junk mail.

Finally, the authors also found some significant gaps in the perception of marketing as a business function between marketing professionals and nonmarketing professionals. While both agreed that marketing is a real value-added function, the role of marketing was perceived to be more limited by nonmarketing than marketing professionals.

Johny Johansson's chapter, based on his provocative book *In Your Face: How American Marketing Excess Fuels Anti-Americanism*, suggests that American marketing is morally bankrupt, and that American marketing practices have helped turn the American way of life into its lowest common denominator in terms of quality of life. According to him, we marketers encourage several vices, such as excessive spending, outrageous behavior, and the unmitigated pursuance of individual gratification. We do this because we have the marketing tools to do it, the companies have the financial muscle to do it, and competition gives us a justification to do it. Johansson then supports his argument about the emergence of the lowest common denominator in products (fast foods, SUVs), in promotions (loud and aggressive, instill a "must have" feeling), and in communications media (pop-up ads, cell phone telemarketing, and e-mail spam). He strongly believes that this American approach to marketing is fueling anti-American sentiments worldwide, as American consumer marketing expands globally. His recommendation is to instill moral responsibility among marketing practitioners and academics.

The final chapter in this section by Malhotra, Wu, and Allvine provides thoughtful and empirically based evidence of what Johansson and others have anecdotally asserted. There is clear evidence of excessive buying in America as evidenced by low savings rate, mounting credit card debt, and all-time-high personal bankruptcies. The authors attribute such marketing practices to easy access to credit cards (more recently debit cards) and the lure of advertising and sales promotions. They suggest that we need to redefine the role of marketing in society and that marketing practices should be limited to satisfying consumers' needs that are existent and affordable, rather than creating needs that are unhealthy or unaffordable. In other words, marketing should not convert wants into needs.

CHAPTER 2

# COMING TO CONCURRENCE

## Improving Marketing Productivity by Reengaging Resistant Consumers

J. WALKER SMITH

The biggest problem confronting marketers today is also their biggest opportunity for tomorrow. Consumer resistance to marketing is a mounting crisis, yet there has never been a better time to win record levels of customer loyalty and commitment.

This mix of problems and opportunities is not as much of a paradox as it sounds. As smart marketers know, problems always create opportunities for companies willing to break the mold and do something different. The best time to secure enduring competitive advantage is when the marketplace is in turmoil. Now is that time.

Simply put, consumers are fed up with marketing saturation and intrusiveness. As a result, consumer resistance to marketing is growing rapidly. So, marketers have the chance, indeed, the necessity, to create competitive advantage for their brands through their marketing practices. Looking ahead, the best marketing won't simply be a better way of promoting a brand and its benefits. The best marketing will actually be a brand benefit itself.

The marketers who prevail will be those who respond to consumer resistance with precision and relevance as well as power and reciprocity—the four elements of P&R$^2$—instead of more marketing saturation and intrusiveness. This requires true customer-centricity, not the process-centricity that characterizes most marketing organizations.

For the most part, marketers think in terms of the four Ps: product, place, promotion, and price. These are marketing processes. Consumers go unmentioned in the four Ps; they are there only implicitly. Processes come first. This may seem like an insignificant nuance, but it is more than simply splitting hairs. Managers perform the jobs asked of them. When asked to manage processes, that's what managers do. Though consumers are central to marketing, they often take a back seat to processes in the priorities defined for marketing managers. A good illustration of what happens when processes come first is the recent industry response to discoveries about the consumer usage of digital video recorders (DVRs) like TiVo.

Marketers have been alarmed to learn that consumers with DVRs skip 60–80 percent of the ads in the programs they watch (Arlen 2002; *Economist* 2000). In response, many marketers have turned to product placements within TV shows to reach consumers irrespective of whether they skip the ads. By the measure of exposure used to assess TV advertising, this restores the effectiveness of the TV advertising process because the lost viewers are recovered. What it has also done, though, is force consumers to watch these proto-ads whether they want to or not. Putting consumers first by asking what interests or attitudes are expressed when they skip ads and then responding by satisfying those needs and preferences, even if it means abandoning an established process, would lead marketers to respond differently. Making marketing processes work better isn't always the right path for building long-term loyalty and satisfaction.

The elements of $P\&R^2$ (precision, relevance, power, and reciprocity) are what consumers want from marketing. These elements constitute the four cornerstones of concurrence marketing. Concurrence means two things: synchrony, or agreement, and collaboration, or cooperation. The first two elements of $P\&R^2$—precision and relevance—are about getting in sync, or agreement, with consumers in both targeting and messaging. The third and fourth elements—power and reciprocity—are about collaborating, or cooperating, with consumers in product design and marketing execution. Concurrence is a secondary concern with marketing saturation and intrusiveness. Only concurrence can build the kinds of consumer relationships needed to reverse the ongoing decline of marketing productivity.

## CONSUMER RESISTANCE TO MARKETING

Marketing resistance is widespread and growing. Yet, few researchers have studied this phenomenon. To fill this knowledge gap, in 2004 Yankelovich Partners conducted a groundbreaking MONITOR OmniPlus study[1] to provide marketers with a baseline understanding of contemporary consumer attitudes toward marketing practices.

In particular, this study examined marketing practice from a marketing perspective. The objective was to look at marketing in the same way that marketers look at any other product or service. Specifically, what are consumers' needs, wants, dissatisfactions, complaints, and aspirations with respect to marketing? What can marketers do to meet these needs and wants and to remedy these dissatisfactions and complaints? How can marketers make marketing practice fit the ways in which consumers aspire to live their lives? And what is the opportunity for greater marketing success from improvements in marketing practice?

The urgency for a new approach to marketing is immediately apparent in the results of the Yankelovich study. The overwhelming majority of respondents expressed a negative opinion about marketing. Sixty percent agreed that their opinion of marketing and advertising has become much more negative than it was just a few years ago. Sixty-one percent said that the amount of marketing and advertising has gotten out of control. Even worse, a sizable 45 percent said that the amount of marketing they are exposed to detracts from their experience of everyday life.

A basis of comparison is available from a major study completed on behalf of the American Association of Advertising Agencies (AAAA) in 1964 regarding attitudes toward advertising.[2] Although a direct comparison of the 1964 AAAA study to the 2004 Yankelovich study is complicated by differences in data collection, question wording, and measurement scaling, a worsening of attitudes is unmistakably clear nevertheless. The percentage with mixed opinions did not change, but the percentage holding a positive attitude declined from 41 percent to 28 percent and the percentage holding a negative attitude increased substantially from 14 percent to 36 percent.

The reason for this worsening of attitudes is no mystery. It is the exponentially greater level of marketing saturation and intrusiveness. In both the 1964 AAAA study and the 2004 Yankelovich study, respondents mentioned the same two principal benefits from marketing and advertising—the social benefit of helping the economy and the personal benefit of getting useful information. (In fact, perceptions of the information value of marketing increased from 1964 to 2004.) On the other hand, the top dislike of 1964 is now mentioned by more people than ever.

In 1964, the biggest complaint that consumers had about advertising was clutter and intrusiveness. Yet, this is the very thing that marketers have done with escalating frequency and intensity over the last forty years. For example, estimates of the number of ads, brand logos, and promotions to which an average person is exposed each day range from three thousand to five thousand, up several-fold from estimates of three hundred to five hundred during the 1970s. Unsurprisingly, then, the percentage of respondents complaining about clutter and intrusiveness has grown sizably, up from 40 percent in 1964 to 65 percent in 2004.

The fervor with which consumers are resisting marketing means a considerable impact on marketing productivity. Fifty-four percent of respondents in the 2004 Yankelovich study reported that they avoid buying products that overwhelm them with too much marketing, 60 percent described themselves as a person who tries to resist or avoid being exposed to marketing and advertising, and 69 percent said that they were interested in products to block, skip, or opt out of exposure to marketing and advertising. To put it another way, the size of the market for marketing resistance products is seven out of ten consumers.

Indeed, consumer resistance to marketing is a defining characteristic of today's marketplace. Contrast the huge percentage of self-confessed resisters in the 2004 Yankelovich survey with the mere 15 percent in the 1964 AAAA study who held the ardent opinion that advertising needed attention and change.[3]

Consumers have always had a love/hate relationship with marketing and advertising. Even as marketing resistance has grown to unprecedented proportions, consumers continue to enjoy entertaining ads and fun events sponsored by marketers. Paradoxically, consumers feel as much affection for marketing as dislike. (Or to put it another way, consumers love advertising but hate marketing.) This only seems like encouraging news. The proper balance between love and hate is a lot of the former and just a little of the latter; as it was forty-plus years ago. But not today.

The Yankelovich data show that while consumers feel the same as ever about the things they love about marketing and advertising, consumers now feel much more annoyed and aggravated by the things they hate about marketing and advertising. Intrusiveness is the culprit. Marketing and advertising have remained informative and entertaining while becoming omnipresent to the point of oversaturating every aspect of consumers' lives. The consumer response to this supersaturation is resistance.

But the proper way to look at the findings from the 2004 Yankelovich MONITOR OmniPlus study on consumer resistance to marketing is to look for opportunities to capture competitive advantage by delivering what consumers want and need. After all, this is how marketing works. Marketers solve problems for consumers. There's no reason why this shouldn't apply to marketing practice as much as to products and services.

## THE MODEL IS BROKEN

The root of consumer resistance to marketing is not about bad marketing but about the basic way in which marketing works. The tactics of domination, saturation, and intrusiveness are standard marketing practices. Yet these tactics are the very things that consumers dislike the most. So, consumer resistance is symptomatic of the current marketing model.

Indeed, more often than not, bad marketing is nothing but standard marketing practice carried to an extreme. Arrogant spammers and telemarketers employ the customary practices of interruption and intrusiveness. The only difference is that they are more aggressive in putting these principles into action.

The results from the 2004 Yankelovich study show that marketing resistance has moved beyond the self-selection that is a standard element of the current marketing model. Marketers expect self-selection—if consumers don't care to watch an ad or some other form of marketing, the current marketing model assumes that they will just ignore it, which is why marketing saturation and intrusiveness are normal practice. Saturation and intrusiveness are designed to penetrate this veil of indifference and disinterest. Nowadays, however, consumers are unwilling to put up with and uninterested in taking the time to sort through the barrage of marketing to find the few messages that are relevant and worthwhile. Instead, with technology at their disposal, more consumers are just opting out of marketing exposure entirely.

The most important change is technology. In the past, whatever dissatisfaction consumers felt about marketing and advertising, they lacked the means to do anything about it because marketers had all the power. Technology has completely altered that, yet the marketing model that continues to guide marketing practice is based upon the old balance of power.

To put it more strongly, absent the new technologies, there would be no crisis of marketing productivity. And these technologies will only get better, if for no other reason than the growing demand for new and improved tools to resist marketing. Marketers who fight resistance with more saturation and intrusiveness will lose the battle to the technologies of resistance.

But more than technology has changed. The ways in which consumers live and shop have changed radically, too. American society is much more heterogeneous and consumer tastes are much more splintered, which makes active involvement more important to consumers. It is the only way that consumers can ensure that they get precisely what they want.

Consumers don't depend on marketing as much as before to learn about products and services. Consumers are smarter than ever—literally, better educated—and have fingertip access to hundreds of sources of information. Consumers have more street smarts, too, having been schooled by decades of exposure to every marketing trick in the book.

There was a time when advertising was an indispensable source of information. There was a time when consumers could take time to linger and browse. There was a time when marketing novelties were eye-catching and arresting. No longer.

Consumers' lifestyle expectations and aspirations have changed, too, and they have grown accustomed to a more prosperous public life. Pantries, drawers, and driveways are filled with more stuff than ever before. Consumers are looking for meaning and fulfillment beyond more things to buy, so emotions, experiences, relationships, service, and aesthetics have become the central sources of competitive advantage, while reliability, performance, durability, and functionality have come to be taken for granted. Consumers are demanding more from marketers than great products. Consumers also want a better experience with the marketing for a product. Otherwise, they see marketing as an unnecessary, unwanted, and disagreeable imposition on their scarce time and resources.

None of this is to suggest that consumers want to quit shopping. They don't. Marketing resistance does not presage an end to consumerism nor even a moderation of demand. Consumers enjoy the comforts and satisfactions of the products they buy, and they want as much of that as they can afford. But consumers no longer take it as a given that they must be at the mercy of marketers in order to enjoy these things.

Consumers also do not want an end to marketing. Consumers understand that the answer to a flood is not a drought. Consumers just want marketing that is less annoying, less intrusive, less dominating, less saturating, and more respectful. Consumers want some relief from the dense marketing smog that covers everything in their lives with a brand logo or a marketing come-on. Consumers want a different marketing model.

The challenge for marketers is to find a new model that doesn't penalize them for changing their marketing practices. No marketer should risk self-destruction by pulling back to the point of hara-kiri. Certainly, results from the 2004 Yankelovich study on consumer resistance don't point in that direction. Rather, the findings show clearly that marketing based on better principles will be more productive.

## MAKING MARKETING PRODUCTIVE

The challenge for marketers is not making marketing work. Marketers are completely conversant in all the tricks of trade. But today, what marketers do to make marketing work doesn't always do so productively. In fact, it often reduces productivity. And marketing productivity is what counts because productivity is more important than efficacy alone when it comes to building value in a business. The issue at hand is getting a bigger bang for the buck.

Marketing productivity is measured as the customer response generated per marketing dollar spent. The consensus of evidence, both anecdotal and quantitative, is clear: marketing productivity is in rapid decline. A dollar spent today buys less response and a smaller audience than the same dollar spent yesterday. There are many factors at work. Specialized niche media have fragmented the audience, so media buying efficiencies have been significantly eroded. More competition has diluted the dominance and customer loyalty once enjoyed by many brands, so more has to be invested in sustaining relationships. Consumers are less dependent upon advertising for information, so advertisers have to invest more to get consumers to watch and read. Consumers are savvier and more knowledgeable about marketing tactics, so constant innovation is required. And marketing clutter has significantly increased, leading marketers to spend a lot more to try to be heard above the noise.

There is another factor as well—the growing consumer resistance to marketing. Consumer resistance is both a cause and an effect of the current productivity challenge. Overwhelmed with a growing deluge of ever more intrusive marketing, consumers have begun to adopt ways of insulating themselves from marketing. As consumer resistance has become more widespread and more sophisticated, marketers have saturated the marketplace with even more marketing. This cycle has created a feedback loop that is spiraling out of control. As more marketing chases more resistant consumers—or to put it another way, as spending rises while response declines—marketing productivity deteriorates at an accelerating rate.

Above all else, marketing resistance is the challenge that marketers need to tackle first. Marketing resistance is not the only cause of today's marketing productivity crisis, but it is now the single biggest barrier to resolving this crisis.

Most of the attention paid to declining marketing productivity focuses on rising costs. This is certainly important, but as long as consumers resist marketing, actions to address the other factors affecting marketing productivity will be piecemeal solutions. For example, reaching a fragmented audience in a more efficient way is essential because it reduces costs, but as long as viewers or readers are resisting the marketing that reaches them, declining marketing productivity will remain a problem. Costs may be reduced, but response will keep dropping.

This is not to suggest that every marketing campaign is unproductive. It is only to point out that the typical performance is below par. Individual marketers hope for breakthroughs notwithstanding the general underperformance of marketing as a whole. And while breakthroughs still happen, these are just exceptions that prove the rule.

Marketing saturation and intrusiveness even affect the trust that consumers have for brands. Too much marketing breeds dissatisfaction, annoyance, and pique, which in turn undermine the trust consumers feel for a brand. This worsens marketing productivity even more. A special Yankelovich MONITOR study on trust found a substantial financial impact from a loss of trust.[4] Ninety-four percent reported that they spend an average of 87 percent less money with companies they don't trust. Or put another way, when consumers lose trust in a company, they pretty much stop doing business with it. Consumers still spend as much in the marketplace as a whole, but not with that company.

Consumer resistance goes even further. In the 2004 Yankelovich study of consumers, 65 percent said that there should be more limits and regulations on marketing and advertising. Of those in favor of more limits, 43 percent preferred limits on times and places, 42 percent preferred limits on total amount, and 14 percent wanted a complete ban on any marketing that they did not agree to see ahead of time.

When asked where they would like to see advertising eliminated entirely, only e-mail (58 percent), public schools (55 percent), and mail (51 percent) were mentioned by a majority of consumers. However, large percentages mentioned other mainstream media and marketing vehicles. Rounding out the top ten were faxes (43 percent), cable TV (40 percent), movie previews (39 percent), Web sites (38 percent), public TV (36 percent), network TV (34 percent), and concerts (30 percent).

Consumers understand that changes in marketing entail trade-offs. Consumers don't want an end to marketing, but if that's the only possible alternative, then many are willing to live with the trade-offs. In exchange for no advertising or commercials, 61 percent of consumers are willing to do more research themselves to find out what's on sale, 41 percent are willing to pay for traditionally free media like network TV or radio, 33 percent are willing to accept a slightly lower standard of living, and 28 percent are willing to pay a significantly greater amount for magazines.

Clearly, large numbers of consumers are ready and willing to do business in a completely different way. These consumers are open to alternatives that enable them to live and shop marketing-free. So, at least for them, devising a new business model seems more far more sensible than continuing to saturate these consumers with more marketing.

For example, the growth of DVRs demonstrates that consumers are willing to pay for the ability to control their television viewing, especially the power to skip over ads. Technology consulting firm Forrester Research forecasts that in five years, over thirty million households will have DVRs, which is more than one-quarter of U.S. households, compared to three million today. And that number could be much higher as cable companies start offering DVRs in their set-top boxes (Olsen 2004).

Consumer resistance is the norm today, not the exception. No matter how well media and marketing are bought, allocated, and measured, marketing productivity will not improve until marketers are able to reengage consumers in more productive and profitable ways.

## CONCURRENCE MARKETING

Marketers have a different opinion about the state of marketing than consumers. There is little concurrence. Consumers see a need for change whereas marketers see a need to be persistent and unwavering in their tactics of saturation and intrusiveness. In conjunction with the 2004 Yankelovich research among consumers, Yankelovich interviewed senior marketing directors to assess their take on the current state of marketing.[5] Many of the same questions asked of consumers were asked of these marketing directors.

Marketing directors agreed that there are serious challenges ahead. More clutter (83 percent), higher costs (77 percent), and increasing competition (76 percent) topped their list of concerns. These are the very elements responsible for declining marketing productivity. Yet, far fewer, only 43 percent, agreed that the productivity of marketing spending is declining. And at the very bottom of their list of concerns was consumer hostility to marketing, with a mere 27 percent citing it as a challenge.

Marketers understand the importance of demonstrating a financial return on marketing spending. Eighty-three percent cited it as a top priority. Yet 54 percent also said that the tools available to measure the impact of marketing programs are little better than rudimentary. Hamstrung by the tools available to them, marketers can't always see the impact of clutter, costs, and competition on marketing productivity. Which means that there is no assurance that marketers will address these problems in ways that boost productivity. If productivity is difficult to measure and quantify, more saturation to try to boost sales, which are easier to measure, is a more likely response than better marketing to reengage resistant consumers.

Marketing directors look at the challenges they face in ways that are process-centric not consumer-centric. Clutter, costs, and competition are seen as marketing execution issues related to tactical processes. Most marketers do not believe that they are facing any serious problems with consumers or, even more importantly, any basic challenges to the fundamental model of marketing.

Consumers want things from marketing that marketers don't even recognize as problems. Consumers want more *precision.* Sixty-five percent of consumers agreed that they are bombarded with too much marketing and 52 percent wanted less marketing. Only 8 percent of marketing directors thought that there should be less marketing. In other words, consumers are complaining about the imprecision of marketing saturation while marketers want even more saturation.

The same lack of concurrence is true for *relevance.* Fifty-nine percent of consumers agreed that very little of the marketing to which they are exposed is relevant to them, compared to just one-third of marketing directors who said that most marketing is not genuinely relevant to consumers.

Consumers want more precision and relevance. These are the fundamental elements of sound marketing practice, so it seems almost gratuitous to mention the need for precision and relevance. Yet, consumers are not giving marketers a passing grade on these basic lessons of marketing 101.

Not only do consumers want more of the basics, they want new things as well. To begin with, consumers want *power.* Traditionally, marketers have controlled all of the power. While marketers have been focused on consumers in order to ascertain their needs and wants, marketers have always managed the processes by which consumers have been understood and serviced. Now, consumers want complete control, and they don't feel that they have it. A majority of consumers, 53 percent, said that they are still at the mercy of marketers. In contrast, only 38 percent of marketers thought that consumers should have more control over the content and timing of marketing.

Consumers want *reciprocity,* too. Consumers want to be rewarded for the time and attention they give to marketing. Consumers want more than the value delivered by the product, which is to say that consumers do not want the value they receive to be wholly dependent upon making a purchase. They want value from the marketing experience, too. Yet, 62 percent of consumers said that marketers do not give them enough respect. Which is reflected in the mere 13 percent of marketing directors who thought it would be a good idea to compensate consumers for their time and attention.

Even if marketers don't reciprocate by paying consumers cash for the time they spend with marketing, marketers must do more to compensate them, such as providing truly engaging entertainment, not just jingles. Or truly meaningful information, not more product pitches. Or truly helpful tools, not more selling. Consumers will be more receptive to marketing if they are rewarded in real-time for their time and attention.

With time at more of a premium than ever before, reciprocity must become central to the practice of marketing. This is not about timesaving products. It's about marketing that provides real value in return for time and attention. It's about marketing that makes time better. It's about marketing that is worth it. Marketing practices have to measure up to the value that consumers place on their time.

Marketing abounds with creativity, inspiration, and invention. But the most common ways of putting marketing genius to work today ride roughshod over the fundamentals of precise targeting and relevant positioning, and in doing so, give little, if any, thought to sharing power with consumers or to rewarding them for paying attention. Concurrence marketing based on the principles of P&R[2] is the best way of putting marketing talent to work.

Concurrence means putting consumers in charge, not keeping them on the receiving end as respondents or targets. This is more than just a fancy way of saying the consumer is king. Currently, marketers put consumers first while keeping control through saturation marketing. Concurrence means making consumers at least coequal with marketers, if not more.

Control from the top down is especially problematic when the marketplace is in continual flux. Today, too many things are changing at too fast a rate for a traditional hierarchy of control to be in command of the situation. The marketplace has become so dynamic that it is more than merely evolving; it is protean. It is constantly assuming new shapes and forms. All aspects of the marketplace are caught up in this—the brisk cycling of new products, the fickle nature of consumer preferences, the shifting boundaries of personal and demographic identities, the shooting stars of popular culture, the nonstop deluge of technological upgrades and innovations, and more. The character of the marketplace demands an approach that is more collaborative in which consumers can satisfy their own rapidly changing needs rather than waiting for the marketers, who are always a step behind, to catch up. Pull, not push, will grease the wheels of tomorrow's commerce.

Dominance and control are enforced by practicing and policing marketing as a one-way street. Marketers control the process and make all of the decisions. Consumers take their cues from marketers. Marketers produce. Consumers buy. Marketers listen and observe. Consumers view and react. Everything starts with marketers and then goes in one direction—from marketers *to* consumers.

Getting permission from consumers is a step in the right direction. But permission-based marketing is not enough. Permission raises the bar, yet the typical way in which permission marketing is practiced today does not measure up. Too often, the character of the marketing that follows the grant of permission tends to be exactly what consumers were hoping to escape. Furthermore, once permission is asked for and received, the question is rarely asked again. So, having granted permission, consumers find that, de facto, they are back in the opt-out world they were trying to escape. Permission may seem like a new type of relationship, but when it entails the same marketing as before and puts consumers back in an opt-out position, permission is nothing different.

Most marketing models, new and old, fall short of what consumers now want. The classic hierarchy of effects model, in particular, embraces saturation and intrusiveness. The chain of effects begins with brand awareness, which is built by an overwhelming presence. More awareness is achieved by even greater presence, and that means even more saturation. Competition can diminish presence and awareness, so the model prescribes boosting share of voice, which leads to yet more saturation.

When only a few marketers were competing for time and attention, marketing saturation was not a problem. But now with so many more—and more aggressive—competitors, the classic model no longer works as productively as before. The way to stand out in a supersaturated, highly competitive marketplace is to operate in a distinctive way that invites notice rather than demands center stage. When consumers learn that the only things they will ever hear from a company are things that are directly pertinent and relevant to their interests, they will pay more attention instead of figuring that it's nothing but more clutter.

Marketing is more productive when consumers are seeking out brands than when brands are seeking out consumers. This takes brand charisma. Brands must be lightning rods for emotions and excitement. The easiest way to do that is for a brand to show that it cares more about its consumers than itself. Brands must be advocates for consumers, not rivals for time and attention. Brands must show they care enough to make a sacrifice if that's the best thing for consumers.

Being in sync and being collaborative do that. Through the principles of P&R², concurrence marketing makes brands magnetic in their appeal and allure.

In short, consumers are demanding concurrence from marketers. Not as a threat, but as a willingness to do more business with marketers who concur with their attitudes and preferences about what constitutes good marketing. Marketing practices can create enduring competitive advantage for concurrent marketers.

## ADDRESSABLE ATTITUDES

If marketers are to succeed in making the shift to concurrence, new tools and organizations will be needed. Current tools and organizations were developed to support and execute marketing saturation In particular, notwithstanding the centrality of consumer to marketing, current tools and organizations put processes ahead of consumers. No surprise, then, that consumer desires for precision, relevance, power, and reciprocity have gone unheeded, and often unheard.

The essential tool for truly putting consumers ahead of processes is that of addressable attitudes. *Addressable attitudes are attitudes that can be linked to individual names and addresses.* When attitudes are addressable, they can be incorporated into all of the databases and systems used for marketing execution, ranging from media buying databases to third-party lists to internal transaction files. When addressable, the attitudes that provide perspective and context for behaviors and demographics can speak with a voice at the individual level.[6]

In the past, demographics and behavioral models sufficed for marketing execution. The inherent imprecision and irrelevance of using demographics to buy media or to select direct mail lists was acceptable because consumers were willing to take on the task of self-selection. The centralized, hierarchical process of control was unable to share power or provide reciprocity not only because it operated in a one-way manner, but also because there were no means of operating any other way. All of this has now changed, so consumer attitudes about needs, preferences, desires, and wants must become central to tactical marketing execution and not just be a broad strategic concern that is a step or two removed from applied marketing practice.

Despite all of the information contained in marketing and media databases, there has been a complete absence of any data about consumer attitudes. This is the biggest gap in marketing, and it forces marketers to live with unproductive imprecision and irrelevance. Historically, direct marketers have focused only on addressability and thus have tried to get by with limited insights into motivations. Brand marketers have always known a lot about motivations but have had no means of pinpointing consumers with particular attitudes.

Addressable attitudes bring together the best of brand marketing and direct marketing by combining the addressability of direct marketing with the attitudinal insights of brand marketing. The productivity of brand marketing is improved through addressability. The productivity of direct marketing is improved through attitudes. Marketing as a whole comes together because addressable attitudes provide a universal platform that works across all forms of marketing. No longer must different types of marketing work with different tools and information.

With addressable attitudes, marketers can reengage resistant consumers. Marketing can be targeted toward consumers who are interested in a particular product instead of consumers with a certain demographic profile, only some of whom are interested. Marketing can be formulated and delivered in a way that is directly relevant to the attitudes, needs, and motivations of specific consumers. Addressable attitudes re-center marketers around insights into what consumers think and want. And what consumers want is power and reciprocity, so integrating these insights into marketing systems would significantly improve the overall tenor of marketplace relationships. In the marketplace of today and tomorrow, the new tool of addressable attitudes is required for marketing organizations to be genuinely insight-centric.

The new organization to complement the new tool is the insight-centric marketing organization (ICO), in which everything follows from insights. Processes and databases have no standing or value apart from insights. In an ICO, processes are not important in and of themselves but only as they fulfill or satisfy what insights reveal about consumers needs, preferences, and attitudes. An ICO puts consumer insights at the center of everything.

Unlike a traditional marketing and sales organization or even a more contemporary customer relationship organization, an ICO is able to practice concurrence marketing. By centering the organization on the insights provided by the study and scoring of addressable attitudes, an ICO will adopt a structure that embodies the essence of concurrence marketing—making the company subordinate to consumers. And when consumers are in charge, they take only what's pertinent and meaningful to them, and marketers are obliged to provide whatever power and reciprocity consumers demand.

If consumer insights are not made central to a marketing organization, then old habits and established processes will continue to predominate. The addressable attitudes tool makes everything in a marketing organization revolve around consumer insights. When attitudes can be infused into all aspects of marketing, from strategy to tactics, consumer insights are assured of coming first, no longer to be ignored or omitted from the everyday operation of marketing processes.

## GETTING CONCURRENT

Concurrent marketers are made, not born. Above all else, achieving concurrence takes addressable attitudes and an insight-centric organization. With these tools and organizational structures, the principles of P&R$^2$ can reengage resistant consumers and reverse the steep, continuing declines in marketing productivity.

The future practice of marketing must be different than that of the past. Marketing has become the white noise of modern life, a background hum left over from the big bang of sixty years of consumerism to which the law of entropy now applies. Without new thinking and fresh energy, it won't be long before it all goes cold.

## NOTES

1. This study was a 15-minute recontact telephone interview from February 20 to 29, 2004, among 601 nationally representative empanelled MONITOR 2003 respondents, sixteen-plus years of age. MONITOR, begun in 1971, is the pioneering and longest running tracking of consumer values and lifestyles.

2. This study was a door-to-door survey among a nationally representative sample of 1,846 respondents. It is described more fully in Bauer and Greyser (1968).

3. The authors of the 1964 AAAA study noted that even this 15 percent figure was probably too high an estimate of the size of support for governmental regulatory action (see pp. 383–84). Which means that the size of active resistance today is an even greater multiple of the past.

4. This study was a 22-minute Internet survey from April 6 to April 13, 2004, among a nationally representation sample of 2,606 respondents, ages eighteen-plus, conducted in partnership with the FGI SmartPanel® of MONITOR-coded Internet panelists.

5. This study was a telephone survey from March 19 to April 19, 2004, among senior marketing directors at 153 consumer marketing companies across the full range of company sizes and business categories.

6. Yankelovich introduced the first addressable attitudes product with MindBase and now offers a full range of syndicated and custom addressable attitudes products and solutions.

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CHAPTER 3

# THE IMAGE OF MARKETING

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## MARKETING'S IMAGE PROBLEMS

The evidence is increasingly incontrovertible: marketing has a serious and deepening image problem with most of its constituents, external as well as internal. These include customers, the public at large, public watchdog groups, other internal business functions (e.g., R&D, engineering, finance, legal, senior management), chief executive officers, and boards of directors.

Many marketers view today's customers as increasingly capricious: fickle, cynical, disloyal. If they are, can we blame them? Customers have evolved these defense mechanisms as a natural reaction to decades of marketing manipulation, noise, and sheer excess. Through long experience with never-ending sales gimmicks and marketing's history of overpromising and underdelivering, customers have become trained to be highly deal-prone and deeply cynical about marketing claims. Offensive marketing creates defensive, suspicious customers with low and declining brand loyalty, and little tolerance for underperformance. Such customers switch suppliers at the smallest provocation, as evidenced by high churn rates in many industries.

Customers today also have more knowledge, and thus power, than they ever did in the past. In part, this is due to the sheer availability of objective information, which simply did not exist even in the recent past. Lacking any trust in marketers to tell them the truth, customers increasingly feel the need to arm themselves with as much unbiased information as possible. Through the Internet, customers today are also engaged in a never-ending dialogue with each other, answering each other's questions, and guiding each other toward better purchasing decisions, entirely independent of marketers' efforts.

To many traditional marketers, with their antagonistic view of customers, this knowledge is deeply threatening; it allows customers to win every round, to get a better deal with them each time. For more enlightened marketers, however, knowledgeable customers are an advantage, a source of strength and comfort. If a company is confident that it is delivering good quality and value, it can leverage its customers' knowledge and expertise to mutual advantage in numerous ways.

### How Marketing Is Viewed

Evidence abounds of growing cynicism among customers, even as companies have invested billions of dollars implementing ambitious CRM (customer relationship management) automation projects hoping to transform themselves into customer-focused enterprises. Customers' trust in the marketing function is lower than ever; especially in the consumer market, few consumers regard themselves as truly being in a relationship with the companies they do business with. For example, a survey by the U.K.-based Marketing Forum/Consumers' Association (cited in Mitchell 2001) found of consumers that:

- 83 percent agreed with the statement that: "As a consumer, companies just see me as someone with money to spend."
- 76 percent agreed that "Many companies see their brands as a way of pushing up prices."
- 78 percent agreed that "Companies like to pretend that their brands are really different, but actually there's rarely any substantial difference between them."
- 70 percent agreed that "I don't trust most advertising of products or services because they're just trying to sell me something."

Hopefully, marketers have at least earned the respect of their colleagues from other functional areas who recognize the difficulty of their challenges, right? Wrong! A survey of how executives from other business functions view the performance of their marketing colleagues found (Mitchell 2001):

- Only 38 percent rated their marketing colleagues as good or excellent.
- Only 18 percent considered marketing executives to be results-oriented (while 71 percent of the marketers perceived themselves in that manner).
- Only 34 percent viewed marketers as strategic thinkers.

## DIMENSIONS OF MARKETING'S IMAGE PROBLEM

There is something ironic about the predicament that marketing finds itself in. Marketers are known to be image builders, renowned for their ability to "make a silk purse out of a sow's ear." Over the past few decades, marketing professionals have managed to use the very skills of their livelihood to largely erode their own credibility. How is it that marketing itself is in need of an image makeover (MacDonald 2003)?

Marketing continues to accumulate enormous amounts of negative connotations that, at the current rate, will soon render it a purely derogatory word. This is the direct result of the actions of marketers across the board. Companies have been engaged in harmful practices toward consumers at seemingly unstoppable rates, and consumers have grown weary of ever more egregious attempts to trick them out of their hard-earned money (Santoni 2003). Phony "going out of business" sales, weekly trumpeting of "lowest prices of the year," pyramid schemes, dubious dietary supplements, marketing products known to be harmful—such practices abound because marketing executives are seemingly exempt from responsibility. To justify their lack of liability, marketing executives often claim that corporations are not moral agents and blame increased competitive pressures (Mascarenhas 1995). This attitude suggests that the time may have come to require marketing executives to personally sign off on all aspects of a firm's marketing efforts, just as chief executives now have to personally attest to the validity of their company's financial statements.

One of the biggest contributors to marketing's image problems has been telemarketing. Cheaper computers and long-distance telephony and the ability to locate operations in low-cost locations around the world have decreased the costs of teleselling (for it is not marketing) and escalated the costs to society in wasted time and fraud to the tune of $40 billion a year (FBI.gov). Most telemarketers have little concern for the costs to others as a result of their efforts, and ethical guidelines governing interactions with customers are practically nonexistent (Rosen 2003). Customers have bought devices (with names such as Telezapper and Phone Butler) and paid for services (such as CallWave's Telemarketing Blocking Service) to shield themselves from unwanted calls. Not only is the vast majority of telemarketing annoying and intrusive, a great deal of it is fraudulent. The United States National Fraud Information Center lists fifty different categories of telemarketing fraud, including advance fee loans, telephone company switching, prizes and sweepstakes, work-at-home schemes, pay-per-call services, magazine sales, and fake charities (see www.fraud.org). Telemarketing firms have gone a long way toward imbuing society with the idea that marketing in general is inherently exploitative. Their actions have directly impacted those who attempt to conduct marketing in an ethical way. As is usually the case when an industry fails to adequately police itself, society responds with severe measures. In the United States, the response to the government's "Do Not Call" initiative has been overwhelming, with over fifty-five million phone numbers registered by the end of 2003 (Federal Trade Commission 2004). Under this initiative, companies have 31 days after a phone number is registered to "scrub" their lists, or face penalties that can run to several hundred thousand dollars.

Another major contributor to marketing's poor image has been indiscriminate marketing to children (Linn 2004). Few marketers seem to apply the Golden Rule to their own behavior: would they want their own children exposed to the kind of marketing they are putting out there? Inappropriate marketing to children is a vast area, including fast food, snacks, movies, music, video games, television programs, magazines, and clothing. In each case, the products are physically or psychologically harmful, and they are marketed in aggressive, offensive, and harmful ways. Parents find themselves in continuous battle with marketers, and few are up to the challenge. Parents understandably do not want their young children exposed to sex, violence, and alcohol. Companies covertly introduce violence in products ranging from video games to music. Publications such as *Seventeen*, *Young Cosmo*, and *Teen People* feature many sexual themes and marketers are quick to advertise in them. Marketers are very aware that children want to appear and act older than they are and consciously target children who are too young for their offerings.

## CAUSES OF MARKETING'S IMAGE PROBLEMS

So why do we have these problems in marketing? We strongly believe it is because of a fundamental failure of *marketers* to live up to *marketing*'s ideals. The marketer's job is to align the interest of the customer and the company. However, too often that doesn't happen and neither companies nor customers benefit from marketers' actions. At other times, marketers do things that benefit the company while potentially harming customers or they do things that allow savvy customers to take advantage of the company.

There are several reasons why marketing has come to this pass. First, rising competitive intensity has caused many marketers to cut corners in an increasingly desperate effort to stay afloat amidst a sea of look-alike competitors. Second, most marketers are highly imitative in their actions, and virtually every marketing tactic ever conceived loses its effectiveness with overuse. Third, financial pressures for short-term performance have grown, and marketers have responded with actions (such as excessive sales promotions) that may show immediate (i.e., end-of-quarter) results but have negative long-term consequences. Finally, the performance and image of marketers have actually been harmed rather than helped by the march of technology. Technological developments in telemarketing and e-mail marketing have made these widely abused tools far more efficient than ever before; the problem is that they are also becoming dramatically less effective. Overusing an ineffective resource simply because it is increasingly affordable is an efficient way to alienate large numbers of customers!

### Marketing and the Tragedy of the Commons

Marketing's fundamental dilemma is analogous to a "tragedy of the commons." When many people use a common resource, the resource gets overused and ultimately destroyed. For example, consider the case of herdsmen raising cattle on common land. Each of them is a profit-maximizing individual who has the choice of adding animals into that common. The benefit is that they each get the full profit from that animal. The downside, of course, is that there is additional grazing of the common resource. The incentives align in a way to cause every farmer to add more and more animals, resulting in extreme overgrazing and the eventual destruction of the commons.

The analogy with marketing is clear. Our "commons" is the limited attention span of consumers. Collectively, we are vastly "overgrazing" this commons, with the net result that even messages of relevance have a difficult time getting through (Sisodia and Backer 2004).

Economics Nobel laureate Herbert Simon said, "What information consumes is obvious: It consumes the attention of its recipients. So, a wealth of information creates a poverty of attention and the need to allocate that attention efficiently" (Simon 1971). That's what we have, a wealth of marketing information, if you can call it that, and, therefore, consumers will not pay attention to even the right information that they might benefit from, because they simply don't have the time, or there's too much to filter through. There are many reasons why this happens, including the tragedy of the commons. But one of the interesting ones is that the costs are artificially low. The postal service, in fact, subsidizes junk mail by keeping first class postage rates higher. Likewise with e-mail "marketing," which is so cheap that companies can send ten million e-mails for a few hundred dollars. As a result, there is a strong tendency to overuse, and therefore abuse, this medium.

The impact of overmarketing is that people become indifferent. It is similar to overusing an antibiotic; the condition being treated ultimately develops resistance, and the treatment no longer works for anyone.

## THE STUDY

To investigate attitudes toward marketing and many of its common practices, we conducted a survey of consumers and business professionals in late 2003. Students working toward their MBAs at Bentley College (Waltham, MA) and Emory University (Atlanta, GA) were asked to use their personal and professional contacts in the online survey. There were three survey instruments: one each for consumers, marketing professionals, and nonmarketing professionals. The surveys consisted of approximately thirty questions, including numerical as well as open-ended qualitative questions. Approximately two thousand surveys were completed, roughly half from business professionals and half from consumers. The business professionals were split in approximately equal numbers between marketing and other functional areas.

### Consumers

One of the questions we asked was for respondents to indicate the first five words that came to mind when they thought of "marketing." We then classified these words as negative, neutral or descriptive, and positive. Each respondent's attitude toward marketing was then assessed by developing a score based on these responses. Overall, 65 percent of 973 consumer respondents had a negative attitude toward marketing, about 27 percent were neutral, and only 8 percent were positive. Thus, our findings show an even more negative attitude toward marketing than those of

Table 3.1

**Overall Reputations of Professions** (1: Terrible; 5: Excellent)

| | Mean | Negative (%) | Neutral (%) | Positive (%) |
|---|---|---|---|---|
| College professors | 4.04 | 5.0 | 13.6 | 81.3 |
| Schoolteachers | 4.03 | 5.7 | 17.4 | 76.9 |
| Doctors | 3.93 | 5.7 | 17.6 | 76.6 |
| Pharmacists | 3.82 | 5.2 | 25.5 | 69.4 |
| Accountants | 3.22 | 21.8 | 36.1 | 42.1 |
| CEOs (chief executive officers) | 2.99 | 34.7 | 31.6 | 33.7 |
| CFOs (chief financial officers) | 2.98 | 35.1 | 30.9 | 34.0 |
| Advertising | 2.93 | 31.1 | 42.2 | 26.7 |
| Public relations | 2.85 | 34.0 | 43.8 | 22.2 |
| Marketers | 2.74 | 38.0 | 41.9 | 20.1 |
| Real estate brokers | 2.71 | 39.6 | 44.4 | 16.1 |
| Stockbrokers | 2.62 | 44.2 | 40.8 | 15.0 |
| Customer service representatives | 2.59 | 48.7 | 32.9 | 18.4 |
| Lawyers | 2.56 | 53.3 | 23.6 | 23.1 |
| Sales people | 2.41 | 56.4 | 36.0 | 7.6 |
| Politicians | 1.82 | 83.4 | 12.3 | 4.3 |
| Telemarketing | 1.40 | 91.2 | 6.9 | 1.9 |

Yankelovich in chapter 2 in this volume, which found that approximately 60 percent of consumers had a negative view of marketing.

We expected that respondents with an MBA or other business degree would hold a much more positive view of marketing. After all, unlike the lay public, these individuals have taken at least one marketing course, and would thus be expected to have a greater appreciation for the value and importance of marketing. Such was not the case; only 10 percent had a positive view, while 62 percent were negative. So the overall image of marketing is not very positive, to say the least.

Some of the positive connotations that consumers associate with marketing are creativity, fun, humorous advertising, and attractive people. The negative associations are many, led by telemarketing. Some of the more frequent words include lies, deception, deceitful, annoying, manipulating, gimmicks, exaggeration, invasive, intrusive, and brainwashing.

We asked consumers how they viewed the reputations of different professions, and these results are shown in Table 3.1. We broke out advertising and sales people and some of the other components within marketing as separate professions or occupations. Overall, marketers have a pretty weak reputation, while advertising and public relations come out a little higher. The reputation of sales people is considerably below that of marketers, and is only higher than politicians and telemarketers.

We asked respondents for their views about many common marketing practices, and classified them into negative, neutral, and positive. These results are shown in Table 3.2.

Consumers hold negative attitudes toward many common marketing practices; for example, 94 percent are negative toward telemarketing, and only 2.7 percent are positive. Other marketing practices at the bottom include online pop-up ads (92.2 percent negative) and junk mail (87 percent negative). In general, we may term these three practices "junk marketing." A number of marketing practices are quite positively viewed, which is not a surprise. Consumers enjoy receiving free samples, and most people like Super Bowl ads. Of course, this begs the question of whether a Super Bowl ad is always the right thing to do from the marketer's perspective. Even if viewers are amused by it, is that the right way to spend your limited marketing resources? Perhaps

Table 3.2

**Consumer Attitudes Toward Common Marketing Practices**

| | Negative (%) | Neutral (%) | Positive (%) |
|---|---|---|---|
| Free samples | 6.2 | 14.2 | 79.6 |
| Advertising during Super Bowl | 6.3 | 15.2 | 78.5 |
| Airline frequent flyer programs | 9.0 | 28.6 | 62.4 |
| Frequent user programs in general | 12.3 | 28.9 | 58.8 |
| Grocery coupons | 15.0 | 27.9 | 57.1 |
| Department store coupons in newspapers | 17.6 | 24.6 | 57.8 |
| Packaging innovations, e.g., “fun” size candy bars | 13.9 | 37.9 | 48.2 |
| “Every day fair pricing” (no sales) | 17.7 | 38.7 | 43.6 |
| Supermarket “frequent shopper” cards | 24.7 | 23.2 | 52.0 |
| Noncommissioned sales people | 22.1 | 34.2 | 43.6 |
| Continuous sales (stores that always have a sale running) | 36.4 | 29.4 | 34.2 |
| Advertising of prescription pharmaceuticals (TV, magazines) | 37.9 | 33.7 | 28.4 |
| Sales stating “lowest prices of the year” | 48.0 | 29.1 | 22.8 |
| Mail-in rebates | 52.0 | 20.6 | 27.4 |
| Music/video/book “clubs” | 46.4 | 33.0 | 20.6 |
| Sales people that work on commission | 51.0 | 31.2 | 17.8 |
| Advertising during children’s programs | 48.8 | 38.5 | 12.7 |
| Fees for service plans (e.g., guarantees and warranties) | 52.3 | 28.8 | 18.9 |
| Shipping charges | 50.9 | 37.3 | 11.8 |
| Sales that only last one or two hours | 64.8 | 18.7 | 16.5 |
| Sweepstakes (e.g., Publishers Clearinghouse) | 62.9 | 25.3 | 11.7 |
| Third class mail that resembles “real” mail | 87.0 | 10.3 | 2.7 |
| Internet pop-up ads | 92.2 | 5.3 | 2.6 |
| Telemarketing calls | 94.2 | 3.1 | 2.7 |

not. But because of the amount of creativity that goes into those, people do usually enjoy them, and, in fact, many people (especially women) watch the Super Bowl primarily for that reason. Frequent flyer programs, and frequent user programs in general, are popular with consumers. As marketing tools, there is much evidence that they can be double-edged swords, raising the cost of doing business without necessarily increasing loyalty. Some people carry fifteen or more frequent shopper cards in their wallet, including eight airlines and four supermarkets. So having a frequent user program may not accomplish a marketing objective.

We asked about consumer attitudes toward pricing practices in a number of popular product categories. As Table 3.3 shows, about half of the pricing situations we presented to consumers resulted in an overall positive attitude, half in a negative attitude. With products such as inkjet cartridges and legal services, people don’t see a relationship between what they pay and what they get in terms of value received.

We found a number of interesting demographic patterns in the data. Some of these are:

- Older consumers are distinctly more cynical and jaded when it comes to marketing programs, especially sales promotions. As the population ages, and the median age of adults crosses forty-five, these negative attitudes will become the dominant ones, and marketers will have to respond by reducing their reliance on gimmickry.
- Women are more likely than men to watch and listen to most TV ads. They are less likely than men to “surf” (switch channels when ads come on), and more likely to leave the room

Table 3.3

**Opinions on Pricing** (1: Unrelated to Value Received; 5: Reasonable for Value Received)

| | Mean | Negative (%) | Neutral (%) | Positive (%) |
|---|---|---|---|---|
| Computers | 3.65 | 7.9 | 32.5 | 59.6 |
| Consumer electronics (e.g., TVs) | 3.54 | 9.6 | 37.0 | 53.4 |
| Grocery items | 3.44 | 14.3 | 38.1 | 47.6 |
| Books | 3.38 | 18.3 | 32.8 | 49.0 |
| Household appliances | 3.33 | 11.8 | 49.8 | 38.4 |
| Office supplies | 3.18 | 19.6 | 46.5 | 34.1 |
| Clothes | 3.16 | 24.3 | 38.7 | 37.0 |
| Airline tickets | 3.08 | 27.0 | 38.1 | 34.9 |
| Over-the-counter drugs | 2.99 | 29.9 | 40.4 | 29.6 |
| Home maintenance services | 2.77 | 37.2 | 42.4 | 20.3 |
| CDs | 2.75 | 42.3 | 31.0 | 26.7 |
| Prescription drugs | 2.52 | 53.0 | 26.8 | 20.2 |
| Add-on warranties | 2.51 | 47.2 | 34.7 | 18.1 |
| Legal services | 2.43 | 53.7 | 31.8 | 14.6 |
| Replacement razor blade cartridges | 2.39 | 52.6 | 34.1 | 13.2 |
| Replacement inkjet cartridges | 2.28 | 59.5 | 27.3 | 13.1 |

when ads come on. Nonwhites watch more ads, are less likely to press the "mute" button when ads come on, and are less likely to leave the room when ads come on.

- Whites have a stronger preference than nonwhites (67 percent versus 55 percent) for stores that offer "everyday fair prices" or those that have sales only occasionally over stores that have continuous or very frequent sales.

## Business Professionals

We were interested in learning about how marketing and nonmarketing professionals differ in their views of marketing's importance to the corporation, its control over areas commonly perceived to be part of the "marketing mix," and its relationship with other business functions.

We asked both categories of professionals to indicate how senior management views the marketing function. We found a very high degree of concurrence on this question, as Table 3.4 shows. We asked respondents how they personally viewed the importance of marketing, and here we found a significant difference, with marketing professionals rating marketing's importance much higher. Both marketing and nonmarketing professionals regard sales to be the most important business function of all. Marketing professionals view marketing to be the next most vital function (only slightly less important than sales), while nonmarketing professionals ranked it eighth! In terms of productivity (efficiency and effectiveness), marketing professionals had a significantly more positive view of marketing's performance than did nonmarketers.

We also asked business professionals the same question about reputations that we asked of consumers; the only significant difference is in terms of how they view marketers; marketing professionals hold their own profession in significantly higher esteem than do nonmarketing professionals (see Table 3.4). This is consistent with a theme in this book and in the literature that *marketing* is critical, but *marketers* have been doing a poor job living up to its ideals.

Next, we asked respondents to indicate the extent to which marketing has control or influence over activities that relate to the marketing mix, as well the extent to which marketing *should* have

Table 3.4

**Differences Between Marketing and Nonmarketing Professionals**

| | Marketing Professionals | Nonmarketing Professionals | Difference |
|---|---|---|---|
| Senior managementt view of marketing | 3.88 | 3.92 | –0.04 |
| Importance of marketing function | 4.46 | 3.98 | **0.48** |
| Importance of sales function | 4.54 | 4.51 | 0.03 |
| Efficiency of marketing function | 3.62 | 3.21 | **0.41** |
| Effectiveness of marketing function | 3.85 | 3.56 | **0.29** |
| Reputation of marketers | 3.40 | 2.94 | **0.46** |
| Reputation of advertising | 3.18 | 3.17 | 0.01 |
| Reputation of sales people | 2.57 | 2.46 | 0.11 |
| Reputation of CEOs | 3.53 | 3.42 | 0.11 |
| Reputation of CFOs | 3.41 | 3.41 | 0.00 |

*Note:* Bold numbers indicate significant differences.

control. Higher scores indicate a higher degree of control by marketing (see Table 3.5).

The following patterns are noteworthy:

- Marketing professionals believe that marketing needs to have more influence and control over each of the areas listed. The largest areas of concern, where marketing is seen as not having the influence it should, are setting R&D priorities, compensating members, channel selection, setting prices and discounts, and determining the product mix.
- Nonmarketing professionals believe that marketing should have more control over these areas, but by very small margins. For the most part, they appear to hold the view that marketing's influence is about where it needs to be in most of these areas.
- Marketing and nonmarketing professionals show clear and significant differences in terms of how much influence marketing should have in all of these areas. The domains of greatest disagreement are determining the product mix and setting list prices, followed by the related areas of initiating product modifications and determining price discounts.

Clearly, the marketing function has not convinced the rest of the organization about the wisdom of granting it greater control over the elements of the marketing mix. This reflects the widely acknowledged diminished role of marketing within many corporations.

Next, we wanted to probe marketing's relationship with other functional areas (see Table 3.6). We asked respondents to describe the nature of marketing's relationship with each business function, with a score of 1 indicating a "Highly Antagonistic" relationship and 5 a "Highly Cooperative" one.

The following patterns are evident in the data:

- Overall, marketers perceive themselves as having stronger relationships with other functional areas than vice versa.
- Two exceptions to the first perception are sales and public relations. Particularly in the case of sales, nonmarketing professionals perceive a much closer relationship than marking professionals believe to exist.
- Major areas of difference are information technology and customer support. In both cases, marketers see themselves in stronger relationships than do professionals from other functional areas.

Table 3.5

**Differences Regarding Marketing Activities**

| | Marketing respondents | | | Nonmarketing respondents | | | Difference between marketing and nonmarketing (should have) |
|---|---|---|---|---|---|---|---|
| | Marketing has control | Should have control | Difference | Marketing has control | Should have control | Difference | |
| Advertising | 4.31 | 4.52 | 0.21 | 4.25 | 4.31 | 0.06 | 0.21 |
| Promotional tactics | 4.23 | 4.44 | 0.21 | 4.17 | 4.15 | -0.02 | 0.29 |
| Creating product collateral | 3.99 | 4.29 | 0.30 | 3.70 | 3.75 | 0.05 | 0.54 |
| Product mix | 3.75 | 4.18 | 0.43 | 3.43 | 3.58 | 0.15 | 0.60 |
| Channel selection | 3.55 | 4.11 | 0.56 | 3.61 | 3.69 | 0.08 | 0.42 |
| Setting list prices | 3.47 | 3.90 | 0.43 | 3.13 | 3.30 | 0.17 | 0.60 |
| Product modifications | 3.39 | 3.90 | 0.51 | 3.21 | 3.40 | 0.19 | 0.50 |
| Setting price discounts | 3.28 | 3.80 | 0.52 | 3.21 | 3.31 | 0.10 | 0.49 |
| Channel compensation | 3.17 | 3.70 | 0.53 | 3.34 | 3.48 | 0.14 | 0.22 |
| Setting R&D priorities | 2.91 | 3.67 | 0.76 | 3.13 | 3.23 | 0.10 | 0.44 |

Table 3.6

**Differences Regarding Marketing Relationships with Other Functions**

| | Marketing professionals' view | Nonmarketing professionals' view | Difference |
|---|---|---|---|
| Public relations | 4.28 | 4.44 | –0.16 |
| Business development | 4.13 | 4.05 | 0.08 |
| Sales | 4.04 | 4.46 | **–0.42** |
| Customer support | 3.80 | 3.50 | **0.30** |
| R&D | 3.52 | 3.32 | 0.20 |
| IT (information technology) | 3.20 | 2.93 | **0.27** |
| Operations/Manufacturing | 3.11 | 2.94 | 0.17 |
| Human resources | 3.02 | 2.92 | 0.10 |
| Legal | 2.97 | 2.74 | **0.23** |
| Finance | 2.88 | 2.63 | **0.25** |
| Mean rating | **3.50** | **3.39** | 0.11 |

*Note:* Bold numbers indicate significant differences.

- Marketing's relationship with finance is very weak, and this belief is held even more strongly by nonmarketing professionals than marketing professionals. In an era of increasing financial accountability, this should be an area of major concern.

## NEEDED: AN EXTREME MAKEOVER

Our research on the image of marketing indicates that the marketing profession needs to urgently address its trust and credibility gaps with customers as well as within the corporation and in society at large. In a later chapter in the volume, we present some ideas on how to reform marketing. The following are some guidelines that deal specifically with the image of marketing:

*Rethink marketing's objective function*: The objective function of marketing needs to start with a benefit to customers. For example, Internet search engine Google undertakes no new initiative without first assessing its impact on its users and its advertisers. The company's genius lies in coming up with innovations that simultaneously add value to users as well as advertisers and by thinking of advertising as a service to users. Likewise, any new marketing initiative should also be assessed for its impact on customer trust and marketer credibility. Many marketing "gimmicks" may be effective in the short run, but have the effect of eroding trust and credibility in the long run. Such actions must be avoided.

*Reform marketing's language*: The language of marketers has become thoroughly debased. "Marketer-speak" has become synonymous with shallow, insincere doublespeak. The fine print in advertisements and the "rapid speak" at the end of radio and television ads are the most tangible representations of this. Man cannot live by hype alone, but that seems to be the only currency many marketers know. Ultimately, being enveloped in nonstop hype deadens the soul and takes the joy out of life. Marketers must learn to communicate with customers in a straightforward and sincere way. They have to start saying what they mean and meaning what they say.

*Use exemplary marketing as a differentiator*: Marketing's poor image today is an opportunity for some companies to stand out by addressing customer perceptions head-on. Essentially, these companies say, "We are customers too, and here is how we like to be treated." For example, Jordan's Furniture, the most successful furniture retailer in the country, refers in its radio advertising to how most mattress marketers mislead customers, and how its "sleep technicians" are different. CarMax, which is transforming automobile retailing, educates customers about the tactics used by traditional dealers. Our hope is that the standards of marketing practice gradually improve to a point that such dishonest approaches would no longer work. Companies would then compete on a higher plane.

*Learn to communicate with women*: The marketing profession has a particular problem with women. It could truly be said that "marketers are from Mars, customers are from Venus." More and more product categories today are dominated by women customers. Yet very few companies communicate with women in an effective way, and fewer still offer products and solutions that are designed with the unique needs of women in mind. (We are not referring here to product categories that are obviously women's products, but to those that serve both men and women.) Gillette has had a huge success with its Venus line of razors because they were designed for women's unique needs. Car companies such as Volvo and Honda are slowly beginning to tailor their offerings (and the way they are sold) for women, who make up a large majority of their customers. For example, Volvo's design is virtually maintenance free, has extra storage space, has no gas cap and is easy to clean and park.

*Focus on "alumni relations"*: By focusing on creating outstanding and memorable user experiences, marketers can emulate universities and create "alumni" who are lifelong supporters, advocates, and emissaries for the company. Many companies today (such as Harley Davidson and Apple) enjoy the rabid support of user groups. Shouldice, a Canadian hospital specializing in hernia surgery, creates such strong feelings of gratitude and loyalty in its customer that they hold reunions at the hospital (Heskett 1983).

Marketing is a noble business and societal function that serves to align the forces of free markets with the needs and desires of customers. However, its image has been greatly tarnished over time due to errors of omission as well as commission. This is not merely a public relations problem that can be solved through a few well placed and cleverly worded public service announcements. We must rediscover marketing's munificent mission and gradually weed out the practices that detract from it. The essays in this volume provide ample guidance for accomplishing this.

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CHAPTER 4

# WHY MARKETING NEEDS REFORM

JOHNY K. JOHANSSON

The data presented by J. Walker Smith of Yankelovich Partners in chapter 2 are certainly disconcerting. Americans seem to dislike marketing more than ever. If 60 percent of consumers have a much more negative view of marketing and advertising now than a few years ago, and 61 percent feel the amount of marketing and advertising is out of control, marketing has problems.

Actually, I was not surprised. I was in fact pleased to find that the figures dovetail with what I am about to present. I will present a qualitative analysis that helps to explain some of the negative marketing sentiments that Smith has documented.

## THE ARGUMENT

I am going to make the argument that American marketing is morally bankrupt. American marketing practices have helped turn the American way of life into its lowest common denominator. I don't mean in terms of material welfare, but in terms of quality of life. The watchwords to describe the American way of life are not those of the seven virtues, but rather the seven vices. We marketers encourage unlimited spending, outrageous behavior, and the unmitigated pursuance of individual gratification.[1] And we do this because we have the marketing tools to do it, the companies have the financial muscle to do it, and the competition gives us a justification for doing it. As former President Bill Clinton said in weak defense of his own sexual pursuits: "I did it because I could." American marketers use the same excuse implicitly and sometimes explicitly—and it is equally immoral.

## THE EVIDENCE

What is the evidence for this broad assertion? I think there is plenty of evidence, but I will concentrate here on only a few main issues. They include what kinds of products marketers have introduced into the marketplace, how we do promotions, and how the new media are used.

### The Products

The most obvious examples of how marketing has driven society to a lowest common denominator come from the products on the market. First, there is the fast food phenomenon, the omnipresent offerings of large portions of unhealthy food that make people obese and even threaten their lives.[2] Then there is the emergence of gas-guzzling vehicles, SUVs and now the oversized Hummer, which not only have helped make Americans the most energy-wasting people on Earth, but also have become mortal threats on our highways.[3] Sure, people should be free to choose in the marketplace, and if they did not like these products they would not be offered. But this assumes that consumer tastes come first, and the products afterward. Not so, clearly, in these cases. The taste for sugar and fat and "a bigger car than yours" are desires carefully cultivated and kindled by marketers. Sure, "needs" are being met—even the Hummer clearly relates to some underlying drive—but the question is whether marketing should appeal to such primal drives.

A slightly different argument can be made against less-controversial products such as computers, cameras, and cell phones. Such technology-based product categories are less driven by customer needs than by the dynamic force of technology. Again, the products come first, the desires afterward. This is not to say that the desires do not relate to needs—we all have a need to communicate with each other, share experiences, and so on, and these products offer more efficient means for filling such a need. But when technology drives the new product innovation, the products will *drive* demand, not meet demand. And our satisfaction is easily dimmed by unnecessary and complicated features that baffle and infuriate us, not to mention the frustration of having to upgrade once you feel comfortable with the system.

Then there is the question of "me-too" products, competing products that are almost indistinguishable except for the brand logos. Because of competitive benchmarking and reverse engineering—not marketing practices, to be sure—product designs are often indistinguishable. Intense competitive rivalry fosters a need to maintain parity with competitors' product features, if for no other reason than to retain brand loyal customers. This happens in product categories from shampoos to autos to popular music. When industry leader Nokia failed to anticipate the unexpected success of flip-phone models, sales dropped sharply.

Of course, marketing and marketers are not solely responsible for what products are introduced into a market. But they do bear a great deal of responsibility for the promotion of the products that are introduced—and for which ones are successful. In our saturated and competitive markets, product differentiation has become almost impossible to sustain against imitation, and the advantages have shifted to the more intangible assets such as brand name and reputation. This means the marketing job has shifted more and more toward increased promotions.

### The Promotions

Getting the attention of satisfied customers has never been easy. In our saturated markets, few consumers are in dire need for a product. Promotional messages need to shake people up, create a need or a want, and instill a "must have" feeling. It's done by being loud and aggressive, exciting and tactile, or humorous and generally in-your-face, playing on insecurity or fear, or featuring a celebrity. It requires imagination and creativity to stand out from your competitors, especially since product differentiation can no longer be relied on. It is probably safe to say that advertising in particular has never been challenged to the extent it is today—and for better or for worse, by and large many creative agencies seem to be up to the challenge.

One problem with the massive promotional effort is that when summed across all competitors in a product category and across all markets, the clutter and noise is annoying to most people and an embarrassment to the marketing profession. One would have thought that the arrival of one-to-one marketing and more advanced targeting techniques with database marketing would help eliminate unwanted spillovers to nontarget segments. But either the techniques are not fine-tuned enough, or the effort is decidedly cynical.

Then there is the need to build "brand affinity." The lack of true product differentiation is one reason why brand building has become the new mantra. The emotional attachment is what matters, since functional attributes are similar across brands. And brand logos are the symbolic icons that trigger the soft power of emotional bonds. Building a power brand is perhaps not done through promotions alone, but promotions surely are an important tool. How do you put across a sense of affinity, become the trusted friend of the customer, create a relationship between the customer and your brand, and attract new customers from competitors? Consistently high product quality and after-sales service do help—but many firms do that well today. The key to making one's brand the choice of the customer is through the creation of the appropriate associations, a favorable image, a shared meaning or understanding between the brand and the customer—all tasks of advertising, celebrity endorsements, sponsorships, and other promotional tools. Yes, much of this will seem patronizing and preposterous and an invasion of privacy—but it seems to work in our saturated markets. Again, as more products and markets reach this stage of maturity, the promotional hoopla becomes louder and more invasive than ever.

### The Communications Media

A third factor in the emergence of a lower common denominator is the emergence of new communications tools that allow marketers to reach us practically any time and everywhere. We now have e-mail spam, cell-phone telemarketing, and all variety of banner and pop-up ads on the Internet.[4] On a regular May day in 2004, an amazing 70–80 percent of Internet e-mail involved spam (Appriver.com n.d.).

We also, of course, have telemarketing, one-to-one database marketing, direct sales on television, product placement in cinema advertising, infomercials, and event sponsorship.[5] To top it off there is the drive toward integrated marketing communications, the imposed consistency emerging as an unvarying repetition of a simple slogan and logo. Marketing success has managed to make "staying on message" a favorite mantra in many places.

Just as with products and promotion, one can argue that there is nothing inherently negative about the emergence of more channels of communication between seller and buyer. One might even argue that transaction costs have come down, especially with free e-mails and the Internet, and one can also plausibly argue—which has been done—that markets have become more efficient as consumers have better information. The problem, again, is the massive effort across competitors and across products. It is the sheer massiveness that makes it difficult for consumers to process the information, and, by the same token, for companies to make their brand exhortations heard over the clutter. The solution so far has been to increase the volume, use all the channels, and simplify the message so even nonprocessing consumers can hear and remember it. It is, as you will recognize, the same phenomenon that occurred in the 2004 U.S. presidential election campaign. As marketers, we are running such 24/7 campaigns for all products and services on the market. Small wonder if people erupt.

## THE EXPLANATIONS

I think it is important to understand what underlies some of these developments. Here I will focus on three major factors: the competition in globalizing markets, the deregulation and privatization of many industries, and the multicultural diversity found in the United States.

### Competition

Say what you want about the costs and benefits of globalization, but globalization does increase the supply of products and services in most markets, and it leads to much more competition in local markets. Global competitors meet each other head-to-head in many local markets around the globe, and local firms rise up to defend their niches, or get taken over by global giants. As global competitors introduce new products from their leading countries, technology diffuses rapidly and even local firms have to adopt state-of-the-art product features. The price pressure on margins force more attention to costs, and the best practices from McDonald's, Wal-Mart, and other American high-efficiency operators get implemented in reengineering efforts at the local level. It's the McDonaldization of the business model.[6]

Consumers faced with all the new products and services find the choices confusing, all the more since "me-too" versions make many choices seem cloned from each other. Choices get made on increasingly fickle bases, or by simply buying more of the same thing. This is how competition has created a saturated marketplace where consumers sometimes find they buy something they already have bought but forgot about—shopping is the thing, not the use of the products. This is the arena where the brands and the logos dominate any dispassionate evaluation of functional needs.

All this is not to say that competition is bad. It is not even saying that cutthroat competition is bad—it is likely to bring lower prices to consumers. But, again, the massive promotional effort and variety of choices can easily overwhelm even the most eager shopper—and certainly be a distraction to consumers who are not in the market.

### Privatization

This materialistic overkill is now also energized by the emergence of the many new choices consumers have because of deregulation and privatization. Choices now have to be made between competing electric, gas, and water utilities, between different telephone carriers, cable TV packages, and Internet providers, and between assorted health maintenance organizations, hospitals, pharmacies, and retirement packages. As free markets are introduced and the service providers become individual corporations, marketing necessarily becomes more important. Today, even doctors are salesmen.[7] As for consumers, yes, free choice might be great—but it is not always easy to choose when alternatives are many and complicated, for example, the latest Medicare and pharmacy regulations.

With information necessarily based on self-interest on the part of providers, the result is potentially just another source of promotional efforts disguised as information. To sift through the conflicting claims and the costs and benefits of competing suppliers is not easy, even for experts. Not surprising, a new consultancy area has opened up, advising a buyer how to choose the right provider "for you."

### Diversity

The U.S. population is singularly diverse. For all its strengths, diversity means that shared meanings and understandings are hard to find, and have to be expressed in very simple language. In itself, this may not be much of a problem. But when there is a need to get heard and understood over the competitive clutter, and when unfamiliar new products and services come on the market, the demands on the language, the media, and the communication skills of the sellers are sorely tested. Even if pinpointed market segmentation is used to focus on specific groups, the integrated marketing communications IMC paradigm and its imposed consistency of branding mantras across all media force a sameness that becomes not only repetitive but also simpleminded, with a high level of stickiness. While a customer orientation would seem to fit nicely with a targeted approach, differentiated by all the diverse segments in the American marketplace, marketers end up staying with simple slogans understood by all—and annoying in equal degree to people everywhere not in the market.

## THE EFFECTS

One result of the way American marketing has developed is the antimarketing sentiments we saw demonstrated in Smith's data mentioned earlier here (and in chapter 2). But I think there are other related negatives that need to be acknowledged. Even though marketing is not the only player, here are a few negatives of American society where I think marketing and marketers have played important facilitating roles:

- Shopping has become the most important activity, and the main weekend pastime, for many people. According to market research, twice as many shoppers are out on Saturday and Sunday than at any time during the week (Fetto 2003). Buying products has become an end in itself. Dedicated apparel shoppers catch themselves buying the same item they bought the week before. People are bored when not shopping, and the malls have become entertainment complexes. When shopping, people are "in the market" and all the hoopla complained about here makes more sense.
- Because of bad food habits, American obesity rates are rising. Diabetes is also on the rise, especially among the young.[8] Given the high material welfare, Americans ought to be among the healthiest in the world—we are not. Marketing is behind the fast (and fat) food drive, without doubt.
- Marketing is also behind the stress that exacerbates the consequences of a bad diet. New products introduced into the marketplace create tension among existing consumers, whether or not the marketer intends it. The need to sell the new products in a saturated market makes attention-grabbing, in-your-face approaches necessary—and as consumers we pay the price.
- Americans are not happier than before, although we are probably happier than some others. But most of the evidence I have seen suggests that the materialism created by marketers in America has not noticeably raised happiness levels. Sure, rising aspirations might well have something to do with it—as people come to expect more, they are harder to satisfy. Nevertheless, as the subtitle of the Gregg Easterbrook (2003) book says, there is a progress paradox: "How life gets better while people feel worse."

## SOCIETY AND THE MEDIA

Marketing, of course, is only one major culprit in American society's slide toward the lowest common denominator; other factors are at work as well. The entertainment industry seems intent on producing films and television programs that cater to the lowest urges in all of us. The media helps by turning TV news into a contest between celebrities, dominated by sound bites and sensational overreach. Political parties and other institutions that are intended as bulwarks of stability, integrity, and trust seem populated by self-serving public servants and dishonest, if not corrupt, individuals ready to shade the truth for personal advantage and to attract voters. As with marketing excesses, not much of this is new to our society, but the intensity, the extent, and the depth of the deviousness is palpably greater.

Marketing reflects these developments, but I think it also helps create them. The reason is simple: many of the players involved need to market themselves. It is often the marketing impulse that forces people to deny facts, dissemble events, go for the jugular, and play hardball. Today we all have to sell ourselves before selling our ideas or our arguments. In fact, it is often impossible for today's audiences to distinguish between the message and the messenger. We are trained to accept what likeable people say, and ignore those we dislike.[9] Emotion seems to dominate reason, just as the brand's influence supposedly works.

Here I will deal with only one of the most pernicious examples of the corrosive effect of marketing, that is, on the media. The media, especially television news programs, effectively show us what the society is like. The American way of life is what these programs show and tell us it is. But the choice of what to show and what not to show, what to tell and what not to tell, is made by program producers and editors. And these producers and editors have to take into account marketing factors. They may fight against commercial pressure, and surely make efforts to keep their integrity—but when audience numbers dwindle, bottom-line concerns become unavoidable. Newscasts have to attract an audience—and the selection of anchors, stories, length of coverage, and commentators needs to be based ultimately on the salability of the images and the copy.[10] Marketers, in this way, indirectly show and tell us what the American society is like.

I should emphasize that this development is independent of the commercials and the more explicit promotional content in the media. Yes, the media are commercially based—advertising pays for the programs—but that has long been true. Today, however, the limits on the degree to which the commercial impulse have been allowed to interfere with news programming seem more relaxed than ever. News is entertainment. News journalists are celebrities. Networks feature commentators whose main task is to create excitement, simplified sound bites, and the visceral feeling of engaging in a war of words. The "professional" vocabulary now includes words like ridiculous, vapid, ludicrous, stupid—and many more too graphic to mention here. Such speech is now commonplace on television, among politicians, and, not surprisingly, in everyday American life. Civil society has reached a new uncivil low as media attracts audiences by featuring shouting matches between political commentators. Even though I am not talking here about the rest of the world—as my book does—I don't think it is difficult for anyone to appreciate how badly this American style discourse plays out in the foreign policy arena. The belligerence and bullying by the unilateralists might seem justified to the American home market, but it surely antagonizes allies abroad.

Again, the media is only one of the forces corrupted by marketing considerations. Although there is no space to do it here, a similar analysis can be made of the other pillars of American society. One is likely to find a similar weakening of individual integrity and civil discourse as everyone is trying to project themselves to the greatest advantage in the free market society—doctors and lawyers, teachers and professors, musicians and painters. When we all are marketing ourselves for jobs, for marriage, for power, for success, the temptation to cut corners is hard to resist. After all, that's why Botox is so popular. [11]

## THE SOLUTIONS

I don't see any easy solutions to the problems facing marketers. They are systemic to the free market, and one can hardly say, "stop the world, I want to get off." At the individual marketer level, I would only ask each one of us to try to stay true to the moral principle of taking responsibility for what we do to others. That is, let us not hide behind some weak "buyer beware" motto. Don't think that "more choice is better anyway," or "they don't have to buy it," or "it never hurts to ask." Recognize that our own research tells us that increased choice can be painful. And the mass of promotion across competitors and product markets surely does not make it any less of a nuisance.

For companies' strategies, it seems logical to shift to a much more educational platform, to help consumers make decisions that work for them, not against them. Don't be a bad influence—don't do it just because you can. The French advertising by McDonald's saying "Kids should not eat at McDonald's more than once a week," is a case in point (*Associated Press* 2002). Yes, this ad was pulled by the company headquarters, but it represented a recognition of the need to update the product line with foods that can be eaten every day (which is what McDonald's has since done). I sometimes wish we in marketing could develop something akin to the total quality management (TQM) movement used for products, which has meant that product quality is better than ever—we really do have great products on the market. It would be nice if we somehow found a way to create a TQM movement that emphasized best practices in the marketing field.

What if we don't act now to reform marketing? The likely outcome is quite clear. Once consumers and legislators reach the tipping point, there will be much more regulation of marketing efforts, or, more precisely, there will be great efforts to lobby for more regulation. One can visualize how the telemarketing "Do-not-call" registry will extend to the Internet. Fat levels in food will be regulated and limits will be set. There will be moves to limit the size of cars on the road. Language and nudity and violence in the media will be policed and rules enforced. The free market will no longer be particularly free and neither will we marketers. The driving force behind these developments will be religious fundamentalists who espouse traditional values and who already abhor marketing and the media. If we don't improve, their agenda will attract many more recruits.

When I first came to this country many years ago to study American marketing I was attracted to marketing as a force for good. Sure, as Vance Packard had pointed out, the "hidden persuaders" were already at work on the American psyche. But the overall marketing effect was one of a relatively innocent rise in material welfare after a devastating world war. Today this is not the case. Marketing has become a major force in creating a belligerent, obese, and indulgent society whose self-gratifying materialism is matched only by its ignorance about other people. In their clearer moments, the American people recognize this, as the Yankelovich data show. We marketers can do better—and we have to help America do better.

## NOTES

This chapter is drawn from a book of mine titled *In Your Face: How American Marketing Excess Fuels Anti-Americanism* (Upper Saddle River, NJ: Financial Times/Prentice Hall, 2004). It deals primarily with American marketing effects abroad, and the initial impetus for the book was the recent antiglobalization and anti-American sentiments abroad so widely documented in the media. I wanted to identify the role of marketing in these movements, and as I did the research I discovered a strong antimarketing tendency also here at home. It is this antimarketing sentiment I discuss here.

1. Of course, one might argue that from a macroeconomic point of view this is to society's benefit. For example, the 2004 rebound in stock market share prices was mainly due to continued strong consumer spending, fueled by low interest rates and borrowing against increased housing values.

2. There is plenty of data now that document the obesity problem. See, for example, Schlosser (2001). Still, McDonald's revenues have increased, and earnings rose more than 50 percent in 2004, to $2.3 billion from $1.5 billion the year before (*The Washington Post*, April 25, 2005, Financials, T68).

3. Between July and November 2002 monthly sales of Hummer H1 and H2 doubled. Buyers waited months and paid over sticker price to get earlier delivery (Gross 2004).

4. For those who expected Internet ads to lose their initial glow with the dot-com failures, the news is different. Jupiter Communications estimates that online advertising revenue will reach $16.5 billion by 2005, with about 950 Internet-based marketing messages per user, per day, in five years.

5. Telemarketing does provide jobs, and not only abroad. In fact, retailer L.L.Bean's plan to build a call center in Oakland, California, had to be put on hold because T-Mobile telecommunications already had

advanced plans for a center employing 700 workers in the same location—and there might not be enough workers for two call centers (*Associated Press* 2004).

6. Of course, category killers compete against their own species—by 2004 rumors swirled that Toys "R" Us, one of the original and most successful category killers, might withdraw from the toy business because of competition from Wal-Mart (see *Wall Street Journal* 2004, p. B1).

7. As are professors. Harvard's former president, Derek Bok (2003), made a plea for less commercialization of universities. Perhaps not listening, Harvard picked its current president, Lawrence Summers, from the U.S. Treasury Department.

8. In the last ten years, obesity rates have increased more than 60 percent among U.S. adults. In recent years, diabetes rates among people ages 30 to 39 rose by 70 percent. (www.healthierUS.gov/exercise.html, 2004).

9. The presidential campaign coverage in particular has helped exacerbate this tendency, with voters reportedly tuning in only to those newscasts that predictably echo their own views, not listening to others.

10. The need to attract an audience, of course, affects more than newscasts, and sometimes promotions reach unimaginably lower levels. Clear Channel's Washington DC channel WIHT has staged an "animal sex offender" promotion, a misogynist-homophobic "Running the Bull Dykes" contest, and an "Osama Pinata" contest (Ahrens 2001, p. C01).

11. Botox injections for cosmetic use were approved by the FDA in April 2002. In 2003 there were 2,272,080 Botox injections, up 37 percent since 2002 (American Society for Aesthetic Plastic Surgery *2003 ASAPS Statistics*, www.surgery.org/press/news-print.)

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Chapter 5

# MARKETING REFORM

## The Case of Excessive Buying

Naresh K. Malhotra, Lan Wu, and Fred C. Allvine

The twentieth century has witnessed the rapid development of marketing as a formal discipline. Marketing is the exchange process by which organizations and individuals obtain what they need and want by identifying value, providing it, communicating it, and delivering it to others (Kotler 2000). Overtime, marketing has become more sophisticated and created numerous benefits to society and individual consumers, directly and indirectly. First, as engine of U.S. economy, marketing helps to sustain the development of a high-income society. Second, by identifying consumer needs and coupling them with multiple channels (e.g., retail stores, telephone, and the Internet), marketing improves the availability and quality of a variety of products. Third, through increasing consumer demand, marketing helps to lower production costs and make products more affordable. Finally, through advertising and other communication alternatives, marketing teaches consumers to become more knowledgeable about products and their rights as consumers.

Despite all the benefits, some negative consequences have developed as a result of the defining role and practice of marketing. One such consequence is excessive buying, which is the focus of this chapter. Excessive buying can be defined as *an individual type of buying behavior whereby consumers repetitively spend more than they should based on financial considerations*. We argue that marketing has encouraged or led to excessive buying in some circumstances, resulting in serious consequences both for society and individual American consumers. First, excessive buying may not be sustainable and a sharp downturn in the economy could have serious economic consequences. Second, those families taking on growing consumer debt can experience economic difficulty, plus negative emotions- such as guilt and anxiety. Marketing needs to address the problem of excessive buying before it causes more serious problems and hurts the image of marketing.

The rest of the chapter is organized as follows: The next section provides evidence of excessive buying. We then discuss how current marketing practices contribute to excessive buying. Thereafter, we propose that both the theoretical and practical aspects of marketing need to be reformed, and provide a new definition of marketing expanding the one recently provided by the American Marketing Association (AMA). We give directions for future research in excessive buying and conclude with some thoughts on the role and realm of marketing.

### EVIDENCE OF EXCESSIVE BUYING

#### Growing Personal Consumption Expenditure

Consumer spending as a percentage of Gross Domestic Product (GDP) has steadily increased since the 1970s (U.S. Bureau of Economic Analysis 2004, pp. 152–53, see Table 5.1). However,

Table 5.1

**Growing Personal Consumption Expenditure of the United States, 1970–2003** (in $ billions)

| Year | GDP | Personal expenditure | Percent of GDP |
|---|---|---|---|
| 1970 | 1,038.5 | 648.5 | 62.4 |
| 1975 | 1,638.3 | 1,034.4 | 63.1 |
| 1980 | 2,789.5 | 1,757.1 | 63.0 |
| 1985 | 4,220.3 | 2,720.3 | 64.5 |
| 1990 | 5,803.1 | 3,839.9 | 66.2 |
| 1995 | 7,397.7 | 4,975.8 | 67.3 |
| 2000 | 9,817.0 | 6,739.4 | 68.7 |
| 2001 | 10,100.8 | 7,045.4 | 69.8 |
| 2002 | 10,480.8 | 7,385.3 | 70.5 |
| 2003 | 10,983.9 | 7,752.3 | 70.6 |

*Note:* GDP = gross domestic product.
*Source*: U.S. Bureau of Economic Analysis 2004.

some policymakers and marketing researchers have recently begun to view the continued increase in consumer spending with apprehension. Concerns have been expressed that a growing portion of American households are engaged in excessive buying, spending more than they can afford.

The Consumer Expenditure Survey 2000 shows that the average incomes before taxes of the lowest and second lowest 20 percent of households were, respectively, $7,683 and $19,071. In contrast, the average annual expenditures for these households were, respectively, $17,940 and $26,550 (U.S. Bureau of Labor Statistics 2002, p. 7). More seriously, the gap between income and expenditures for the lowest 20 percent of households grew even larger in 2001 and 2002. In addition to government statistics, journalists have provided anecdotal accounts of excessive buying. For example, Schor (2000) argues that excessive buying is a result of upward social comparison; Danziger (2002) implies that people use various justifiers (e.g., quality of life, pleasure, home beautification, education, and relaxation) when they buy things they cannot afford. In addition to income-expenditure statistics,[1] excessive buying is evinced by some other facts.

### Low Personal Saving Rate

In recent years, the personal saving rate (i.e., savings divided by disposable personal income) in the United States has fallen sharply. It is now at a very low level compared either to U.S. historical experience or to the saving rates of many other industrialized countries. The U.S. saving rate averaged 8.2 percent from 1980 to 1992. It then steadily declined and reached a low of 1.7 percent in 2001 (U.S. Bureau of Economic Analysis 2004, pp. 172–73, see Table 5.2). By contrast, the personal saving rates from 1980 though 2001 averaged 13 percent in Japan, 12 percent in Germany, and 15 percent in France (Marquis 2002).

With a savings rate of 2 percent of after-tax income, most Americans are not planning for retirement and have made no preparation for financial emergencies. Many American consumers are living hand to mouth and do not appreciate the importance of saving.

Table 5.2

**Falling Personal Saving Rate (%) of the United States, 1970–2003**

| Year | Personal saving rate | Year | Personal saving rate |
|---|---|---|---|
| 1970 | 9.4 | 1997 | 3.6 |
| 1975 | 10.6 | 1998 | 4.3 |
| 1980 | 10.0 | 1999 | 2.4 |
| 1985 | 9.0 | 2000 | 2.3 |
| 1990 | 7.0 | 2001 | 1.7 |
| 1995 | 4.6 | 2002 | 2.3 |
| 1996 | 4.0 | 2003 | 2.0 |

*Source*: U.S. Bureau of Economic Analysis 2004.

### Mounting Credit Card Debt

One symptom of excessive buying involves the existence of credit card debt. Consumer credit card debt increased dramatically during the past two decades, with an average annual growth rate of 22.1 percent (Federal Reserve 2004, see Table 5.3). By the end of 2003, the country's credit card debt soared to $734 billion, which is nearly $7,000 per household. Since 40 percent of credit card users pay off their full balances every month, credit card debt of those households who carry balances is close to $12,000 (Mapother 2004).

Of growing concern, credit card debt has increased disproportionately among poor households and college students. According to Bird, Hagstrom, and Wild (1999), from 1983 to 1995, the percentage of poor households with a credit card doubled, and the average balances held on these cards increased as rapidly as that of nonpoor households. In 2001, 83 percent of college students had at least one credit card, with an average credit card balance of $2,327. It is also found that from the time they arrive on campus until after graduation, undergraduate students double their average credit card debt and triple the number of credit cards they carry (Baum and O'Malley 2003).

### All-Time High Personal Bankruptcies

Personal bankruptcy set another record during fiscal year 2003: 1.6 million American households filed for personal bankruptcy, compared to 832,374 a decade earlier (the U.S. Courts 2003, see Table 5.4). Unlike the 1960s, when personal bankruptcy was a haven for the young and struggling, much of the increase in personal bankruptcy is now driven by older people, many of who have decades of work experience in white-collar positions. For example, in 2001, per capita filings of individuals ages 45 to 54 increased 58 percent, to 11 per thousand (Hwang 2004). This can be attributed to the fact that many bankrupt baby boomers are not frugal as their Depression-era parents. It is also due to the fact that people are living longer and do not save enough for their longer retirements.

## IS MARKETING TO BLAME FOR EXCESSIVE BUYING?

We argue that current marketing practices are partially responsible for the exacerbation of excessive buying for the following reasons.

Table 5.3

**Soaring Consumer Credit Card Debt of the United States, 1980–2003** (in $ millions)

| Year | Credit card debt | Year | Credit card debt |
|---|---|---|---|
| 1980 | 54,970.1 | 2000 | 665,174.1 |
| 1985 | 124,465.8 | 2001 | 708,916.9 |
| 1990 | 238,642.6 | 2002 | 719,116.3 |
| 1995 | 443,126.9 | 2003 | 734,070.5 |

*Source*: Federal Reserve 2004.

Table 5.4

**1990–2003 Bankruptcy Filings** (Twelve-Month Period Ending September)

| Year | Personal bankruptcy | Year | Personal bankruptcy |
|---|---|---|---|
| 1990 | 685,429 | 1997 | 1,313,112 |
| 1991 | 848,812 | 1998 | 1,389,839 |
| 1992 | 905,753 | 1999 | 1,315,751 |
| 1993 | 823,374 | 2000 | 1,226,037 |
| 1994 | 783,372 | 2001 | 1,398,864 |
| 1995 | 832,415 | 2002 | 1,508,578 |
| 1996 | 1,058,444 | 2003 | 1,625,813 |

*Source*: The U.S. Courts 2003.

## Supply of Credit Cards

Easy access to credit cards in recent years have pushed many American consumers to purchase what they cannot afford, contributing to soaring household credit card debt. Since the 1990s, the banking industry has dramatically increased its marketing of credit cards to the public. In 2001, major credit card networks (VISA, MasterCard, Discover, and American Express) spent $800 million on advertising. Individual card issuers spent an additional $10 billion marketing credit cards through multiple channels, such as direct mail, telemarketing, and the Internet (www.cardweb.com/cardlearn/faqs/2002/aug/15.xcml).

The number of credit card solicitations in the United States grew from 1.1 billion in 1990 to 4.3 billion in 2003 (see Table 5.5), with 69 percent of American households receiving 4.8 offers per month during 2003 (Synovate Inc. Mail Monitor ®). Recently, an increasing number of credit card marketers have started to offer rewards and cash rebates to attract potential customers. Synovate reported that in 2003 1.27 billion reward and 0.90 billion cash rebate offers were sent out, as compared to 0.81 billion and 0.68 million in 2002.

Credit card marketers also turn to telemarketing and electronic mails to boost their response rates. On average, a telemarketing campaign helps to increase card response rate by two to nine times, as compared to a direct mail campaign (Punch 2002). The Internet, in conjunction with radio and television advertising, has proven to be a good means of acquiring cardholders as well.

Financial deregulation in the 1980s contributed to increased profitability of credit cards. Competition for these profits led to an increasing number of marketers who are willing to take the risk and lend to more marginal borrowers. Lyons (2003) suggests that those experiencing the greatest gains in credit access are black households, female-headed households, and households with low

Table 5.5

**U.S. Credit Card Acquisition Mailings, 1990–2003** (in billions)

| Year | Number of solicitations | Year | Number of solicitations |
|---|---|---|---|
| 1990 | 1.1 | 1997 | 3.0 |
| 1991 | 1.0 | 1998 | 3.5 |
| 1992 | 0.9 | 1999 | 2.9 |
| 1993 | 1.5 | 2000 | 3.5 |
| 1994 | 2.5 | 2001 | 5.0 |
| 1995 | 2.7 | 2002 | 4.9 |
| 1996 | 2.4 | 2003 | 4.3 |

*Source*: Synovate Inc. Mail Monitor®.

permanent earnings. To make the situation worse, creditors capitalize on these consumers by charging ridiculously high interest rates. For instance, in a typical *Wall Street Journal* story (Hwang 2004), Jennifer Reid said she found that her annual interest rate suddenly jumped to 24.98 percent, up from 19.98 percent the prior month and far over the initial single-digit rate. Although she did not miss a single payment, she was told that she was seen as a "credit risk" by the creditor since she had accumulated some $5,000 debt on her other two credit cards.

### The Lure of Advertising

The U.S. advertising market has expanded in the past two decades. Although rising at a more moderate rate recently (as compared to the second half of the 1990s), U.S. advertising through major media (including newspapers, magazines, television, radio, cinema, outdoor, and Internet) spent $144 billion in 2002 and $147 billion in 2003, accounting for 59.1 and 59.2 percent of the global spending. It is predicted that the expenditure of U.S. advertising through major media will reach $168 billion in 2006 (ZenithOptimedia 2004).

Current U.S. advertising practices expose American consumers to a variety of products and reinforce the materialistic ideal. This creates an upscale lifestyle illusion and intensifies consumers' desire and motivation to buy. A lot of advertising messages portray expensive products as both desirable and common. This leads many consumers who want a certain quality life to gamble their future and make purchases they cannot afford, which results in excessive buying. "Luxury Fever," created by advertising, contributes to families going further into debt.

Housing is an example: "A generation or so ago, a basic 800-square-foot, $8,000 Levittown box with a carport was heaven. By the 1980s, the dream had gone upscale. Home had become a 6,000-square-foot contemporary on three acres or a guttered and rehabbed townhouse in a gentrified ghetto" (Warren and Tyagi 2003, p. 21).

Clothing is another good example of advertising leading consumers to excessive buying. "Many debtors blame their woes squarely on Tommy, Ralph, Gucci, and Prada." This is consistent with what one observes: "Banana Republic is so crowded that we can barely find an empty fitting room. Adidas and Nike clad the feet of every teenager we meet" (Warren and Tyagi 2003, p. 17).

### The Lure of Sales Promotions

Sales promotion provides added inducement to purchase by offering price reductions for a limited period of time. Many consumers feel compelled to "buy now" because of the savings they will realize. Marketers usually combine advertising with sales promotion and make huge investments. For instance, the top U.S. spender for advertising and promotion, "Motor Vehicles and Car Bodies" spent $24.73 billion in 2003 (Schonfeld & Associates 2004, p. 197). Many consumers are receptive to such sales promotion efforts and purchase products they cannot afford, resulting in excessive buying.

The impulse-buying literature has long recognized the impact of sales promotion on excessive purchases (Bellenger, Robertson, and Hirschman 1978). A positive, although not always significant, relationship has been found between price promotion and impulsive buying behavior. Consumers are often caught up by a sales situation and buy something they might not normally buy. Being too practical (i.e., being able to buy something at a lower price) leads to the collapse of some consumers' self-control (Thompson, Locander, and Pollio 1990).

Loewenstein (1996) suggests that sales promotion could manipulate the various dimensions of proximity—physical (e.g., the urge to buy is more likely to be triggered in a shopping mall than in one's office), sensory (i.e., buying a cup of latte tempted by its smell), and temporal (i.e., the positive outcomes of making a purchase should be experienced immediately, as opposed to at some distal point in time)—and thus elicit visceral influences on consumers' buying behavior. Many promotions show a product in use, vividly simulating the experience and seducing purchases. For example, smell or taste of free food samples in malls is often accompanied by product orders. Other promotion efforts increase consumers' impatience by reminding them that the product is "yours for the asking" or "only a phone call away." The "no down payment, no interest" promotion campaigns used by many furniture merchants and electronics stores increase product desirability and reduces consumers' willingness to delay gratification, even though they might not be able to afford the purchases.

## WHAT REFORMS ARE NEEDED? REDEFINING THE ROLE AND REALM OF MARKETING

We believe that current marketing practices have contributed to the growth of excessive buying and that both the theoretical and practical aspects of marketing need to be reformed.

### Theoretical Aspects of Marketing Need to Be Reformed

Marketing was recently defined by the AMA as "an organizational function and 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."[2] Compared to the 1985 AMA definition, this definition makes a huge contribution to identifying the impact of marketing on the physical and mental well-being of target consumers. For example, current marketing efforts have led American consumers to excessive buying, resulting in personal financial crisis and mental problems (e.g., feeling anxiety and depression).

We feel that this definition falls short of capturing the social role that marketing plays in the exchange process. Andreasen (1993) suggests that marketing has profound impacts on the physical and mental well-being of the society, in addition to that of its target audiences. In the case of excessive buying, marketing not only creates financial and mental consequences for consumers but it also makes the U.S. economy more vulnerable since excessive spending is not sustainable.

We argue that a "social marketing approach" should be adopted in redefining the role and realm of marketing (Andreasen 2002). We propose that a future definition of marketing recognize the welfare of the society at large and encourage marketers to fulfill the needs of the target consumers in ways that improve society as a whole (Schiffman and Kanuk 2004). There is a need to limit the realm of marketing so that marketing does not lead to the creation of needs, wants, and desires that are unsustainable by the target consumers and society at large, and that ultimately will result in negative and dysfunctional consequences. There is also a need to expand the realm of marketing so that it encompasses those activities that do not in the short run promote an organization's profit objectives, but in the long run contribute to societal welfare. Thus, a new definition of marketing is called for that both limits its role to avoid dysfunctional consequences and expands its role to include societal welfare. We provide such a definition by expanding the new AMA definition as follows: "Marketing is an organizational function and set of processes for creating, communicating, and delivering real, long-term value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. These organizational functions and processes should not lead to negative and dysfunctional consequences for the target consumers and society at large, but rather should seek to enhance consumer and societal welfare."

### Practical Aspects of Marketing Need to Be Reformed

In terms of practice, we suggest that the current role of marketing be limited. Generally speaking, marketers' attention should be focused upon satisfying consumers' existing needs that are affordable rather than creating needs that are unhealthy (e.g., promoting food with high calorie or cholesterol) or unaffordable (e.g., encouraging someone with a $40,000 annual income to buy a $55,000 Mercedes by providing a low-interest loan or accepting a credit card).

More importantly, marketers and the U.S. government should restrict those marketing activities that have undesirable social consequences (e.g., excessive buying) even when market forces imply great potential profits. For instance, the U.S government successfully curtailed tobacco and liquor commercials on TV. To prevent excessive buying from ultimately undermining the U.S. economy and social welfare, marketers should restrain from practices such as setting up expensive stores and overcharging in poor neighborhoods, providing too much credit access to low- or medium-income households, and attracting customers who are at the brink of financial crisis by using seductive sales promotions.

Marketers should resume their social responsibility by involving themselves in marketing activities that improve the welfare of society as a whole. Recently, a few marketers have begun to make efforts in this direction. For example, the "drink responsibly" campaign highlights Anheuser-Busch's effort to promote responsible drinking and fight against alcohol abuse (beeresponsible.com). To improve its image from one as a source of unhealthy choices, the fast food industry has started substituting salads for carb-laden french fries and bottled water for soft drinks. In the case of excessive buying, marketers should encourage sustainable spending by consumers and teach them how to avoid financial embarrassment of excessive buying. In the long run, these campaigns will help to enhance the well-being of stakeholders at all levels (e.g., consumers, local community, and the society).

## DIRECTIONS FOR FUTURE RESEARCH

Although prevalent in contemporary American society, the definition and nature of excessive buying remain mysterious to marketing researchers. The biggest challenge lies in defining the construct. Much controversy focuses on whether excessive buying is a perception-based phenomenon or something that can be inferred by "hard" data (e.g., personal debt information). We suggest that, from an academic perspective, excessive buying should be defined as a perception-based construct (consumers repetitively spend more than they should based on financial considerations)[3] for the following two reasons: (1) a perception-based definition helps to rule out the influences of external factors (e.g., geographic locations, income expectations, and socioeconomic status) on consumers' buying behavior, and (2) since many consumers engage in budget planning or at least have a rough idea about how much money they can afford for a product (Heath and Soll 1996), a perception-based definition can be operationalized without invading too much consumer financial privacy.

Research efforts in the following areas will also enhance our understanding of the nature of excessive buying: a psychometric scale to measure excessive buying needs to be developed and the antecedents and consequences of excessive buying need to be examined systematically. Journalists (e.g., Schor 2000 and Danziger 2002) have contributed some anecdotal discussions about the antecedents and consequences. However, we believe that a general theoretical framework is required to integrate the diverse accounts and help us understand the essence of the phenomenon.

## CONCLUSIONS

We have seen over the past decades that the U.S. economy has been growing on the backs of consumer buying. Nevertheless, the excessive buying behavior of American consumers cannot continue, since it has wide impacts on their physical and mental welfare and on the well-being of our society. It is suggested that some marketers are at least partially responsible for the prevalence of excessive buying by supplying easy credit card access to lower-income households, creating "Luxury Fever", and seductively promoting sales. In order to avoid societally undesirable phenomena such as excessive buying, we propose that the realm and role of marketing be reformed. We provide such a definition of marketing by modifying the AMA's new definition to both limit its role to avoid dysfunctional consequences and expand its role to include societal welfare.

## NOTES

1. Some researchers argue that the discrepancy between income and expenditure can be explained by "missing income" (e.g., income from the stock market) rather than consumer excessive buying. We do not agree with them and provide the evidence later in the chapter.

2. This definition was released by Dr. Robert Lusch, professor of marketing at University of Arizona, during the 2004 AMA Summer Conference, Boston.

3. Researchers might argue that an overoptimistic estimation of their ability to afford may lead consumers to buy excessively. However, most accounts of excessive buying indicate that consumers act against their economic self-interest in full knowledge that they are doing so (e.g., Loewenstein 1996; Danziger 2002), that is, they know that they spend more than they can afford.

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# PART 2

## ARE MARKETING'S PROBLEMS SELF-CORRECTING?

This section invites authors to either challenge the negative perception of marketing or suggest ways to reform marketing. The chapters here posit that the problems marketing presently faces are essentially self-correcting and incremental in nature. In other words, they do not call into question any of marketing's fundamental precepts or its raison d'etre.

In his provocative style, marketing historian Stephen Brown suggests that what marketing needs is not reform but restraint. He believes that marketers have taken the customer-driven view too far: "These days, customer satisfaction isn't good enough. The customer must be delighted, engaged, enthralled, enraptured, and, if service quality inflation continues at the current rate, eventually carried away on transports of ecstatic erotic abandon."

Debra Jones Ringold states that "individual consumers are quite capable of navigating markets, exercising choice in a manner consistent with their preferences, and learning from their mistakes . . . . In the aggregate, consumers appear to be 'smarter' than the elite few, outperforming experts in problem solving, forecasting, and decision making." Furthermore, she suggests that profit making is a high calling when seen as a consequence of satisfying customers with products and services of real value. The great virtue of markets is that they create wealth, benefiting all, including the poor. Markets can reduce envy if economic opportunities are available to all. So, while they are not perfect, markets deliver prosperity and freedom, as well as the "opportunity to lead a virtuous life."

Thus, as we contemplate reform according to Ringold, we should work toward creating more-educated and competent consumers, while "recognizing the inherent morality of choice." Reform efforts should be geared toward making markets more responsive to consumer preferences. They should seek to inculcate values such as reciprocity, moral obligation, duty toward community, and trust, working through educational, religious, and familial institutions. Such efforts, Ringold believes, would have a better chance of improving markets and would not be subject to the unintended consequences of many regulatory efforts.

Similarly, Shelby Hunt believes that current marketing practices and theories are perfectly fine, especially if we examine them from a resource-advantage viewpoint. Utilizing the areas of branding and brand equity, Hunt argues that branding not only creates competitive advantage to a firm as a resource, but also protects and enhances consumer welfare. Hunt suggests that marketing as a discipline and a practice has predominantly focused on micronormative (marketing management) issues, but that it needs to also examine macropositive and macronormative issues that will enable it to align with society.

Russ Winer is a firm believer in consumer sovereignty and in the good driving out the bad. He believes that if there is temporary disequilibrium, market forces result in changes toward equilibrium. Also, everything is not "me too" marketing, as many critics have asserted. There is enormous innovation (products such as Apple's iPod and Chrysler 300), and the growing movement toward category management provides more optimal levels of choice. Winer is, however, in agreement that marketing does not have the ears of senior management and corporate boards. This is because we have not marketed marketing very well. That is, the enemy is "us." Instead of financial people pushing for accountability of marketing spending on advertising, customer relationship management hardware and software, promotions, and other marketing tools, it should be marketing people. With regard to reforming academia, Winer suggests greater emphasis be placed on relevant research.

Finally, Dave Stewart believes that although introspection and reflection are useful, it is important that they not become critical to the point of being disparaging. He believes "reform" is a highly value-laden word. According to *Webster's Online Dictionary*, it means "amendment of what is defective, vicious, corrupt or depraved." A more benign definition of reform should focus on the positive and affirmative need for improvement. Stewart's view is that marketing has been remarkably successful as an academic discipline and an area of management practice. Furthermore, the marketing discipline can be justifiably proud that managers in other disciplines speak the language of marketing. The operations manager who speaks of customer-centric service delivery, the finance professor who talks about the value of investing in a customer and the lifetime value of a customer, and the business strategy consultant who emphasizes the roles of differentiation and positioning in business success are merely reflecting the triumph of ideas that originated in marketing. Therefore, marketing does not need reform in the negative sense of the word. It does need to evolve so it can respond to the changes occurring around it, develop the means for encouraging more ethical practice, and reinvent itself to deal with the issues and contingences of the twenty-first century. Stewart believes that what we need to do is to reclaim marketing's role in business and society and reinvent marketing.

Chapter 6

# DOES REFORM NEED REFORM?

Stephen Brown

## BUSINESS AS USUAL

If marketing were human, it would be diagnosed as dangerously manic-depressive, a suitable candidate for electro-convulsive therapy. Its clinical history consists of what can only be described as bipolar outbreaks of incipient megalomania and introspective self-loathing. As every student knows, marketing claims to be king of the world, the solution for a small planet, the be-all-and-end-all of business. Marketing is a universal verity. Marketing is a category of human action. Marketing delivers a standard of living. Marketing is the most important organizational function, so we're told. Marketing subsumes neoclassical economics, though economists may beg to differ. Marketing, according to Regis McKenna's (1991) much-quoted battle cry, is "everything." That's right, *everything*. Or as near as makes no difference.

Set against such bouts of irrational exuberance, marketing is singularly susceptible to severe anxiety attacks and periods of deep despondency. It is often described as in some kind of crisis, quandary, or predicament (Brown 2002). It routinely contends that its proprietary ideas are being (mis)appropriated by adjacent subject areas like strategy, organizational studies, and information technology. It occasionally wonders why neighboring academic disciplines, such as sociology and anthropology, ignore its scintillating scholarly insights. It frequently flagellates itself for losing touch with key constituents or stakeholders, principally practitioners and policymakers. It periodically proclaims that it's time to pull together, get a grip, and turn over a new leaf. It really means it this time.

The reality, of course, is that marketing is neither the bees' knees nor a basket case. It is a massive socioeconomic institution, what cult novelist David Foster Wallace (2004, p. 25) aptly calls, "the great grinding US marketing machine." A moment's reflection reminds us that there are innumerable marketing practitioners, countless marketing students, copious marketing academicians, numberless marketing consultants, illimitable marketing conference, training course, and executive education attendees, most of whom go about their marketing business without suffering existential crises or, for that matter, harboring imperialistic ambitions. They are content, in the main, to make the sale, move the merchandise, meet the target, mind the store, beat the competition, collect the kudos, get the grades, earn the crust, run the department, write the report, secure the tenure, or whatever. They do what they have to do. They get by. They don't have time to reform marketing or, unlike leading learned lights, worry unduly about the need for reform.

## SEND NO MONEY

Actually, the really worrying thing about the "Does marketing need reform?" question is that it melds marketing's megalomaniacal and self-abnegating bipolarities. Calls for reform are symptomatic of the latter propensity, since they imply that there is something seriously amiss with marketing. Conversely, the assumption that marketing *can* be reformed is testament to the former trait, insofar as it intimates that our recommended reforms will be embraced by the community of marketers. The simple fact of the matter, however, is that marketing is way too big, way too unwieldy, way too set in its ways to be reformed. And, even if it could be reformed, it is unlikely that the necessary alterations—even if these could be agreed on, which is again unlikely—would be implemented consistently by marketing's many and varied constituents (or even implemented at all). It is delusional to think otherwise.

It is equally delusional to ignore the difficulties, avoid the issues, and imagine that everything in the marketing garden is rosy, when it is decidedly rose-tinted. There's no doubt whatsoever that marketing is facing mounting criticism. It is beset by the attacks of anticapitalist protesters, not least of which are Naomi Klein of *No Logo* fame and Reverend Billy of the "Church of Stop Shopping." It is condemned for targeting tiny tots, tweenagers, and the terminally tubby, to say nothing of tobaccoheads, shopaholics, and the borderline anorexic. It is disparaged by chief executive officers (CEOs) on account of its imprecise and unquantifiable contribution to the bottom line and denounced by academicians of every conceivable disciplinary stripe, marketing included. It is little wonder that a recent Research International survey of attitudes to marketers concluded, "Marketing is disposable and unimportant to strategic development. Its recruits are inferior to those in other disciplines. It is untrustworthy, unreliable, uncooperative, and it lacks leadership" (quoted in Simms 2004, p. 32).

Such critiques, to be sure, aren't new. Consumerism comes in waves, as the history books bear witness, and marketing responds accordingly (Hollander and Rassuli 1993). Societal marketing precepts were forged in the face of an antimarketing uproar (the 1970s oil crises-cum-environmental concerns). The modern marketing concept emerged at a time when commentators considered commerce unconscionable, well-nigh unconstitutional (Galbraith's *Affluent Society*, Packard's *Hidden Persuaders*, and so on). This time last century, marketing was being maligned by muckrakers, pooh-poohed by progressives, and yelled at by yellow journalists (the Trust in Advertising movement duly arose). Marketing has always been a convenient scapegoat for unsuccessful CEOs, self-aggrandizing politicians, and the leading lights of the moral majority. Marketing has been through so many self- and other-inflicted crises that the absence of crisis is cause for concern. Marketers get worried when they're not being worried over, attacked, excoriated, and what have you.

## FREE HOME TRIAL

Clearly, critique and crisis are part of marketing's makeup and when the worries and wobbles subside—which they invariably do—the counterreaction is often one of extraordinary ebullience, excitement, and effervescence. We lurch from one extreme to the other. We bounce between delusions of grandeur and the depths of despond. It is arguable, nevertheless, that the malaise is deeper seated this time round, largely because marketing's contemporary maladies stem from its successes rather than its failures. Fifty years ago, when Drucker (1954) first posited the modern marketing concept, the notion of customer orientation was unusual, novel, noteworthy. Its adoption conferred significant competitive advantage on the adopter. Half a century later, however, every organization is customer-oriented, or claims to be. Every mission statement proclaims that customers come first, last, and always. Every marketing department is staffed with MBA-emblazoned or degree-draped executives, all of whom have read Kotler (1967) from cover to cover, can rustle up a marketing plan with the best of them, and spend many a happy weekend on hug-the-customer refresher courses. Parity prevails. Ubiquity rules. Marketing may not be everything, but my goodness, it's everywhere.

Alongside this flattening of the marketing playing field, the game itself is becoming tougher and tougher. Not only are there more products (and services) to choose from than ever before—in every conceivable category, line, and range—but these products (and services) are increasingly indistinguishable. Whether it be detergents, deodorants, dishwashers, or DVDs; chinos, colognes, cornflakes, or cellulite creams; banks, batteries, bottled waters, or barbeque grills; magazines, margarines, motor bikes, or management consultants; SUVs, sneakers, surfboards, or silicon chips; or toothpastes, televisions, theme parks, and tennis rackets, extraordinary abundance and attribute equivalence are the order of the day (Earls 2002). Granted, one of the key functions of marketing is to differentiate the otherwise undifferentiated and insidiously imbue the ostensibly identical with an inimitable aura, image, patina, or personality. But, when marketing itself is omnipresent and the same tools, techniques, and tricks of the trade are available to all, then its ability to do what it's supposed to do is constrained at best and compromised at worst.

Above and beyond the ubiquity of marketing and the perils of plenitude, the customer too is changing. Today's consumers are marketing-literate, marketing-savvy, marketing-weary, and, not least, marketing-wary. They cannot fail to be. After all, our television channels and radio stations are chock-a-block with programs and stories about marketing, consumption, shopper psychology, and all the rest. Standup comics perform lengthy routines on supermarkets, shopping carts, and stereotyped TV ads for shampoo, shaving foam, or sanitary napkins. Glossy magazines routinely apprise their readers of the rationale behind retail store design and the rebranding exercise du jour. Sunday newspaper supplements are replete with reflections on, and deconstructions of, breaking advertising campaigns, as well as industry gossip, impending pitches, and account executive shenanigans. Hollywood movies regularly make use of advertising/marketing/retail store settings—*What Women Want, Crazy People, Clerks, High Fidelity, Scenes From a Mall, You've Got Mail, Working Girl, Soul Man, Pretty Woman, Jerry Maguire, Lost in Translation, Dawn of the Dead, Catwoman*—and, in so doing, reveal the inner workings of the marketing institutions concerned. These inner workings may well be overdramatized caricatures, but they still raise the general public's overall marketing consciousness.

Twenty-first-century consumers, in sum, are wise to marketers' wiles. They are cognizant that the customer is always right. They are aware that customer satisfaction and loyalty are the drivers of corporate competitive strategy. They are fluent in Brandsperanto, Malltalk, Productpatter. They aren't so much Generation X, Y or Z, as Generation®.

## WHILE STOCKS LAST

Modern marketing, most would agree, has succeeded beyond its wildest dreams. It has sold itself brilliantly. It is an idea that almost everyone has bought into, consumers included. It is arguable, however, that marketing is beginning to pay the price of success and becoming its own worst enemy. Its scholarly spokespersons are starting to suffer from what some deem groupthink, and others consider arrogance or complacency. For example, when marketing fails in practice—as it often does—the marketing scholars' standard response is that the cause can't possibly be conceptual. It is operational, organizational, or empirical. It is due to managers' inept implementation, incompetent research, incomplete planning, inadequate decision-taking, insufficient attention to quality issues, environmental issues, competitive issues, relationship issues etc., etc., etc. Our customers, in other words, are to blame. The people who buy academicians' ideas are at fault for not following the instructions properly. They're not doing it right! They must try harder next time.

Table 6.1

**May Contain Nuts**

| | |
|---|---|
| *Experiential* | An emergent school of marketing thought that emphasizes ecstasy, emotion, and the delivery of extraordinary consumer experiences. It exploits the “wow” factor, in effect |
| *Environment* | An approach that relies on retail store atmospherics, impressive architecture, and the power of space, place, and genius loci. The Niketown phenomenon, in other words |
| *Esthetic* | A stance that espouses art, beauty, and design, everything from quirky Alessi kettles and psychedelic Apple iMacs to the Chrysler P.T. Cruiser and the “feel” of a Mont Blanc pen. Art for mart’s sake |
| *Ephemeral* | A net-driven notion based on buzz-building, fad-forwarding, chat-room churning, brand community boosting, and unleashing the ideavirus. In the beginning was the word of mouth, so to speak |
| *Evangelical* | An alternative that taps into the alleged spirituality of consumption. This ranges from the shopping-mall-as-cathedral cliché to the suggestion that CEOs seek solace in the seven deadly sins |
| *Ethical* | A perspective predicated on Anita Roddick’s precept of trade-not-aid and ecoconscious consumer behavior. Just say no to rapaciousness, exploitation, and waste. Buy a lipstick, save the world |
| *Eccentric* | An off-the-wall standpoint that wraps itself in hipness, irreverence, and fun-filled frolics. Instantly recognizable by wacky book titles like *Eat the Big Bananas* or *Hey Wendy’s*, *Squeeze This* |
| *E = MC²* | An antidote to eccentricity, which contends that marketing is a science, or would be if it weren’t for the bananas brigade. Rigor, rectitude, and reliability are what marketing needs right now. Got that? |

*Source*: Brown 2003, p. 47.

If they were truly committed to marketing they couldn’t possibly fail and the fact that they’ve failed is proof of their lack of commitment. QED.

Obviously, this form of self-justifying self-preservation is completely unacceptable, especially in a field that purports to be customer-oriented. Yet that is exactly what we are seeing now that, to cite a single instance, CRM is starting to turn sour. Fifty years after Drucker’s deliberations, the marketing concept has been placed on a pedestal. It is inviolate, untouchable, above criticism. And, while this may have been excusable when marketing was in its infancy—when it really was possible to get things wrong—it no longer holds water when marketing is middle-aged, going on senescent. We can’t keep blaming the victims. Perhaps its time to reform the reformers.

In fairness, many scholars are cognizant of marketing’s conceptual shortcomings. The shelves of our friendly neighborhood mega bookstores are sagging under the weight of suggested solutions to marketing’s ills, some of which are listed in Table 6.1. Summarized under an entirely egregious Eight E’s rubric, these range from *Experiential*, a perspective predicated on the emotions of the marketing encounter, to *Esthetic*, which aspires to the condition of art, beauty, and the ineffably sublime.

Welcome and necessary though these exercises in E-type marketing are, the only problem is that they are content to posit more of the same. They are still predicated on the basic premise of customer centricity, the premise that has dominated marketing thought since Drucker’s (1954) declaration, Levitt’s (1960) popularization, and Kotler’s (1967) codification of the marketing concept. Indeed, if the overall message of the marketing E-volutionaries can be briefly paraphrased, it is that marketers need to become *even more* customer-focused than before. These days, customer satisfaction isn't good enough. The customer must be delighted, enchanted, enthralled, enraptured, and, if service quality inflation continues at the current rate, eventually carried away on transports of ecstatic erotic abandon. I gather Tom Peters's latest book might be titled *Getting to Yes, Yes, YES!*

The thinking seems to be that more is always better, that there's no limit to the amount of good lovin' today's customers can take. The brutal fact of the matter, however, is that more isn't always better. Less is sometimes more. Sometimes it's necessary to act cool, play hard to get, and treat 'em mean to keep 'em keen. Sometimes abjuring customers is the best way to attract them. Certainly, many have attributed the success of cult brands like Brioni, Hermès, and Trikkes to their refusal to play the customer-coddling game. Antimarketing marketing, as practiced by Sprite, Diesel, and Madonna among others, is on the up and up. Likewise, the advent of offensive and gross-out marketing—Benetton, FCUK, Opium et al.—dramatically demonstrates that innocuous sales pitches aren't always the most efficacious.

## MONEY BACK GUARANTEE

All things considered, the word that best describes marketing's contemporary state is "decadent." This ascription, it must be stressed, is not pejorative, or at least not deliberately so. It refers, rather, to the decadent turn in the arts that emerged at the fin de siècle of the nineteenth century and, some say, reappeared during the fin de siècle of the twentieth (Barzun 2000). Typified by the outlandish esthetic aspirations of Oscar Wilde, Aubrey Beardsley, Arthur Rimbaud, Max Nordau, and so forth, decadence is characterized by an air of exhaustion, enervation, and lassitude. It is artificial, affected, overrefined, self-satisfied, and stylized to the point of pointlessness. It is sickly, it is saccharine, it is strange, it is simultaneously sybaritic and splenetic. It is marked by what Abrams (1993, p. 43) terms, "a special sweet savor of incipient decay."

In this sense, then, marketing is decadent. It fiddles while Rome burns. It appears to be past its prime. It seems to suffer from analysis paralysis, four-Ps fatigue, imagination deficit disorder. It gives the impression of being bereft, bloated, out of ideas, on the slide. It is in a rut, stuck in the mud, spinning its wheels. It is going round in circles, as the recent rapid recent rise of retromarketing attests. The merest glance across the marketing landscape reveals that contemporary commercial culture is replete with retro this, retro that, retro the other—retro autos, retro speedboats, retro telephones, retro fashions, retro housewares, retro communities, retro lawnmowers, retro movies, retro celebrities, retro restaurants, retro casinos, retro television advertisements, and many more besides. According to acerbic comedian George Carlin (1997, p. 110), "Our culture is composed of sequels, reruns, remakes, revivals, reissues, re-releases, re-creations, adaptations, anniversaries, memorabilia, oldies radio and nostalgia record collections."

Needless to say, there has been much debate about the cause of this remarkable retro outbreak. For some, it is due to the midlife yearnings of aging baby boomers, who pine for the products and services of their gilded youth. For others, it is a consequence of twenty-first-century life, the sheer pace of which has prompted an understandable yearning for safer, simpler, less sophisticated times, as well as brands associated with the balmy days of yore. For yet others, it is indicative of marketing's bankruptcy, its lack of creativity, the fact that every conceivable marketing tactic, strategy, stunt, plan, advert, angle, or whatever, has already been tried and there is nothing left to do but recycle the past, plunder the memory banks, and pore over dusty growth-share matrices in the hope that yesterday's dogs will be tomorrow's stars.

Regardless of the reasons, or the question of whether retro is a good thing or bad, the salient point is that retro itself is not new (Brown 2001). Retro goes around in circles, too. There have been several "nostalgia booms" prior to this one, most notably in the 1970s, 1930s, and 1890s. We have been here before and, as noted at the outset of this commentary, the notion that marketing needs reform has also been floated before. Calls for repentance come and go, wax and wane, rise and fall. We have lashed, lacerated, and lambasted ourselves many times over and no doubt will continue to do so in future. Indeed, it is fairly safe to predict that, once we get through the present phase of doom-and-gloom, the manic side of our bipolar personality will reassert itself. Someone will announce a technological breakthrough, a revolutionary insight, a new marketing paradigm, or a counterintuitive mode of thinking that'll transform the discipline, save the world and, naturally, place marketing back on top where it belongs.

## WASH, RINSE, REPEAT

While we're waiting, it may be worthwhile—in the spirit of reform and retro—to return to the present debate's point of departure: namely, the fifty-year-old words of Peter Drucker, whose customer-centric, marketing-encompasses-everything ethos is quoted in the "call" (Sisodia and Sheth 2004). Understandably, this inaugural statement means a great deal to marketing scholars, and so it should. However, if we go beyond Drucker's much-cited sound bite and reconsider what the great guru actually says in *The Practice of Management*, two things are crystal clear. The first of these is that marketing should be *proactive* rather than *reactive*. Marketing's purpose, Drucker proclaims, is to make things happen, to lead rather than follow, to deliberately "create a customer." It is not about responding to consumers' expressed needs or taking environmental and competitive conditions into account, important though these are. It is about driving, forcing, leading, commanding, compelling, propelling, arousing, and bulldozing, if need be. Thus, it is arguable that total customer orientation—placing the customer on a pedestal and pandering to their heart's desire, as E-type marketers recommend—is making marketing reactive rather than proactive and, while reactive marketing has its place, it's not what Drucker originally had in mind:

> Markets are not created by God, nature or economic forces, but by business men. The want they satisfy may have been felt by the customer before he was offered the means of satisfying it. It may indeed, like the want of food in a famine, have dominated the customer's life and filled all his waking moments. But it was a theoretical want before; only when the action of business men makes it effective demand is there a customer, a market. It may have been an unfelt want. There may have been no want at all until business action created it—by advertising, by salesmanship, or by inventing something new. In every case it is business action that creates a customer. (Drucker 1954, p. 35)

The other realization that comes from rereading *The Practice of Management* concerns Drucker's contention that his precepts only apply to business organizations, the for-profit sector, the purveyors of economic goods and services. He specifically eschews the application of management principles—marketing included—to the not-for-profit arena and disdains the idea that managerial acumen can be appropriately exercised in the societal sphere.

> The skills, the competence, the experience of management cannot, as such, be transferred and applied to the organization and running of other institutions. In particular, a man's success in management carries by itself no promise—let alone a guarantee—of his being

> successful in government. A career in management is, by itself, not a preparation for major political office—or for leadership in the Armed Forces, the Church or a university. (Drucker 1954, p. 8)

Suffice it to say, this proscription runs completely counter to established marketing sentiment, which has long subscribed to the view—since the "broadening" debate of the late 1960s, at least—that the marketing concept can be applied in every conceivable company, context, or circumstance. When something applies to everything, however, it effectively cancels itself out and ultimately applies to nothing. Certainly, marketing's temporary contemporary difficulties cannot be divorced from its "imperial overreach." Indeed, it's got to the ludicrous point where basic marketing principles—acquired at Harvard Business School, no less—are being adapted to husband hunting, of all things. In *The Program,* Greenwald (2004) recommends that wannabe brides market themselves as eligible brands in order to overcome the competition and capture the man of their dreams. One suspects that if Drucker had imagined where his ruminations would lead, he'd have kept his marketing thoughts to himself.

If nothing else, then, rereading *The Practice of Management* reminds us that less is sometimes more. A bit less marketing wouldn't go amiss. "A good thing," as the imperishable Ted Levitt (1991, p. 6) rightly observes, "is not necessarily improved by its multiplication."

Marketing doesn't need reform; it needs restraint.

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## Chapter 7

# THE MORALITY OF MARKETS, MARKETING, AND THE CORPORATE PURPOSE

Debra Jones Ringold

I subscribe to the view that choice is inherently good and defensibly constrained only when "conduct [is] . . . calculated to produce evil to someone else" (Mill 1947, p. 10). Choice embodies two notions. The first refers to the act of choosing, that is, the freedom to engage in deliberate actions on one's own responsibility. The second refers to the options from which one may choose. Both are prerequisites to moral behavior. In order to do good, there must exist the possibility of choosing between right and wrong and one must have the freedom to do so.

"Every human person . . . has the natural right to be recognized as a free and responsible being. All owe to each other this duty of respect. The *right to the exercise of freedom* . . . is an inalienable requirement of the dignity of the human person" (*Catechism of the Catholic Church* 1995, p. 482, emphasis in original). This duty of respect ought to be extended to consumers.

Bauer (1958, 1964), Calfee and Ringold (1992), and Ringold (1995) have made the argument that individual consumers are quite capable of navigating markets, exercising choice in a manner consistent with their preferences, and learning from their mistakes. Yet, consumer competence is often disparaged, most apparently when consumer behavior reflects economic or social preferences at odds with those of others in the marketplace. Arguably, these assaults on consumer competence derive from the well-documented "third-person effect" exemplified by respondents who assert their own competence while disparaging the ability of others and call for greater regulation to protect the incompetent among us (Rojas, Shah, and Faber 1996; Shah, Faber, and Youn 1999 and citations therein).

Such judgments are at best patronizing. In the aggregate, consumers appear to be smarter than the elite few, outperforming experts in problem solving, forecasting, and decision making (Surowiecki 2004). This result is consistent with Hoch (1988), who finds that experts cannot overcome the "information deficit" that results from their being unlike the typical American consumer, and Posner (2003, p. 206) who argues that "[e]xperts constitute a distinct class in society with values and perspectives that differ systematically from those of 'ordinary' people."

In contrast to economies centrally planned by experts, free economies—communities united by voluntary exchange—create circumstances in which individuals exercise choice, commanding dignity and respect (McGurn 2004). They foster diverse, disaggregated, and competitive economic interests (Novak 1996) and in so doing, decentralize and disperse power (Scherer and Ross 1990). Individuals are free to choose whatever trade or profession they desire, engage in any business enterprise they wish, buy from and sell to anyone they choose (Scherer and Ross 1990) and are largely free to spend their income and other resources in a manner consistent with their values.[1]

Markets are inherently other-regarding (McGurn 2004); producers cater to consumers, differentiating products to appeal to particular tastes. Markets create the wealth that helps the poor escape poverty (Novak 1996). They reduce envy through open economic opportunity and economic growth (Novak 1996). Capitalism fosters trust and cooperation because "trade and exchange are games in which everyone can end up gaining, rather than zero-sum games in which there's always a winner and a loser" (Surowiecki 2004, p. 118). Thus, while markets are not perfect, in the main, they deliver individual prosperity, unprecedented individual freedom, and amidst this prosperity and liberty, the opportunity to lead a virtuous life (D'Souza 2000).

"The purpose of a business firm is to be a community of persons endeavoring to satisfy basic needs at the service of the whole of society . . . [t]he Church acknowledges the legitimate role of profit as an indication that a business is functioning well" (John Paul II, 1992, paragraph 35). This is in part the doctrine offered by Levitt (1986, pp. 5–7), who observed that superior corporate performance is achieved by "figuring out what people really want and value, and then catering to those wants and values. [This] statement of [corporate] purpose . . . provides specific guidance and has moral merit." In denouncing profit as *the* end to which organizational means are put, Levitt (1986, p. xxiii) argues that "profit is a meaningless statement of the corporate purpose. Without customers in sufficient and steady numbers there is no business."

While not the purpose of business, profit is one measure of an organization's ability to effectively satisfy consumers using the most efficient techniques or processes and a minimum amount of inputs. Empirical evidence suggests several mechanisms by which greater customer satisfaction leads to greater shareholder value (see Anderson, Fornell, and Mazvancheryl 2004 and citations therein). For example, higher levels of customer satisfaction lead to greater customer retention and significantly lower transaction, "rework," and customer replacement costs. Higher levels of customer satisfaction lead to higher levels of employee satisfaction and productivity and reduced turnover and labor costs. The longer-term view and greater sensitivity to societal values and priorities characteristic of customer-oriented organizations have been found to foster superior compliance with normative and legal expectations, thus lowering overall operating costs. Best (2004, p. 15) concludes, "[t]he ultimate objective of any given marketing strategy should be to attract, satisfy, and retain target customers. If a business can accomplish this objective with a competitive advantage in attractive markets, the business will produce above-average profits."

Thus, profit making, when conceptualized as a *consequence* of satisfying consumers with products and services of real value, is a high calling. Profit is a useful measure of the corporate contribution to society because it is a metric by which satisfaction is measured in terms of consumer willingness and ability to pay. Given that corporate performance is most universally measured in terms of profits, one can well understand the assertion that "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game,[2] which is to say, engages in open and free competition, without deception or fraud" (Friedman 1962, p. 133).

Corporations produce the greatest societal return on investment by focusing on two priorities: (1) developing and deploying the distinctive capabilities necessary to create superior customer value and (2) capturing externalities, reducing transaction costs, and in other ways improving economic efficiency. Thus, "[t]here can be no corporate strategy that is not in some fundamental fashion a marketing strategy, no purpose that does not respond somehow to what people are willing to buy for a price" (Levitt 1986, p. 7).

Kotler (2003, p. 9) defines marketing as "a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of values with others." Its importance to the welfare of modern societies is evident. "The wealth of the industrialized nations is based much more on [know-how, technology, and skill] than on natural resources. A person produces something so that others may use it after they have paid a just price, mutually agreed upon through free bargaining. The ability to foresee both the needs of others and the factors best fit to satisfying those needs is another source of wealth in modern society. In this way, the role of disciplined and creative human work and initiative and entrepreneurial ability becomes increasingly decisive" (John Paul II, 1992, paragraph 32). Thus, marketing is the process by which individuals and organizations are compelled to be attuned to satisfying their neighbor's wants and desires.

Organizations seeking to maximize consumer satisfaction depend on consumer definitions of satisfaction, the existence of particular social constructs, and virtue itself to direct these efforts. Fukuyama (1996, p. 11) makes this very case:

> If the institutions of democracy and capitalism are to work properly, they must coexist with certain premodern cultural habits that ensure their proper functioning. Law, contract, and economic rationality provide a necessary but not sufficient basis for both the stability and prosperity of post-industrial societies; they must as well be leavened with reciprocity, moral obligation, duty toward community, and trust, which are based in *habit* rather than rational calculation [emphasis added]. The latter are not anachronisms in a modern society but rather the sine qua non of the latter's success.

Moral lapses within the domain of commerce may be attributable to unrestrained consumer appetites, abdication of personal responsibility, managerial transgressions, or self-centered corporate strategy. More troubling, deterioration of society's stock of habitual virtue may be at the heart of recent corporate scandals. Reformers might well consider how individual consumers can be made more accountable for their choices, how organizations can better keep promises to consumers, and how we can strengthen institutions charged with teaching the ground rules (i.e., reciprocity, moral obligation, duty toward community, and trust) necessary to successful markets and democracy itself.

When addressing these questions, reformers must be careful to buttress society's commitment to the ground rules rather than attempt to alter consumer tastes and preferences at variance with their own. Areeda and Kaplow (1997, p. 9) offer this caution:

> Those who doubt the wisdom or propriety of consumer tastes will have reason to question and perhaps alter the perfectly competitive result. They may seek to have government restrict or tax individual or business choices when existing consumers have "insufficient" regard for future generations or when the "wrong" kinds of commodities are purchased. They may want government to subsidize certain goods and services that they feel individuals and firms undervalue. Finally, they may ask government to affect consumer choice through education and persuasion.

The morality of free markets derives from the opportunity to exercise personal prerogative. The morality of marketing organizations derives from the potential of one group of people to satisfy the wants and needs of another. It is important that we not indict, and attempt to curtail, the processes that foster consumer choice when our quarrel is actually with the choices consumers freely make. Marketing organizations seek to influence, but ultimately respond to, societal preferences. Marketing reflects (i.e., follows, responds to) rather than manipulates (i.e., initiates, leads) societal preferences and values (Holbrook 1987). Efforts to regulate the tastes and preferences of consumers directly contradict traditional notions of consumer sovereignty (Bloom and Smith 1986) and the purpose of organizations as described above. If reformers wish to modify consumer tastes and preferences, let them freely compete for consumer hearts and minds in the marketplace of ideas.

That marketing is the object of public criticism is nothing new. Years ago, Levitt (1986, p. 215) observed that:

> Everywhere marketing is maligned for its pushy, noisy, manipulative intrusions into our lives; its corruptive teachings of greed and hedonism; its relentless pursuit of the consumer's cash, regardless of consequence, save the profit of the seller. Paradoxically, these complaints seem to rise in direct proportion to the . . . implementation of the idea that success is most assured by responding in every fiscally prudent way to what people actually want and value.

Should we be surprised by what he calls "the perverse simultaneity of a triumphant marketing concept that seeks to better satisfy the public and a less satisfied public" (Levitt 1986, p. 225)? Levitt's paradox seems a logical (and desired) consequence of a marketplace committed to consumer satisfaction. With every improvement in the deployment of organizational resources to satisfy specific consumer desires, we "bid up" consumer expectations for better, faster, and cheaper everything. Consumers are never completely satisfied with what is offered them and often disapprove what is offered others. "[W]hile more people are better satisfied by getting a chance to buy what's better tailored to their specific functional or psychosocial wants, [others] get frustrated, annoyed or distracted by marketing programs . . . they don't want, or can't afford but would like to have" (Levitt 1986, p. 225). This is the ever-present challenge that requires the "marketing imagination" of Levitt's title.

Thus, as we contemplate reform, we must embrace, and work to enhance, a marketplace inhabited by competent consumers and organizations in business to serve them, while recognizing the inherent morality of choice. Our efforts are best invested in enhancing the responsiveness of markets, organizations, and marketing to consumer preferences. Reform would therefore be well directed at educational, religious, and familial institutions wherein inculcating the values of reciprocity, moral obligation, duty toward community, and trust can and should influence the manner in which market participants treat one another. After all, market imperfections such as externalities, information asymmetries, moral hazards, transaction costs, and the like result when these basic values or ground rules are abandoned. Moreover, efforts to inculcate these basic values stand a better chance of improving markets than regulatory substitutes and the often-unintended consequences thereof.

## NOTES

The comments of Janis K. Pappalardo and G. Frederick Thompson on an earlier draft of this essay are most appreciated.

1. Friedman and Friedman (1980) take issue with this assertion, suggesting that many of our economic freedoms have been eroded by local, state, and federal regulations.

2. Elsewhere, Friedman elaborates "the basic rules of society, both those embodied in law and those embodied in ethical custom" (1970, p. 33).

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Chapter 8

# ON REFORMING MARKETING

## For Marketing Systems and Brand Equity Strategy

Shelby D. Hunt

Many commentators believe that both marketing practice and marketing academe need reform. As to marketing practice, for example, J. Walker Smith (2004) of Yankelovich Partners points to studies showing that marketing productivity is declining and consumer activism and expectations are growing. For him, the increasing resistance of consumers to conventional mass marketing communications implies that firms must precisely target their messages, avoid using demographic proxies for targeting, ensure that all messages are relevant to consumer needs, and earn the trust of their customers. As a second practice example, Jagdish Sheth (2004) argues that marketing, headed by a "chief customer officer," should shift from being a line and business-unit function to a corporate and staff function. This shift would imply that marketing should (1) report directly to the chief executive officer, (2) have responsibilities for branding, key account management, and business development, and (3) manage outside suppliers (e.g., market research firms and advertising agencies).

As to marketing academe, Robert Lusch (2004), drawing on Vargo and Lusch (2004), argues that marketing has suffered from a goods-centered logic that it inherited from equilibrium economics. For him, marketing should shift toward a dynamic, "service-dominant logic" that (1) focuses on specialized skills and knowledge as operant resources, (2) strives to maximize consumers' involvement in developing customized offerings, (3) aims toward an organizational philosophy that leads in initiating and coordinating a market-driven perspective, (4) stresses service provision in teaching the principles course, and (5) teaches marketing strategy courses based on resource-advantage theory. As a second example, Sheth (2004) believes that marketing academe's problems stem from its esoteric, nonfunded, and ad hoc research. He argues that it should shift toward newsworthy, funded, and programmatic research. On a different theme, William Wilkie (2004), drawing on Wilkie and Moore (2003), points out that, because academic marketing research has become increasingly fragmented, much marketing knowledge is being *lost*. For example, Alderson's (1957, 1965) contributions to understanding marketing systems are unknown to many marketing academics (and underappreciated by most). In terms of the "three dichotomies model" model of marketing (Hunt 1976, 2002), Wilkie argues for more *macropositive* and *macronormative* research. Specifically, he recommends that (1) studies of marketing systems and (2) research on the relationship between marketing systems and society be reinstituted as intrinsic parts of mainstream marketing. These topics, he points out, were central to marketing prior to its shift toward marketing management in the 1950s and 1960s.

Consistent with Wilkie (2004), this chapter argues for the importance in marketing academe of studying marketing systems and society. I do so by using the example of the attacks on marketing's emphasis on brands and brand equity as components of dynamic marketing systems. Consistent with Vargo and Lusch (2004), I use resource-advantage theory as a foundation for exploring whether society benefits or loses from the use of brand marketing. Specifically, this chapter argues *for* the study of dynamic marketing systems and *for* the use of brand equity strategies in such systems.

## THE INDICTMENT OF BRANDING

The indictment of brand marketing comes from many quarters. Here, I briefly review the attacks from antiglobalization activists, marketing academics, and equilibrium-oriented economists.

### Antiglobalization Activists

Attacks on branding by antiglobalization activists have been greatly influenced by the book, *No Logo*, by Canadian journalist and social activist Naomi Klein (2000). (An Internet search for "No Logo" will yield hundreds of thousands of hits.) Klein's book attacks global brands (especially *American* global brands), and is divided into four sections: No Space, No Choice, No Jobs, and No Logo. The first section documents the pervasiveness of global brands; the second chastises global brands for replacing local alternatives; the third associates global brands with job losses in developed countries; and the fourth sets out an agenda for antiglobalization activists. For Klein, global brands exploit Third World workers (e.g., sweatshops and child labor), increase domestic unemployment, reduce domestic wages, erode workers' rights, censor the media, and debase local cultures by making them more homogeneous. She argues for boycotting global brands, disrupting shareholder meetings, filing lawsuits, and picketing trade conferences. Her hope is that, "as more people discover the brand-name secrets of the global logo, their outrage will fuel the next big political movement, a vast wave of opposition squarely targeting transnational corporations, particularly those with high name recognition" (Klein 2000, p. xviii).

### Marketing Academe

In marketing academe, a major attack on brand marketing comes from Johny Johansson (2004a), who inquires: "Is American marketing morally bankrupt?" For him, "the answer is yes." His bankruptcy claim is detailed in his book, *In Your Face* (Johansson 2004b), in which he asks, "What are global marketers doing wrong?" He responds, "The answer seems to lie in their emphasis on global branding" (p. 12). Using Klein's (2000) indictment as a starting point, Johansson links together three movements: (1) antimarketing, (2) antiglobalization, and (3) anti-Americanism. He maintains, "The Americans were the main proponents of war, and they were also the main proponents of globalization. Anti-Americanism and anti-globalization seemed two sides of the same coin, and marketing surely played a common role in both movements" (2004b, p. xviii). Linking anti-Americanism with antiglobalization enables him to explain the fact that 121 of the brands indexed in Klein's *No Logo* were American, and only nineteen were European.

Johansson (2004b) views with favor Klein's charges against American brand marketing. He also faults American marketers and what he calls the American government's "Brand America campaign" for arguing their positions with "arrogant zeal" and an "in-your-face attitude" (p. 17). He accuses American marketers of promoting "materialism and superficiality" (p. 39), and he complains that "the rate of technological innovation is so high that products are obsolete while still perfectly functional" (p. 40). Indeed, " the free market system . . . is out of whack, and our consumer paradise has turned into a quagmire of commercialism, consumption, and materialism (p. 41). For him, "The problem with these brands is that they encourage an *American lifestyle* based on superficiality and fads, all engineered by profit-seeking marketers. It is this new consumerspace with its in-your-face marketing techniques that threatens engrained ways of life and traditional culture" (p. 119). Although Johansson acknowledges that "there is no gainsaying the statistical fact that the standard of living is higher with free markets" (p. 72), he maintains that American proglobalist writers fail to recognize that "in most other societies, particularly those older than America, . . . economic and social progress is much more of a zero-sum game" (p. 158). That is, for him, in most societies, one group's economic gain is another's loss, one group's progress is another's regress.

For Johansson, "In the race to the bottom [in America], marketing has, not unwittingly, played a major role" (p. 159). The "race to the bottom" in America results from its diversity: "Considering the multiracial, multi-ethnic, and multicultural mix of people inhabiting the U.S., the popular choice of the majority naturally involves a 'lowest common denominator'" (p. 159). Why the "lowest common denominator"? Because, he explains, whereas "advanced and sophisticated expressions or products" can be used in racially and ethnically homogeneous societies, in America, "to appeal to a multicultural and multi-ethnic mass market, simple statements about simple things that all can agree on are needed" (p. 159).[1] He concludes his indictment of American brand marketing by, as he puts it, trying to find grounds to "accentuate the positive" (p. 183). Alas, for him, "I would like to say there are some positive signs [in American marketing], but honestly, I don't see any" (p. 183).

**Equilibrium Economics**

Attacks on branding are also common in neoclassical economics. The hostility of equilibrium economics to branding stems from its reliance on perfect competition theory and the view that brands (i.e., trademarks) are anticompetitive because they promote product differentiation, which, in turn, promotes market power and monopoly. Chamberlin's (1962) seminal analysis provides the standard view in equilibrium economics. He points out that the legal protection of trademarks fosters product differentiation and, therefore, a situation in which prices are higher (p. 88), quantities produced are lower (p. 88), excess capacity is permanent (p. 109), products are inferior (p. 99), and all factors of production are exploited (p. 183). Because, for him (p. 270), "the protection of trademarks from infringement . . . is the protection of monopoly," he inquires whether there are arguments by which the "monopolies protected by the law of unfair competition and of trademarks may be justified" (p. 271).

As to the rights of producers in their own names, Chamberlin (1962, p. 272) first defines a trademark as "any sign, mark, symbol, word or words which indicate the origin or ownership of an article as distinguished from its quality," and he asks: "where does identification leave off and differentiation begin?" His analysis suggests that trademarks in fact stand not just as devices for "mere identification" but also signal levels of quality as well. Therefore, as to whether producers have intellectual property rights in their names:

> There seem to be no grounds upon which he [the producer] may justly claim such protection. Given that the consumer is equally satisfied with the goods of two sellers, the entrance of the second into the field [with the first seller's name] must be regarded as the natural flow of capital under competition to check the profits of the first and to adjust the supply of the commodity to the demand for it at cost. (p. 272)

As to the interests of consumers, Chamberlin (1962) evaluates three arguments that might seem to imply that consumers actually benefit from the legal protection of trademarks: (1) trademarks stimulate variety, (2) trademarks protect consumers from deception and fraud, and (3) trademarks encourage producers to maintain the quality of their goods. As to the first, given the tradeoff between more variety and the efficiency of more competition, he argues against trademark protection because "less monopoly would be created" and "useless differentiation would be discouraged" (p. 273). As to the second and third arguments, he maintains that "equally effective" as trademark *protection* "would be a policy of permitting imitation [of a trademark] only if it were perfect, or of defining standards of quality by law" (p. 273). Whereas he believes the former is "condemned by its impracticality," the latter solution "has large possibilities, especially in the case of staples" (p. 273). Chamberlin (1962) concludes his evaluation by recommending that, if trademarks warrant legal protection at all, it should be limited to five years. Such protection, he argues, would sufficiently prompt innovation and:

> The wastes of advertising . . . would be reduced, for no one could afford to build up goodwill by this means, only to see it vanish through the unimpeded entrance of competitors. There would be more nearly equal returns to all producers and the elimination of sustained monopoly profits. All in all, there would be a closer approach to those beneficent results ordinarily pictured as working themselves out under "free competition." (p. 274)

Chamberlin's (1962) analysis of trademarks graphically illustrates the power of a research tradition to frame both what phenomena are problems and what factors get considered. The fact that consumers use trademarks as heuristics indicating quality is a problem to be solved because of neoclassical theory's exclusive focus on static-equilibrium efficiency. That is, trademarks are a problem because they contribute to product differentiation, which is itself a problem because of its inconsistency with perfect competition and the welfare implications of static equilibrium. In contrast, because property rights are outside the scope of equilibrium analysis, the moral implications of transgressing the rights that producers have in their names is outside the scope of the analysis and not even considered. Similarly, that "trademarks stimulate variety" can be dismissed with a wave of the hand because the variety so stimulated is probably *useless* differentiation. Furthermore, the goal of government is not to protect property rights, but to increase static efficiency by encouraging the imitation of successful innovators through the use of the coercive power of the state to enforce common quality standards. Such coercion, Chamberlin assures us, will be "equally effective" as the use of trademarks in consumers' search for information.

All research traditions have foundational premises. And these premises, as the neoclassical approach to branding reminds us (or should remind us), *count.*

## FOR MARKETING SYSTEMS AND BRAND EQUITY STRATEGY

As the preceding shows, the attacks on brand marketing come from numerous and influential sources. Given the great emphasis on brand marketing in both practice and academe, one might expect to find vigorous defenses of branding in texts and journals. Such is not the case. Texts on strategic brand management discuss topics such as how to build brand equity, communicate brand attributes, and manage brand portfolios, but they devote almost no space to the role of brands in the economy or the impact of branding on society. Similarly, the academic literature is largely silent on these issues. For example, the widely cited special issue on branding in the *Journal of*

*Marketing Research* in May of 1994 contained twelve expositions of branding issues, but not a single article devoted to the role of brands in the economy or society.[2]

As Wilkie points out, prior to the shift toward marketing management in the 1950s and 1960s, texts and articles in marketing, influenced by the commodity, institutional, and functional approaches to marketing, would devote significant space to analyses of marketing systems and the impact of such systems on society. I agree with him that marketing's texts and scholarship have been remiss in not giving more attention to issues such the role of brands in marketing systems. Although this brief chapter cannot address *all* the issues raised by the many critics of brand marketing, what can be offered is a start that focuses on the "anticompetitive" charge leveled at brand marketing in neoclassical economics.

## An Inchoation

The fundamental thesis of brand equity strategy is that, to achieve competitive advantage and, thereby, superior financial performance, firms should acquire, develop, nurture, and leverage an effectiveness-enhancing portfolio of brands.[3] Are firms' brand equity strategies pro-competitive or anticompetitive, good for society or bad? Answering this question requires exploring the role of branding in market-based economies. Because market-based economies are premised on self-directed, privately owned firms competing with each other, understanding the role of brands in the economy requires a theory of how firms compete. Here, I use as a foundation the resource-advantage (R-A) theory of competition, first articulated in Hunt and Morgan (1995), later developed in numerous articles, and summarized in Hunt (2000). Resource-advantage theory is particularly appropriate for the task at hand because it is (1) a dynamic theory of competition, (2) recommended by Vargo and Lusch (2004) as a vehicle for teaching strategy, and (3) argued to be toward a general theory of marketing (Hunt 2002). Indeed, one of the grounds for the "general theory of marketing" claim is that R-A theory incorporates key parts of Alderson's "lost" work on marketing systems.

For R-A theory, competition is an evolutionary, dynamic, disequilibrating process that consists of "the constant struggle among firms for comparative advantages in resources that will yield marketplace positions of competitive advantage for some market segment(s), and thereby, superior financial performance" (Hunt 2000, p. 135). The theory stresses the importance of (1) market segments, (2) heterogeneous firm resources, (3) comparative advantages/disadvantages in resources, and (4) marketplace positions of competitive advantage/disadvantage. In brief, market segments are defined as intraindustry groups of consumers whose tastes and preferences with regard to an industry's output are *relatively* homogeneous. Resources are the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively market offerings that have value for some marketing segment(s).

Resources can be categorized as financial (e.g., cash resources and access to financial markets), physical (e.g., plants and equipment), legal (e.g., trademarks and licenses), human (e.g., the skills and knowledge of individual employees), organizational (e.g., competences, controls, policies, and culture), informational (e.g., knowledge from consumer and competitive intelligence), and relational (e.g., relationships with suppliers and customers). Each firm in the marketplace has a set of resources that is in some ways unique (e.g., knowledgeable employees or efficient production processes) that could potentially result in a marketplace position of competitive advantage. Just as international trade theory recognizes that nations have heterogeneous, immobile resources, and it focuses on the importance of comparative advantages in resources to explain the benefits of trade, R-A theory recognizes that many of the resources of firms within the same industry are significantly heterogeneous and relatively immobile. Therefore, analogous to nations, some firms will have comparative advantages and others comparative disadvantages in efficiently and/or effectively producing particular market offerings that have value for particular market segments.

Specifically, when firms have a comparative advantage (disadvantage) in resources, they will occupy marketplace positions of competitive advantage (disadvantage). Marketplace positions of competitive advantage (disadvantage) then result in superior (inferior) financial performance. Therefore, firms compete for comparative advantages in resources that will yield marketplace positions of competitive advantage for some market segment(s) and, thereby, superior financial performance. Competition is influenced by five environmental factors: the societal resources on which firms draw, the societal institutions that structure economic actions, the specific actions of competitors and suppliers, the behavior of consumers, and public policy.

Firms seek marketplace positions of competitive advantage because they lead to superior financial performance. In general, firms occupy marketplace positions of competitive advantage when they have an efficiency advantage (i.e., producing market offerings at lower cost than rivals), an effectiveness advantage (i.e., producing market offerings that are perceived as being more valuable than those of rivals), or both an efficiency advantage and an effectiveness advantage. Therefore, competition is both efficiency- and effectiveness-seeking.

Firms learn through competition because of the feedback from their relative financial performance signaling relative market position, which, in turn, signals relative resources. When firms competing for a market segment learn from their inferior financial performance that they occupy positions of competitive disadvantage, they attempt to neutralize and/or leapfrog the advantaged firm(s) by acquisition and/or innovation. That is, they attempt to acquire the same resource as the advantaged firm(s), and/or they attempt to innovate by imitating the resource, finding an equivalent resource, or finding (creating) a superior resource. Here, "superior" implies that the innovating firm's new resource enables it to surpass the previously advantaged competitor in terms of either relative efficiency or relative value, or both.

Firms can maintain marketplace positions of competitive advantage if they continue to have comparative advantages in resources over their rivals. Some resources are more crucial than others for developing and maintaining marketplace positions of competitive advantage. Specifically, resources will lead to sustainable competitive advantages when they: (1) cannot be imitated easily, (2) are difficult to substitute for, (3) are not easily traded among firms, and (4) resist efforts by rivals to leapfrog them through major innovation (i.e., through developing superior resources). Resources that meet these criteria include those that (1) are causally ambiguous, (2) are socially and technologically complex, and (3) require time to develop.

## Brand Equity Strategy and R-A Theory

Readers should note that brands (trademarks) can be resources under R-A theory, but only if they contribute to the firm's ability to efficiently and/or effectively produce a market offering of value to some market segment(s). That is, the brand must *add value* to the market offering in the eyes of the market segment(s). What, then, for R-A theory, is a "high-equity" brand? A high-equity brand is one that, by triggering highly favorable associations among targeted consumers, adds such value to the market offering that the resulting increase in firm effectiveness moves the market offering to the right in the marketplace position matrix (see figure 9.2 in Hunt 2002). Some brands, of course, actually *reduce* the value of the offering, as when, for example, consumers associate the brand with shoddy merchandise. In such circumstances, a brand would be characterized by R-A theory as a "contra-resource" (Hunt and Morgan 1995). Also, as to R-A theory's resource categories, a brand may be considered to be both a relational and a legal resource. It is a *relational* resource because brand equity is a manifestation of a firm's relationship with consumers. It is a *legal* resource because trademark law prevents competitors from stealing the value of the firm's investment in developing the brand's equity.

Theories are derived from their premises. The perfect competition theory on which equilibrium economics draws to analyze trademarks assumes that consumers have perfect and costless information about the availability, characteristics, benefits, and prices of all products in the marketplace. In contrast, R-A theory posits that consumers within market segments have imperfect information about goods and services that might match their tastes and preferences (see table 9.1 in Hunt 2002). Furthermore, the costs to consumers in terms of the effort, time, and money in identifying satisfactory goods and services (i.e., consumers' search costs) are often considerable. Consequently, one purpose served by the legal protection of trademarks is the reduction of consumer search costs. Specifically, trademarks are societal institutions that reduce search costs by signaling the attributes of market offerings.[4]

Recall that, for equilibrium economics, trademarks are a *problem* because they contribute to product differentiation, which is *itself* a *problem* because of its inconsistency with perfect competition and the welfare implications of static equilibrium. In contrast, the fact that consumers have imperfect information and often use trademarks as heuristics of quality is not a *problem* for R-A theory. First, because heterogeneous, intra-industry demand and supply is viewed as natural by R-A theory, it is only natural that, facing imperfect information, consumers will often use trademarks as indicators of quality. Second, because a trademark is viewed as intellectual property and fully worthy of legal protection, R-A theory views firms' protecting the equity in their trademarks as providing not only (1) a valuable source of information to consumers, but also (2) a powerful incentive for producers to maintain quality market offerings, and (3) a means by which manufacturers of shoddy, defective, or even dangerous products can be held accountable. Third, because R-A theory rejects static-equilibrium efficiency as the appropriate welfare ideal, the heterogeneity of demand and supply does not pose a problem to be solved, but a state of nature—and a desirable one at that. Indeed, R-A theory proposes that the *best* way to view the role of trademarks in market-based economies is that they are quality-control and quality-enhancing institutions. As evidence in favor of R-A theory's view of trademarks, consider the case of trademarks in the Soviet Union.

As Goldman (1960) recounts, the Soviet Union in its first few decades treated advertising and trademarks as capitalist institutions that, consistent with equilibrium economics, promoted inefficiency. As one might expect, with Soviet production goals set in quantitative terms, shoddy products proliferated, despite the huge inspection costs brought about by an army of inspectors. By the 1950s, Goldman (1960) points out, not only was the Soviet Union finding that advertising was an efficient means to inform consumers about products, but Soviet planners, in a desperate attempt to improve quality, made it obligatory that every plant in the Soviet Union place a "production mark" *(proizvodstvennaia marka)* on all output. Goldman (1960) quotes a Soviet planner as justifying making trademarks obligatory for all plants: "This makes it easy to establish the actual producer of the product in case it is necessary to call him to account for the poor quality of his goods. For this reason, it is one of the *most effective weapons* in the battle for the quality of products" (p. 399; emphasis added).

But, Goldman (1960) observed, holding Soviet producers accountable for shoddy quality was not the only benefit of obligatory trademarks. He also noted that a more elaborate and attractive form of mark, *tovarnyi znak*, while sometimes optional, is obligatory for 170 groups of goods and for all exports. Again, Goldman (1960) quotes a Soviet planner as to the quality-enhancing benefits of the "competition" resulting from mandating the use of trademarks: "Due to its originality, the trademark makes it possible for the consumer to select the good which he likes . . . this forces other firms to undertake measures to improve the quality of their own product in harmony with the demands of the consumer. Thus the trademark promotes the drive for raising the quality of production" (p. 351).

Therefore, the experience of the Soviet Union supports R-A theory's view that consumers' use of trademarks as indicators of quality is not a problem to be solved. Instead, trademarks are institutions that serve as important quality control and quality-enhancing devices in real economies. How important? So important that command economies *mandated* that firms use trademarks, even in those situations where all plants were supposed to produce *homogenous* commodities. In short, trademarks and product differentiation are not problems for society to solve; they are institutions that solve societal problems.

## CONCLUSION

The preceding analysis supports the reforms suggested by Wilkie (2004) and Vargo and Lusch (2004). Marketing should supplement its emphasis on the micronormative (i.e., marketing management) aspects of marketing with more research on macropositive and macronormative issues, with the former focusing on marketing systems as they *are* and the latter focusing on marketing systems as they *ought to be*, respectively. Using resource-advantage theory as a foundation for understanding dynamic marketing systems, this chapter has explored the benefits that redound to marketing systems and society when firms implement brand equity strategies. I have argued that the best way to view the role of brands in market-based economies is that they are highly important quality control and quality-enhancing, institutions. Therefore, the implementation of brand equity strategies provides substantial benefits to market-based economies (as well as major benefits to socialist economies, a counterintuitive finding, to be sure).

With respect to the role of brands in society, this essay provides a beginning, not an ending. As one example of a starting point for other aspects of the controversy over brand marketing, recall the fact that brands allow consumers and others to identify the firms to be held responsible for the products they produce. Now recall that Klein (2000) argued that global firms exploit Third World workers. Without the global brand as a means for *identifying* the global firm, antiglobalization activists would have great difficulty knowing which products to boycott. As a second example, recall Johansson's (2004b) belief that antiglobalization is actually anti-Americanism at its roots. Again, without global brands, the antiglobalization activists would have difficulty knowing which products are American (and, thus, to be boycotted) and which are European or Japanese (and, thus, to be favored).[5]

As an assistant professor in the early 1970s at the University of Wisconsin, Madison, I recall expressing the view to a senior professor that marketing academe has an important role to play in conducting research on marketing systems and society. His response was that such research was the province of economics. Business professors, he stated emphatically, should focus exclusively on the needs of business managers for better decision-making models. I countered by arguing that business practitioners have needs that extend well beyond the area of decision-making models. He "replied" by walking away. Marketing has paid a steep price for "walking away" from such subjects as marketing systems and society. The best interests of marketing practice, marketing academe, and society are not served by continuing to pay that price.

## NOTES

The author thanks Robert E. McDonald and James B. Wilcox for their helpful suggestions on a draft of this chapter.

1. A reviewer of a draft of this chapter found Johansson's argument here to be offensive, if not insulting. He commented that many readers might be outraged, and he wondered if I perhaps had quoted Johansson inaccurately or out of context. As a check, I showed the quoted material to colleagues familiar with the source. They reread the section in the book in question and affirmed that the quotes are accurate and in context. That is, the quoted material accurately describes Johansson's argument.

2. The excellent article by Low and Fullerton (1994) on the history of brands, brand management, and the brand manager system comes closest. However, the article does not position these topics within the overall marketing system or evaluate the impact of brands on the economy or society.

3. "Effectiveness-enhancing," as used here, has a very specific meaning, which is increasing the value of the market offering, as perceived by consumers in the target market, and, therefore, potentially moving to the right in the marketplace position matrix. See figure 9.2 in Hunt (2002).

4. See Erdem and Swait (1998) for an informative discussion of brand equity as a signaling phenomenon.

5. I am not arguing here that critics' calls for boycotts are justified. Rather, I point out that critics' calls for boycotts are uninformed by reason.

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Chapter 9

# DOES MARKETING NEED REFORM?

## Personal Reflections

Russell S. Winer

A number of prominent marketing practitioners and academics have made appealing arguments that both the practice of marketing and academic marketing research need serious reform. With respect to the former, the complaints include some of the following:

- Marketers produce products that are unhealthy and dangerous and are attempting to foist them on an unsuspecting public;
- Marketers are not innovative anymore;
- The general public is unhappy with marketers;
- There are more choices among products than people need;
- Marketers do not have the ears of company senior management and boards.

With respect to marketing academics, the complaints tend to focus on the old problem of relevance: what we do is relevant and important only to other academics but not to practitioners. Below, I offer some personal reflections on these two topics.

### REFORM MARKETING PRACTICE?

Undoubtedly, marketers have a deteriorating image among the general American public (and perhaps in other countries as well). Unhealthy "supersized" products, unwanted telemarketing phone calls, voluminous spam e-mails, SUVs with significant probabilities of rolling over when making sharp turns as well as large appetites for gasoline, and so on combine to give marketing a bad name. Many "me too" products make people wonder if companies are innovative any more. Paralysis in the supermarket when confronted with a hundred varieties of spaghetti sauce leaves shoppers exhausted rather than fulfilled.

Additionally, there are many who bemoan the lack of impact corporate marketers have at the senior management and board levels. These groups are more persuaded by financial wizards who can manipulate earnings, acquire and disgorge companies as "assets," and hedge earnings through sophisticated investments. Often, lawyers who can navigate the arcane world of Sarbanes-Oxley and other modern legislation are chosen to head firms rather than people who have experience in acquiring and retaining customers.

There is, of course, some truth to all of this. However, the picture is generally not as bleak as has been painted. Let me address these issues in turn.

I am a firm believer in consumer sovereignty and that good drives out bad. At some point, a situation in disequilibrium returns to equilibrium, that is, market forces result in change. Let's take the situation of "supersized," unhealthy products. When consumers do not want these any more, companies like McDonald's respond. That is why the company is repositioning itself by offering more salads as part of a healthier menu. Hummer recently introduced a new model, the H3, which is smaller and more fuel-efficient. Many food brands have developed versions of their products with fewer carbohydrates. I am not embarrassed to be in marketing despite the existence of some products that are not particularly useful or healthy. It is not our responsibility to dictate to consumers what they should or should not consume. While I am personally against cigarette smoking, it is a person's right to make that decision and a company's fiduciary responsibility to try to market the product the best they can. If and when insufficient numbers of consumers want cigarettes, the companies will find some other businesses (as most have already).

Unfortunately, with respect to other unpopular marketing practices such as telemarketing and spam e-mails, the reputations of useful direct marketing techniques have been sullied by improper and excessive actions of individuals and companies. Clearly, such direct marketing is effective given the billions of dollars consumers spend in these channels. In these cases, the return to an equilibrium of good practice has been enforced by legislation sparked by consumer complaints as well as technological solutions. However, I believe the net impact of these actions will be positive. Consumers not wishing to receive telemarketing calls can register on the "Do not call list"; increased use of "opt-in" registration and spam filters will help control unwanted e-mail.

Are marketers really not innovative any more? Is everything "me too"? I do not subscribe to that thesis. Apple's iPod is a designer's dream and is selling well. The Chrysler 300 is hot. In fact, innovation in product and design is very popular today. Magazines such as *Cargo* are devoted to new and exciting products. Samsung has opened an interactive showcase in New York's Time Warner Center displaying its new products; the company has clearly successfully positioned itself as a technology and design leader and has grown substantially as a result.

With respect to product assortment and choice, the movement toward category management in drug, grocery, and discount stores should keep such problems to a minimum. Under category management, manufacturers and retailers work together to ensure that the brand and item assortment is optimal for the retailer's profits. If there are too many items displayed in the spaghetti sauce category, some of the variants will have low turnover, low profitability for the retailer, and be replaced by something more profitable.

Finally, I am in agreement with the thesis that marketing does not have the ears of senior management and corporate boards. This is because we have not marketed marketing very well, that is, the enemy is us. Instead of financial people pushing for accountability of marketing spending on advertising, customer relationship management hardware and software, promotions, and other marketing tools, it should be marketing people. Peter Drucker has written for decades about the customer being the most important entity in a business. We are in charge of acquiring and retaining customers. We are the ones producing revenues. The "assets" that are acquired and divested when companies are bought and sold are actually aggregations of customers that have value, both in the long and short run. These messages have not been delivered effectively internally and I agree that it is our fault.

Additionally, marketing managers have only recently showed renewed interest in making marketing accountable, that is, developing financial and other metrics that permit senior management to quantitatively evaluate the efficacy of marketing programs. Again, while we have been performing quantitative analyses of, say, the effects of advertising for decades, we have been asleep at the switch as corporate officers have demanded better financial accountability. Marketing will gain more respect among the top levels of corporations when we are proactive in linking spending to the top and bottom lines and can do this in a convincing, scientifically sound manner.

## REFORM ACADEMIA?

Arguments have been made for a long time that most academic research is irrelevant and does not speak to practical business issues. I look at academic research as the R&D of business: a few papers produce hits that have relevant results but most produce failures (in terms of insights to either theory or practice). However, even the failures provide building blocks for future insightful research. Additionally, we have failed as an industry in communicating most of the relevant findings to industry in language that they can understand and apply.

I would also argue that research in marketing can be both relevant and "academic," that is, produce basic, fundamental results. I have made this point earlier (Winer, 1999). One of the solutions to this dual problem (academic and practical implications) is for academics to be concerned about the generalizability of research results beyond the lab into other contexts. This would give practitioners who are interested in applying our work to their problems (and there is much more even today that can be applied) confidence that empirical results relate to other than eighteen- to twenty-two-year-olds at "large Midwestern universities." This also means that academics can produce meaningful, applied research without resorting to writing only case studies or *Harvard Business Review* articles.

I have proposed that experimental papers focusing on internal validity in controlled laboratory environments at least have a mandatory section at the end of each paper indicating what kind of studies are necessary to establish external validity. This would put pressure on consumer behavior researchers to think about external validity as an integral part of their work and not leave it up to someone else, as Bill Wells has said (1993).

Additionally, I have argued that there are readily available sources of information that can be used to extend the generalizability of many consumer behavior studies: scanner panel data. These data (or their predecessor type, diary panel data) have been around for nearly fifty years and are a rich source of information that has been rarely exploited for this purpose. Scanner data represent observations of purchasing behavior of individuals in a real environment. While the environment itself is not the critical factor, scanner data studies that support results found in the lab provide strong evidence of external validity.

As we all know, business schools have been under increasing pressure to be relevant to the business world. This need to be relevant has resulted in a number of changes in business school faculty-hiring practices, for example. It is no longer enough to be only a promising scholar to get a job at a top school. The most sought-after candidates also must have the potential to be excellent teachers so deans can mollify impatient MBA students. This is sometimes referred to as one of the *Business Week* effects, from the magazine's biannual survey of alumni and recruiters resulting in rankings of the top U.S. schools. In addition, business school communications offices are developing newsletters and other materials for distribution to their constituents "translating" faculty research into terms they can understand and, perhaps, even use.

While I deplore many of the *Business Week* effects (for example, new business school deans stating their goal is for theirs to be a "top 10" school), I believe that the pressure on faculty to ultimately develop more relevant research is well placed. Marketing academics should be as well trained in their basic disciplines (usually psychology or economics) as possible and this training should be demonstrated in their research. However, most marketing academics choose marketing doctoral programs and to concomitantly take faculty positions in business schools rather than social science departments. This choice not only implies that we have to teach students who are more interested in the real world than the laboratory world, but that we should be interested in thinking about our research in the same way.

How can we break out of these routines and keep our focus on basic research? I have recommended that more joint ventures be sought between consumer behavior researchers and people with other disciplinary approaches in marketing. Excellent candidates for the latter are marketing scientists. There are a number of marketing scientists who are interested in consumer behavior but who attack problems from the perspective of another tradition. I consider myself one of this group. Rather than running tightly controlled experiments, marketing scientists are more likely to use scanner panel or other secondary data to test consumer behavior hypotheses. Often, the tests involve specifying alternative models of consumer decision making, estimating the models, and then choosing the model with the best fit or out-of-sample predictions as most consistent with the specified behavior. Alternatively, estimated values and statistical significance of the parameters of the models are interpreted as providing evidence of the underlying consumer behavior.

As I noted earlier, secondary data sources such as scanner panel data are particularly appropriate for assessing external validity for a wide variety of consumer behavior. Scanner data present the researcher with actual consumers making purchases in their real environment, the supermarket. However, scanner data are not perfect. We do not know which person in the household is making the purchases (except, of course, for single-person households). This is important: for food items, multiple brand or flavor purchases can represent different household preferences, which are unknown. We also do not have any consumption data. In addition, while the samples are much more representative than they were using the old diary technology and the data are collected effortlessly by panel members, there are always questions about the kind of people who agree to be on these panels, as well as the "mortality" issue of panel dropouts. Finally, and importantly for consumer behavior researchers, there are no process measures (e.g., attitudes) taken because only purchasing behavior is measured. Despite these problems, scanner panel data represent real people making real decisions in a real environment.

Thus, my ideal form of the research process is a lab experiment in conjunction with a natural experiment using scanner panel data. Note that the process does not have to work in the direction experiment->scanner data. It is also possible for results found in scanner data studies to be given internal validity using lab experiments. I do not expect the same person to do both kinds of work; however, partnerships between scholars trained from different perspectives can and have brought complementary insights and skills to bear on a research problem that has resulted in greater generalizability than would have from either alone. In this way, we can have research that moves in the direction of practicality without sacrificing intellectual rigor.

## CONCLUSION

Market forces will curb the excesses of harmful and useless products and the extensive, mind-numbing product assortment. We have already seen an explosion in outstanding product design and innovation. However, there is work to be done in better marketing of marketing inside of organizations, making marketing financially accountable, and in making academic research more accessible to practitioners. I am optimistic that these latter changes will occur, and that the futures of both marketing practice and research are bright.

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CHAPTER 10

# REFORM, RECLAMATION, OR IMPROVEMENT

## Reinventing Marketing

DAVID W. STEWART

It is useful for a discipline to introspect and reflect on what it has become and how it might change in the future. Such introspection may be especially helpful for a discipline like marketing that is so frequently focused on the external environment of customers, markets, and competition. There is no doubt that other business disciplines now champion such central marketing constructs as customer focus, differentiation, segmentation, and positioning. The fact that other disciplines now embrace key marketing concepts reflects the success of the marketing discipline even as it raises questions about the definition and role of marketing in the future. Reflection on the state of the marketing discipline, its history, and its future can also provide insight, perspective, and direction.

It is also the case that the field of marketing exists within a context that includes unethical and abusive business and marketing practices. Every human enterprise, including government organizations and religious institutions, includes some unsavory characters and practices. There is no doubt that marketing practice, and business in general, includes some unsavory, unethical, and immoral elements. There is no good excuse for this state of affairs even if it reflects, in part, the human condition. Reflection and introspection on the marketing discipline may be helpful in formulating standards, codes of ethics and conduct, educational programs, regulatory practices, and other actions for controlling and reducing the incidence of unethical and immoral practices. Such reflection on the ethical dimensions of marketing may also help inform the discussion of the future of the discipline.

Although introspection and reflection are useful it is important that it not become critical to the point of being disparaging. The word “reform” is highly value laden. The *Merriam-Webster Online Dictionary* (2004) defines the noun “reform” as:

1. amendment of what is defective, vicious, corrupt, or depraved;
2. a removal or correction of an abuse, a wrong, or errors.

There is no reason to assume that marketing, or business in general, is corrupt and in need of reform in the sense offered in this definition. A more benign definition of reform might focus on the positive and affirmative need for improvement. It is certainly the case that marketing has and will continue to evolve over time and the discipline could and should be improved as a discipline and business practice. Nevertheless, there is much that is positive about marketing and its contributions to the firm, the consumer, and society at large. These positive contributions provide a foundation for constructive change and should not be overlooked in any discussion of the future of the discipline. There is much about the marketing discipline of which its members can be justifiably proud.

## THE SUCCESS OF MARKETING

Marketing has been remarkably successful as an academic discipline and area of management practice. As an academic discipline, marketing has developed an impressive body of empirical data, theoretical constructs, and research methods. As an area of management practice marketing has had enormous influence on how businesses define themselves and interact with key constituencies. Although marketing has enjoyed success as a discipline, its very success has resulted in its most important strategic contributions being adopted by and associated with other business functions ranging from operations and finance to strategy. This is a positive outcome. Indeed, Drucker (1993) has defined marketing as the central and unique characteristic of business:

> Marketing is the distinguishing, the unique function of a business. A business is set apart from other human organizations by the fact that it markets a product or a service. (1993, p. 61–62)
>
> Because its purpose is to create a customer, the business enterprise has two—and only these two—basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are "costs." (1993, p. 61)
>
> 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. (1993, p. 63)

The marketing discipline can be justifiably proud that managers in other disciplines speak the language of marketing. The operations manager that speaks of customer-centric service delivery, the finance professor that talks about the value of investing in a customer and the lifetime value of a customer, and the business strategy consultant who emphasizes the roles of differentiation and positioning in business success are merely reflecting the triumph of ideas that originated in marketing. The issues of ethics in marketing practice that are the focus of many of the chapters in this volume also reflect a discipline that has been successful in creating a sensitivity and concern for important moral issues within its ranks. Indeed, marketing may be at the forefront of the discussion of such issues as consumer information disclosure, privacy protection, intellectual property safeguarding, and unfair business practices identification and elimination. One of the more vital special interest groups in the American Marketing Association (AMA) focuses on public policy and the AMA publishes one of the more influential journals devoted to public policy issues, the *Journal of Public Policy and Marketing.*

Marketing does not need reform in the negative sense of the word. It does need to evolve, to be responsive to the changes occurring around it, to develop the means for encouraging more ethical practice and to reinvent itself to deal with the issues and contingencies of the twenty-first century. The discipline may also need to reclaim its birthright and more fully embrace its past and future leadership role within the business community and society at large.

## MARKETING'S CONTRIBUTION TO BUSINESS AND SOCIETY

Wilkie and Moore (2002, 2003) provide a powerful chronicle of marketing's contributions to the larger economic system and to economic development. Although imperfect, markets work. Markets are generally efficient and effective means for distributing goods and services. The formation and servicing of markets is the engine that produces jobs, creates wealth, and raises the standard of living within a society. A market may fail and may not always produce positive outcomes, but there is ample empirical evidence that there are no good alternatives. Markets may need some regulation, but they remain the best means for distributing goods and services to heterogeneous consumers. The marketing discipline is the repository of knowledge about how real markets work and it possesses unique expertise in at least three areas:

(1) *Empirical Knowledge and Theories of Consumer Behavior and Markets.* There is no area where marketing has been more successful than in the development of a broad and deep body of knowledge and theories about consumer behavior and how markets are defined, are structured, and evolve over time. While it is the case that marketing has borrowed liberally from other disciplines, the reality is that the study of consumer and market behavior represents a well-defined area of social science and a business practice that is uniquely owned by the marketing discipline. When businesses, government organizations, or consumers have questions about markets and consumer behavior, it is marketing that is the repository of this knowledge and it is marketing that is committed to adding to this store of knowledge. Although many of the processes marketing examines are shared with other disciplines that focus on human behavior, marketing focuses on a unique context, the marketplace, and unique dependent variables, purchase and consumption.

(2) *Marketing and Consumer Research Tools.* The marketing discipline has developed unique tools for addressing specific questions about markets and consumer behavior. Although many of these tools have been adapted from other disciplines, their application in a marketing context is unique. When questions about markets and consumers arise, it is marketing that has the toolkit for addressing these questions. The marketing research toolkit is uniquely suited to the context of markets and dependent variables related to purchase and consumption.

(3) *Expertise Regarding the Alignment and Management of Value-Creating Organizational and Interorganizational Relationships.* Although the study of consumer behavior and the use of marketing research have even longer histories, the earliest marketing functions within firms and marketing courses in universities focused on the institutional dimensions of value delivery, especially those concerned with the distribution function. Marketing has a long and rich history of research and practice related to aligning organizations to deliver value to customers. Although other disciplines can claim expertise with respect to intra-organizational behavior, strategic alliances, and the economics of interorganizational relationships, marketing is unique in its focus on alignment for the purpose of value delivery to an end user. In other words, marketing has unique expertise related to the organization of value delivery systems. Especially important elements in these systems are reputation and trust, which are often embodied in a brand.

Although other disciplines have embraced the need for a customer focus and a concern for value delivery, no discipline other than marketing has accumulated the body of knowledge and expertise related to these dimensions of market activity. Rather than ceding expertise to other disciplines and business functions, marketing must proudly reclaim its historical role as the creator and repository of knowledge about markets, consumers, and value delivery systems. Marketing has been far too modest about its own expertise and contributions and should aggressively pursue those activities that would reinforce its reputation for contributing to the welfare of consumers, firms, and society.

## RECLAIMING MARKETING'S ROLE

As Webster (2002) has observed, the definition of marketing is no longer as clear as it once was and the discipline has lost the influence it once exerted in business organizations. In contrast to its loss of influence within business organizations, marketing has never been fully recognized or appreciated for its contributions to the welfare of the individual consumer or society. Both the loss of influence in business and the lack of broader appreciation is the fault of the marketing discipline. Many individuals in the discipline, especially those on the academic side, seem almost embarrassed by it and skeptical about the value of markets. There are certainly products and practices that are sources of embarrassment, but these are exceptions in an otherwise positive context. It is ironic that even as other disciplines embrace a customer-centric view of business, marketing raises concerns about its contribution. If marketing is to reclaim its influence and receive recognition of it contributions, the discipline must celebrate and promote those contributions and its expertise.

The success of marketing has produced another outcome that reduces its influence, at least in the short term. In an appropriate pursuit of rigor the discipline has tended in recent years to focus on narrower issues and more tactical problems. In and of itself this is not a bad thing; understanding and explanation require a narrower focus with greater control that eliminates alternative explanations in an otherwise complex environment. Such a focus has added enormously to the body of knowledge and theory that defines the substance and unique contributions of marketing. On the other hand, the focus on narrower problems and tactics has resulted in a relative neglect of larger, strategic questions that link marketing activities to the welfare of the firm, the consumer, and society at large. Titles of marketing papers and books in the past reflected a concern for broader questions. There are few titles today that suggest the kind of linkage to general strategic problems that were suggested by Alderson's 1943 *Journal of Marketing* paper, "The Marketing Viewpoint in National Economic Planning," and his 1957 book, *Marketing Behavior and Executive Action.*

This does not mean that marketers should write more popular business books or forsake the very good work that is being done on marketing tactics or on micro-level consumer behavior. It does mean that the marketing discipline needs to reclaim its legitimate authority with respect to broader strategic and societal issues by returning to questions of strategy and policy. It is certainly the case that greater visibility must be given to the unique expertise and perspective that marketing can provide when addressing these questions.

Marketing has also done a poor job of quantifying its contributions. While there is little debate about the value of a brand, the economic value of a brand and the return on marketing investments required to create that brand have not been defined well by the discipline. The same problem exists with respect to other marketing activities. Even as other business functions have documented economic returns in response to demands for greater accountability, marketing has been very slow to embrace the need for accountability and quantification of return on investment in marketing. This is not because there is a shortage of measures of impact. Rather, marketing has not linked its many measures directly to economic returns nor has it developed a set of generally accepted standards for the measurement of impact. If, as Drucker argues, marketing is the driver of value, it behooves the discipline to demonstrate and quantify that value. Doing so would allow marketing to reclaim its influence and obtain greater recognition for its many positive contributions.

Finally, the very success of marketing has created a splintering of the discipline. There is enormous momentum in the accumulation of knowledge about markets and consumers. This momentum has had the effect of fragmenting the discipline into narrow interest groups that are each aggressively pursuing their research and practice agendas. This is not unexpected when knowledge is increasing at an accelerating rate and it is a sign of a mature discipline. Unfortunately, this fragmentation reduces the identity of marketing as a unified discipline. Marketing's three unique areas of expertise are increasingly isolated from one another. This fragmentation and isolation is part of what has blurred the identity of marketing. Reclaiming marketing's leadership role will require renewing the dialog among the various constituencies that now comprise the marketing discipline and rediscovering the linkages among them. This dialog, in turn, needs to link marketing's expertise to the welfare of consumers, firms, and society at large.

## REINVENTING MARKETING

Reclaiming its role as the driver of value delivery will require that marketing continue to build its unique expertise and knowledge base even as it shares that expertise with others. Today's firms are responding to the mantra of customer focus by significantly altering the role of the marketing function. Activities traditionally associated with marketing are increasingly shared with other functions of the firm, including R&D, operations, manufacturing, and finance. Focus on markets and customers has increasingly become a general management function. Various activities associated with the four Ps (Product, Price, Promotion and Place) are increasingly shared with other functions in the firm or have migrated to other functions altogether. R&D and quality assurance, which have always been important participants in the design of products, have taken on many of the product-related activities formerly handled by the marketing function. Product or service specification based on direct customer input to the product design process—with or without the involvement of marketing—has become commonplace. Pricing has increasingly become the domain of financial planners and operations. Operations personnel, often without consultation with the marketing function, handle sophisticated yield management pricing systems and pricing by market conditions in real-time. Promotion remains the domain of marketing, but has become increasingly tactical. Strategic marketing activities, such as building brands, are often the function of strategic planners and general managers. Distribution has become highly specialized and is often a part of what is now called supply-chain management. Supply-chain management is as much the domain of information systems specialists as it is the domain of marketing and logistics specialists. This migration of marketing activities to other functions in the firm varies by firm and industry, but its occurrence is real and unmistakable.

The migration of marketing activities to other functions within the firm does not mean that marketing is disappearing. Indeed, in many ways, marketing as a discipline and business function is stronger today than ever before. Rather, marketing and other business functions have been evolving in response to changes in the marketplace and the competitive landscape. Although marketing no longer owns the customer, marketing retains its unique expertise and knowledge base. This means that marketing has the opportunity to help firms be truly customer-focused and market-oriented. It also has the opportunity to take on new roles and responsibilities, even as some of its former activities migrate to other functions.

Marketing, or at least the values and processes long championed by marketing, has become a philosophy of doing business for the rest of the organization. If this philosophy is to work, general management and other functional area must embrace it. The marketing function cannot be the owner of customer contact and information if the organization is to be truly market-oriented and customer-focused. Thus, it was inevitable that traditional marketing activities would migrate from the marketing function to other areas within the firm. Indeed, an organization in which marketing remains the owner of and conduit to customers is by definition not customer-focused or market-oriented; it might be *marketing*-oriented, but this is altogether different and does not provide the benefits associated with customer focus and market orientation. The migration of traditional marketing activities from the marketing function to other functions and general management is a positive development.

Freeing marketing of some of its traditional activities does not diminish the value of marketing. Indeed, the migration of traditional marketing activities to other functions expands the role of marketing and can make it more strategic. Although other functions may be customer-focused and market-oriented, marketing remains the repository of knowledge about customers and customer behavior. This knowledge provides insights into what works and does not work, what obstacles or opportunities exist in markets of various types and in products with particular characteristics. Such knowledge, when made accessible to the larger organization, can provide direction to other functional disciplines and to general management. It can also produce faster and more efficient responses by the firm and its various functional disciplines by eliminating the need to constantly rediscover the obvious. Thus, marketers bring accumulated wisdom about markets and customers to the organization, even as other functional disciplines spend more time with customers in the search for specific solutions to problems.

Any organization that seeks to learn over time and benefit from its experiences must have a repository for its accumulated learning. For knowledge about markets and customers, marketing provides this repository. This means that successful practitioners of marketing will need to have expertise beyond the firm's current markets and products. Rather, marketers will need to have an understanding of general principles of how markets work, how customers respond in given situations, and the underlying psychological, economic, and social processes that drive customer behavior. The fluidity of markets today means that it is important to be able to see the implications of lessons learned in a services business for a product business, the meaning of lessons learned in managing a sales force for the management of distributors, and the implications of lessons learned from advertising and brand building by traditional media for e-commerce. This is because the product business today may be the service business of tomorrow and the direct seller of yesterday may be tomorrow's indirect seller. Learning anew each time the business changes is too painful and inefficient. An important role of marketing in the future will be to reduce the pain and increase the efficiency as the marketplace and the firm evolves.

Marketing also continues to be the repository of expertise about how to best obtain information about and from customers. Thus, marketing continues to play an important role in helping senior managers and other functional specialists acquire the skills needed to obtain useful and timely information from customers. Even as marketing has given away some activities within the firm, it has also taken on new roles that often did not exist before, at least in any formal sense. In markets where relationships are an important part of the firm's offerings, marketing has assumed the role of relationship management. Relationship management is more than tending to the care and feeding of customers; it also involves determining which customers the firm should build relationships with and the nature of the relationship with any particular customer. Relationships are costly, and the deeper the relationship with a customer, the greater the costs of serving that customer in most cases. This means that it is important to choose customers who value the relationship and will pay a premium for it. Thus, market selection has become an even more important function of marketing today. However, unlike in the past, selection in relationship marketing is not a one-time or an infrequent activity. The cost and value of customer relationships must be constantly monitored to assure that both the firm and the customer are benefiting from the relationship. Marketing is about understanding how to manage relationships and how to analyze the economic value of relationship building and maintenance.

Marketing should also play a role in helping the firm understand what it does well and in matching markets and business models to the firm's capabilities. What a firm does well has been variously called its core competencies, competitive advantages, and comparative advantages—among other things. Understanding the things a firm does better than its competition has long been a part of market analysis. In recent years, however, this type of analysis has expanded to include consideration of what the firm should do and what it should have partners do. Thus, a firm must determine whether it should be its own supplier, its own manufacturer, and its own distributor, or focus on only some of these activities.

Marketing is not about just understanding and selecting markets; it is also about developing a deep understanding of how the firm should serve the markets it selects. This understanding requires an identification of all the activities that are necessary for delivering a complete product or service to the customer. It also requires determining which activities the firm is uniquely suited to pursue itself and which activities are best left to partners, suppliers, distributors, and complementors. This analysis of the value chain includes understanding both how to best organize activities to deliver value to the customer (and assure the customer is happy paying for the value received) and what are the economic consequences of various alternative organizations for the firm. This means looking beyond the firm and its immediate competitors to consider such issues as whether a supplier or distributor has the potential to become a competitor, whether a partner might learn enough about the firm's markets, technology, and operations to become a competitor, and whether certain activities are really needed to deliver value to the customer. Such analyses require knowledge of the economics and best practices of alternative value delivery systems. Marketers can help the firm answer the question of how it should participate in the value chain, and where within the larger value chain the firm can maximize its return on investment.

As they contemplate the structure of value delivery systems marketers can also work to assure that relationships with various members of the value delivery system are routinely analyzed and managed appropriately. Such relationships cannot be placed in proper perspective without an understanding of how the relationships—and the associated activities of partners in a relationship—play out in terms of value delivered to specific markets and types of customers. This is a strategic function that has only recently been recognized as critical to the long-term success of the firm. No other function in the firm is as well suited to address such strategic issues as marketing is.

Marketing does not require reform, but it does need to reinvent itself by calling on its unique expertise to address important business and societal issues. It needs to refocus on its core, which is the creation of value for customers and the firm. It needs to integrate its many very successful components into an integrated whole that makes explicit its contributions to the firm, the consumer, and society. In many ways this represents a return to the marketing discipline's roots.

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# PART 3

## RETHINKING MARKETING'S SACRED COWS

The chapters in this section suggest ways to rethink and reinvent marketing. They differ from those in the previous section in contending that marketing's problems are not incremental but are fundamental and require major rethinking from within the function and possible intervention from the outside.

Like all disciplines and practices, marketing has its own orthodoxies: branding, positioning, differentiation, segmentation, the four Ps (product, place, promotion, and price), the marketing concept, and exchange as the underlying constructs. Jerry Wind strongly and persuasively argues that we must challenge the prevalent mental models of marketing and develop new ones. We need mental models because they guide our research and practice. We need new mental models of marketing because the environment of marketing has changed significantly. He recommends that for marketing to have a seat at the corporate table, it must bridge the walls within and between marketing's functions; expand the focus from consumers to other stakeholders; rethink the value of customer satisfaction measures; combine mass markets with segments of one; empower consumers with information and choice tools, not just choices; identify appropriate metrics and incorporate corporate dashboards; and in general expand marketing from a function to a philosophy.

Wind believes that we must look through the eyes of the developing world and the "bottom of the pyramid" markets; see the potential of technology, empowered consumers, and convergence marketing; and use the dashboard to better integrate marketing perspective into business decision making.

Greg Gundlach focuses on the new American Marketing Association definition of marketing. He believes that its exclusive focus on the marketer's perspective limits the scope and domain of marketing to traditional marketing management. It does not include, for example, consumers doing marketing when they search for products they need at prices they can afford. Also, there are participants other than marketers in the marketing system that are left out of the definition. He suggests that marketing should not adopt a single perspective, so that marketing knowledge can be more objective, similar to what we know in psychology and sociology.

Kumar and Ramani take an inductive, field-oriented, and clinical way to discover new ways of marketing, especially in a changing world. They suggest we learn from firms that are getting it right. This includes viewing customers as individuals and not aggregates; adapting technology as a means to reach and carry out useful dialogs with each potential and current customer; devising active customer empowerment strategies that lead to competitive advantage; and, finally, identifying opportunity areas that legitimately obtain valuable customer information that can help customers enrich their own lives. Kumar and Ramani suggest that companies must transition from a selling orientation to an interaction orientation, and provide a framework for an effective interaction orientation perspective.

Glen Urban suggests that advocacy by companies on behalf of customers is key to a new marketing that will be effective in generating profit, welcomed by consumers, ethically right, and able to get marketing back to its role as a driver of corporate strategy. According to Urban, customer advocacy is analogous to the transition from Theory X to Theory Y in human resource management. He proposes a customer advocacy pyramid and suggests tools for its implementation.

Firat and Dholakia believe that marketing does not need reform, it needs a revolution! They believe that the two core concepts underlying modern marketing (marketing concept and customer satisfaction) are obsolete. Although the concepts of the free market advocated by Adam Smith and David Riccardo were meant to separate the individual from the institutional bondage (the feudal system), it has created more tensions between the individual and the institution, or between the desire to be independent and free and the desire to belong and relate to others. In the postmodern world, they suggest that marketing must shift from a managerial "command and control" approach to a "shared and collaborative" approach with customers and markets; from centralized to diffused marketing; and from ordered to complex marketing. According to them, the new marketing must exhibit fluidity of form; such marketing would resemble a neural network that constantly re(de)constructs itself.

Venkatesh and Peñaloza argue that for a major shift in marketing, we must shift from the study of market*ing* to the study of markets. They credit Johan Arndt, who advocated the study of markets to enrich and extend marketing theory to such nontraditional areas as nonprofit services, and sports and personality markets. They provide an interesting new classification of markets–markets in the mainstream, markets in the emerging global context, and virtual markets–and they describe differences among these types of markets.

Chapter 11

# CHALLENGING THE MENTAL MODELS OF MARKETING

Yoram (Jerry) Wind

Mental models shape research, teaching, and practice in marketing. By understanding and challenging the current mental models through which we view the discipline, we can gain new insights on improving the theory and practice of marketing and giving it a more powerful role. But to see these opportunities to transform marketing and its role, we first have to understand the central importance of mental models in limiting or expanding our world.

Why should we be concerned about mental models of marketing? What are the current prevailing mental models? Are these current models appropriate given the changes that we see in the business environment? What new mental models of marketing should be considered? These are the topics I explore, leading to a consideration of new models for marketing, and I conclude with a brief section on the implications for research and practice.

## WHY MENTAL MODELS OF MARKETING MATTER

Mental models in every area of our lives are much more important than we generally realize. They can limit our world or create opportunities for action. For example, the 9/11 Commission concluded that the greatest failure in the intelligence and other activities preceding the terrorist attacks of September 11, 2001, was a "failure of imagination" (The 9/11 Commission Report, p. 9). It was a failure to "connect the dots." Groupthink may have obscured these connections, contributing to the failure. The passengers and crew on the two planes that hit the World Trade Center towers apparently followed the standard advice for a hijacking. The instructions were to stay quiet, follow the rules, and authorities would eventually negotiate their release. This may be the best chance of survival in a traditional hijacking, but the hijackings of September 11 did not fit this model.

In contrast, the passengers and crew of Flight 93, with information from friends and family by cell phones, recognized that they were facing a different hijacking model. There would be no negotiations. The airplanes in this case were being used as missiles against targets. While no one knows exactly what happened on board that flight, it appears that passengers and crew stormed the cockpit and the plane crashed in western Pennsylvania, far short of its intended target. The new information had led to a fundamentally different view of the situation, and this shift in mental model allowed the passengers and crew to take what seemed to be heroic action. The apparent shift in models aboard Flight 93 created new opportunities for thinking and acting. Mental models have a tremendous impact on how we make sense of and respond to the world.

As one demonstration of the power of mental models, consider a study by Daniel Simons and Christopher Chabris at Harvard University (1999). They asked subjects to count the number of times basketball players with white shirts pitched a ball back and forth in a video. More than half the subjects in this study, and hundreds of other executives to whom I have shown the video, were so engrossed in the task that they failed to notice a black gorilla that walked into the center of the scene and beat its chest. The subjects may have been doing a good job of counting the basketball passes, but a gorilla was right in front of them and they didn't see it. We are so focused on the current task at hand that we do not see what is lurking in the environment right in front of us. How can we break through these models that limit our ability to *see* the gorillas? What are the gorillas running through the field of marketing that we cannot see because we are focused on a specialized task?

### The Power of Impossible Thinking

Breaking through our current models can have a powerful impact in many areas of life and work. An example was when Starbucks founder Howard Schultz created the idea for an American café. After all, it was a far-fetched idea. Coffee at the time was a commodity. Brands fought bitter price wars in the supermarkets. Seattle was undergoing a tough economic period. It seemed the worst possible place to launch a new business. But Schultz proved the "power of impossible thinking," creating one of the fastest growing businesses, one of the most recognizable brands, and a phenomenon that changed the way customers think about coffee and even how they live and work (Wind and Crook 2004).

There are many examples of how to shift mental models and the powerful impact of breaking through them. For example, running a four-minute mile was considered impossible until 1954 when runner Roger Bannister ran it in three minutes 59.4 seconds on an Oxford track. Within three years after he broke this barrier, sixteen other runners followed in his footsteps. This progress was not the result of some leap in evolution that made humans run faster, but rather a breakthrough in thinking. After Bannister, runners considered it possible (Bannister 1981; Wind and Crook 2004). Breakthroughs in business such as the creation of overnight delivery by FedEx or the design of the Palm Pilot personal digital assistant required a similar shift in thinking to create different models. The design of the overnight packaging business challenged traditional mail and delivery services with a hub-and-spoke system. The developers of the Palm Pilot realized that they could train the human operators to learn a simplified character set much more easily than designing a machine that could recognize diverse handwriting styles. This was a shift in thinking that built a huge market for devices that were initially slow to take off. What shifts in thinking in marketing might produce similar payoffs?

### Challenging Our Models

Before considering how mental models apply to marketing, think about a few ways we can creatively challenge our models in other areas. For example, would you invest in the inner city? Most companies have little interest in the inner city. They see poverty, crime, and drugs. On the other hand, most multinational companies are very interested in emerging markets, which are viewed as a source of future growth as they develop. Companies are racing into China, India, and other parts of the emerging world. Researchers at the Milken Institute, as well as Michael Porter, have pointed out that if we look at inner city markets as "domestic emerging markets" this leads to a fundamental shift in how we see these markets and the opportunities they present (Yago and Pankratz 2000).

To take another example, think about medicine. What are the images that come to mind when you think about alternative, complementary, or integrative medicine? Obviously these are dramatically different images of the way one views medicine and how to be treated. These approaches represent very different views of the nature of disease and health. Or, in the business world, are people an asset or an expense? All chief executive officers (CEOs) talk about how people are our greatest assets, but, what happens during a downturn? The same people are treated as expenses, and the same CEOs fire them. Is inventory an asset or a liability? Standard accounting practice regards inventory as an asset, but then Dell and others challenged this model, seeing it as a liability. This led to the creation of just-in-time systems to limit this liability, fundamentally rethinking their supply chains.

We can consider the same question about marketing: Is it an expense or an investment? It is treated as an expense or overhead in some organizations. But as companies look for new sources of growth, some are turning to marketing for insights. These organizations are seeing marketing as an investment in new ideas and an engine of growth. Is marketing viewed as a set of decisions relating to the four Ps (product, price, place, and promotion), or is it viewed as a pervasive business philosophy at the core of business strategy? These different views of marketing will lead to different strategies and staffing, so the mental models that managers use to view marketing have a tremendous impact.

## Rethinking the Thirty-Second Commercial

Most mental models are effective when they are formulated, but they become problematic when the environment changes. Great models often outlive their usefulness. For example, the dominant model of mass marketing in the packaged goods industries was built around the thirty-second commercial. But now, with television fragmented into hundreds of channels, the rise of video games, and the empowerment of the viewer, first with the remote and then with TiVo, the world has changed in fundamental ways. A study of U.S. television viewers found that more than 43 percent were actively ignoring advertising. For people with TiVo and other personal video recorders, more than 71 percent skipped advertising. In some categories, such as credit cards and mortgage financing, more than 90 percent of ads were TiVo'd (Bianco 2004).

Clearly the thirty-second commercial needs to be rethought. Has marketing changed to meet this new reality? Companies are turning to approaches such as events, using word-of-mouth strategies for buzz marketing and product placement. For example, in launching its new Scion brand targeting youth markets, Toyota shunned traditional advertising, spending 70 percent of its promotion on street events (Kroft 2004). Even the remaining ad spending was mostly directed toward the Internet. Video games are using product placement within the context of the game. For example, in the *Tony Hawk Underground* video game, players cannot move up to the third level until they drink a Pepsi. As Robert Kotick, chairman and CEO of video game maker Activision commented during the Milken Institute's Global Forum, "In our medium, people cannot skip the advertising." The dominant model for mass marketing is already being challenged. How does it need to change further? There is clearly a desperate need for innovation in marketing approaches.

These revolutions are not absolute. Paradigm shifts to new models are often a two-way street. Old and new mental models exist side-by-side. Super Bowl advertising spots are unlikely to go away, but television advertising is becoming a smaller and less important part of the overall marketing portfolio for companies. Similarly, the horse-and-buggy model is out of place on the expressway, but even in an age of automobiles and space flight, we see police on horseback in cities and soldiers on horses guiding missiles through the mountains of Afghanistan. Even in an age of e-mail and computer printouts, we still use handwritten notes and phone calls. With hundreds of cable television channels, we still listen to the radio and read the newspaper. When new models arrive, the old ones are not necessarily discarded. The Internet didn't completely take over advertising, as some predicted. Instead, it offers another model for getting out messages. As we introduce new models, in marketing or any other area, we mustn't get so carried away with the revolution that we don't recognize the power of the old models. We are better off with a portfolio of models so that we can choose the best one for the task at hand.

## WHAT ARE THE CURRENT MENTAL MODELS OF MARKETING?

Current teaching, research, and the practice of marketing are shaped by our mental models. Among the powerful models that have guided the theory and practice of marketing, we might identify ideas and frameworks such as:

- The marketing concept
- Marketing as exchange
- The four Ps (product, price, place, and promotion)
- The three Cs (company, customers, and competitors)
- Customer satisfaction
- Relationship marketing
- Permission marketing
- Collaborative marketing

But the full range of marketing models and approaches is much broader and richer. To take a few examples, the list might be expanded to include:

- Convergence marketing (combining call, click, and visit)
- Guerilla marketing
- One-to-one marketing
- Buzz marketing
- Integrated/holistic marketing
- Cult marketing
- Brand equity
- Brand chronicles

### Through the Eyes of Diverse Stakeholders

One way to understand the diverse mental models of marketing is to consider the different views of the field by various stakeholders. Many chief marketing officers (CMOs) and other marketing practitioners are concerned about building their brands, while CEOs may be concerned about issues such as marketing productivity or return on investment in marketing, focusing on increasing accountability for marketing expenditures. Consumers have yet another view of marketing. At one extreme, some view it as disruptive, the telemarketing calls at dinner and relentless, annoying, and tasteless election advertising. On the other hand, some may view it as a value-creating engine that makes them aware of innovative and valuable new products and services. Think about the view of marketing reflected in the *Journal of Marketing Research* and *Marketing Science.* We see a different view presented in textbooks and in general marketing journals such as the *Journal of Marketing* or *Marketing Management.*

There is yet another view in consumer behavior publications such as the *Journal of Consumer Research*.

Like the blind men and the elephant (where one grasped a trunk, another a leg and a third the tail), each of these stakeholders sees one part of the total picture, limited by their mental models. Each has a different view and enormous walls separate their mental models of marketing. Are there unhealthy chasms among these marketing stakeholders? How do we bridge these silos? How do we benefit from these diverse perspectives?

## WEAKNESSES OF THE CURRENT MODEL

There are a number of problems that highlight some of the weaknesses of the current model of marketing. Consider a few examples of how this model of marketing falls short.

### Gaining a Seat at the Table

Has the narrow focus of academic marketing marginalized the discipline in the organization? Is the academic research of value to business executives or only to other academics? At recent meetings of the CMO Summit, which drew senior marketing executives from major corporations, one of the major concerns was the loss of a seat at the corporate table. Marketing has become marginalized in many organizations precisely at a time when it is more critical than ever as an engine of growth. How did this happen and what can be done about it? Are marketing academics and practitioners becoming too self-centered? The challenge of gaining a seat at the table is basically to have marketing accepted as an integral part of the business-related mental model of the CEO and other top leaders. Marketers need to forge a mental model of marketing that is relevant to the organization and that addresses the areas of concern to the CEO such as growth, innovation, and customer loyalty and retention.

### Interdisciplinary Perspectives

As marketing has matured, as any discipline does, it has become more specialized, isolated from the rest of the business, and more deeply engrained in its own mindset. PhD students, for example, do most of their work within marketing with a foundation in a relatively narrow range of disciplines, such as economics and statistics. Left out are other disciplines, such as operations or competitive strategy, that can broaden the base of marketing thinking. The narrow focus of our PhD programs is even more serious, given that most have eliminated the requirement that students have an MBA. Thus, many graduating PhD students have no idea what finance, operations, accounting, and other management functions do and what their concerns and research agendas are, nor do they appreciate the interfaces between marketing and these other business functions. How can doctoral students consider marketing challenges without addressing operations or finance? We need to strengthen the link between marketing and other business functions.

The reality is that there is no business problem that has on it a label that says “marketing problem.” All business problems are multidisciplinary, multifunctional problems. Every business problem that we have to address can have marketing, operations, financial, accounting, information technology, and human resources perspectives. We are fooling ourselves if we think we can artificially carve out a marketing problem and ignore the real business one. Marketing is only one component.

### Limited Data

Another problem of marketing research and modeling is that it is often driven by available data. It is like the old story of the drunk who is looking for his keys under the streetlamp. He lost them down the block, but looks under the lamp because the light is better there. Marketing research too often focuses where the data are and not on finding the answers to other important questions that may be elsewhere. What about noncustomers? What about share of wallet (the percentage of an individual's total spending in a category)? What about customer behavior in countries that do not have the syndicated data sources available in the United States? What new data do we need to be gathering? What information will lead to true insights about the market rather than about minor variations in the existing customer base?

## ARE THE CURRENT MENTAL MODELS OF MARKETING APPROPRIATE FOR THE CHANGING BUSINESS ENVIRONMENT?

As can be seen from this discussion, some of the limitations of the current models of marketing are already beginning to show. Much of the published marketing research and modeling and consumer behavior and economic modeling have questionable relevance to corporate strategy. Chief executive officers are concerned with both increasing the return on investment of marketing *and* harnessing marketing as an engine of growth. Sophisticated CMOs who seek a place at the corporate strategy table recognize the limitations of marketing. As Jim Stengel, global CMO of Procter & Gamble commented, "Today's marketing world is broken. I give us a 'D' because our mentalities have not changed. Our work processes have not changed enough. Our measurement has not evolved" (Neff and Sanders 2004).

It is no wonder that some of the marketing mental models that were developed in the last century are no longer relevant today. There have been dramatic changes in the environment that require us to rethink our approaches to marketing. Among these changes are:

- Post–9/11 global terrorism
- A turbulent global economy
- The pervasive impact of the Internet and the constant advances in information and communication technologies
- Continued advances in science and technology-based inventions
- The empowered hybrid consumer who expects customized products and services, messages, and distribution channels
- The reluctant consumer—with declining response rates, TiVo, and increasingly negative attitudes toward marketing and advertising
- Decreased consumer and employee loyalty
- The vanishing mass market and increased fragmentation of all markets
- A blurring of the line between B2B and B2C
- The rising importance of the developing world
- Opportunities for outsourcing and digital outsourcing/offshoring of marketing services (beyond call centers)
- Increased focus on public/private cooperation (nongovernmental organizations and others)

To what extent do marketing activities have relevance to this world? Is marketing as a discipline ignoring the gorillas in front of it? Do academic marketing publications have any relevance to CEOs, CMOs, and other marketing "customers"?

## WHAT NEW MENTAL MODELS FOR MARKETING SHOULD WE CONSIDER?

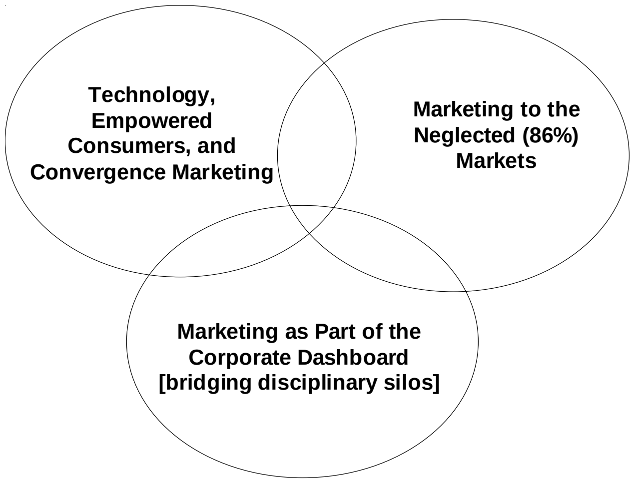
Given the changing demands of the environment, mental models in marketing need to embrace a variety of new perspectives and address a number of challenges. Among these are:

- *Bridging disciplinary silos:* Bridging the walls among the marketing functions (such as customer service and sales) and marketing and other business functions (such as operations and finance) is critical given the fact that most marketing decisions are interrelated and in turn affect and are affected by the other functions.
- *Expanding the focus from consumers to stakeholders:* Since business decisions are affected not only by consumers but by distributors, suppliers, employees, shareholders, and others who are all heterogeneous, marketing concepts and approaches should not be restricted to consumers but should apply to all stakeholders.
- *Rethinking the value of customer satisfaction measures:* The rising popularity of customer satisfaction measures is leading to increased abuses and to unreliable and invalid data on customer satisfaction. Is it time to reexamine the value of our investments in these measures and consider replacing them with measures of referenceability (to what extent customers are willing to serve as references for our products and services or become our advocates and champions)?
- *Combining mass markets with segments of one:* As the ability to customize and personalize marketing products and messages increases, a rethinking of approaches to customers is needed to develop the right portfolio of custom and mass-marketed products and services.
- *Empowering consumers with information and choice tools:* Capitalize on the opportunities offered by the Internet to provide consumers with search engines and tools that give them the comparative information and decision aids that help them make optimal buying decisions (Urban 2005; Wind and Mahajan 2001).
- *Addressing the failure of most customer relationship management (CRM) implementation efforts:* The high failure rate of CRM initiatives may be a function of overemphasis on technology and a failure to assure that the systems are consistent with underlying business processes. Yet, it may also be the time for a shift in thinking so that instead of the company managing relationships with customers, the customers manage relations with the company, as discussed later.
- *Expanding marketing from a function to a philosophy:* Marketing should not be viewed only as the function responsible for performing the four Ps, but also as a business philosophy centered on understanding and meeting the evolving needs of customers and other stakeholders.
- *Designing products, services, and business models for the developing world:* Simple exporting of existing products, services, and business models to the developing world, ignoring the unique needs and characteristics of these markets, is inviting disaster. Products, services, and strategies need to be tailored to the distinctive conditions of emerging markets.
- *Building brands around consumer solutions:* While the focus of most companies has been on building brand equity and winning brands, this ignores the fact that consumers use multiple brands. An alternative perspective is building *customer brands* centered on the unique combination of products and services that address the specific customer needs. For example, in pharmaceuticals, most people on medication have more than one problem (such as hypertension *and* high cholesterol), yet most prescriptions are branded and marketed by therapeutic category brands. Why not instead create a brand for a consumer who has both hypertension

and high cholesterol, or one for patients with hypertension, high cholesterol, and diabetes?

- *Enhancing the communication mix with branded entertainment, edutainment, electronic games, buzz creation, and so on:* As discussed earlier, the increasing ineffectiveness of traditional marketing through mass media channels is a call for action for more creative communication approaches.
- *Identifying appropriate metrics and incorporating them into corporate dashboards:* Investments in marketing initiatives should be connected to business results. A focus on dashboards (interfaces that highlight key metrics needed to guide the firm in much the way an automobile dashboard serves a driver), forces the establishment of relevant metrics to run the business and on understanding of the drivers of these metrics, as discussed later.
- *Creating integrated customers, prospects, and competitive databases, and augmenting them with management's subjective judgment:* The data tracked by the company needs to include financial, customer, and competitive information, augmented with management's subjective judgment. It is also critical to develop approaches to detect early warning signals of opportunities (such as an increase in consumers' negative word of mouth of a competitor's products and services) and threats (such as an increase in consumers' negative word of mouth of our products and services).
- *Rethinking the role of marketing research and modeling:* The increased complexity of the business environment requires more effective marketing research and modeling approaches, yet critical business decisions such as mergers and acquisitions are being made with no marketing input at all. Equally disturbing is the fact that many decisions are being made on nonprojectable, nongeneralizable focus group interviews. It is critical to develop more effective data mining and other analytics as part of a decision support system (DSS) as well as marketing research and modeling tools that can be easily used by top executives, not only by marketing researchers. Creative applications of the Analytic Hierarchy Process (AHP) and Analytic Network Process (ANP) are good examples of such tools.
- *Combining traditional planning with adaptive experimentation:* Given the uncertainty of the business environment, traditional long-range planning has to be replaced with a more flexible process. This might combine a long-term vision and strategic direction with a set of adaptive experiments. These experiments facilitate continuous learning and assure that over time the strategic initiatives lead the organization toward the desired vision.
- *Transforming the organizational culture, structure, processes, and competencies:* It is not enough to change the mental models of marketing. These models are supported by an organizational architecture that also needs to be addressed. Managers need to recognize the importance of issues such as culture, structure, processes, technology, incentives, resources, and competencies (see, for example, Wind and Main 1998). And make sure that the entire organizational architecture is aligned with the new mental models of marketing.
- *Reexamining the traditional "Make-Buy" decision and the role of outsourcing:* The increased importance of integrated global supply chains and their implications to the creation of the virtual network organizations, as well as the increased importance of outsourcing and offshoring, have significant implications for marketing. It can no longer be assumed that marketing functions are best performed by the firm itself. Organizations have a choice of developing their own marketing capabilities ("making") or purchasing them on the market ("buy"). Who should perform all aspects of marketing has to be examined. These include R&D, new product and service development, customer service, and even sales.

Figure 11.1 **Three Interrelated Models**




## TOWARD NEW MENTAL MODELS OF MARKETING

What are some of the new ways we can look at marketing? While any combination of the preceding sixteen points challenges the current mental models of marketing, let me propose three interrelated models that address some of the needed changes as shown in Figure 11.1.

### Looking through the Eyes of the Developing World

Emerging markets are becoming increasingly important, and this creates a need to expand our models, which are primarily designed for the developed world. Traditional views of marketing, designed for developed markets, overlook the 86 percent of the world population in developing markets (Mahajan and Banga 2005). Tata Motors, for example, is working on a $2,000 automobile for consumers in the Indian market who are ready to trade up from a scooter to their first car. (Mahajan and Banga 2005). This is a radically different solution and a very different concept than products targeted toward the first-time car buyer in the developed world. It is not just product design, but advertising, branding, distribution, and many other aspects of marketing that have to be rethought for these markets. Strategies and models that are designed for markets with widespread media penetration, good distribution systems, and sophisticated consumers need to be reconsidered in developing markets.

Do we understand the models that are needed to reach emerging markets? For example, in contrast to the “supersize” culture of the developed world, we need to think small in the developing world. Small sachets of shampoo and other products account for more than $1 billion in sales for Unilever in India alone (Mahajan and Banga 2005). Also, with high rates of immigration, there is a huge ricochet economy that zigzags from the developed world into the developing world as workers abroad send funds and products back home.

With weak infrastructures, companies have to bring their own infrastructure to meet the needs of the market. The progress of the developing world also challenges markets of the developed world. For example, over a million people today are going for medical treatment to the developing world. They are not coming to the Mayo Clinic for better treatment because only a very small segment of the very rich can afford it. People from England and other parts of the world are going to India as medical tourists because it is faster and cheaper, without sacrificing quality (Mahajan and Banga 2005).

C.K. Prahalad, in *The Fortune at the Bottom of the Pyramid* (Prahalad 2004), points out that there are opportunities among the poorest of the poor in these developing markets that are very significant and will become more so as these markets continue to develop. But the bottom of the pyramid requires different solutions than those of the developed world. Consider, for example, artificial limbs. In India alone, there are over five million people who have artificial limbs and there have been fundamental breakthroughs in product design. While the cost of an artificial limb replacement in the United States is over $7,000, designers in India developed a limb for less than $100.

Are these inferior limbs? Actually, they have superior functionality because they are designed to meet the challenges of recipients in the developing world who need to spend eight hours or more per day standing or squatting in the field. They are also installed in one day by less-skilled (and less-expensive) professionals than in the United States. It is a dramatically different product and process to meet the needs of this market. This has required a breakthrough in thinking about artificial limbs. Companies cannot expect to simply take products and strategies from the developed world and export them to the developing world. They need to challenge their mental models.

### Seeing the Potential of Technology, Empowered Consumers, and Convergence Marketing

New technology and consumer empowerment have encouraged the development of "hybrid consumers," those who expect to have the best of both worlds in a variety of different areas. This has led to "convergence" along a number dimensions, which requires a rethinking of approaches to these consumers. To reach this hybrid consumer, companies need to address the "five Cs" of convergence marketing (Wind and Mahajan 2001), as illustrated in Figure 11.2.

*Converging on "customerization" (make it mine):* With opportunities to customize products and one-to-one marketing messages, companies need to manage the convergence of mass-produced, mass-marketed products and services as well as the "customerization" (tailoring of products, services, and messages).

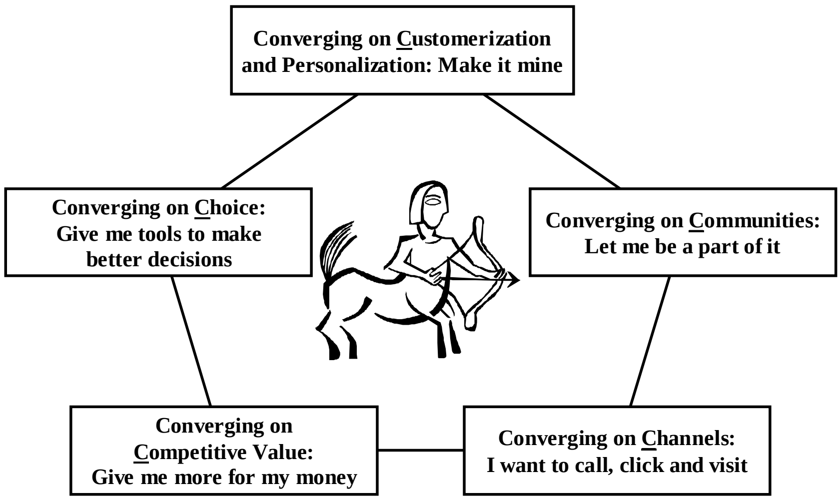
*Converging on communities (let me be a part of it):* With the advent of online communities, consumers are members of both real and virtual communities. Companies such as online trader eBay have built businesses around virtual communities that lead to real transactions. Sites such as Sulekha.com have connected the Indian community around the globe, while providing networks and entertainment in local cities as well.

*Converging on channels (I want to call, click, or visit):* Consumers expect to be able to interact with the company seamlessly through multiple channels. Although most Charles Schwab investment customers conduct their business online, the majority of them still want to sit down with a live broker when they set up the account. The customer who books a plane ticket or hotel through online travel service firm Travelocity still may want to pick up the phone to speak with a reservation agent. These channels need to be tightly integrated.

*Converging on competitive value (give me more for my money):* Companies need to redefine the value equations to reflect the increased expectations of "24/7" service as well as to combine supplier-set pricing with consumer-determined pricing. How can we ignore online sellers Priceline and eBay and their implications for all businesses? There are many more pricing options and ways of delivering value than in the past and we need to integrate these into our marketing strategies.

*Converging on choice (give me more tools to make better decisions):* In the same way that the introduction of the Sabre reservation system empowered travel agents, online tools and the CMR

Figure 11.2 **The Five C's of Convergence Marketing**




*Source:* Wind and Mahajan 2001.

approach can empower consumers by putting choice and decision making in their hands. For example, converging on choice means moving to customer managed relationships (CMR) instead of the more company-centric approach of customer relationship management (CRM). In CRM, the company manages its relationship with the customer, whereas in the more consumer-centric CMR, customers are given tools to manage their own relationships with the company, its competitors, and other relevant organizations.

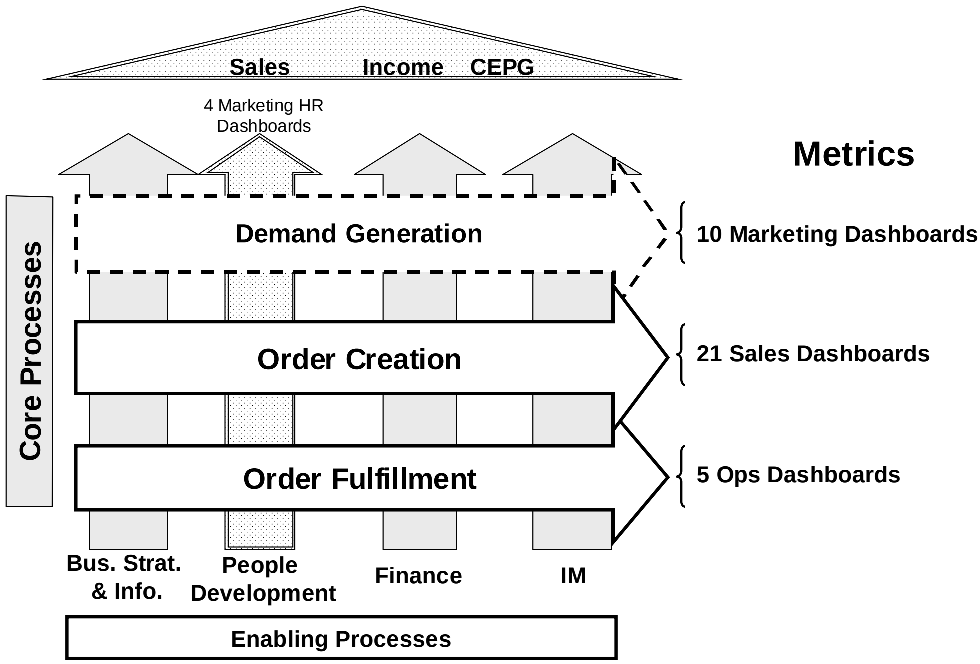
### Using Dashboards to Bridge Disciplinary Silos

Another way to take a fresh look at marketing is through dashboards that help to better integrate the marketing perspective into business decision making. On the corporate dashboard, marketing is just one component, yet creating an effective corporate dashboard requires linking marketing to other business drivers and performance outcomes. This means more clearly specifying how the business fits together. Marketing can then be seen as the glue for integrating the rest of the business functions. Managers need a dashboard that is more like a car than a 747, to provide a simple and clear view of progress using a limited number of metrics and controls to run the business (although there can be great complexity beneath the dash). The dashboard, if well designed, allows managers to watch many parts of the business simultaneously. Companies need to achieve the triple goals of creating value for the customers, the employees, and the shareholders. These goals are interrelated, and the dashboard makes this clear.

An example for an integrated corporate dashboard is the one developed by Johnson & Johnson (Figure 11.3). It focuses on three core processes—demand generation, order creation, and order fulfillment—and how they are related to the enabling processes of business strategy and information, people development, finance, and information management.

These are all then linked to performance measures such as sales, income, and capital efficient profitable growth (CEPG). The marketing initiatives in demand generation, for example, can now

Figure 11.3 **Illustrative Strategic Framework for a Corporate Dashboard – Johnson & Johnson 2003**



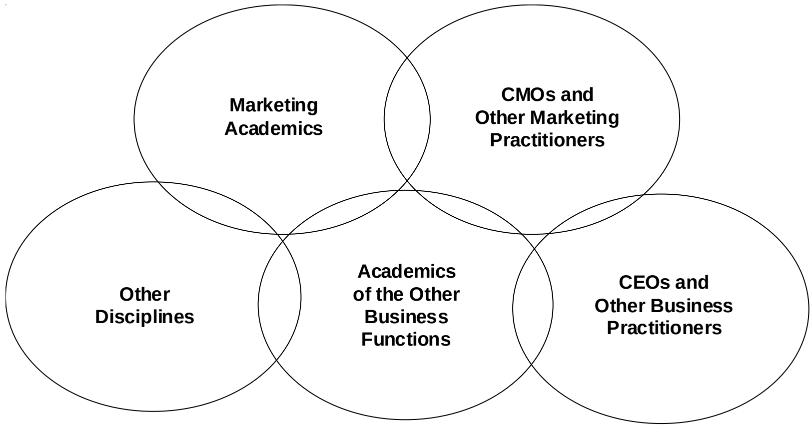

*Source:* A Wharton School presentation by James DeMaioribus, 2003.

be directly related to performance outcomes. They are not isolated. Dashboards such as these can be a powerful way for organizations to look across business silos and connect marketing perspectives to broader business decisions.

**Integrating the Three Models**

These three models are just an illustration of some of the new ways of thinking about marketing. As indicated in Figure 11.1, these three models are interrelated and address some of the key changes in our business environment. The Internet and advances in communication technology empower consumers and accelerate the changes in developing markets by offering more direct access to global markets. The rise of emerging markets and convergence marketing are having an impact on the metrics and design of corporate dashboards. And the dashboards themselves can help identify opportunities in all these areas. It is important to note that the dramatically changing environment means marketing is not alone in facing these challenges. Virtually all aspects of business need to address developing markets, convergence, and dashboards. This is both an opportunity as well as a threat. In challenging their mental models, other parts of the business may well subsume many of the old marketing functions. Just look at how the materials management function has totally transformed itself into the all-powerful and dominant "supply chain" role, which has already started to encroach into many other areas of the business, including marketing. This by itself forces marketing to reinvent itself. A transformation of marketing thinking can well redefine itself just like the supply chain.

Figure 11.4 **The New Partnership**




## IMPLICATIONS OF THE NEW MENTAL MODELS OF MARKETING FOR THE DISCIPLINE'S RESEARCH AGENDA

New mental models can offer insights on how marketing can become more effective and more integral to the core processes of the organization. Marketing academics and professionals can also learn from other disciplines. Overall, we need to begin thinking more broadly about issues such as joint optimization of marketing and operations. For academic researchers not to be marginalized, kept on the other side of the wall, they need to step out of the narrow confines of the discipline to actively engage with colleagues in other management functions. Marketing researchers need to connect with top executives who are wrestling with real business problems that marketing perspectives can help solve. Marketing practitioners also need to engage in this dialogue with the rest of the organization, to expand their own thinking, and look for opportunities to apply their tools and approaches more broadly. We need to be open and invite the intellectual leaders of other disciplines to join us in finding joint solutions. We have to rigorously measure the effectiveness of marketing-driven strategies so we can see the true results and challenge our views of limits.

In the field of marketing, there already are encouraging model-busting initiatives that we can build on in challenging our mental models. These include the Marketing Science Institute, ART Forum, the CMO Summit, and the INFORMS Society for Marketing Science Practice prize for the outstanding implementation of marketing science concepts and methods (and its publication in *Marketing Science*). These initiatives are starting to bridge and break the walls between research and practice, but we need additional initiatives, especially focused on bridging the silos of marketing and the other business functions, marketing and the other disciplines (including the less commonly relied on disciplines of cultural anthropology, complex adaptive system, architecture, artificial intelligence, etc.), and academic marketing and marketing practitioners. This calls for new partnerships that bridge the traditional silos of marketing, as illustrated in Figure 11.4.

We need to conduct many more such experiments. Experimentation is the way we test the limits of our models and discover useful new ones. We have to understand the power and limits of our current mental models of marketing and look for ways to change them. At the same time, this rethinking of marketing cannot be done in isolation. It requires changing the mental models of business and the integration of marketing insights and philosophy into these broader models. We have undertaken a new project at Wharton's SEI Center for Advanced Studies in Management, "Towards a New Theory of the Firm," to examine shifts in the models of business organizations. Projects such as this could have a significant impact on the practice of marketing. By challenging its current mental models, and changing them when necessary, marketing can identify its own "four-minute mile" barriers and, hopefully, run past them.

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## CHAPTER 12

# WHITHER "MARKETING"?

## Commentary on the American Marketing Association's New Definition of Marketing

GREGORY T. GUNDLACH

Does marketing need reform? I am pleased to be able to offer commentary on such an important and timely question. In the short space allotted for this chapter, I focus on how "marketing" is defined, viewing such inquiry to be central to the question of whether marketing should be reformed.[1] In particular, I comment on the new definition of marketing recently announced by the American Marketing Association (AMA). I contend that the AMA's definition of marketing advances an exclusively *marketer* perspective of marketing (more so than prior AMA definitions). I briefly discuss the implications of adopting such a perspective for defining marketing, concluding that these implications are of sufficient concern to call for "reform" in how marketing is defined in relation to scholarship.[2] In particular, I argue that scholars should adopt a definition of marketing that does not advance a single perspective, but is independent and of sufficient breadth to be integrative of other perspectives, thereby enabling comprehensive and objective advances in scholarship.

### BACKGROUND

With almost forty thousand members, the American Marketing Association is considered by many to be the major association of its kind for many academics and practitioners in the field of marketing. There is no doubt that the AMA has played an important and influential role in the development of scholarship in the field. Few in marketing are not familiar with the AMA's journals, conferences, and other activities. Many academics attend AMA conferences, publish in AMA journals, are members of their special interest groups, and have provided service to the association. Indeed, as an academic association, the AMA positions itself as a "thought leader," seeking to influence marketing's scholarly development and practice.

#### AMA's Definition of Marketing

Since 1935, as part of its role, the AMA has offered to both academics and practitioners its version of the definition of marketing.[3] In 2004, a new definition was announced. According to the AMA, under this new 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.

The new definition was officially unveiled at the AMA Summer Educators' Conference in Boston in August (*Marketing News* 2004). According to the AMA, it incorporates the contributions of many marketers from around the world, both academics and practitioners.

## COMMENTARY

Inspection of the AMA's new definition of marketing reveals that it advances a largely (if not exclusively) *marketer* perspective, viewing marketing as an "organizational function" engaged in by the firm. While in some ways helpful to the marketing manager, from the perspective of scholarship and progress toward a comprehensive understanding of marketing, adoption of an exclusively marketer-based perspective has the unfortunate consequence of omitting other perspectives and their importance for such understanding. As with any subject, adoption of a single perspective for its study has the potential of: (1) constraining the relevant domain of interest, (2) limiting the development and dissemination of knowledge concerning the subject, and (3) biasing knowledge that is developed and disseminated (both through research and teaching).

To be sure, recognition and characterization of the concerns for scholarship that attend an exclusively marketer perspective for marketing are not new to the field and have been advanced by others. More than thirty years ago, Tucker (1974, p. 31), for example, noted the tendency of the field to study consumers from the point of view of the "channel captain," analogizing the use of an exclusively marketer perspective to be equivalent to "the ways that fisherman study fish rather than as marine biologists study them." Echoing continuing concern for the discipline, Anderson (1983, p. 28), described the likely consequences of Tucker's earlier observations, remarking almost ten years later that "Marketing's preoccupation with the concerns of Tucker's 'channel captain' introduces an asymmetry into the study of the phenomenon that can only limit the discipline's perspective and inhibit its attainment of scientific status." More recently, Bazerman (2001) has argued for a consumer-based approach to consumer research, describing the "implicit biases" that attend research in consumer behavior that applies a marketer perspective and focuses on the determinants of consumer purchasing. Beyond marketing, in general, scholarship that adopts a single perspective is a concern for any academic field or scientific discipline (see Kuhn 1962).

### Scope and Domain of Marketing

Rather than defining marketing, the AMA's definition describes what most have previously known as the narrower concept of "marketing management."[4] Although consistent with a marketer's view of marketing, marketing management does not fully describe the scope of marketing. Beyond specific functions and processes engaged in by an organization, the concept of marketing encompasses a much broader domain. According to Kotler and Armstrong (2001, p. 13), for example, "[C]onsumers *do* marketing when they search for the goods they need at prices they can afford" (emphasis added). Wilkie and Moore (1999, p. 201) go further, suggesting that "There are participants other than marketers in the aggregate marketing system. Organizational customers and ultimate consumers are key players . . . and governments provide services intended to facilitate system operations."

In terms of scholarship, circumscribing marketing to those activities and processes of the marketer limits and constrains the relevant domain of interest. As Anderson (1983, p. 28) points out, adoption of a single perspective in marketing "limit[s] the discipline's perspective" and may well undermine its ability to attain scientific status. This latter result concerns perceptions regarding the field's ability to obtain scientific legitimacy where it is primarily concerned with the interests of only one segment of society (p. 27).

### Knowledge Development and Dissemination about Marketing

Adoption of a single perspective, as found in the AMA's exclusively marketer view, also possesses the potential for limiting the development and dissemination of knowledge regarding marketing. Such potential exists for the study of any subject when approached from a single vantage point. As Wilkie and Moore (1999, p. 199) observed, "[V]iewing a topic from a single perspective highlights certain characteristics, but can hide other aspects that also may be important."

In the above respect, for scholarship, adoption of the AMA's definition may have the unfortunate consequence of focusing knowledge development and dissemination activities narrowly and on subjects that address topics and issues of specific interest to the firm and its managers. While a worthy endeavor in itself and beneficial in many ways, address of important topics and issues of interest to those who view marketing from other vantage points may be overlooked. As observed by Bartels (1983, pp. 34–35) such an emphasis, "means that important aspects of *total* marketing are neglected" (emphasis added). The dissemination of knowledge that is developed from these other vantage points is also likely to be adversely affected as increasing focus is given to knowledge that aids the marketer. Over time, the perception that marketing knowledge is largely limited to only topics and issues of interest to the marketer may ultimately inhibit the flow of its knowledge both within the field and to other fields whose interest in marketing is not similarly circumscribed.[5]

### Objectiveness of Marketing Knowledge

Perhaps the greatest concern, however, in the adoption of an exclusively marketer perspective for marketing is the potential that knowledge that is developed and disseminated may represent a biased perspective of "marketing." Such a result, unfortunately, is likely unavoidable given the inherent biases that attend the study of a subject from a particular vantage point. As Tucker (1974, p. 31) counsels, studying marketing from a single point of view, "encourage[s] the sort of myopia common to all specialists" (see also Bazerman 2001). Where a scholar adopts a particular perspective, by definition the scholar approaches the subject from that point of view. Given that the scholar's vantage point is predetermined, they cannot be expected to be objective nor independent in their study of the topic. The consequences of such an outcome for marketing cuts to the core of those principles that undergird our process of scientific inquiry.

## CONCLUSION

While providing a definition of marketing that is helpful to marketing practitioners, scholars in marketing should adopt a definition of marketing that does not advance a single perspective. Marketing should be defined independent of any one particular perspective and with sufficient breadth to be integrative of other perspectives. Development of such a definition is necessary for comprehensive and objective advances in marketing scholarship. To this end, Anderson (1983, p. 28) provides a helpful description of the type of definition that should be sought after by scholars in the field:

> On this view, the exchange process itself becomes the focus of attention in much the same way that communication is the focus of communication theorists, and administration is the focus of administrative scientists. The interest must lie in understanding and explaining the phenomenon itself, rather than understanding it from the perspective of only one of the participants.

For scholarship, adoption of a definition of marketing within the discipline that is inclusive of its varying perspectives and focuses on marketing not as a managerial practice, but more broadly as a phenomenon, is likely to pay dividends for the field. These include benefits for the ongoing discovery of knowledge, its dissemination through teaching and other forms of diffusion, the application of such knowledge in practice, and the acceptance and integration of its knowledge by scholars in other academic fields and members of society at large.

## NOTES

1. The importance of a definition cannot be overstated. Standing alone, a definition outlines the scope and content of what is defined, fixing its boundaries and describing its subject matter. A formal definition is an authoritative statement of meaning or significance that attaches to and explains the nature and essential qualities of that which is defined. In practice, a definition provides clarity and direction, making clear what might be otherwise indefinite.

2. A related benchmark of critical importance, but not focused upon in this chapter, is the role and responsibility of marketing in society. As Robert Bartels once said, "[A] standard for judging what is or is not marketing must give consideration to the question of the role of marketing in human society" (Bartels 1983, p. 33). Although not emphasizing the implications of defining marketing from an exclusively marketer perspective, several chapters in this book address the question "Does Marketing Need Reform?" through examination of the current state of marketing in society. For insights, readers are encouraged to read the contributions of William L. Wilkie, Rajan Varadarajan, Johny K. Johansson, Jagdish Sheth, Raj Sisodia, and Katherine N. Lemon.

3. The first official definition of marketing was adopted in 1935 by the National Association of Marketing Teachers, a predecessor of the AMA. It was adopted by the AMA in 1948, and again in 1960 when the AMA revisited the definition and decided not to change it. This original definition stood for fifty years, until it was revised in 1985 (see, AMA's website, www.marketingpower.com/content4620.php).

4. In this respect, some have even characterized prior definitions of marketing advanced by the AMA to be definitions of "marketing management" rather than marketing (see Kotler 2001).

5. Indeed, the potential exists that knowledge from this larger domain may not be considered "mainstream" in marketing, leading to the view of such contributions being "outside" the discipline. At the extreme, such endeavors on the part of scholars may not be recognized (e.g., published) or rewarded (e.g., tenure).

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CHAPTER 13

# INTERACTION ORIENTATION

## The New Marketing Competency

V. KUMAR AND GIRISH RAMANI

### LEARNING FROM FIRMS THAT ARE GETTING IT RIGHT

Does Wal-Mart feel uneasy that despite its impressive presence and growth, it does not have a successful loyalty program with its customers? Is identifying its valuable customers and rewarding them individually never going to be a part of its marketing strategy? For the moment, Wal-Mart does not care what an individual customer buys at its stores, but by promoting its own website (walmart.com), it does admit that it does not want to be left behind in the online business, where the rule of the game is to enhance the share of your customers' wallet by learning more about each one of them individually. At Sam's Club, the warehouse chain promoted by Wal-Mart, there already exists rich data on each individual customer. We do not know if walmart.com or Sam's Club will at some time overtake the mainline stores' business. But Wal-Mart is willing to be prepared, if and when that day arrives. Thus, the first learning that the changing marketplace offers is:

*L1: Think of customers as individuals, and not aggregates.*

Amazon.com is at the other end of the marketing spectrum when compared with Wal-Mart. Is it doing the right thing by actively recommending a set of products that its computers decide a customer is likely to be interested in on the basis of purchase history? Whether or not Amazon's recommendations hit home, there seems to be an increasing number of customers who are comfortable with this technoprofiling, and some who even say, "I like the idea that some one cares, even if it is only a machine" (Zaslow 2002). Customers seek more than low prices and product availability; they crave interaction and to be treated as unique, individual customers. Of course, the cost of providing human interaction to every individual customer is prohibitive. However, technology and computing power offer firms an option to stay connected with individual customers. In fact, online relationship building possesses certain advantages that human interactions lack. First, there is consistency in the knowledge and expertise level encountered by the customer over a website, unlike in a face-to-face scenario where these levels could vary depending on the sales person. Second, most customers enjoy a feeling of privacy and freedom in online transactions because they believe that they are not being physically watched by a human being, even though they are aware that computers are likely to be collecting individually identifiable data. So, to more and more customers who are either wary of the human interface or who consider self-help a richer buying experience, the Internet is the ideal way to interact with a firm. In today's economy, the capability of a firm to use technology to respond to individual customers and enrich their interaction experiences is slowly but surely turning out to be a key marketing strength. Thus, we arrive at the second learning that the changing marketplace offers:

*L2: Adopt technology as a means to reach and carry out useful dialogues with each potential and current customer.*

Tying a customer down through contractual obligations or through technological roadblocks is a sure way to stoke attitudinal disloyalty, while perhaps increasing profits in the short run. Microsoft's current revenues largely depend on machines needing the Windows operating system. The development and release of various versions of Windows is controlled and supervised by Microsoft. IBM, on the other hand, spends billions of dollars promoting Linux, a free operating system, as an alternative to Windows, without earning a penny on it (Maiello and Kitchens 2004). IBM does this in the belief that creating choice is the way to empower customers and fight competition. If users buy in to this as a sincere marketing move, IBM hopes the customer sentiment will upset Microsoft's dominant presence in the operating systems market. While competitors like HP and Dell also gain from this move by selling more Linux-based machines, IBM believes that its initiative to drive Linux will be recognized by its customers in the long run and boost their attachment to the company. Only time will tell whether IBM succeeds or not, but the fact remains that to obtain competitive advantage, firms increasingly need to be seen as empowering their customers.

Internet commerce empowers customers by removing constraints in the buying process, e.g., by allowing customers to compare products and prices, by providing quick and easy access to products that complement and supplement the focal product that a customer sets out to buy (Day and Montgomery 1999; Jaworski, Kohli, and Sahay 2000), and by accepting electronic instructions and payments. Opening up options to customers could upset a firm's carefully laid plans, but this is where a firm needs to radically change its mindset from product centric to customer centric. Outsourcing as a supply-side strategy places few bounds on the capability of firms to offer virtually any product or service to a customer. Why should any firm then be afraid of outsourcing to its customers some responsibility for its destiny? Firms should follow an empowerment strategy that seeks to make their customers feel that they too are investors in the firm. Empowered customers would themselves provide the checks and balances necessary to steady a firm's progress, much like empowered employees of a firm do. A firm that empowered customers by promoting legitimate online music downloads, when most music companies were still unsure of the path to take, is Apple. The wall of Apple iPod customers, although severely critical of the product in online forum communities, creates a protective shield around the brand that any competitor would find hard to penetrate. The proliferation of self-check kiosks at airports is another example of customer empowerment. A breed of customers view these kiosks as a reward for their competence with technology because they can cut long lines, check in their own baggage, select their seats, change their itinerary, and view their frequent flyer miles. Self-check kiosks undoubtedly lead to lower costs for the airlines that promote them. A single ticket agent at a kiosk station can check in three people at once, reducing the number of counter agents by two-thirds (Gage and McCormick 2003). Delta Airlines is therefore happy to see customers increasingly use self-check kiosks at its various airports. Thus, the third learning that the changing marketplace offers is:

*L3: Devise active customer empowerment strategies since they lead to competitive advantage.*

Proctor & Gamble's (P&G) worldwide success with mass-market products is unparalleled. However, it realizes that to stay on course, it needs to strengthen its ties with its customers who are more information hungry than ever. Two of its initiatives in the online market space indicate its eagerness to interact with its individual customers. The first is Beinggirl.com, which engages early- and late-teen girls by providing informative content in cool teenage-girl vocabulary and style on delicate issues related to puberty and other teen subjects. The website, available in multiple languages in twenty-five countries, connects with potential users of P&G's feminine protection products in a way no mass medium can. Consider this move in light of the fact that in some countries teenage girls may not be able to openly discuss these products with anyone they know, and the power of the website is obvious. The second initiative, reflect.com, allows customization of a complete range of beauty products. To assure customers that it is committed to them, the website offers free recustomization and a money back guarantee without having to return the product. By posing a wide variety of questions, answers to which help the customer create a customized product, the website offers a unique and creative experience, while simultaneously gathering invaluable information for the firm, through voluntary customer participation. These initiatives put P&G in a position to offer successive online and offline interaction experiences that incorporate information from previous interactions with each customer individually and from all interacting customers collectively. Thus, the fourth learning from the changing marketplace is:

*L4: Identify opportunity areas that legitimately obtain valuable customer information, in situations where it is demonstrable that this information is what is helping customers enrich their own lives.*

The most compelling change in the marketplace today is the questioning of the credibility of the role of marketing. Increasingly, a firm's top management is demanding accountability for every marketing action. In the words of Gary Loveman, chief executive officer of casino hotel company Harrah's, "Broadcasting an ad on television or in a newspaper is admitting you have no idea who your customers are" (Bianco et al. 2004). Accountability, therefore, is linked to knowing each customer and measuring the effect of marketing action in terms of the responses obtained from that customer. The monetary value that a customer is likely to provide a firm over the period of his or her relationship, if assessed, would vastly aid in quantifying the role of marketing in contributing to a firm's profits. Credit card firms, catalog marketers, banks, and more recently, fashion retailers have made efforts to determine "customer lifetime value" in order to prioritize their customers and devise appropriate marketing actions that would result in maximizing profits across the customer base. The ability to define and measure customer lifetime value and use it to take marketing action will increase in importance to firms that would like to see and verify the return on the marketing dollar. Thus, the fifth learning that the changing marketplace offers is:

*L5: Firms need to devise methods and implement systems that define and dynamically measure customer value to demonstrate the accountability of marketing actions.*

These five learnings help us develop a framework that could be used to describe or analyze the new governing strategic orientation that firms need to be successful in the changing marketplace. This strategic orientation will be determined by the increasingly visible role of individual customers in shaping firms' destinies, omnipresent information and database technology, and the increasing demand for managerial accountability for marketing actions. We call this interaction orientation.

## THE PATH FROM SELLING ORIENTATION TO INTERACTION ORIENTATION

Having looked at the learnings from the marketplace, we step back to develop the context in which to view interaction orientation as an important research construct. We trace the path of marketing that began with the *selling concept*, moved to embrace the *marketing concept,* and is now poised to adopt the *customer concept.* The selling concept is characterized by customers *to whom* something is sold (Hoekstra, Leeflang, and Wittink 1999). Selling orientation therefore reflects the belief that consumers will purchase more goods and services if aggressive sales and advertising methods are employed, and suggests an emphasis on short-term sales maximization over long-term relationship building (Noble, Sinha, and Kumar 2002). The marketing concept is characterized by customers *for whom* products and services are developed (Hoekstra et al. 1999). Market orientation of a firm is then a measure of how strongly a firm believes in the marketing concept and how much it supplements this belief with an understanding of the need for processes that enable it to gather information on its customers and competitors, analyze this information, and disseminate the knowledge thus generated with a view to developing a position of competitive advantage. Market orientation is thus viewed as an organizing framework that involves a dual focus on customers and competitors (Hunt and Morgan 1995; Kohli and Jaworski 1990; Narver and Slater 1990). While the marketing concept underscored the importance of customers, and market orientation as a construct has been the subject of numerous studies, these terms when originally conceived did not explicitly recognize the degree to which it would be possible to isolate, address, and interact with each customer on an ongoing basis. Therefore, there is a pressing need to conceive new concepts, constructs, and measures that more truly reflect the role of marketing as it has evolved to today. One such concept that begs to be in the forefront of the research agenda is the customer concept. The customer concept is characterized by the individual customer as the starting point for value-creating marketing activities (Hoekstra et al. 1999). We adapt this thought but define the customer concept more precisely as the conduct of all marketing activities with the individual customer as the central unit of analysis and action. This interpretation of the customer concept emphasizes the analysis and measurement of marketing activities and consequences at an individual customer level. A firm that subscribes to the customer concept is likely to be of the view that interactions with each *individual* customer would determine the course of firm strategy (see Figure 13.1).

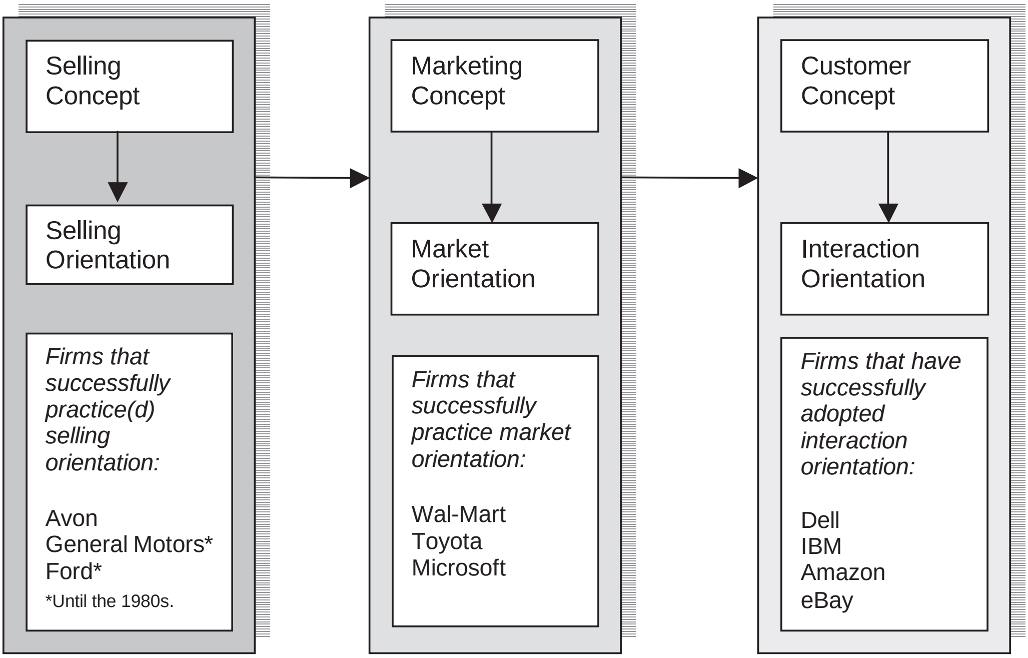
We envision the concept of interaction orientation as a combination of a firm's belief in the customer concept and the concomitant processes and practices that the firm adopts to carry out its marketing activities.[1]

By overlaying the received learnings from the changing marketplace onto the knowledge of various strategic orientations provided by the marketing literature, we propose a firm's interaction orientation as a composite construct that reflects the belief in the customer concept, the capacity to offer customer interaction experiences based on a dynamic response system, the willingness to empower customers, and the extent to which customer value management is used to make marketing decisions.

### The Components of Interaction Orientation

A firm's business can be thought of as an integration of three critical aspects. The first aspect is the underlying belief with which the firm operates. The second is the set of systems and processes that the firm employs. The third is the collection of managerial practices that a firm

Figure 13.1 **From Selling Orientation to Interaction Orientation**



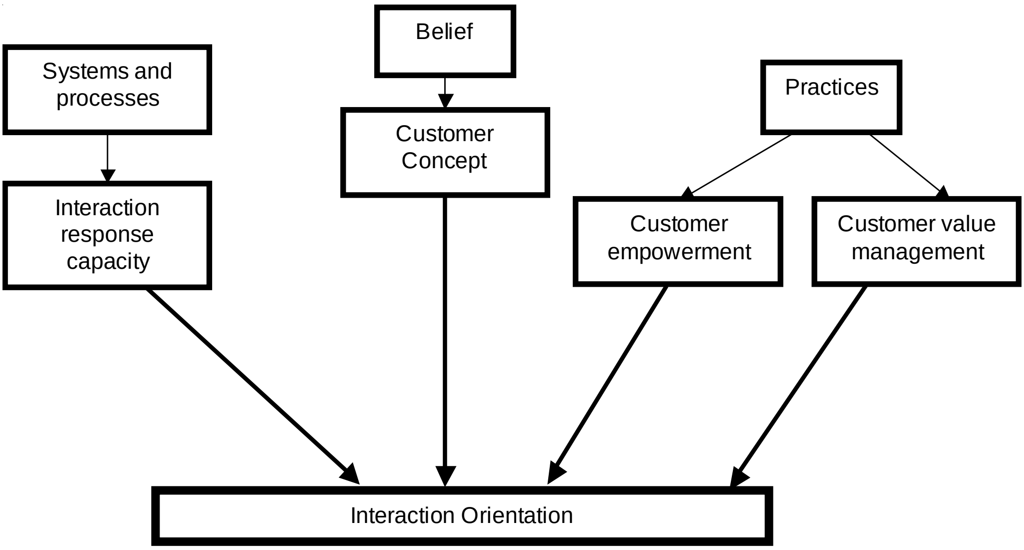

adopts. The four components of interaction orientation emanate from these three aspects (see Figure 13.2).

*Belief in the customer concept:* This component represents the degree of the embedded belief among managers that the firm should strive to engage each potential and current customer in order to understand the needs of each individual customer. Firms that believe that each customer has unique needs that cannot be satisfied with the same set of products and services focus on consumers more than on products and competitors. Such firms also seek out new customers individually and tend to unify different functional areas looking for ways to satisfy individual customer needs.

*Interaction response capacity:* This component represents the degree to which the firm is capable of offering successive interaction experiences to each customer by dynamically incorporating feedback from previous behavioral responses of that customer individually, and of other customers collectively. Not so long ago, a key role of marketing was to transform process information into knowledge by developing expert systems and decision models that present analyzed data and decision scenarios on an interactive basis to personnel in the field (Achrol and Kotler 1999). This role has gone beyond field personnel to include end customers. Data have to be analyzed and customer decision scenarios presented to the end customer dynamically. The scenarios in the form of product and service options need to be the result of observing buying patterns of individual customers. Predictions on which product or service a customer is likely to buy next and when need to be incorporated into the scenarios. Another key aspect that determines the degree of interaction response capacity lies in the ability to design, manufacture, and outsource products and services in direct response to customer needs by investing in flexible back-end systems. Dell is a prime example of providing front-end customization as a result of investments in a network of back-end support.

*Customer empowerment:* It is time to offer customers a greater say in the operations and stra-

Figure 13.2 **The Interaction Orientation Construct**




tegic direction of the business. A successful business strategy must be based on empowering individual customers to allow them to develop the experience with the company on their terms (Newell 2003; Prahalad and Ramaswamy 2004). Customer empowerment reflects the extent to which a firm provides its customers avenues to a) connect with the firm and actively shape the nature of transactions, and b) connect and collaborate with each other by sharing information, praise, criticism, suggestions, and ideas about its products, services and policies. Getting customers to interact with each other and facilitating them to highlight issues often results in providing solutions to problems that otherwise require the firm's resources. Hewlett-Packard encourages online peer-to-peer service and the rich information that the members of this online community provide to one another and to Hewlett Packard only helps raise its overall service efficiency.

*Customer value management:* This component represents the extent to which the firm is able to define and dynamically measure customer value and use it as its guiding metric for marketing resource allocation decisions. Customer value management is defined as providing differentially tailored treatment, based on the expected response from each customer to available marketing initiatives, such that the contribution from each customer to overall profitability is maximized (Kumar, Ramani, and Bohling 2004). Customer value, when measured for the duration of a customer's association with a firm as the sum of cumulated cash flows discounted using the weighted average cost of capital, is called customer lifetime value. A series of studies have shown the success of customer lifetime value as a metric that helps firms decide on retaining or discontinuing a customer, plan suitable marketing and communication channel mixes, and provide time- and product-based cross-sell recommendations for individual customers (Kumar and Venkatesan 2005; Kumar, Venkatesan, and Reinartz 2004; Reinartz and Kumar 2003, 2000, 2002; Venkatesan and Kumar 2004).

## THE NEED TO ADOPT AN INTERACTION ORIENTATION

The market orientation construct ended up excluding profitability as its component primarily because of the emphasis that was placed on the view obtained from field managers. Marketing is losing its focus as a business process due to the refusal of managers to accept monetary accountability of marketing actions (Rust et al. 2004). The increased need to individualize and the increased ability of firms to do so offer the marketing management of a firm no protection behind aggregate and backward-looking performance measures like sales volume, sales value, sales growth, market share, and market share growth. By including the concept of customer value in interaction orientation we seek to offer a construct that directly links marketing action to business performance. The time has come for marketers to hone their measures of customer value. Customer lifetime value should continue to be the subject of active research, and become the guiding metric for practitioners in the real world. However, we may face resistance from marketing managers to endorse the adoption of customer value management concepts, not only due to an aversion to being held accountable, but also due to the organizational and implementation challenges that such a step poses (Kumar, Ramani, and Bohling 2004). On the organizational front, quantification of the projected return on investment (ROI) needs to be agreed upon across stakeholders and business units, and managers and professionals who have traditionally been responsible for all aspects of the marketing of a single brand now have to be empowered with the ability and responsibility across brands, products, and business units. On the implementation front, understanding the data-driven campaign execution output file, choosing the right set of customers in each product category and in each time frame, and documenting the relationship progression to provide effective feedback to the system requires investments and training. But, if a firm accepts that value-creating customers define a business, measuring the long-term business value of marketing actions at the customer level is the way to guide its progress. The need for firms to develop a high degree of interaction orientation is therefore inexorable.

## THE BENEFITS AND RESULTS OF ADOPTING AN INTERACTION ORIENTATION

We focus now on the expected benefits and results of firms adopting interaction orientation. Not all customers are of equal significance or value to a firm. However, in the absence of interactions between a firm and a customer, the relative value of customers is not evident. The tendency then is to overservice low-value customers and underservice high-value customers. An educated customer is a powerful customer. Actions of knowledgeable and experienced customers can either help or damage a firm’s reputations. The ability to take advantage of such customers is made possible by identifying and cultivating them as a resource to the firm. The firm’s lack of attention toward a customer results in a lack of interest in the firm by the customer. Without being rewarded in terms of recognition, power, or monetary benefits, customers will not feel that they are stakeholders in the firm. Empowering and rewarding customers according to each ones’ expertise and needs, on the other hand, results in discernible mutual benefits. Interaction orientation prescribes that products and services are not predetermined. Thus, a shifting array of products and services mark a firm that adopts this orientation. This makes the firm a moving target for competitors who end up focusing on analyzing its products and miss out on the end customers. Microsoft, in its response to the threat from promoters of Linux such as IBM and Novell, has taken steps to focus on bringing out features similar to Linux in their own products with a view to counter the Linux phenomenon (Murphy 2004). This example suggests the power of interaction orientation as a source of competitive advantage. The confidence in anticipating the course of the business increases with the ability to predict the value that each customer is likely to contribute in the future.

In the absence of interactive updating of a firm’s customer equity, which is the sum of the lifetime value of all its customers, the firm has to rely on past performance measures and judg-

Table 13.1

**The Interaction Orientation Framework: A Summary**

| The construct | The need | The benefits | The results |
|---|---|---|---|
| 1. The extent of belief in the customer concept | 1. Include the power and value of a firm's customers as an evaluation criterion | 1. Identification and retention of valuable customers | 1. Short-term profits |
| 2. The extent of interaction response capacity | 2. Integrate marketing action with business performance | 2. Development of customers as a skilled resource | 2. Sustained competitive advantage |
| 3. The extent of customer involvement and empowerment | 3. Provide a constructive measure of marketing accountability | 3. Build customer ownership of firm | 3. Long-term profits |
| 4. The extent of customer value management practiced | 4. A dynamic array of products and services | | |
| | 5. Longer planning horizons | | |

ment to plan into the future. Interaction orientation, which prescribes that the consequences of all marketing actions be measured in terms of its impact on customer value, would improve the accuracy of the prediction of both short-term and long-term performance. Thus the consequential benefits of adopting interaction orientation are: (1) the firm is able to attract and retain the most valuable customers, (2) the firm's customers develop into a skilled resource for the firm, (3) the firm's customers keep competitors away because of their heightened sense of ownership of the firm, (4) the firm develops a dynamically shifting portfolio of products and services, and (5) the firm develops the ability to foresee customer responses and plan marketing activities for longer time horizons.

Since the consequences of interaction orientation are the result of dynamically monitoring business performance at the customer level, it is easy to see that we should be able to observe a greater linkage between where a firm stands in relation to its competitors on the measure of interaction orientation and its relative position on aggregate business performance measures, especially profits and ROI. A recent study documents the effect of adopting a customer-centric approach in increasing ROI (Kumar and Petersen 2004). Thus, interaction orientation directly results in a firm being able to monitor and enhance ROI and short-term and long-term profits.

## SUMMARY

Interaction orientation is a set of beliefs, processes, and practices that a firm needs to adopt to compete successfully in the changing marketplace (see Table 13.1). The four components of interaction orientation are believing in the customer concept, offering customer interaction experiences based on a dynamic response system, empowering customers, and using customer value management to make marketing decisions. Interaction orientation is different from market orientation because it seeks to focus on customers as individuals, embraces advancements in technology in order to adopt interactive processes not envisaged earlier, and implicitly builds into all marketing actions the notion of profits. It is a prescription for firms to follow, to successfully negotiate the pressure on marketing to demonstrate accountability. Interaction orientation is therefore the new marketing competency that today's firms need to achieve. While empirical research to test the robustness of this construct is necessary and efforts need to be made to verify the antecedents and consequences of interaction orientation, there is ample evidence from the marketplace that some firms have adopted all or some of the components of interaction orientation into their practices.

Dell Computers, cited by many as the company that has modeled its success by creating successful interaction experiences, knows that computers are not the only product that it is capable of selling. Its deep knowledge of its customers and the expertise in setting up back-end systems has given it the wisdom to introduce products traditionally not its forte. Dell seems to believe that as long as you are engaged in a dialogue with your customers, the range of products and services that you offer them need not be limited. The recent launch of Dell's plasma and high-definition-ready LCD TVs and the customer acceptance of these products is a testimony to the success of its governing strategic orientation—interaction orientation.

## NOTE

1. By analogy, the customer concept should lead to a customer orientation and not interaction orientation. However, we prefer the term interaction orientation for two reasons. First, customer orientation as a term is firmly established in the literature as a constituent of the traditional market orientation concept. Second, and more importantly, the term interaction orientation effectively captures the bidirectional and dynamic nature of firm–customer relationships, a phenomenon more prevalent today than in earlier years.

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CHAPTER 14

# CUSTOMER ADVOCACY

## A New Paradigm for Marketing?

GLEN L. URBAN

The chapters in this book document that marketing as a field has many serious problems: (1) the effectiveness of marketing tools has declined, (2) marketing today is viewed as intrusive—it is resented by many and increasingly regulated, (3) marketing ethics are being called into question, and (4) marketing has lost its seat at the table with top management. What is needed is a new paradigm for marketing. I cannot claim I have it, but my experience over the past ten years suggests to me that trust and customer advocacy are the keys to a new approach to marketing that will be: (1) effective in generating profit, (2) welcomed by consumers, (3) ethically right, and (4) able to get marketing back to its role as a driver of corporate strategy. In this chapter I describe the forces impelling advocacy, define assumptions for Theory A (A for advocacy), position advocacy versus customer relationship management (CRM), outline some tools for advocacy, and argue that moving to customer advocacy is an easy ethical decision in the long run—but a tough one in the short run.

### CUSTOMER POWER: THE DRIVER OF CHANGE

The Internet provides easy access to tremendous amounts of information, and people have been taking advantage of that to become smarter shoppers. They are using digital technologies to gather information, to find competing products, and to talk to other customers. Increasingly, they are using the Internet to avoid pushy marketers and to help them make their own purchasing decisions. The Internet is a great enabler of customer power. What the popular press predicted in the late 1990s would happen with the Internet is actually occurring.

Customers now have access to information about a company and its products from a multitude of sources. In many industries like autos, travel, and health, over two-thirds of consumers go to the Internet for information.[1] Customers can find competing products more easily. Search engines, comparison sites, and online reviews all enable customers to find the best products at the lowest price. Customers can buy from anywhere, regardless of physical location. The Internet simplifies transactions for both consumers and industrial customers. Customers can connect directly with providers to buy goods and services. Prospective customers can find out if a company has mistreated former customers by consulting and collaborating with them through the Internet. Consumers have more control over the flow of marketing messages into their homes and lives. Consumers' distaste for junk mail, telemarketing calls, spam, and pop-up ads means that these pushy messages are more likely to earn ire than profits. Technology empowers consumers by letting them mute or zap TV commercials, screen telephone calls, block pop-up ads, stop telemarketing, or send spam straight to the trashcan.

This is not news to most of us, but we have to realize that this is a fundamental shift in the relationship between companies and consumers. Corporations are not in control anymore—customers are. We always said customers are king and queen, but that traditionally meant that corporations sensed needs, build products to fit them, and then convinced customers to buy them (with one-sided advertising and aggressive promotion). Now customers reject aggressive push/pull tactics and decide themselves based on full information if they want the product and if it fits their needs.

## WHAT IS A COMPANY TO DO?

A company could push/pull harder with more entertaining ads, new tricky pop-ups based on more sophisticated data mining, or ads placed intrusively in search outputs or e-mails for microtargeting. In this case more money is spent on advertising and promotion in an effort to overpower the customer even though traditional media effectiveness is decreasing and costs per thousand are going up. But there is another alternative. The firm could recognize that consumers are in control and partner with them based on mutual trust. In this case the firm provides open, honest, and complete information and helps consumers make the right decisions by giving fair advice and comparisons across all products. I call this customer advocacy. The firm advocates for the customer and the customer advocates for the firm.

## ADVOCACY THEORY: AN ANALOGY TO MCGREGOR AND THEORY X TO Y TRANSITION

The differences between push/pull and advocacy are profound. Theory P (push/pull) implies one-sided advertising and aggressive promotion while Theory A (advocacy) implies trust building and helping customers. For fifty years we have been in the push/pull era, enabled by TV media and promotion. I believe we are now experiencing a paradigm shift and moving to advocacy.

One of the most significant differences between Theory P and Theory A is the set of assumptions we make about customers. The old paradigm of push/pull marketing assumed that customers do not know what is good for them and we had to convince them to buy our products, while advocacy assumes that customers are responsible and active decision makers—involved and intelligent.

There is an analogy in the transformation of organizational behavior by Theory Y and the transformation of marketing by Theory A. In 1960, McGregor introduced Theory X and Theory Y on the management of employees. Theory X represented an old style of management in which employees were mindless robots that had to be pushed into working through monetary incentives and tight control by management. Theory Y represented a new style of management in which employees were intelligent, responsible individuals that could be trusted to do a good job. More specifically, the traditional view, Theory X, held that employees dislike work, avoid responsibility, and prefer to be told what to do. This led to authority and control as the key factors in organizations. In contrast, McGregor proposed in Theory Y that employees are creative and can exercise self-direction and accept responsibility. This led to participatory management, management by objectives, and teamwork as critical success factors in organizations. Quality circles would never have been possible under Theory X, but they flourish under Theory Y. It may be difficult to think of business without management by objectives and teams, but in 1960, good management was based on power and span of control. McGregor was viewed as radical by many traditional managers in 1960.

The contrast between push/pull marketing—Theory P—and advocacy marketing—Theory A—parallels McGregor's Theory X and Theory Y. The key is in changing the assumptions that companies hold about their customers. Just as Theory Y provides a new view of empowered employees, Theory A provides a new view of customers. Theory P views customers as avoiding decision making, having to be coerced to buy, and lacking in imagination. Theory A, on the other hand, provides a view of empowered customers—they accept responsibility, are active decision makers, like to learn, and are creative and imaginative. The implications for Theory A marketing are companies using trust-based marketing and advocating for their consumers. Theory P thinking leads to a view of marketing that says companies must make reluctant, apathetic customers buy products. In contrast, Theory A points to and creates a mutually beneficial relationship with an empowered, responsible, loyal customer following. For example, under Theory A, a company has the opportunity to partner with its customers and use the Internet as an enabler to provide information and offer customized advice. The question is, what do you assume about your customers? You must examine your markets and test your assumptions. In most cases today, Theory A assumptions will be supported.

In the spirit of full information, I must say advocacy is not for all firms. If a firm has a commodity product, maintains a monopoly, or has customers who only care about price, advocacy may not work. But for most firms, where segmentation, differentiation, and innovation are possible, advocacy will have many benefits in the new world of customer power. My view is that there is paradigm shift going on in marketing similar to the Theory Y shift in organizational theory in the 1960s. It may take five to ten years, but the world of marketing will never be the same. Those who practice Theory A now may be viewed as radical, but I believe that Theory A will become the dominant approach to marketing in the future.

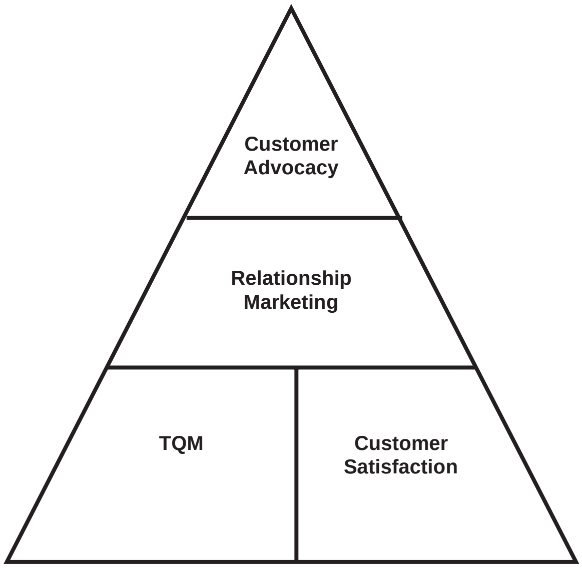
## THE CUSTOMER ADVOCACY PYRAMID

In the past ten years, firms have been moving toward a new relationship with customers with CRM (customer relationship management). The dream of CRM was to build a long-run relationship with customers that built loyalty by careful communication that the customer wanted and could use to help make decisions. However, most CRM applications are distinctively push marketing. A data warehouse is built, sophisticated data mining tools are applied to find opportunities, and aggressive advertising, direct mail, or telephone marketing is used to get extra sales to pay back the CRM investment. In reality few CRMs are producing a good return on investment and most are not successful.

The positioning of CRM and advocacy can be seen in Figure 14.1. It shows the pyramid of advocacy where Total Quality Management (TQM) and customer satisfaction are at the base. They are necessary conditions for trust and advocacy. If a company wants to honestly recommend its own products, then it must have products that are good enough to recommend. Advocacy is supported in the middle by relationship marketing because CRM provides the tools needed to personalize a company's advocacy relationship with each customer. The pinnacle is advocacy.

As the middle of the pyramid is reached, a company won't use CRM as it did in the past. Instead of targeting promotions and company communications at its customers, it will design CRM to build trusted and partnering relationships with its customers. It will use CRM and related systems to provide balanced, transparent, and relevant information plus unbiased advice on how to make the best decision. CRM, seen in this light, would be better called a Dream CRM strategy since it makes the dream of CRM real. Some people call these customer-managed relations—CMR, not CRM. Likewise, one-to-one and permission marketing shifts in the company's inten-

Figure 14.1 **The Pyramid of Advocacy**




tions toward customers. But instead of creating more microgranularity in spewing out promotions and hyping tangentially relevant company product information, these methods should become a mutual dialogue between individual customers and a firm to maximize customer interest over the available products in the market.

## TOOLS FOR ADVOCACY

As a firm climbs the pyramid toward advocacy, a number of tools are available to enable this ascent. Building on quality products and customer service, a firm must establish transparency. This means open, honest, complete, and unbiased information. This does not require any new technology—just get the information and put it in an easy to use format. Now the information needs to be converted into advice. Many virtual trusted advisors are available based on configuration, attribute importance, revealed preferences, and Bayesian updating of requirements.[2] These should be based on comparisons across all products available to the customer—not just the firm's offerings. Many pioneering firms are using such advisors (examples are Amazon, Expedia, Orbitz, Travelocity, and Epinions).

A good example is the General Motors (GM) Auto Choice Adviser (autochoiceadvisor.com or Kbb.com, under "decision aids") that was built based on MIT research in 1997–2000 to build a trust advisor called "Trucktown" (Urban and Hauser 2003). The next step toward advocacy is partnering with customers to design products. Not just measuring needs, but also actively collaborating with lead users to create products. "Listening in" to the dialogue between a trusted advisor and a customer can identify new needs and give customers a design pallet so they can, for example, create their own cars (Urban and Hauser 2003).

With great products and service, the next challenge is to insure trust and advocacy in the channel. All members of the supply chain must be committed and given incentives to represent the customer's welfare. As the firm moves to advocacy, it is not just marketing that is involved. Finance must shift from short-term to long-term payback. Personnel must hire and compensate

Figure 14.2 **My Auto Advocate Internet Site**


employees who believe in advocacy. Engineering must design the best products—that win in open and unbiased comparisons. Production must produce at the highest quality level. And most important, top management must embrace the long-run strategy of advocacy. In many organizations culture must be changed and the chief executive officer must lead the way.

I am working on such a comprehensive shift to customer advocacy at General Motors. We are experimenting in a market research setting with an advocacy system. See Figure 14.2 for a site called "My Auto Advocate" that represents the strategy. It is an opt-in system where, after the customer agrees, they can visit the site and get unbiased advice (Auto Choice Advisor), competitive test drives of more than 150 cars in their Auto Show in Motion Program (over two hundred thousand people attended last year) in a no-sales-pressure environment, into a "drivers forum," brochures and technical specifications for all cars, and links to government sites for safety and environmental characteristics of cars. The navigation is driven by a 360-degree panorama that simulates an auto show and gives access to information sources and comments by the people shown on the screen. A unique feature of the program is paying people with Amazon award certificates (up to $20) for going to the information sources. They get paid for doing their homework—isn't that an interesting idea? Rather than spending billions on advertising, we pay them for looking at the information they should view to make a good decision. Early results indicate over 35 percent of potential car buyers will opt into the advocacy program after one exposure to an ad explaining the benefits and approach. About 50 percent of these will go to the information sources and earn rewards. The net impact for General Motors is increased trust, consideration of GM cars, preference, and market share.

## ADVOCACY IS ETHICALLY RIGHT

Personally I have long been offended by many marketing practices and sometimes I am embarrassed that I am working in the field of marketing. So for me customer advocacy is great—it is ethically right! It is honest, open, and transparent, and helps the customer make the best decision.

But why will firms use advocacy? Fortunately advocacy can lead to increased long-run profits because customers become loyal to the firm and will pay for the value of the product (not just look for low price), buy other products from the firm, help design new innovative products, and help convince other customers to buy from the firm (drastically lowering customer acquisition costs). So in the long run it is easy to do the ethical thing—be honest, fair, and unbiased in helping customers and earning profits. This is one of the cases where the right ethical decision is easy. So what is the problem? Well, it may be a "no brainer" in the long run, but in the short run it often involves decreased profits and large investments as the firm reformulates it product line to meet open comparisons. There is also a learning period for customers to develop trust, which may require investments (e.g. better service, Internet trusted advisors, new opt-in communication systems). So the commitment to advocacy takes leadership and courage.

## TRANSITION TO CUSTOMER ADVOCACY

Fortunately we see examples of firms pioneering in trust and advocacy. A salient example is eBay, where trust has created an over $40 billion dollar marketplace. I find it particularly interesting that eBay is successful in selling used cars. The use of sellers' ratings, escrow, appeals procedures, and full information have made it attractive to many buyers to purchase a used car over the Internet. Estimates are that eBay sells approximately $12 billion in used cars and most of these are from existing used car dealers who had been the most pushy and abusive marketers. But eBay has taught them how to behave. They must the transparent and honest and back up their claims, or customer ratings will deny them future business and eBay will ban them. Customer power has turned them into upright, trustworthy marketers.

It is not just Internet companies who have shown the way; established firms like General Motors (as discussed earlier), Progressive Insurance, and John Deere have pioneered with advice and product comparisons. For example, John Deere not only provides unbiased advice in selecting a tractor with its "needs analyzer", but also makes honest comparisons to competitors like Kubota. Pioneers are gaining rewards and those who follow will face a disadvantage. The first firm to win customer trust will be difficult to dislodge because customers are reluctant to switch from a trusted supplier. With the market gains from advocacy accruing to the pioneers, other firms may have no choice but to follow and be second best. Advocacy will be a strategic option for most firms, but for followers it may be an imperative to survive in the world of customer power.

## A NEW PARADIGM

It is my opinion that advocacy will emerge as the new paradigm. If it does, marketing will have a new set of trust tools that can generate profits. Customers will welcome the new marketing approach and view it as helpful, not intrusive. Customer advocacy will give marketing a prominent position in corporate strategy formulation. It may take ten years, but when it occurs, we will all be proud to be in a new ethical marketing world!

## NOTES

1. See Urban (2005), chapter 1, for data and citations on Internet usage and impact.
2. See Urban (2005), chapters 6 and 7, for examples of advisors and methodological tradeoffs.

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Chapter 15

# DOES MARKETING NEED TO TRANSCEND MODERNITY?

A. Fuat Firat and Nikhilesh Dholakia

Does marketing need reform? No, marketing needs a revolution!

The principles and strategies of modern marketing fitted well with the image of the modern individual. Contemporary transformations in modern culture, however, are de(re)constructing markets and consumers in an epochal manner. "Modern marketing" is simply not geared to deal with the ongoing technology-aided and culturally momentous de(re)constructions of markets and consumers.

Two core principles defined modern marketing: the marketing concept and consumer satisfaction. In 1995, Firat, Dholakia, and Venkatesh (1995) argued that these two principles, which led to the practice of providing products for the needs of consumers identified in the markets, were becoming obsolete. Marketers, they argued, had to turn to facilitative processes that allowed consumers to participate in the design, construction, and consumption of products. This idea was later articulated in Firat and Dholakia (1998), and has been echoed by others (cf., Prahalad and Ramaswamy 2000, 2004; Vargo and Lusch 2004), in terms of conceptualizing consumers as co-creators. Contemporary conditions present a radically different market than the one envisioned, constructed, and "managed" in the era that is now identified as modernity (Featherstone 1991; Jameson 1991; Jencks 1987; Lyotard 1984).

To fully appreciate the contemporary transformations in constructions of markets and consumers, and to provide an explanation of why the marketing concept and consumer satisfaction were appropriate principles for modern marketing, first we turn briefly to the history of modern marketization and consumerization.

## MODERNITY, MARKETS, AND CONSUMERS

When early economists such as Adam Smith and David Ricardo developed the original ideas that led to the definition of modern markets, they did not provide modern thought with simply an economic category or concept. The usage of the term "free market" by many politicians and leaders shows that the idea of the market has been integral to the whole modern project (Angus 1989) of emancipating the individual human being from all shackles, natural and social. Following the Enlightenment, the idea that humanity could control its own destiny and not be "subject" to powers above steadily gained ascendancy. The modern project became one of improvement of human lives and the building of a grand future, when all human beings could realize their potentials as well as exercise their free wills. In this project is inscribed the clear distinction between the individual and the social, a distinction that was not so fervently made before, and the belief that such a separation is possible and necessary (Dreyfus 1991; Ricoeur 1992).

Prior to the modern era, the individual human being was put on Earth to live (out) her or his preordained lot (fate). With the modern idea(l), the human being is no longer a subject "to" (an)other, but a subject "that" acts on one's own behalf. The capability to act is fundamentally ingrained in science. Through scientific technologies one is able to act upon and even reorient life conditions toward creating the rationally possible, best human existence. The human being becomes the "knowing subject" of modernity, leaving behind the traditional condition of "being subject" to fate and ascribed authority (Rorty 1979).

Enabling this modern "knowing subject" to fulfill her or his potential and exercise free will in realizing the modern project required a thorough reorganization of traditional societies. The market, as conceptualized and constructed in modern society, has been key to this reorganization. As a mechanism that allows those who wish to exchange their resources to find each other when and where needed, the market serves as the fundamental medium of individual freedom (Slater 1997). The idea is that all who meet in the market do so for a momentary exchange. They need not know each other, and other than the momentary exchanging of their resources—most often money of one party for goods or services of another party—they have no obligations to each other prior to or following the exchange. This freedom from obligation lies at the basis of the individual's ability to exercise free will; based only on that individual's own powers of decision, reason, and ability. As such, the individual human being becomes a free agent, acting only on the basis of that individual's needs as he or she sees them.

Modernity did not resolve the tensions between the desire to belong and relate, and the desire to be independent and free. In effect, it heightened the tension. It offered the ambiguous possibility of independence and freedom laced with the oft-contradictory promise of better (social) experiences of "relating and belonging" based on freedom of choice. In modernity, what one belongs to and who one relates with were thought to be matters of free will, not preordained. Thus, belongings and relations that are best suited to one's own choices—regarding life, self, and the humanity's project to be completed—were somehow deemed possible, even as tradition-bound sociality was abandoned.

Given such conceptualization of the modern individual, and the role of the market in its actualization, it is understandable how the modern marketing concept originated and why it fitted well with the modern project. Modern marketing is the activity that helped the modern markets work most efficiently. Along with other phenomena such as commoditization and individualization, consumerization of the modern individual plays a significant role in this efficiency.

Briefly, consumerization is the freeing of the individual from the necessity to produce what one needs or consumes. A feat of marketization, consumerization also contributes to the growth of the market. By becoming a consumer, the individual is able to procure for needs he or she would otherwise not be able to produce for. With ever-greater numbers of individuals becoming consumers of commodities that are not self-produced, products that are mass-produced to meet similar needs of many consumers became the norm. Markets became the efficient mechanisms of exchanging such products. As a consumer, the individual is able to expand beyond capabilities of self-producing, thereby to contemplate a large array of alternatives to satisfy his or her needs, improving choice, and thus improving the exercise of free will. Marketers are able to help "consumerized" individuals who can rationally analyze their needs based on their life conditions. With the growth of consumers who now can contemplate and articulate almost endless numbers of needs, and the rise of corporate entities that can employ scientific production technologies that can produce for these needs, modern marketing's principles are integral to the actualization of the modern project: improvement of human lives in a society of free agents who decide what this improvement means and can reach a consensus based on reason and scientific discovery. Consumers have needs they want to satisfy to progress toward actualization of their life project; and marketing helps in the identification, articulation, and satisfaction of these needs.

## AFTER MODERNITY

There is now quite a large consensus among scholars that modernity has run its course or is approaching its end. We are, it is argued, in states variously characterized as late modern, high modern, liquid modern, or postmodern (Bauman 2000; Giddens 1991). Whichever term (and the phenomenon it represents) is preferred, each term—by the inclusion of the word "modern"—indicates extensions of aspects of modernity. That is, we are living in times that, while extending characteristics of the modern, nonetheless transcend and transform it (Massumi 1987).

Natural developments in many of the principles of modernity (that originated to realize the individual free agent) are reflected in human rights, modern democracy, and markets. Technological developments of the last half-century, however, have rendered the principles of modern marketing obsolete. Several significant developments can be mentioned in understanding this phenomenon.

The relationship between organizations and individuals in modern society always had seeds of tension. On the one hand, while consumerization enabled individuals to find satisfaction for many more needs than they could if they had to self-produce for all needs, turning to the market to get satisfaction meant that there was always a gap between individuals' perceptions of needs and what could be acquired in the market to satisfy such needs. They could find numerous alternatives in the market to satisfy a need and select from among them the one that most closely met their need, but necessarily all mass marketed offerings were a step removed from each consumer's need in order to satisfy the need of many. Furthermore, the distance or the boundary that separated a marketing organization from its customers always constituted a challenge to the individual's ability to exercise one's free will. In the end, the decisions regarding the features, ingredients, and so on of the commodities were made by the organization, even if the organization was closely attuned to its customers' needs. Beyond these fundamental tensions between corporate organizations and their consumers, there were of course the practical problems of power and conflicts between these two parties, often highlighted in critiques of marketing. Just based on their sizes, the resources they controlled, and the interests (such as return on investments) they had to serve beyond the satisfaction of consumers' needs, organizations in practice often competed with consumers' interests rather than championed such interests. Complete exercise of free agency required, in effect, consumer control of organizations and the production processes. This is paradoxical in modernity because, as we discussed above, freeing the individual from production processes was originally thought desirable for actualizing free agency.

Furthermore, individuality—a revered consequence of the emancipation of the individual—always conflicted with choice of a mass commodity that, in the end, millions of others also chose. That is, as long as complete customization of alternatives chosen in the market did not exist, complete individuality or exercise of free agency remained in question. Therefore, customization and direct control over organizational production processes were natural and necessary extensions of modern aspirations and the modern organization of society; and as a result, today, these are desired phenomena that are culturally sought. Consequently, the nature of consumption and the constitution of consumers are changing.

Very briefly, these changes entail a complete reorganization of the meanings and roles of production and consumption. Consumption is now the arena where value is created (Baudrillard

1981), and consumers increasingly become postconsumers, involved in the construction of life mode alternatives they coproduce in consumer communities or with marketing organizations. The increasingly individualized forms of life and consumption in modernity are tempered with rising involvement in consumer communities or neotribes (Maffesoli 1996) in order to construct alternative cultures of experiencing life.

## CONTEMPORARY MARKETING

Moreover, consumers the world over are becoming increasingly marketing savvy, understanding —tacitly if not via formal business education—the spirit and workings of marketing (Brown 2003). In effect, consumers are maturing, ready and capable of interacting with marketing organizations at a level not possible before; and technologies are enabling this. Like youth who mature, or like politically and socially conscious women who increasingly decipher the working principles of patriarchal society, maturing and savvy postconsumers look for a playful equal relationship, a partnership with organizations. Modern marketing's segmentation-targeting-positioning mode of providing for, satisfying, and taking care of consumers' needs is not an approach that is amenable to this mature desire of postconsumers.

There is also a force for change that comes from the production technologies side of the equation. Increasingly, no product is completely produced in one place or in a singular process. With the growth of a global economy and global markets, much of the production is outsourced, as are many of the managerial operations (Balasubramanian and Padhi 2005). What becomes important for businesses under these circumstances is the expertise of designing the processes that make such worldwide and distributed sets of operations coordinated and seamlessly integrated. Like all other forms of expertise and managerial skills, these design and operational integration skills become distributed and simple to replicate. From corporate centers in New York and London, such skills percolate to workplaces in Hanoi and Hangzhou, and eventually to homes of postconsumers.

These kinds of design and integration skills are also required in life in general. Life skills are becoming marketing skills. After modernity, marketing is the expertise of designing the processes whereby human (postconsumer) communities imagine, construct, and experience meaningful and substantive modes of life. This means transforming and transcending several principles of modern marketing.

## CHARACTERISTICS OF NEW MARKETING

A radical reconstruction of marketing means that the core marketing concept, which ultimately determines its practice, is reconstituted. Two issues have dominated the discussions of the modern marketing concept: exchange and consumer centeredness (Bagozzi 1975; Kotler 1972). We shall discuss the various implications of the challenges we see in terms of how these two aspects of the modern marketing concept will likely be affected. These implications are framed in terms of four portending transitions that marketing theory and practice are likely to experience.

### Phenomena Essence Transition: Business Activity to Embedded Cultural Practice

Contemporary transformations—as modernity loses steam—reinforce the recognition that marketing was always, and will continue to be a human practice embedded in the culture of community life. This signals a sea change in the meaning of marketing. Conceptualizing marketing as the activity of finding out what consumers need, organizing resources, designing a product that fits the image of the need, communicating its presence, and making it available to the consumers—these processes have likely reached their end. Instead, the concept of embedded marketing has to emerge, where the firm is part of the community to facilitate the efforts of consumer communities to mutually construct their desires and the products they want.

Pushed to the logical extreme, this implies the dissolving of the organization. Corporate entities blur due to the melting away of their boundaries. Rather than a professional business practice controlled by managers to serve its consumers and stakeholders, marketing morphs into an openly accessible cultural practice of the postconsumer communities. The concept of business is also in flux. It is changing from a distinct form of activity of incorporated entities to everyday practices of all corporeal entities. People are engaged in far greater numbers in the business of life than in "business life."

The modern order demarcated markets and corporations. Marketers largely performed a boundary task. Marketing constituted the semipermeable "membrane" between the organ(ization) and the larger (social) body (market). Marketing informed the organization of the needs of the consumers and informed consumers about the products of the organization. The very existence of this specialized membrane confirmed and affirmed the organ(ization)'s separate existence. This membrane is stretching, rupturing, and dissolving and fusing with both sides: the organization and the market. With the dissolving membrane, postconsumer communities are emerging as the new conjoined conglomerate entities of the new era. Somewhat surprisingly and a bit ironically, in its very dissolution, marketing is becoming the most pronounced moment in everyday life as everyone becomes engaged in and with it in all aspects of their lives. The dissolving membrane is permeating both sides—organizations and the postconsumer communities.

The ongoing and ubiquitous pervasiveness of marketing is not just a marketer's indulgence in self-importance. The modern marketing impulse, as discussed by Hirschman (1983), may not be able to respond fully to all dimensions of human existence. Extending Hirschman's ideas reveals some essential paradoxes in the nature of modern marketing. As many nonmarketing scholars recognize (see, for example, Jameson 1991; Jhally 1990; Wang, Servaes, and Goonasekera 2000), in the waning moments of modernity marketing has already taken center stage. It has largely replaced democracy; just as the consumer has replaced the citizen (Moyers 1989). Contemporary representational democracy, guided by "poll-itics," relies heavily on the modern marketing concept. The idea has taken hold that the most efficient form of democracy is when a government fulfills its constituencies' needs in the style of a marketing (business) organization. We also observe the infusion of this idea into education, when students are conceived as "customers." In this displacement of democracy by marketing and citizen by consumer, a key difference between the two may often get lost. Democracy has necessarily been a process of citizen agency; that is, the citizenry acting on its visions and ideals for a meaningful life. Marketing, on the other hand, as a modern business practice consists of organizations catering to consumers and acting on consumers' behalf, but focused on the organization's (economic) success as much as, if not more than, on the satisfaction of the consumers' desires. When democracy is reconceptualized in the modern marketing mode, it reduces the citizen (consumer) from a constructor who produces policy alternatives to someone who selects and pushes buttons—of policy alternatives—offered in his or her name. In such marketing-laced "poll-itics," there is an erosion of the "body politic" and increasing individualization of the desires and acts of the citizen (consumer).

The advent of the postconsumer and of embedded marketing hold the prospect of reempowering the consumer as well as the citizen, going much beyond democracy-diluting "poll-itics." In embedded marketing shaped by contemporary sensibilities, marketing would reemerge as the empowering tool of the postconsumer. Postconsumers and embedded marketing would tend to reestablish democracy in a form that is viable—based on the constitution of postconsumer communities or tribes (Cova 1999; Firat and Dholakia 1998). While the enormous centralizing and centripetal tendencies of "modern poll-itics" would be lost, small-scale (not necessarily "local," given the ability of information technologies to connect people) postconsumer communities would cherish and nurture true democratic processes.

### Power-Sharing Transition: Managed to Collaborative Marketing

For marketing, the entrenchment of management came much later than on the factory floor—beginning in the 1950s and 1960s—but it came with cogent sophistication (Kotler 1967; McCarthy 1960). Catering to consumers' needs in efficient, economic terms—while assuring the organization's economic success—was a tightrope act. Hierarchic, rational, ordered, and systematic "management" of market-oriented tasks and people was needed to walk this tightrope. Such a hierarchic orientation, of course, was in tune with modernity's impulse for order and with modernity's overarching project of constructing a grand future for humanity. On the highly visible center stage of media and malls, the marketing "acts" had to be well orchestrated so as to be effective, visible, comprehensible, and popular (Pine and Gilmore 1999). Visible marketing operatives—top executives, sales people, spokespersons, endorsers, and actors in commercials—had to be provided with scripts and direction from the backstage (management) to ensure that the acts were performed well. Haphazard, unscripted, and chaotic acts could waste time and other resources on the stage, and result in the audience (consumers) losing interest and walking away from the performance (product/market).

Under modernity, well-managed marketing processes freed consumers from the burdens of designing, constructing, and disseminating market offerings—tasks that ordinary consumers could not effectively or efficiently perform anyway. Marketing research and management methods were deployed to second-guess consumers—by providing what consumers would likely have constructed for themselves anyway.

Contemporary, "new" marketing needs to shift gears from a managerial mode to a shared, collaborative mode. By collaborating as partners with postconsumer communities in constructing their modes of life, marketing organizations become parts of the cultural ecosystem. Marketing's role becomes that of facilitating and coordinating the efforts of the community's members. This is a coperformer, not a provider role. The shape of such collaborative marketing is just emerging, particularly in technology-aided arenas—in multiperson online games (such as EverQuest), friends-of-friends electronically-aided networks (such as Friendster), some forms of "reality TV," virtual market-oriented communities, "flash" meeting tools such as Meetup.com, certain types of "blogs," and so on.

### Power Locus Transition: Centralized to Diffused Marketing

New marketing becomes increasingly a domain of the postconsumers, rather than that of organizations. The postconsumer is a marketer, constantly involved in the imagination, creation, and performance of desires to be experienced as modes of organizing life. The membrane that separated organizations and consumers not only stretches thin but also begins to dissolve. There is growing interchange between the marketers and the postconsumer communities, to the point that the two blend into one. Marketing becomes everyone's activity, emancipated from the somewhat occult practice of professionally anointed managerial cadres, organized and ensconced in firms. It is an omnipresent essence of transactional and exchange-oriented human activity. Such a change, as it unfolds, is no less dramatic than the impact of the Gutenberg press, which moved cloistered knowledge into public spaces. In this emergent era of diffused marketing in postconsumer communities, experimentation with marketing modes flourishes, constantly finding new ways of doing things.

### Phenomena Clarity Transition: Ordered to Complex Marketing

A diffused marketing increasingly moves away from a hierarchically ordered form, and eventually away from any form in which an order can be detected. The new marketing is likely to exhibit fluidity of form and a complex system of fluid orders. Such marketing would resemble a neural network that constantly re(de)constructs itself. Marketing precepts and practices would have to exhibit a fluid resilience in adapting to the changing modes found in different (and continually evolving) postconsumer communities.

The role of information, communication, and entertainment technologies in facilitating such transformations is paramount. We have already pointed to the incipient effects of electronic communities of buyers and sellers, content-swapping technologies, and game-playing environments in challenging or dismantling long-held notions of modern marketing. Other technologies such as mobile communications and networked appliances are also transforming various "consumption" arenas—homes, vehicles, shopping centers, parks, streets—into places where postconsumers can, if they so desire, engage in various acts of researching, designing, engineering, producing, and communicating. Peer-to-peer and virtual community technologies would continue to usurp nicely ordered marketplace hierarchies. Marketers who corral and make accessible relevant resources and facilitate conjoint processes involving postconsumers will be the winners in contemporary games.

Together, the above imply that marketing's role will increasingly be to facilitate the means for the playful (co)construction of a theater, a textual and textured culture that is continually made and remade, and allow postconsumers to have a performative engagement with life.

It is important to note briefly that whatever talents and knowledge the new marketing practitioners develop, such knowledge is not likely to follow any unified set of principles or criteria of efficiency or success. The presence of different communities constructing varied life modes and cultures is likely to mean that there would be multiple orders of principle and efficiency. In effect, postconsumers will not encounter an order that dominates and betters all others, but an order of multiple orders.

These are not unfathomable transformations. Nor are they fantasies. Because of their pragmatic orientation, business firms at leading edges of practice are already undergoing such shifts (Pine and Gilmore 1999; Schmitt 1999). The challenge is to start discussing such changes in the academic marketing discipline. These shifts require a clear change of paradigm. Our current world and conditions of existence may already be reaching the precipice where serious thinking about such paradigm change is not an option but a necessity.

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Chapter 16

# FROM MARKETING TO THE *MARKET*

## A Call for Paradigm Shift

Alladi Venkatesh and Lisa Peñaloza

The search for new paradigms has been a major source of methodological and theoretical opportunities within the marketing discipline over the years (Arndt 1983; Bagozzi 1975; Day and Montgomery 1999; Deshpande 1983; Howard and Sheth 1969; Kohli and Jaworski 1990; Kotler and Levy 1969; Sheth 2004; Venkatesh 1985). Researchers such as Belk (1991) and McCracken (1988) ushered in the interpretive, humanistic approach to research in marketing. Recently, in an important development that has captured our thinking, Vargo and Lusch (2004) have worked to refashion the field into a new "dominant logic," the basis of which is service orientation (see also Lusch and Vargo 2006). Current trends in global commerce have spurred some serious thinking on how firms can be competitive and stay afloat in this fast-paced environment (Sheth and Sisodia 2002). Years ago, in an ironic anticipation of contemporary global order, Dholakia, Firat, and Bagozzi (1980) proposed a global vision of marketing by referring to their approach as one of "de-Americanization of marketing thought" (p. 75).

In this chapter we argue for a major paradigm shift, from the study of marketing to the study of *market(s)*. Some of our preliminary thoughts on this subject are available in a forthcoming piece (Venkatesh, Peñaloza, and Firat 2006). The basis of our thinking can be traced back to a seminal paper published several years ago by Johan Arndt (1973) where he is concerned with the extension of the marketing concept to nonprofit/nonbusiness sectors. In that paper, he called our attention to the study of *markets* as a disciplinary imperative:

> This extension of marketing [i.e., to the nonprofit sector] has revitalized the discipline and resulted in valuable insights for better management practice in new areas. Nevertheless, so far this conceptual expansion seems to be a broadening of marketing *practice* rather than marketing *theory* . . .
>
> An alternative way of enriching marketing (instead of applying "old" knowledge to "new" problems) is to develop new theories. The aim of this article is to provide foundations for such a development. The article addresses an institution central to marketing thinking, the *market* itself. [emphasis added] (p. 69)

More recently, in a special issue of the *Journal of Marketing* the discussion regarding markets was revived in a series of articles by Buzzell (1999), John, Weiss, and Dutta (1999), and Rosa et al. (1999). In addition, as examples of major developments within the field, attention to the study of markets has continued in other key journals such as the *Journal of Macromarketing*, *Consumption,*

Table 16.1

**Current Disciplinary Typologies in the Marketing Discipline**

| Typology | Type | Components |
|---|---|---|
| 1 | Major Disciplinary Foci | Consumer marketing<br>Industrial marketing |
| 2 | Market Structure Foci | Product marketing<br>Services marketing |
| 3 | Consumer Marketing | *Topics*<br>Psychological approaches (Emphasis—Individual)<br>Phenomenological/Experiential approaches (Emphasis—Individual)<br>Sociological/Anthropological approaches (Emphasis—Social/Cultural)<br>Quantitative modeling approaches<br>Game theory approaches<br>Brand management<br>Online shopping behaviors<br>Advertising |
| 4 | Industrial Marketing | *Topics*<br>Distribution channels<br>Sales force management<br>Organizational buying/procuring |
| 5 | Competitive Strategies | Game theory<br>Economic theories of competition |
| 6 | Institutional/Managerial Approaches | Transaction cost analysis<br>Firm-level behaviors/decision making |
| 7 | International Marketing | Cross-cultural marketing |

*Markets and Culture*, and *Marketing Theory*. There are also several established journals from across the globe such as the *European Journal of Marketing, Journal of Consumer Policy, International Marketing Review, International Journal of Research in Marketing, Asian Journal of Marketing,* and *Vikalpa* to mention a few, which have touched upon this issue one way or the other.

In light of recent developments in the field that address some fundamental issues concerning the directions for our discipline, we feel that a systematic study of markets is warranted. Our reasons for doing so are multiple and layered. We begin by charting major social and technological developments that call into question, if not render obsolete, existing substantive conceptualizations of the field. The theory of the firm, as a key player in the market, serves to organize our inquiry. More specifically, by viewing the field of marketing through the prism of the firm, we chart out advancements in analytical levels of abstraction, domain, scope, and maneuverability afforded by refocusing the attention of our discipline on the market. Currently, the marketing discipline can be identified in terms of the different disciplinary typologies as shown in Table 16.1. These typologies are not exhaustive but representative of the field. At the risk of simplification, one might say that Typology 3 (Consumer Marketing) represents the dominant paradigmatic focus within our field.

## SETTING THE STAGE: STRENGTHS AND VULNERABILITIES OF THE GLOBAL MARKET

In the past decade or so, we have noticed three major developments causing the ground to shift underneath many of the concepts and frameworks that have been espoused within marketing.

First, the center of gravity in the global economic systems is moving rather rapidly to some non-Western regions of this world (Sheth 2004). This in itself may not be a novel development, for Japan has been a major influential force in the world economy for almost thirty years. But, as strong and globally impactful as its economy is acknowledged to be, Japan was never considered a dominant world power in the larger scheme of things presumably because of its relatively small size. What we are now witnessing is the emergence of two major economic powers in the world, China and India, that are also two of the most populous nations; a fact to be noted is that in the global game, indeed size does matter (Sheth 2004). The combined population of the two countries constitutes over one-third of the world's inhabitants and coupled with this, their continued economic growth forces us to speculate about the impending fundamental changes in the global scenario in the years to come. If we introduce Brazil and other South American economies as well as Korea and ASEAN (Association of Southeast Asian Nations) countries into the picture, the story becomes even more dramatic.

A second development has to do with the transformation of the global industrial economy into an information economy (Castells 2001). The emergence of the Internet is now viewed as a major technological revolution that has the potential to alter the future shape of global commerce. The Internet is leveling the playing field within and across the global economic system, and, at the risk of some exaggeration, one might say that the website has become a powerful articulation of one's global market presence.

The third development, somewhat closer to home for our disciplinary interests, relates to the changing nature of macro-organizational structures among firms, consumers, and nation-states. To briefly summarize these changes: Borders are increasingly blurring between firms and consumers, organizational processes are increasingly called into question by major stakeholders to whom firms are beholden, and firms are frequently called upon by critics to perform social activities traditionally performed by governments in the name of social responsibility. In this fast-changing world of global alliances, diasporic movements, and organizational turmoil, marketing as we know it with its oft-repeated mantra of the four Ps (product, place, promotion, and price) and customer satisfaction becomes tiresome, outmoded, and almost beside the point as there is greater need for reconceptualizations and adaptations.

In sum, marketers are on the march globally, and marketing activity has become so prevalent in social life that Slater and Tonkiss (2001) have coined the term "the market society" to describe the contemporary global social order. On one hand, there is growing awareness and appreciation for marketing as an instrument of social change and a facilitator of wealth creation across the globe. Yet, perhaps because of this success and its excesses, marketers are also the target of a plethora of serious charges ranging from antimarketing, to anti-Americanism, to antiglobalization for fueling materialism, commercialism, and the debasement of local cultures (Chua 2003; Johansson 2004).

## THE MARKET AND MARKETING

As we shift our attention to the *market* as the primary focus of our discipline, we recognize that *marketing* is something that takes place within a market system and is therefore derivative to the main focus. We differentiate between "market" and "marketing" using the following definitions.

A *market* is a set of institutions and actors located in a physical or virtual space where marketing-related transactions and activities take place. Typically, these institutions and actors include sellers, buyers, customers, retail stores, sales offices, commercial banks, advertising agencies, and the like. Thus the key concepts are a set of institutions or actors, physical or virtual space, discourses, and practices.

Similarly, we define *marketing* as a set of activities undertaken by a firm to stimulate demand for its products or services and to ensure that the products are sold and delivered to the customers. Modern marketing refers to the development of marketing since the early part of the twentieth century. The key concepts are demand creation and demand management. As a result, what we study in marketing is a set of activities relating to the following marketing functions: brand/product management, customer relationship management, advertising/promotion, pricing, sales promotion, personal selling, direct marketing, distribution, marketing research, and new product/market development.

Within the contemporary global context, these definitions highlight the need to shift the disciplinary emphasis, not by disregarding the role of marketing, but by enlarging its scope to the market, and in turn embedding such markets within their social and historical contexts. The discipline of marketing has centered over the past four decades on firm-level actions and managerial perspectives. In such an approach, either the larger context of the market was considered as given or it was assumed to be unchanging or unchangeable. This rather restricted approach has served and outlived its purpose and one consequence of continuing with it will result in ignoring the critical role of the broader institutional context called the market, whether it is local or global. That is, without this understanding of the market no amount of marketing knowledge can sustain our discipline. By the same token, although we shift our focus to the market, we recognize that the key players remain the firm and its customers.

In the following section, we review the literature on the theory of the firm and its relationship to the market. The main argument we present is that while the legacy of marketing is a theory of the firm as contained in the paradigm nurtured in the emblematic work of Kotler, it has simply outlived its purpose and we need to look for new vistas. That is, the current approaches to the firm-level analysis do not take into consideration the emerging global markets, technological forces, and macro-organizational transformations. In addition, because the existing theory is U.S.-centric, it desperately needs to be reoriented in light of emerging global market transformations.

## THE THEORY OF THE FIRM: A HISTORICIZED ACCOUNT

In order to keep our discussion focused we limit the theory of the firm as it pertains to developments that relate to our discipline. We begin with neoclassical theory.

### Neoclassical Theory of the Firm

The neoclassical or marginal theory of the firm began as an economic theory based upon undifferentiated, purely competitive markets characteristic of the nineteenth century. Essentially, the theory states that the primary objective of an organization is to maximize profits, given a market price and a technologically determined production function. Profit maximization occurs when the firm produces a quantity of output at which its marginal cost equals its marginal revenue (hence the term “marginalism”). A parallel analysis is made in the factor market, in which marginal revenue of a product equals its marginal factor cost. Single-period profit maximization is the goal, so present value and risk considerations are ignored. In the short run, management’s tasks are to determine and maintain operations at the equilibrium level of output. In the long run, management can strive to lower its marginal costs, and consequently increase profits until diminishing returns set in.

Over the years, the economic discipline has moved away from a strict neoclassical approach, as described, to other formulations. Thus, for example, the current thinking in the economic discipline recognizes differentiated markets and various degrees of competitive situations from monopolistic to oligopolistic to dispersed; accommodates objective functions other than that of maximization; allows firms to set a market price instead of leaving it to the "invisible hand"; allows for multiperiod profit maximization; and recognizes firm-level decisions and not merely considerations of equilibria.

### Markets and Hierarchies

The works of Ronald Coase (1937) and Oliver Williamson (1975) are a slight variation of the neoclassical theory. Both were still concerned with optimization and equilibrium, but the emphasis shifted to the economic theory of organizations. To maximize the value of the firm, the owner chooses an organizational form and thus the shift is made toward profitability and organizational structure. A common starting point in the literature is Coase's (1937) insight that markets and firms are different responses to the problem of transactional governance. Williamson (1975), through his work on transaction cost analysis (TCA), goes on to identify the specific conditions (e.g., uncertainty, asset specificity) that impel the movement of the organizational form from market through hybrid to hierarchy. Transaction cost analysis has been accepted and applied at some level within the marketing discipline (Anderson 1985; Ghosh and John 1999; John 1984; Rindfleisch and Hyde 1997) especially in the context of industrial marketing and marketing channels, but overall, it has not received the attention that it deserves.

### Behavioral Theories of the Firm

Cyert and March (1963) built upon the work of Simon (1959) in which the concepts of "bounded rationality" and "satisficing" are introduced. Managers have limits to exploring all the variables that can contribute to goal maximization. Therefore, they satisfice, or set and meet goals which are below maximization levels. Simon argues that the complexity of modern organizations prohibits maximizing behavior. Cyert and March have two major criticisms of the neoclassical theory of the firm. First, it is questioned because it is based upon undifferentiated, purely competitive commodity markets of the nineteenth century. The widespread appearance of differentiated (oligopolistic) markets has shaken the faith of both economists and noneconomists. Second, even if the theory did apply to contemporary market systems, the behavioralists challenge the appropriateness of the questions the neoclassical theory "answers." Observations of managerial behavior demonstrated that labor–management negotiations, collusion, favoritism, and other elements of environmental "noise" are also germane to the study of the firm.

### The Marketing Discipline

#### *Aldersonian Perspective*

Alderson (1957) presents a theory of the firm based upon the concept of an "organized behavior system." These systems include individual firms, marketing channels, and the aggregate economy. Any prediction or explanation of firm behavior must be analyzed in the context of social systems. As with the human body, firms adapt and change to ensure survival. Various units within the organization perform functions that affect the entire system. Central to his theory are the concepts of power and communication, which explain many of the firm's activities. Power is considered an inherent goal for any organized behavior system. Maintaining or improving the power structure is achieved largely through communication channels (i.e., advertising). This perspective has been described as "functionalism," since the theory attempts to explain a system by examining the functions of the individual parts, yet in some ways the term is a misnomer because it loses sight of a focus on the overall system.

Alderson's view of organizational goals assumes a distinction between implicit and explicit goals. Every behavior system operates under the implicit goals of survival and growth. The two goals are viewed as interrelated in the sense that survival is not generally possible with zero growth. Growth is essential for survival in modern economy. "If the firm does not grow, it cannot compete for the more able candidates among executives and workers. . . . The growing firm also attracts favorable attention from customers and suppliers" (p. 59). Among explicit goals of the firm, Alderson provides many strategic possibilities such as return on investment, cost minimization, and vertical integration. In this process, the firm attempts to create a differentiated product and thereby gain a niche within the larger behavior system, the national economy.

### *Kotlerian Perspective*

Kotler's (2000 [1967, 1971]) adoption of the behavioralist viewpoint (e.g., Simon, Cyert and March) is apparent throughout his texts. Yet his adoption of behavioral theory is distinct from Alderson's. Alderson portrayed a macrotheory of marketing (a systems approach), while Kotler developed a micromanagerial theory that prescribes the practice of the marketing manager. Further, Alderson's work centers on intrafirm and more systemic behaviors, while Kotler's work focuses on firm–consumer and firm–competitor conflicts.

In this latter regard, Kotler drew from the neoclassical theory to provide logic to managerial action. He provides both the theory and practice elements necessary for the marketing manager to utilize marketing tools within the firm. This is a notable accomplishment of blending two approaches of theory and practice, as previous authors provided either theory (Alderson) or practice (McCarthy). Other aspects of Kotlerian paradigm can be summarized in the following.

The marketing mix (the four Ps) consists of controllable variables of managerial effort in the market. With this understanding, Kotler operationalized the marketing effort through manipulation of the marketing mix. By extending this operational principle, Kotler and Levy (1969) broadened the concept of marketing to nonbusiness sectors.

Kotler used existing marketing technologies in the literature (i.e., forecasting models, market share grids, and so on) to provide concrete means of implementing the normative concepts. Thus terms such as synchromarketing and strategic marketing planning become meaningful as they are matched with appropriate techniques to solve marketing problems.

His theory has come closest to operationalizing the marketing concept. Previous textbook authors had presented the marketing concept as central to marketing, yet they failed to systematically describe the process of discovering, meeting, and maintaining satisfaction of customers' needs and wants. By all accounts, Kotler's approach synthesizes and defines the marketing paradigm as practiced today.

The marketing paradigm as enunciated in the work of Kotler and the legacy of marketing have been praised and critiqued over the years (Meamber and Venkatesh 1995). There has been some sharp criticism, especially among scholars based abroad (Brown 2002). Stephen Brown (2002) has posited alternative perspectives to the so-called customer-orientation and to the reductionist as well as universalistic perspectives in U.S.-centric approaches to marketing. We go beyond Brown's exhortations and argue that our focus on marketing should be replaced by a more expanded focus on the market. Ironically, upon some reflection, we feel that Alderson's work, which has been side-lined for a long time, may have much to offer and is probably much more valuable for its insights because he espouses broader institutional and social contexts that are either missing or not prominent enough in more recent work within the discipline.

## WHY STUDY THE MARKET (OR MARKETS)?

While we emphasize the need to shift our focus to the study of the market, we also need to remind ourselves that the market does *not* have a universal quality. That is, as we move toward the global economy and confront its pluralistic character, we should really talk about markets and develop theories that apply to all of its systems, properties, and national boundaries. Although the issue of universalization is an important one, we will not address it here. Our focus is simply to recognize the market as a theoretical category and provide different perspectives in studying it.

The different perspectives of the market are presented in Table 16.2. In the second column of the table, we indicate the present emphasis within our marketing discipline. In column 3, we provide some additional comments.

As the table shows, markets can be viewed from three different, if somewhat related, perspectives—markets in the mainstream, markets in the emerging global context, and virtual markets. We will describe each one of them and provide a brief analysis.

### Markets in the Mainstream

#### *Markets as Product Markets*

Some seminal work of marketing scholars reminds us that product markets can be a very important area of research (Day, Shocker, and Srivastava 1979; Rosa et al. 1999). Product markets are defined by Rosa et al. (1999) as "socially constructed knowledge structures (i.e., product conceptual systems) that are shared among producers and consumers" (p. 64). Product markets sometimes overlap with the notion of industries. Some examples are the automobile market (or industry), the homes market (or housing industry), the toys market, the fish market, entertainment industry, fashion industry, the hospital industry, and so on. In the marketing discipline, there is very little attention paid to the specific industry types or product markets and how they function both empirically and theoretically. The closest approach seems to be to identify the underlying structure (e.g., oligopoly, monopoly) of a firm or a group of firms and discuss the strategies appropriate to the firm(s). This is rather inadequate and misses the point somewhat because what we end up with is an abstraction of the industry type but not the specific empirical characteristics of the industry. One reason for this development is that our discipline has become rather narrow and formalistic and consequently quite rigid, and we are too preoccupied with micro-level managerial practices at the expense of deriving important industry- or market-level insights. Because of our preoccupation with firm-level decisions as the sole point of academic discourse, we have neglected important areas of inquiry concerning industry patterns and trends. We believe that there is a great opportunity to study market-related practices and structural factors in industry sectors.

#### *Market Structures from an Industrial Organization Perspective*

There is a growing interest in the industrial organization perspective within the marketing discipline (Ghosh and John 1999). This is particularly true of the work in homogeneous or undifferentiated markets. Basically, the industrial organization perspective relies on the notion that the structure

Table 16.2

**Market Descriptions**

| Perspectives | Current emphasis in the marketing discipline | Comments |
|---|---|---|
| A. Markets in the mainstream | | |
| 1. Markets as product markets or industry types | Medium | E.g., auto industry, fashion industry, entertainment industry, toy markets |
| 2. Markets from an industrial organization perspective | Low to medium | A limited number of scholars work in this area |
| 3. Markets as hierarchies | Low | There was some initial interest but it is sporadic. Very high interest in other disciplines—industrial economics, and business strategy. Growing interest in economic sociology |
| 4. Markets as a site for competing firms | The highest emphasis | This is really the heart of contemporary marketing paradigm. The rhetoric has shifted to global competitiveness |
| 5. Markets as networks | Low in the U.S., high in the Nordic countries | Has not diffused to non-Nordic countries. A growing area of research in economic sociology |
| 6. Markets as political economies | Low within the marketing discipline | A very important research area in the global context. Growing area in political science |
| 7. Markets as institutional systems | Low | In the pre-Kotlerian era, was a major focus. E.g., Wroe Alderson. George Fisk and so on. Worth reconsidering |
| 8. Markets as brand communities | A growing area of interest in the field | Has become even more important in light of the diffusion of global brands: McDonalds, Sony, Honda, Samsung, Apple, Starbucks, Microsoft, etc. |

*(continued)*

Table 16.2 *(continued)*

| Perspectives | Current emphasis in the marketing discipline | Comments |
| --- | --- | --- |
| B. Emerging global context | | |
| 9. Emerging markets | Growing area of interest especially in light of developments in China, India, Southeast Asia, and South America | Shifting market structures, outsourcing, diffusion of fashion, food, cultural products, as well as technology |
| 10. Market as sign economy | Growing area of interest with the aestheticization of market environments, consumption practices, products, and brands | A fertile area of research because of cross-cultural market forces |
| 11. Markets as informal economies | Low | A great potential for research in the global context |
| 12. Markets as cultural economies | Low | In the field of international marketing there is some attention to this perspective. Anthropologists speak to this most of the time |
| 13. Markets as communities | Low | Usually discussed in the anthropological literature |
| 14. Markets as traditional bazaars | Low to nonexistent | Currently, limited number of studies. Touched on in history |
| 15. Rural and urban markets | Nonexistent | Very relevant to developing economies. Tradition in developmental economics, anthropology |
| 16. Market as ideology | Nonexistent | Popular among critical theorists and postmodernists. A very fruitful area theoretically and empirically |
| C. New perspectives | | |
| 17. Markets as virtual environments | Emerging interest but very micro-oriented approaches | Marketing discipline needs to address this more rigorously. A growing area in communications and management info systems |

of an industry influences the conduct of firms in it and ultimately this carries over to the performance of the market (Zellner 1988). A limited number of marketing scholars work in this area.

*Markets as Hierarchies*

This is really an integral part of the industrial organization approach to the study of markets. Stern and Reve's (1980) political economy approach to marketing channels is one example. John (1984) and Anderson (1985) pioneered this line of thinking in marketing. In addition, social hierarchies such as those based on race/ethnicity, gender, and class are vital topics as the systems of hierarchies are reproduced and or modified within the contexts of markets (Peñaloza 1994, 1996).

*Markets as Sites for Competing Firms*

This is probably the most dominant approach within the marketing discipline (Choi 1991; Ghemwat 2002; *Marketing Science* 2005). Many marketing scholars are concerned with how firms can compete in the marketplace and how they can use different strategies based on various elements of the marketing mix (price, promotion, etc.). Even here a large part of our scholarly work tends to be normative and very managerially oriented. Recent work in the application of game theory marks a growing attention to this area (Moorthy 1993; Tyagi 2005). Nobody can deny that survival and growth of firms are important indicators of a well-behaved economy. But a rather absorbed preoccupation with matters of success and failure at the expense of various other analytics and historical and institutional details reduces marketing to a purely normative discipline without an opportunity to expand the field into more creative directions. This economic Darwinism is very self-defeating in the long run.

*Markets as Networks*

There has been a fair amount of work in this area, but it is limited to researchers in the Nordic region (Hultman 1999; Mattson 1997). More specifically, the Uppsala school is known for many leading studies concerning business networks and strategic issues. Although quite popular in the Nordic region and theoretically strong, network approaches to marketing did not diffuse significantly to the other parts of the world. One reason may be that the network approaches typically focus on industrial markets (Anderson and Narus 1984) rather than consumer markets.

*Markets as Political Economies*

A fertile area of inquiry in the 1980s (Arndt 1983; Stern and Reve 1980), it was the focus of research primarily among European scholars and did not gain much popularity within the very micro-oriented research environment within the United States. Nevertheless, as markets continue to gain social currency and dominate national and local economic policy, this area holds much promise in documenting and analyzing the political dimensions and dynamics of market agents and their activities.

*Markets as Institutional Systems*

This approach dates back to the contributions of Wroe Alderson (1957) but the field has not pursued this avenue in the past several decades. A good case can be made to revive this approach, as valuable theoretical and methodological gains are to be made in addressing more macro social and organizational dimensions of market activities and structures, such as market governance and formation. Fligstein's (1996) work on market institutions within the discipline of sociology is particularly noteworthy.

*Markets as Brand Communities*

One of the main activities of a marketing firm has to do with branding. While the literature on branding goes back to the late 1960s, it is only recently that there has been a sustained scholarly interest in brand communities (Muniz and O'Guinn 2001; Schouten and McAlexander 1995). Brand communities are defined by Muniz and O'Guinn as "a specialized, non-geographically bound community, based on a structured set of social relations among admirers of a brand" (p. 412). A very important and growing area of research, it is becoming even more important as markets become more aestheticized (Venkatesh and Meamber 2006).

## Markets in Emerging Global Context

*Emerging Markets*

It is generally acknowledged that one of the major consequences of globalization is the rapid expansion of industrialization into many countries that have been customarily described as Third World and even Fourth World. Scholars writing on emerging global markets are attempting to critically examine the reality of the global changes (Sheth 2004). As new markets emerge and existing markets are transformed, the marketing discipline has to keep pace with these changes and introduce new frameworks and empirical accounts of market practices and behaviors.

*Market as a Sign Economy*

The legitimacy of the market lies in what value it creates for the producer and the consumer and various intermediaries. Historically, we have seen a progression in terms of how "value" was defined and conceptualized. In primitive societies, products and services were evaluated in terms of their use value. Since the dawn of the industrial revolution, use value has given rise to exchange value. Contemporary marketing paradigm has developed around the creation and management of exchange value (Bagozzi 1975). In recent years, a major shift has occurred in the functioning of markets in relation to consumers. As products become commodified and undifferentiated in terms of their functionalities, what distinguishes one product from another is the image or the symbolism built into it. Assuming that most market offerings (we include services here) become similar to each other or where their functionalities are indistinguishable at the margin, consumers look for a different value element, which we label as *sign* value. In other words, because marketers cannot change their product offerings in the short term or without much financial investment, they try to compete on the sign values they create in their products. This also explains why advertising has become the sine qua non of contemporary marketing. Once we recognize the role of the sign in contemporary marketing, we have to admit the role that culture plays in the shaping of the current economic systems. After all, signs are nothing but products of culture. It is thus logical to define the market system as the sign economy.

Finally, as markets become globalized, and consumer images are transported across cultures, the success of marketing becomes vitally linked to the success of the sign economy (Venkatesh, Peñaloza, and Firat 2006).

*Markets as Informal Economies*

In many parts of the world, markets do not behave like organized systems—as the term is understood—but operate informally or through invisible networks (Ferman, Henry, and Hoyman 1987; Wilson 1998). Although they are not organized, they are quite robust and possibly historically rooted, and in a few instances operate in parallel to more established market structures. In some places, they are the only institutional arrangements that facilitate market transactions. Even in developed countries like the United States, informal markets operate quite briskly either legally or illegally and function more like an underground economy (Levitt and Dubner 2005). Not much has appeared in the marketing literature on informal markets (for an exception, see Arnould 1995), although this is a very important part of social and cultural order in many parts of the globe.

*Markets as Cultural Economies*

With the globalization of markets, this is going to be a major area worthy of intense exploration. Currently, some important contributions are emerging within our discipline (Holt 2004; Peñaloza 2000, 2001). Anthropologists and social theorists such as Wilk (1996), Slater and Tonkiss (2001), and Callon (1998) have written rather extensively on the fundamentally cultural nature of economic systems of exchange, shifting disciplinary currents in understanding the increasingly prevalent role of marketing practices in society, and the increasing cultural roles of marketing institutions, respectively. This area offers a great opportunity within international marketing, a field that has been accorded a low status within the mainstream. One reason may be that the work in this area is rather descriptive and highly undertheorized.

*Markets as Communities*

Much of the work in this area has focused on brand communities (see earlier section); that is, groups of consumers fashioned in terms of the social relations and meanings they generate from corporate and product identities and images (Holt 2004; Muniz and O'Guinn 2001; Peñaloza 2000; Schouten and McAlexander 1995). We envision the next generation of this work to spread beyond consumers' relations to firms and products to include the dual sets of agents, marketers, and consumers acting within the larger configuration of the market.

*Markets as Traditional Bazaars*

This is a very important area of inquiry and mostly researched by anthropologists. Some exceptions within the marketing discipline are Sherry's (1990) work on the flea market and Peñaloza's (2001) work on a Western stock show. Geertz's (1978) seminal article in the *American Economic Review* lays some anthropological foundations and finds a meeting point for anthropology and economics. The primary issue in these essays is to show how sociocultural factors provide more than the context in which market practices are enacted. That is, market discourses, practices, and beliefs are institutionalized by social and cultural agents as part of their ongoing activities in (re)producing themselves and negotiating extensive social relations.

*Markets as Rural and Urban Economic Sectors*

Most regions of the world are distinguished by two types of markets, rural and urban. This is certainly true of the less-developed regions of the world, and even the most developed nations retain rural and urban distinctions. If our discipline aspires to have a global appeal, marketing scholars should take note of this two-tier market structure. A good example of research in rural markets is the work by Mitra and Pingali (2000) describing how consumerism is diffusing into the so-called marginalized rural communities and what impact it has on such communities.

*Markets as Virtual Environments*

With the advent of the Internet, this new market medium has become an explosive area of inquiry (Dholakia, Zhao, and Dholakia 2005; Hoffman and Novak 1996). Although the articles on the Internet have multiplied significantly, only a small number of studies have examined the Internet as a market or a marketplace (Hagel and Armstrong 1997; Varadarajan, Yadav, and Shankar 2005). Most work seems to be focused on consumer behaviors on the Internet (Haugtvedt, Machleit, and Yalch 2005). Yet there is a wide array of opportunities in developing theories of virtual markets that address such issues as the formation of electronic markets, their distribution patterns, channel relationships, power structures, social dynamics, and institutional contexts as applied to the Internet.

*Market as Ideology*

Finally, and arguably most importantly, markets may be viewed as a constellation of normative beliefs regarding appropriate roles by actors (Colchoy 1998). In the discourse of modern marketing, such roles were circumscribed narrowly for marketers and consumers. However, as marketing discourses and institutions take on larger social significance, such roles are increasingly broadened to include a wide range of national identity, as well as racial/ethnic, gender, age-specific, identity, and behavioral complexes. It is important in this approach to the study of the market to distinguish between normalized marketing beliefs and their manifestations in market discourses and practices.

## DISCUSSION AND CONCLUSIONS

This chapter began by charting several trends in ushering in the study of the market as the central topic of study in the field of marketing. We proceeded to trace the trajectory of work on the theory of the firm, and illustrate several extensions to it, by situating it within the context of various approaches to the study of the market.

In forwarding the paradigm of markets, we hope to generate promising new methodological and theoretical work along dimensions of level of abstraction, scope, and maneuverability. First, regarding analytical level of abstraction, the paradigm of markets is more complete in including the smallest holistic unit toward which marketing techniques are oriented.

Second, regarding the scope of study, the market encompasses more than just marketing techniques. While the study of marketing techniques privileges the perspectives of marketing managers, the higher level of markets requires attention to the perspectives of marketers as well as consumers and other operative agents. A better understanding of these various perspectives is a prerequisite to deciphering the various contours and dynamics of markets, historically and at present.

Third, the paradigm of markets enables more conceptual maneuverability in moving around and shifting between the various perspectives included in the fashioning of markets. As noted by C. Wright Mills (1959) in his classic treatise, *The Sociological Imagination*, the move to the paradigm of markets stimulates marketing researchers and practitioners to imagine and develop more creative configurations of markets in better synch with global social and technological trends.

Fourth, it is our hope in shifting the field to the study of markets that marketers may become more responsible, not less. By viewing themselves as inhabiting the markets they produce, and bringing them about in conjunction with other market agents, as opposed to discovering some preexisting consumer segment or merely competing with other businesses, marketers are better suited to developing novel ways of conceptualizing what they do. These insights are critical in moving beyond carrying out existing formulas that have resulted in what Shoenberger (1997) termed the cultural crisis of the firm. While the study of marketing techniques was well-suited to modern markets characterized by large vertically integrated firms, mass markets, standardized distributions of labor, and price mechanisms, the study of markets better comprehends these modern dynamics together with the workings of small firms, organized flexibly in alliances, niche and customized markets, informational processes, and style/identity mechanisms.

Finally, the focus on markets minimizes criticisms against the discipline that it is dominated by a U.S.-centric perspective. As the study of markets becomes global, we take the opportunity to make the discipline more globally relevant and responsive.

To conclude, the shift from marketing techniques to markets moves us from limiting what we study to ways of doing to the larger and more encompassing mode of ways of thinking. Such reconceptualization challenges the field to qualify and circumscribe supposedly universal techniques and concepts, such as the marketing concept and consumer satisfaction, to instead comprehend their different inflections as rooted in sociohistorical particularities. As scholars such as Callon (1998), Slater and Tonkiss (2001), and Bevir and Trentmann (2004) have documented, markets are not universal, self-contained entities, but rather take on distinct discursive forms and material practices across various social contexts and over time. Markets are subject to varying objectives as well, from shareholder wealth, to market growth, to social stability, to quality of life, and to political participation, as political parties deploy and deter them toward different social, economic, and political ends (Fligstein 1996). It is our hope that by enlarging the scope of the field to hone in on the market we will begin to chart a path that opens up exciting new possibilities in better understanding what is arguably the most potent contemporary social force in the world today. It is time to bring to fruition Johan Arndt's prophetic vision (1973).

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# PART 4

# ADJUSTING TO MARKETING'S CHANGING CONTEXT

More than any other business discipline, marketing is shaped by its context. Today, that context is changing in three key areas: shifting demographic patterns, the proliferation of information technology that empowers customers, and a heightened sensitivity to ethical issues. The chapters in this section address the impact of these discontinuities on the practice of marketing.

Philip Kotler leads off with an insightful analysis of marketing ethics, posing questions and then providing suggestions for how marketing needs to adjust for its future survival and growth. Marketing has made major contributions over the years in raising material standards of living around the world. It has also created jobs through demand generation. So why is the marketing profession not respected? Kotler believes it has to do with the ethical dilemma marketing faces: Should marketing give the customer what he or she wants or should marketing judge what the customer wants? There are many products that are not necessarily good for the customer. Examples include hard drugs, tobacco, high-calorie fast food, alcohol, and sweets. In addition, there are products that consumers may want, but which may not be good for them or society at large, such as asbestos, lead paint, gas-guzzling automobiles, dangerous guns, pornography, and so on.

Kotler believes that marketing should encourage socially responsible behavior by firms, not just help sell more stuff or produce more profits for a company's shareholders in any legally sanctioned way. This moral compass should enable marketing to become a more noble profession in the eyes of the public.

Monroe and Xia address the issue of unfair prices. People seem to be clearer about what is unfair than what is fair. We know what is unfair when we see it, but it is difficult to articulate what is fair. While perceptions of unfairness are based on discrepancies or inequities, unfairness is also associated with a strong emotional reaction. Monroe and Xia suggest that customers either stop buying or complain or seek revenge, depending on the degree of unfairness and the amount of switching costs.

They suggest that managers must strive toward fair pricing to avoid these negative consequences of perceived unfair pricing. Fair price does not mean one price for everyone. When products are differentiated, when values are delivered, when a good buyer–seller relationship is maintained, and when damage control is implemented, it is likely that customers will trust and believe it is a fair price.

David Wolfe suggests that with aging populations and people living longer today than ever, the new customer majority will demand new marketing paradigms. The primary developmental objective in the spring of life is to gain knowledge and skills to enter adulthood. The primary developmental objective in the summer of life is the social and vocational development of the individual. This season of life is about "becoming somebody." The primary developmental objective of the fall season of life is a search for the meaning of life and legacy. Finally, the primary development objective in the winter of life is to reach a state of wholeness, commonly referred to as self-realization or self-actualization. Wolfe believes that since the new customer majority is transitioning from the fall to the winter of life, marketing needs to embrace inner harmony and spiritual development. He suggests this underscores the success of companies such as New Balance.

Tim Ambler focuses on how marketing processes evolve from founder-driven small entrepreneurial companies to large process-driven corporations, and what can we do to improve them. "Moments of truth" are defined as those marketing activities that make a difference to the firm's bottom line or to its marketing assets. He suggests that the classic planning/implementation/measurement/review cycle be examined from this moments of truth perspective.

Sheth and Sisodia believe that most marketing inefficiency and effectiveness arises from the mismatch between the rising heterogeneity of supply and demand. They offer a radical solution: greater automation of purchase and consumption. It is the ultimate empowering of the customer and probably the best way to create a customer advocacy culture. This automation of consumption requires that there exists a high level of mutual trust and respect between consumers and marketers; marketers and consumers both must invest time and effort to increase their knowledge of each other; both must commit to ethical behavior; blend high tech with high touch for personalization; and engage in variety-seeking behavior to satisfy the epistemic needs of the market. While this may sound like a marketing utopia, the authors provide a realistic future scenario of the automation of consumption that resembles *The Jetsons* cartoon.

Berthon and John provide a forceful argument in favor of using information technology in marketing to increase interaction intensity. They suggest that both the frequency and value of interaction should be measured to improve marketing practice.

Chapter 17

# ETHICAL LAPSES OF MARKETERS

Philip Kotler

It is interesting to contemplate how much approval and respect different professions get from the public. College professors garner an 81 percent public approval rating and doctors draw a 76 percent rating. Lawyers, not surprisingly, draw only a 23 percent favorable regard. We marketers register 20 percent. Sales people rate very poorly at 6 percent, only to be beaten at the low end by politicians at 4.3 percent and telemarketers at a disturbing 1.9 percent. Clearly, some groups in our profession, particularly sales people and telemarketers, are at the bottom end of the revile scale.

Howard Bowen, in his book *Social Responsibilities of Businessmen*, raised critical ethical questions about marketing that still haunt the profession today. He asks:

- Should he conduct selling in ways that intrude on the privacy of people, for example, by door-to-door selling?
- Should he use methods involving ballyhoo, chances, prizes, hawking, and other tactics which are at least of doubtful good taste?
- Should he employ "high pressure" tactics in persuading people to buy?
- Should he try to hasten the obsolescence of goods by bringing out an endless succession of new models and new styles?
- Should he appeal to and attempt to strengthen the motives of materialism, invidious consumption, and "keeping up with the Joneses? (1953, p. 215)

## VIEWS ABOUT THE MARKETER'S GOALS

How do marketers view their role in society? Sergio Zyman (1999), former head of marketing at Coca-Cola, states baldly that the marketer's job is "to sell more stuff." I can't think of a less inspiring statement of the goal of our profession than being able "to sell more stuff." To many, more stuff means more waste, more congestion, more environmental degradation.

A second view of the marketer's goal is to produce more profits for company shareholders in any legally sanctioned way. The problem is that many marketers pursue this goal without considering the ethical and social consequences of their actions. Company cynics go so far as to say: A high-minded socially-conscious person would not be effective in marketing. A company shouldn't hire such a person.

## ETHICAL SYSTEM PERSPECTIVES

How can we define ethical marketing? The problem is that there are many clashing views on what constitutes ethical behavior. They include the following five perspectives:

- Ethical egoism: Your only obligation is to take care of yourself (Protagoras and Ayn Rand).
- Government requirements: The law represents the minimal moral standards of a society (Hobbes and Locke).
- Personal virtues: Be honest and good and caring (Plato and Aristotle).
- Utilitarianism: Aim for the greatest good for the greatest number (Bentham and Mill). (Thus a nuclear power plant is defensible even if it may cause cancer to a few but benefits society as a whole.)
- Universal rules: "Act only on that maxim through which you can at the same time will that it should become a universal law" (Kant's categorical imperative).

## THE MARKETING DILEMMA

Marketers face a dilemma. The dilemma stems from the two central axioms of marketing: (1) give the customer what he or she wants, and (2) don't judge what the customer wants. But this produces two complicating issues.

- What if the customer wants something that is not good for him or her?
- What if the product or service, while good for the customer, is not good for society or other groups?

There are many products that are not necessarily good for the customer. Examples would be hard drugs, tobacco, high-calorie fast foods, alcohol, and sweets. In addition, there are products that the customer may want but which may not be good for him or her or society as a whole. This would include asbestos, lead paint, gas guzzling automobiles, dangerous guns, pornography, and so on.

Industrialized economies generate many products that challenge global sustainability. In the United Kingdom there is a group that is trying to define "sustainable marketing," marketing that contributes to, rather than subtracts from, environmental sustainability. Consider the following three culprits:

- *Disposable products.* Profits can be made by companies that produce disposable products such as cheap pens and throwaway cameras. A movie with Alec Guinness called *The Man in the White Suit* (1951) showed how the shirt industry tried to destroy a company that made a shirt than lasted forever.
- *Product obsolescence.* Companies can make profits by introducing more advanced models that obsolete earlier models before their usefulness has expired.
- *"More is better" doctrine.* The public is encouraged to "Keep up with or get ahead of the Joneses" in terms of material acquisitions.

## THE FOUR QUESTIONS

So here we pose four questions.

- Why do companies make questionable products?
- What can these companies do to make these products safer?
- What can be done to discourage consumption of questionable products?
- Do socially responsible companies achieve higher long-run profit as a result of their caring attitude?

### Why Do Companies Make Questionable Products?

Let's ask this question about tobacco companies, which long fought regulation and long denied the harmful effects of tobacco usage. These companies cared more about profits than human life. Suppose a new smoker starts at the age of thirteen, smokes for fifty years, and dies at sixty-three from lung cancer. If he spends $500 a year on cigarettes, he will spend $25,000 over his lifetime. If the company's profit rate is 20 percent, that new customer is worth $5,000 to the company (undiscounted). What company doesn't want to attract a customer who contributes $5,000 to its profits?

By this scenario, tobacco companies win the most by creating young smokers. They also win by trying to increase the volume of cigarettes annually smoked by each smoker. The heavy user segment is every company's target. A high-level Coca-Cola manager in Sweden told me that her aim is to get people to start their day drinking Coca-Cola instead of orange juice. Companies constantly strive to get more and more people to use more and more of what they sell.

Consider McDonald's. The company works hard to interest us in buying a larger hamburger and a larger order of french fries and a larger Coke, all of which contribute to the nation's growing obesity problem and the medical ailments this consumption leads to.

Marketers are hired by companies specifically to use marketing tools to sell more of the company's products and services. Marketers are skilled in identifying which consumer groups are more susceptible and vulnerable. We assemble the best thirty-second TV commercials and print ads and sales incentives to persuade them.

### What Can Companies Do to Reduce Adverse Effects of Their Products?

Suppose a company making a questionable product wants to reduce its adverse affects. Beer companies now tell people not to overdrink or drive after drinking. They cooperate in enforcement programs to prevent underage people from buying beer. They adopt this position out of enlightened self-interest and should be applauded.

Consider the efforts by McDonald's. Some years ago they started offering salads and the choice of a leaner hamburger to minimize public criticism. Neither offering was successful. The leaner hamburger didn't taste good and the salad was a pretty poor version of a salad. Recently they added tastier salads to their menu and this has been well-received. They have recognized the profit potential of this move. The mother who brings her child to McDonald's may not want to eat a hamburger, so now she has more reason to patronize the restaurant. Companies with questionable products should try to figure out how to moderate the use of their products along healthier lines.

### What Can Public Interest Groups Do to Reduce the Consumption of Questionable Products?

Public interest groups can do things that reduce the consumption of questionable products. Here are six major public initiatives:

- *Encourage companies to make their products safer.* Laws have been passed that impose strict product liability penalties on companies that have been careless about making unsafe toys, cars, or prescription drugs.
- *Ban or restrict the sale or use of the product or service.* Gun dealers are under strict regulations about to whom they can sell guns. The sale of hard drugs is strictly banned.

- *Ban or limit advertising or promotion of the questionable product or service.* Many countries ban or limit the advertising of cigarettes or alcoholic products.
- *Increase "sin" taxes to discourage consumption.* Governments usually impose high taxes on alcoholic drinks and tobacco to discourage their consumption.
- *Run public education campaigns.* Public school systems introduce lessons to students aimed at encouraging sensible consumption behavior on their part.
- *Run social marketing campaigns.* Social marketing campaigns are run to raise consciousness about unhealthy behavior and to encourage healthy behavior.

### Are Socially Responsible Companies Likely to Achieve Higher Profits in the Long Run?

It would be a powerful argument for encouraging more socially responsible marketing if the evidence showed that socially responsible companies became more profitable. To answer this, we must first identify the more socially responsible companies and then see if they are more profitable and, if so, if this is partly attributable to their more caring behavior.

Each year *Business Ethics* publishes a list of the one hundred best American companies out of one thousand that are evaluated (*Business Ethics* 2003, p. 6).[1] They evaluate the degree to which the companies serve well seven stakeholder groups: shareholders, community, minorities and women, employees, environment, non-U.S. stakeholders, and customers. Information is also gathered on company lawsuits, regulatory problems, pollution emissions, charitable contributions, staff diversity counts, union relations, employee benefits, and employee awards. Companies are removed from the list if there are significant scandals or improprieties.

The top twenty U.S. companies cited for high corporate citizenship in 2003 were General Mills, Cummins Engine, Intel, Procter & Gamble, IBM, Hewlett-Packard, Avon Products, Green Mountain Coffee, John Nuveen, St. Paul, AT&T, Fannie Mae, Bank of America, Motorola, Herman Miller, Expedia, Autodesk, Cisco Systems, Wild Oats Markets, and Deluxe. Now, are these same firms more profitable? Previous studies differ in their findings on this question (Waddock and Graves 1997). They either find no correlation or fail to distinguish cause and effect in a positive correlation. It may be that highly profitable firms have more surplus resources to give back to society, rather than that their good citizen orientation was a factor leading to higher profits. Cause and effect is very hard to disentangle. The conclusions are:

- The correlations between financial performance (FP) and social performance (SP) are sometimes positive, sometimes negative, and sometimes neutral, depending on the study.
- Even when FP and SP are positively related, which causes which?
- The most probable finding is that financially profitable firms invest slack resources in social caring and then discover that social caring leads to better financial performance, in a virtuous circle.

## WHAT ARE THE EARMARKS OF A SOCIALLY RESPONSIBLE FIRM?

Here are my views of the earmarks of a socially responsible firm. Such firms:

- Live out a deep set of company values that drives company purpose, goals, strategies, and tactics.
- Treat customers with fairness, openness, and quick response to inquiries and complaints.
- Treat employees, suppliers, and distributors fairly.

- Care about the environmental impact of its activities and supply chain.
- Behave in a consistently ethical fashion.

Such companies typically put a set of four P (product, place, promotion, and price) questions to their contemplated actions. For every company action (Paine 2003) they ask:

- Is the purpose worthwhile?
- Is it consistent with company principles?
- Does it impact favorably on people (stakeholders)?
- Does the company have the power to do it well?

## MARKETING'S BOTTOM LINE

Nothing said here should detract from the major contributions that marketing has made over the years to raising the material standards of living around the world. One doesn't want to go back to the kitchen where the housewife cooked five hours a day, scrubbed dishes by hand, and washed and dried clothes in the open air. We value the invention and progressive improvement of refrigerators, washing machines, dryers, radio, TV, and computers—all these good things.

There is a second positive contribution of marketing. Marketing is the discipline that is responsible for job creation. Our success in demand creation results in job creation. If we slow down demand creation, we slow down job creation and, therefore, incomes. That is all right if we want to move to a "less is more philosophy" as a society, where we emphasize living a good life with less material support. But today we are pretty glued to a materialistic lifestyle and we depend on marketing for job creation.

At the same time, we need to clean up some of our activities. I would hope that more marketing professors could act as social critics of certain marketing practices and provide the sobering considerations that should guide good company marketing practice.

## NOTE

1. The research was done by Kinder, Lydenberg, Domini (KLD), an independent rating service.

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CHAPTER 18

# THE PRICE IS UNFAIR!

## Reforming Pricing Management

KENT B. MONROE AND LAN XIA

The question of price fairness has become an important issue as criticisms of gasoline and prescription drug prices rise and the use of fees, "smart" vending machines, and the practice of dynamic pricing to enhance profitability become public knowledge (Ayres and Nalebuff 2003; Matanovich 2004; Thornton 2003). When Coca-Cola was considering installing smart vending machines, which would vary the price of a soft drink according to demand or the outside temperature, the resulting uproar was a public relations nightmare for the firm (Hays 1999). And Amazon.com did some back peddling when a customer discovered that the price of same-title DVDs differed across purchase occasions (Adamy 2000). More recently, the uproar of assessing fees (some hidden) as a mechanism of increasing revenues has led to cries of "unfair." These examples indicate that both the price offered and the rationale for a given price may induce perceptions of price unfairness, further damaging the public's perception of marketing.

### THEORIES OF PERCEIVED FAIRNESS

As firms embrace and use smart pricing tools, more transactions will result in different customers paying different net prices. Combining price segmentation tactics with different types of price promotions suggests that at any point in time, no item will sell at exactly the same price to all customers (Marn and Rosiello 1992). Thus, more customers may perceive discrepancies between (1) the prices they pay and their reference prices, (2) the prices they pay and the prices comparable other buyers pay, or (3) the prices charged by different sellers for the same product or service. An important question then is when are such discrepancies perceived to be unfair?

Our notions of unfairness are typically clearer, sharper, and more concrete than those of fairness. We know what is unfair when we see it but it is difficult to articulate what is fair. While perceptions of unfairness are based on discrepancies or inequalities, unfairness is also associated with a strong emotional reaction. An unfairness perception and the potential negative emotions usually are directed to the party that is perceived to cause the unfair situation. For price unfairness, the primary target of the perception and the emotions is the seller. Hence the actions that buyers take when they perceive that prices are unfair are usually directed toward the seller.

#### Distributive and Procedural Fairness

The principle of *distributive fairness* maintains that individuals judge the fairness of a relationship or exchange based upon the allocation of rewards resulting from their contributions to the relationship. Thus, equal ratios of profits to investments between all parties involved in an exchange relationship, both those directly involved (i.e., buyer and seller) and indirectly involved (i.e., two buyers purchasing from the same seller), result in perceived fairness, whereas unequal ratios create perceptions of unfairness. *Procedural fairness* concerns judgments whether processes are based on prevailing norms and behaviors. Subjective procedural fairness pertains to how a process affects the fairness perceptions of those involved.

An important point established by price behavioral research is that buyers' price judgments are comparative in nature (Monroe 2003). That is, to be able to judge whether a price is fair or acceptable, buyers must compare that price to a reference price. Perceptions of price unfairness may arise when buyers perceive that their inputs (i.e., price paid) are unequal relative to a comparable other party (seller or other customer) given the same output (i.e., product or service purchased).

Information on how the sellers determine prices, including the use of different pricing strategies and segmentations of customers, may help buyers refine their unfairness perceptions. For example, a given price inequality may be perceived as unfair when a seller seeks to maximize its profits by segmenting according to customers' willingness to pay, but as fair when the seller offers different prices to customers with different characteristics (e.g., offering discounts to senior citizens).

Price fairness judgments often are based on both the outcome and other information related to the specific outcome (i.e., procedure). Information on outcomes and procedures may interact and the order in which the information is received (i.e., outcome or procedure information is received first) may influence perceptions of price fairness. If buyers receive information first about the way prices have been determined, their subsequent judgments of the fairness of the actual prices will depend more on how they judged the process used to determine the prices. If the process is judged to be fair, then it is less likely that prices that deviate from expectations will be judged to be unfair. On the other hand, if buyers first perceive that the prices they pay are equivalent (or not equivalent) to the comparative other (whether the seller or other buyers), then they are more likely to judge the price to be fair (or unfair).

### Equity Theory

Equity theory expands the perspective of distributive fairness by positing that individuals compare themselves to similar or referent others: another person, an organization, a class of people, or the individuals themselves relative to their earlier experiences. People are more likely to compare themselves to similar others, although dissimilar references may be used as bases for comparisons. In the context of price fairness, a buyer's perception may vary depending on the choice of a reference. The tension resulting from an inequitable relationship prompts both parties to seek means to restore equity within the relationship through a variety of ways including altering the quantities and importance of the inputs and outputs for one or both parties, leaving the relationship, or changing the reference other. However, in a buyer–seller relationship, buyers may place more importance on their personal outcomes than their inputs when forming fairness judgments, but expect the seller's inputs to be high in order for the exchange to be considered fair (Oliver and Swan 1989). Hence, advantaged inequity and disadvantaged inequity are associated with different emotions. Buyers may feel uncomfortable or guilty when they are advantaged, but feel anger or outrage when they are disadvantaged.

### Principle of Dual Entitlement

The main premise of dual entitlement is that one party should not benefit by causing a loss to another party. If either party does not receive what they believe is their entitlement, the relationship will be perceived as unfair. For example, in telephone surveys to identify standards of fairness that apply to price setting by firms, 82 percent of the respondents judged a price increase for snow shovels the morning after a snowstorm to be unfair, while 21 percent of respondents viewed an increase in grocery prices following an increase in wholesale prices as being unfair (Kahneman, Knetsch, and Thaler 1986).

Dual entitlement principles propose that a firm perceived to be unfair in its transactions will encounter punishment in the form of customers switching to competing products and services or customers avoiding the firm, even though they may incur costs to themselves by doing so. The dual entitlement principle operates in the context of cost and benefit distribution between the buyer and seller so it has natural applications to price fairness. However, dual entitlement does not indicate what references consumers may choose and the different consequences of these choices (Bolton, Warlop, and Alba 2003).

### Attribution Theory

Attribution theory provides a basis for how people rationalize an ambiguous situation. In the context of price fairness judgments, a buyer may experience difficulty judging whether a price is fair. A source of this difficulty is the ambiguity concerning *why* the outcomes occurred and *who* is responsible for them. The basic premise of attribution theory is people attempt to make causal inferences about observed actions or events (Weiner 2000). These inferences in turn influence their perceptions and behaviors. It is suggested that buyers respond more unfavorably if the cause of a perceived negative outcome is due to a firm's volitional intentions or actions. On the other hand, buyers may be more likely to accept price inequalities over which the sellers have no control or that are due to factors external to the seller.

Attributions help buyers sort the information regarding how and why the seller set a particular price. The inferences developed based on the available information may help buyers refine their price fairness judgments. If a negative motive is perceived by buyers, they will evaluate the firm and its behavior unfavorably. Firms that develop goodwill through marketing practices and quality products earn customer loyalty leading to repeat purchases. A change in pricing policy or in prices that is perceived to be unfair may damage this goodwill.

It has been demonstrated that not all cost-based price increases will be perceived as fair. Price increases resulting from internally based cost increases are perceived as less fair than externally caused cost increases (Vaidyanathan and Aggarwal 2003). In addition, some internally caused cost increases are perceived as less fair than other costs, for example, promotion costs (Bolton, Warlop and Alba 2003). However, cost-induced price increases due to external reasons such as general inflation cost increases would be considered relatively fair.

## CONSEQUENCES OF PERCEIVED PRICE UNFAIRNESS

Available research results indicate that perceived unfairness has a negative influence on purchase intentions (Campbell 1999; Martins 1995). In addition, unfairness perceptions may lead to complaints (Xia, Monroe, and Cox 2004). We now outline a set of actions that buyers may take when they perceive prices to be fair or unfair. These actions are influenced by the severity of the unfairness that the buyers perceive. Consequently, buyers' actions will vary depending on their intentions and the damage to sellers will vary accordingly.

Perceptions of fairness or unfairness are accompanied by cognitions of equality or inequality. When severe unfairness perceptions occur, the cognition of inequality is also accompanied by a strong negative emotion. Buyers may respond to perceived unfairness either by seeking compensation for their monetary sacrifice or by trying to gain revenge and damage the seller.

It is not costless when buyers act to cope with an inequitable situation. If they decide to leave the relationship they may incur switching costs. There is the cost of time and effort if they decide to complain or disseminate negative word-of-mouth information to other people. And there are monetary costs if they decide to take legal action. Hence, the cost of action moderates the potential actions that buyers may take when perceiving an unfair situation. In addition, when considering what actions to take, buyers may also estimate their relative power and the likelihood that they will succeed in executing the potential actions.

### No Action

No action refers to the situation when perceived unfairness has no significant influence on buyers' planned transactions with the seller. An advantaged inequality or a slightly disadvantaged inequality may not induce a strong negative emotion although they perceive a price inequality. Therefore, an outcome that is less fair may not necessarily induce consumers to take any actions. For example, Urbany, Madden, and Dickson (1989) found that 89 percent of respondents perceived a bank's failure to pass on a cost decline to patrons a year after an ATM fee implementation was unfair. However, the majority of the respondents would not choose to change banks because of the costs of switching.

### Self-Protection

When buyers perceive that an inequality within an exchange is unacceptable, they may choose to leave the relationship. Or, if they decide to stay in the relationship because the switching costs are high or they still value their relationship with the seller, they may attempt to resolve the situation by actions such as a complaining to the seller.

How do buyers decide which method will most effectively reduce inequity within a buyer-to-seller relationship? Huppertz, Arenson, and Evans (1978), measuring perceived fairness of hypothetical retail exchange scenarios, discovered that subjects were more likely to complain when price inequity was high and service inequity low than when both price and service inequity were high. When both price and service levels were inadequate, the majority of the respondents chose to leave the store. Similarly, it has been found that buyers are more likely to complain when their involvement with the seller is high, but are more likely to leave when their involvement is low (Urbany, Madden, and Dickson 1989). Therefore, in the context of price inequality, buyers may complain, ask for a refund, or just leave the relationship, depending on their assessment of which action is most likely to restore the equality with the least cost.

### Revenge

When a strong negative emotion rises with the perception of price unfairness, leaving the relationship or complaining may not be sufficient to address the inequality situation. Hence, to cope with the emotional aspect of unfairness, buyers may seek revenge. In this situation, the intention of action is to damage the seller and get even. Such actions can even be at the buyer's expense instead of compensating the buyer's perceived loss. It has been shown that consumers would gain revenge for a company's wrongdoing by switching to the company's direct competitor even when that is a suboptimal choice for them (Bechwati and Morrin 2003).

Finally, in addition to the damage to the specific exchange between the buyer and the seller, perceived unfairness may also have a long-term effect. Firms that invest in developing goodwill through marketing practices and quality products or services earn customer loyalty, which, in turn, results in repeat purchases. A price differential that is perceived to be unfair may damage this goodwill and encourage buyers to avoid the relationship.

## IMPLICATIONS FOR PRICING MANAGERS

"Managers who view fair process as a nuisance or as a limit on their freedom to manage must understand that it is the violation of fair process that will wreak the most serious damage on corporate performance" (Kim and Mauborgne 1997, p. 71). Price fairness perceptions may be formed prior to a transaction or after. If fairness perceptions occur before a transaction, a perception of unfairness may reduce purchase intentions. When these perceptions occur after a transaction, a perception of unfairness may influence future transactions.

### A Fair Price Does Not Mean One Price for Everyone

Although perceptions of price unfairness are based on perceived price differences, a goal of fair pricing does not mean a one-price policy for everyone and it does not mean customers do not accept price changes or price differences. For example, when Microsoft implemented its product upgrade pricing policy, they offered new customers switching from competing products the same as loyal customers upgrading their current Microsoft software. The practice led to displeased loyal customers because they expected to pay a *different* (lower) price than new customers. That is, these customers would have welcomed differential pricing based on loyalty.

Offering customers different prices for essentially the same product or service is not new. A key question is what makes these situations more acceptable or perceived to be fairer than Amazon.com's pricing experiments or Coca-Cola's smart vending machines? We now offer some guidelines for achieving and maintaining perceived fair prices within the context of differential pricing.

### Differentiate Products and Services

When two transactions are completely comparable, the effect of observed price differences on perceptions of price unfairness will be larger than in other situations. Therefore, perceptions of price unfairness can be mitigated by decreasing the comparability of the transactions. For example, airplane tickets may differ in terms of cancellation policies or time of purchase corresponding to different prices. Resorts offer in-season and out-of season rates and models within a product line differ by features and benefits delivered. These variations in benefits delivered or time of use of a service decrease the comparability of similar transactions and the importance that customers may place on price differences when judging the fairness of a price. Contrarily to this principle, Amazon.com charged the same customer a higher price for the same product based on his purchasing history. There was no differentiation between the products or service in the two transactions and Amazon.com received negative customer and media response when the practice was discovered (Adamy 2000). Differentiating products to serve different segments of customers is not a new practice. Such customization, by differentiating the products or services offered, decreases the comparability between transactions, and reduces the potential for perceptions of unfairness.

### Signal Cost and Communicate Benefits and Values Delivered

While cost-based pricing rules are perceived by buyers to be fairer than market-based pricing rules (Maxwell 1999), nevertheless, consumers have very little knowledge of a seller's actual costs and profit margins (Bolton, Warlop, and Alba 2003). If sellers are not willing to openly communicate their cost structures and margins with customers, they can signal both their pricing procedures as well as the value of their products or services.

Signaling enables sellers to reduce the uncertainty that exists within the exchange relationship with respect to product's quality and the seller's costs (Kirmani and Rao 2000; Monroe 2003). Sellers may communicate costs or their inputs to the exchange relationship in several ways. For example, advertising and public relations campaigns that demonstrate the firm's commitment to acquiring top-of-the-line raw materials for its products suggest to consumers that the sellers' costs are relatively high. Also, announcing the increased price of raw materials or consumer price index adjustments to workers informs buyers of the firm's costs.

Managers may resist more open communications about their pricing; however, to avoid misinterpretations of a firm's intents and actions by either rival sellers or buyers, clear and unambiguous signals need to be provided. Recognizing that information technology makes it easier for price information to be known across buyers and sellers, it no longer makes sense for sellers to hide the reasoning behind their pricing decisions.

In addition to signaling costs, sellers may switch buyers' attention away from cost to focus on the values that the product or service delivers. By focusing on the benefits and value provided, the firm can relate its price to customer usage and value received. Instead of selling price or price differences firms need to emphasize the differences in value offered (quality and benefits received relative to price paid). For example, a higher airfare may be associated with flexible travel dates, ability to seek a refund, and friendly cancellation policies. On the other hand, using differential pricing may not be effective if customers do not value the product or service differences. When providing differentiated products and services to different customer segments, managers should communicate the benefits and values and help customers perceive the different values that are equitable with different offers.

### Maintain a Good Buyer–Seller Relationship

The emphasis buyers place on a firm's intentions and trust encourages firms to develop and maintain good relationships with their customers. Sellers should avoid exploiting their customers, especially their loyal customers, thereby strengthening the exchange relationship. For example, when demand exceeded the supply of Cabbage Patch dolls during the 1986 holiday season, retailers maintained prices to avoid losing customer goodwill (Martins 1993).

Allowing or creating a shortage situation during periods of heightened demand or increased costs enables a firm to maintain goodwill and continue long-term relationships with loyal customers. For example, restaurants located in tourist areas may maintain their price structure to avoid punishing local customers, even though they could profit by increasing prices to meet the short-term increase in demand. In addition, as demand increases for products such as bottled water and building materials after the occurrence of a natural disaster, local retailers may maintain prices for necessity items. Local retailers interested in maintaining goodwill to sustain customer relationships will use queues in lieu of price increases.

Building trust with buyers enhances buyers' fairness perceptions. However, customers request that the seller value this relationship by offering fair prices. Therefore, maintaining such a good reputation and the sellers' trust is more important. When the price is fair, good reputation and trust enhance perceptions of fairness. However, when customers perceive the pricing procedure or a price to be unfair, good reputation and trust will not save the seller. In contrast, customers may perceive the action of the sellers as a betrayal of their trust and exacerbate perceptions of unfairness. Sellers must find ways to determine fair, value-oriented prices that are grounded in real market and buyer knowledge.

### Damage Control When Perceptions of Unfairness Arise

While it is important to prevent unfair price perceptions, it is equally important to control the damage when perceptions of unfairness occur. When the major concern of buyers is financial, sellers may control the potential damage by offering buyers a refund, an additional monetary reward, or other financial compensation. However, when the unfairness perception is accompanied with a strong negative emotion, financial compensation may not be sufficient. Sellers need to offer a venue that allows the buyers to vent their anger. The key of such a venue lies in the interaction between the buyers and the sellers' representatives. When treated appropriately (i.e., polite and with respect) during the interaction, the buyers may reinstate their normal emotional state (Bowman and Narayandas 2001). Although buyers may still choose to leave the exchange relationship, they may not be as motivated to seek revenge, which is an action that potentially brings the most damage to the sellers. Hence, sellers may need to proactively reach their customers when severe unfair price perceptions arise and try to reduce the damages by redressing the situation with an appropriate method.

## CONCLUSION

"In the short term, customers may well buy according to economic rationales: if the price is below my perceived value I buy it, if not I don't. But in the long term, customers are motivated to find their way out of what they perceive to be unfair situations. . . . In the long term being perceived as 'fair' is important, to prevent detrimental buyer behavior and buyer-seller relationship[s]" (Dolan and Simon 1996, pp. 138, 273). Pricing managers need to reform their myopic vision about maximizing short-term margins and carefully consider the long-term effects of perceived unfair pricing procedures and price differences. Understanding how customers perceive prices and form value judgments is necessary to fulfill this important prescription.

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## Chapter 19

# MARKETING TO THE NEW CUSTOMER MAJORITY

David B. Wolfe

In 1989, an event of epochal proportions happened in the United States, but never made a single headline. Even today, more than a decade and a half later, this historic event draws little attention. The event? For the first time in history, most adults were age forty and older.

My main objective in this chapter is to share with you some of the implications this event holds for marketing and a few thoughts about how we as marketers might best deal with those implications. To the extent any of us believe that marketing needs reform, we'll never figure out how to accomplish that without understanding how the New Customer Majority has changed the rules of marketing.

In his book *Management Challenges for the 21st Century* (1999), Peter Drucker said the number one issue facing business is coping with the worldwide decline in birth rates. This has dramatically changed age ratios, making young people a smaller percentage of the population and older people a larger percentage.

We hear all the time that people are living much longer today than ever before. That's true, but it's also untrue. It's true if we're talking about the life expectancy of children from the day of their birth—which is how life expectancy figures are generally figured. But it's not true if we're talking about the life expectancy of adults. The life expectancy of a person who turned sixty-five this morning is only about thirty months greater than a person who turned sixty-five in 1940. Perhaps more astonishing, the life expectancy of a person who turned eighty-five this morning is less than a year greater than it was for a person who turned eighty-five in 1900.

More than three-quarters of longevity gains since 1900 have accrued to people under the age of eighteen. Only about seven years has been added to the life expectancy of adults at age eighteen. And despite common perceptions, we've added nothing to the human lifespan over the past century—or, in fact, over the past ten thousand years. Lifespan refers to how long you *can* live; longevity refers to how long you *do* live. So far, science has not broken through the time barrier nature imposed on humankind many millennia ago.

With that introduction, which might have unsettled a few of your beliefs about aging and longevity, I want to turn your attention to some of the effects that changes in demography will have on marketing—indeed, on the whole of society.

### THE BIRTH DEARTH MEANS A SALES DEARTH FOR MANY PRODUCTS

The number of twenty-five- to forty-four-year-olds is shrinking. This age group, which historically contributes more to the consumer economy than any other twenty-year age cohort, will shrink by more than four million consumers in this decade. By 2010, spending by this age group will fall by $104 billion. This should force many companies to examine the question, “Where will our sales growth come from?”

People in this age group, particularly twenty-five- to thirty-four-year-olds, spend the most per capita on vehicles, while thirty-five- to forty-four-year-olds olds spend the most per capita on housing and housing-related products. However, population shrinkage in these age groups means sales of vehicles, homes, and home products will fall in this decade—as well as in scores of other product categories.

How can companies best cope with these conditions? For many, the best response will be to tie sales goals to the life forces of the burgeoning older population that makes up the New Customer Majority. The numbers are pretty eye-popping. In 2003, while the eighteen- to thirty-nine-year-old age cohort numbered 85 million, the forty-plus set was far larger at 128 million. In 2010, there will have been less than 1 percent growth during this decade in the eighteen- to thirty-nine-year-old group compared with 63 percent growth among adults forty and older whose numbers are projected to rise to 138 million by 2010.

So why is more than 90 percent of marketing dollars targeting the incredible shrinking adolescent and young adult markets?

Look at the numbers—the dollars and cents numbers: By 2010, spending in households headed by people under forty-five is projected to be $1.62 trillion—a lot of money, for sure. But consider the fact that people forty-five and over are projected to spend an estimated $2.63 trillion in 2010. As the late U.S. Senator Everett Dirkson would say, “A billion here, a billion there—pretty soon it adds up to real money” (Quotations page).

Let me ask you, where do you think most marketing dollars should be spent today?

## OLDER MARKETS CHALLENGE MARKETERS WITH DIFFERENT BEHAVIORS

As I’ve already noted, the aging consumer universe is changing the calculus of supply and demand in dozens of product and service lines. At forty-five or fifty-five or sixty-five or older, a person’s bundle of needs is quite different from his or her needs as a young adult.

Older people also behave differently. Changes in goals, values, and in what they want from life changes behavior as well as needs. Life satisfaction is more often sought in experiences than in things. The narcissistic and materialistic influences that drive much of the behavior of younger people tend to ebb among older people.

Trackers of consumer trends have recently been using the word “surprising” to describe shifts in leading consumer attitudes and behavior. However, I see nothing surprising in consumer behavior today because the outlines of what we’re seeing in leading consumer attitudes and behavior were predictable years ago. I know this because I predicted many of the leading behavioral attributes reflected in marketplace behavior today over fifteen years ago in my book, *Serving the Ageless Market* (Wolfe 1990).

Moreover, what I predicted then was predictable as long as nearly three decades ago—starting around the mid-1960s when the birth control pill first became broadly available. The pill led to a drastic decline in fertility in 1965—falling off by 130 basis points—then falling below population replacement levels in 1974—the year after *Roe vs. Wade*. This collapse in fertility rates generated changes in age ratios that ultimately led to the adult median age reaching midlife levels nearly three decades in the future.

The emergence of the New Customer Majority has transformed the leading attitudes and behaviors from reflections of the social and cultural patterns of youth to those of people in midlife and older.

For instance, Yankelovich President J. Walker Smith writes in this volume that resistance to marketing influences has become stronger. This is not a happenstance event; it's not because people are more highly educated today; it's not because people have more choice and more money to make choices—all reasons that have been cited as the source of greater consumer resistance to marketing. Increased resistance to marketing is rooted in the patterns of human development that manifest in midlife. People in the second half of life have always been more resistant to the efforts of others to persuade them to some course of action. Maslow wrote extensively about this more than fifty years ago. So, it is quite natural that with most adults now in middle age or older, consumer behavior overall would reflect greater resistance to marketers.

Older people generally look less to the external world for behavioral cues. They become more introspective, thus less dependent on others for information. They become more individuated, thus less like their peers, and more autonomous in acting out their lives—all of which makes members of the New Customer Majority more challenging to figure out, as well as more resistant to marketing. As everyone in the marketing game should know, the young are both more predictable and more receptive to marketing.

## CONDITIONS CALL FOR A MAJOR PARADIGM SHIFT IN MARKETING

Marketing desperately needs to undergo a major paradigm shift because more and more, old ways of doing things are proving ineffective. A paradigm shift is not simply a new way of doing what you've always been doing. It's a new way of looking at something. It's a new mindset. It's a change in assumptions, concepts, values, and practices in response to nontraditional challenges that resist solutions by traditional means.

The twentieth-century marketing paradigm was product-centric. Marketing was mostly about huckstering—moving as much product as possible in as short a time as possible at the least cost possible cost. The twenty-first century marketing paradigm is customer-centric. It transforms marketers from hucksters to healers. It's about helping people process their lives to reach higher states of well-being.

It may sound a bit weird to be talking about marketers as healers, but I think you'll be more comfortable about this new idea—about this paradigm shift in marketing in just a few minutes.

Marketers as healers view consumers in new ways. They understand how a person's season of life influences his or her consumer needs and behavior. They understand the characteristics that define behavior in a given season of life. This enables the marketer to be more effective in sensing customers' needs.

Let's spend a few moments examining life through the lens of personality development through four seasons.

Each season of life has a primary developmental objective. We don't just develop until we're voting age. We develop all our life along a path that has been laid down in our genetic makeup. Just as a child first turns over, crawls, talks, and walks as a matter of natural course, all our lives we are on a natural course that takes us to one developmental milestone after another.

The primary developmental objective in the spring of life—from birth to age twenty or so is gaining knowledge and skills to enter adulthood with reasonable prospects for social and vocational success.

There is also a primary life activity focus in each season of life that concentrates energy in service of the primary developmental objective of the season. The primary activity focus in spring is play. Play is nature's way of drawing the young into experiences that promote the acquisition of skills that will be needed in adulthood.

Another dimension of each season is the narrative theme of a person's life story that shapes the outlines of his or her worldview and thereby exerts considerable influence on values, attitude, needs, and behavior. The narrative theme of spring, *fantasy,* is strongly present in children's games and in their daily play. Fantasy also plays a major role in the life stories of adolescents, coloring their dreams, ideas, relationships, personal appearances, social activities, and imaginings about various adult roles they fancy themselves fulfilling in the future.

Moving on, the primary developmental objective in summer is the social and vocational development of the individual—social actualization, as it were. This season is about *becoming* somebody, the overarching task a person needs to turn to after full-time entry into a career.

The primary life activity focus in summer is work. Work provides the measure of one's production. The manner in which it is pursued and the output that results determines the value of who the young person is in the eyes of peers, colleagues, and society at-large.

The narrative theme of one's life story in summer is a blend of romance and heroics: "Nothing will stop me. I can do all I set my mind to. The world is my oyster, and I intend to harvest many pearls." While the child expects good things to flow from without, the young adult adopts a take-charge attitude in the belief that good things happening depend on their own efforts.

People who are in the fall of life—which begins with the onset of midlife—have become the dominant consumer group, both in population size and spending power. Their needs are predisposed by the primary developmental objective of fall, which is development of the inner self—the spiritual self, as it were. Currently, aging boomers represent more than 90 percent of people in the midlife years.

The primary life activity focus in fall is balancing work and play in ways that leave enough psychic energy to explore the meaning of one's life. The pivotal questions in fall are, "What is the meaning of life—of my life? And what will be my legacy?"

The narrative theme in fall is reality. It is a theme driven by the need to bring the real self that has been concealed behind a social mask to the surface to divine the ultimate meaning of life. This process often generates deeply held episodes of disappointment: "I haven't accomplished what I thought I would when I was twenty-five," is one common sentiment. Another common feeling is, "I've accomplished more than I ever thought I would, but I feel an emptiness. Something is missing."

The midlife shift in worldview is a predictable dimension of human life that has been recognized for millennia. It's discussed in Vedic literature extending back nearly four thousand years. The Roman philosopher Seneca wrote of it. Shakespeare addressed it in his plays and sonnets. More recently, Carl Jung spent considerable time investigating this milestone in human development. So did Abraham Maslow and Erik Erikson. Given this, one of the great mysteries in marketing is why the marketing community ignores what these great minds have known for millennia about changes in midlife that have altered the lives and behavior of the adult age group that now dominates the marketplace?

Developmental psychology has virtually no standing in marketing at all. Yet it has more to inform us as marketers than any other branch of behavioral science.

Moving on, the primary developmental objective in the winter of life is to reach a state of wholeness that Jung referred to as *self-realization* and Maslow as *self-actualization.* The primary life focus is reconciliation, coming to terms with the sweet and the bitter of life and making peace with the self within, all others in our life, and with the world at large. The theme of our life story is irony: acceptance.

## NEW BALANCE: A MARKETER THAT GETS IT.

As we've just discussed, in the second half of life, behavior is oriented to the needs of the inner self. Madison Avenue seems to have little awareness that an inner self even exists. And yet, it is a huge driving force in consumer behavior today. A company that has picked up on this better than any company I'm aware of is the sneaker maker New Balance. In 1990, it was the United States's number twelve sneaker maker; in 1996 it was number eight; in 2003, number three. It accomplished this in a field that, due to the birth dearth, was not growing, by touching the midlife soul and doing so in a way that resonated with all age groups. This is what I refer to as ageless marketing.

New Balance's ageless marketing strategies have not only given it a commanding position in forty-plus markets, its market share among youth has been growing by leaps and bounds, outpacing even mighty Nike.

Here in this New Balance ad, like a typical Harley-Davidson ad, you can't make out the individual features of the women jogging along a country road. That makes it easier for more people to dial themselves into the picture. Look at the body copy:

> One more woman renewing her life is the dream.
> One more woman discovering strength is beauty.
> One more woman believing in herself.
> One less woman walking in someone else's footsteps.
> Those words are reflective of the sentiments of a typical midlife soul.

The new marketing paradigm recognizes that the possibility for real differentiation in the marketplace comes less from the product than in the past, and more in how you collaborate with consumers' need to heal, to be whole, to be complete.

People commonly get disoriented in midlife as they shift from a social-actualization track to a self-actualization track. It can be very confusing to a person undergoing this personal paradigm shift, which switches them from socially focused to inner-self-focused. New Balance marketing addresses this seasonal stress by in effect saying, "We hear the bubbling anxiety that has come across you as you try to reorient your life to a more mature state."

If you look at the differences between New Balance and Nike in values, I think this begins to come clear: Winning versus self-improvement, roar of the crowd versus inner harmony, extreme effort versus balanced effort, smell of sweat versus the smell of nature, physical development versus spiritual development. Nike appeals to the youthful, narcissistic, masculine self. New Balance appeals to the mature, other-centered experiential self—to the feminine self.

Each season of life takes us to higher and more complex psychological states of being. This is consistent with biologists' definition of "growth": the movement of an organism from a lower and simpler state to a higher and more complex state. Thus thirty-year-olds operate at a higher and more complex state than they did at twenty, at a higher and more complex state at forty than at thirty, the same at age fifty in comparison to age forty, and so on.

This presents a real problem to marketers because so many people involved in creating and placing marketing messages are in their twenties and thirties, creating messages targeting people in their fifties and sixties and older, people twice or more their age. The young copy writer, operating at a lower and simpler state, looks at life through the lens of his or her own value structure, trying to talk to people who look at life through a different lens. So, if we are serious about taking on the task of reforming marketing, we must deal with this issue.

## THE NEW "S" WORD IN MARKETING

Maslow reflected the movement of people toward higher and more complex states in his hierarchy of basic human needs: Physiological, safety and security, love and belonging, self-esteem, esteem of others, and of course, self-actualization. Melinda Davis, writing in her book *The New Culture of Desire* (2002) says—I think quite appropriately—"Human behavior is now being ruled by a new pleasure imperative, a new primal desire, that is at least as powerful as the one that brought us into the world" (p. 2). Wow! Something more powerful than sex? That's what she's saying. And I agree.

In Jungian definitions, the libido is a persistent urge we have to recreate ourselves in all we do whether we're an artist, a pianist, a physician, or a marketer. And in the second half of life, we begin shifting away from the biological urge to reproduce ourselves to a metaphysical urge to reproduce ourselves. This is really what self-actualization is about.

I propose that the new "S" word in marketing and sales—due to the overwhelming dominance of middle-age consumers—is "self-actualization." Until we grasp what that means in practical terms, we're not going to be able to reform marketing. To make this a bit more vivid, self-actualization is an advanced state of psychological maturity in which behavior is more realistic, more practical, more dependent on context, and more resistant to persuasion.

People on a self-actualizing track focus more on peak experiences than on "things." They become more introspective and more authentic as they begin dissolving their persona (Latin for *mask*) that served them well when young and seeking the best advantage in their social and business ambitions. In midlife, many people develop a sense that they want to be more "real." And as they demand more authenticity of themselves, they demand more authenticity in those they do business with.

This was dramatically illustrated in *More* magazine (2002) in which actress Jamie Lee Curtis agreed to appear only if they presented her as she was with no special lighting, no makeup, and no air brushing, in sweat halter and shorts that revealed her sprouting love handles. Read her words: "I don't have great thighs. I have great big breasts, and a soft fatty little tummy; glam Jamie, the perfect Jamie is such a fraud. The more I like me, the less I want to pretend to be other people" (p. 92).

Jamie Lee Curtis at age forty-three is on the same track that people in every generation of self-actualization follow. So, forget what you hear about how baby boomers are different. That has been so overstated that we have a corrupt vision of boomers' behavior in this fall season of their lives. They're more like their parents than commonly acknowledged. It's in their genes.

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Chapter 20

# QUESTIONS MARKETERS NEED TO ANSWER

Tim Ambler

Much as marketers like to believe that they are contributing to the happiness of customers and the wealth of society, the brutal truth is that they are employed to make money for, or otherwise achieve the goals of, their employers. How they do that, and how their performance can be measured, have only recently become top issues both in practice and academia. That in itself is remarkable. Normative approaches, originally derived in the main from microeconomics, have long instructed marketers on what they should do, and innumerable case studies have documented practice. Other marketing academics have been explaining how parts of the mix, such as advertising, work and how consumers behave. These issues are important but this chapter delves into marketer behavior and accountability in order to uncover the key questions marketers need to address.

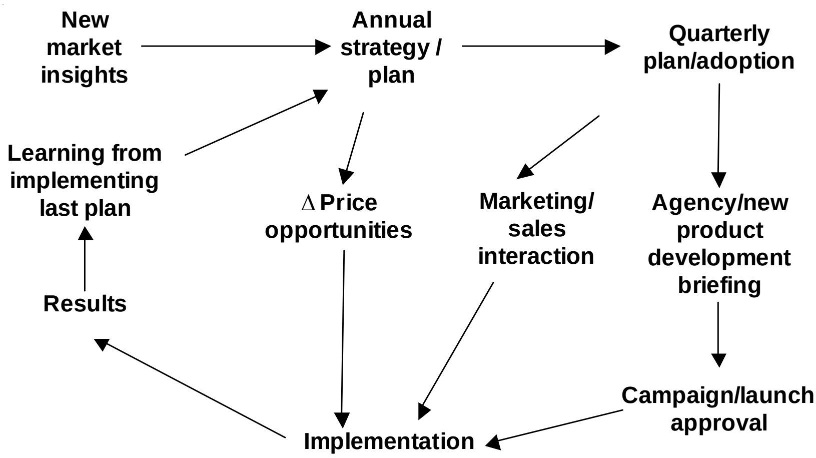
Based largely on personal experience, this chapter cites no references even though I owe a huge debt to my academic colleagues. My sources are the twenty-five years spent marketing alcoholic drink brands, and other products, followed by fifteen years in academia trying to understand and explain that experience. Perhaps this perspective is moderated, for better or worse by age, but, rather in the manner we check later waves of responses to surveys against earlier ones, comparing these opinions with papers written thirty years ago did not reveal much change in the fundamentals. Technological developments such as data capture and processing, quantitative analysis, diversity of choice, and concepts such as the marketing asset, call it "brand equity" or what you will, have indeed changed, but how marketers spend their time has changed much less. Marketers no longer stagger into meetings with "guard books" of advertising and PowerPoint is a mixed blessing, but we are concerned with deeper human and corporate matters and those evolve more slowly than technology.

The chapter is therefore concerned with what marketers do, their marketing process, their capabilities, and how they are evolving. If we understand all that a little better, asking the right questions may improve practice and guide theoreticians toward relevance.

The structure is as follows. "Moments of truth" are defined as those marketing activities that make a difference to the firm's bottom line or to its marketing assets. Financial performance is defined for the purpose of this chapter as the short-term increase in profitability, or net cash flow, plus the change in the marketing asset, which I call brand equity. So the marketer's year is made up of moments of truth and a mass of other activities that may be necessary but that do not directly contribute to performance.

Marketer activity in a small start-up enterprise differs from that in a vast multinational. Size matters: broadly speaking, small businesses are time rich and money poor, whereas large companies have access to all the money they need, but may lack the time to acquire it or use it well. Innovation may be stronger, pro rata, in start-ups, and large companies grow also by acquisition. To establish the range, both ends are explored. This leads to the provisional list of questions to be

Figure 20.1 **The Marketing Year**




answered. The chapter then considers the extent to which the sector, for example, financial services versus packaged goods, moderates the questions. Developed economies have shifted from manufacturing to services and information technologies. Marketing in a financial services context may add value in different ways compared to packaged goods.

The chapter concludes with a short discussion of the four questions that emerged.

## THE MARKETING YEAR

The classic planning—implementation—measurement—review cycle holds good in practice, driven by the firm's financial calendar. Even in small firms, where some stages will be informal, expenditure has to be tracked and cash availability will influence the extent of activity. Figure 20.1 charts the key steps.

The process begins with new marketing ideas, whether gleaned from customer insight, marketer intuition, business contacts, or experience. Strategy most often emerges implicitly and few companies today have separate strategy departments. In one way or another, some degree of change consensus emerges along with the budget required to implement it. This may be annually or quarterly or ad hoc. The formal plan typically revolves around advertising and other promotional activity because those budgets are conspicuous. Changes to product (defined here as goods and other services and packaging) or pricing may follow other cycles if they have a pattern at all. More likely they are responses to external pressures.

Figure 20.1 shows the firm's marketing year, not necessarily the marketer's year. British Airways only recently made pricing a responsibility of their chief marketing officer (CMO) and services firms do not usually allow marketers to control the product offering itself. This confusion between marketing (what the whole firm does to delight customers, and acquire new ones profitably) and what the firm's marketers do, lies at the heart of the difficulty of measuring marketing performance. Marketers may talk four Ps (product, place, promotion, and price) but they practice, and are accountable for, just those they have been allocated by the firm.

Even in a brand-oriented organization like Diageo, the Smirnoff brand manager may be officially responsible for all four Ps in his country, but in practice, global considerations will constrain flexibility. He cannot change the product or the packaging and pricing must conform to global strategy. The performance of the Disney CMO in France will be greatly affected by changes to the Disney brand equity worldwide.

In large firms and small, some specialist marketing activities, such as advertising or promotions or direct marketing, will be outsourced to agencies. The marketer is still accountable, but the reality of her role is to brief the agency and then accept or reject their proposals.

The functions of sales and marketing may be combined, but in any case both plans and implementation emerge from interaction between the two. Retail aside, the marketer classically is concerned with the end user, or consumer, whereas the sales person is concerned with the immediate buyer. This is equally true, albeit not often recognized, in business-to-business: the shop floor operative who uses the product is not usually the same person as the buyer for the firm. So the marketer battles for a larger share of the budget for "pull" marketing whereas the sales person demands more for "push."

The marketing year can be described in any number of ways but the cycle shown as Figure 20.1 is intended to highlight marketing activities, the moments of truth, which truly impact performance. That may all seem somewhat prosaic but two points should be noted. First, the seasonal process described may not at all match the timing of when great new ideas emerge. An inventive promotion with a large financial payback may strike six months after the annual plan is concluded. A brilliant idea for briefing the ad agency may arise from working with the agency on the original brief. It should not, but it does. And even the smallest company has no financial problems with marketing activity that has immediate payback. It is not unusual for crisis to cause creativity.

Second, the very routine of the formal annual process described in Figure 20.1 can drive out creativity. Days spent in predictable planning meetings numb the gray matter. The techniques for wresting the biggest budget from the bureaucracy are very different from the inspired marketing that will excite customers.

This leads to the first question of whether marketers have analyzed how they spend their resources relative to the moments of truth. Would a better allocation of time and energies, for example, less time planning and more on briefing agencies or measuring performance, improve performance? What have been the moments of truth over the past, say, three years and how did they arise?

Marketer time and energy are in short supply. Unless their use is actively challenged, to an outsider marketers may look as if they are running around the same wheel without it necessarily going anywhere. This is equally true for small and large companies but, as the chapter now describes, the wheels are very different.

## SMALL COMPANIES

In most small (less than ten employees) companies, the marketing role is undertaken by the chief executive officer (CEO) or the key sales person. Few small firms have written plans beyond what is required by the bank manager or the key investor. In other words, any plan is written for someone else, not necessarily as a way to determine the best course of action. Formal performance measurement rarely goes beyond the annual accounts and reporting on the cash situation. In start-ups, emotion swings from panicking about the absence of orders to panicking about the capacity to deliver. Experienced small companies have settled into a more stable state but many want to stay small. Some want to grow and some want to sell out to larger companies, but other CEOs do not want the paraphernalia, meaning paperwork and routines, of large businesses. We see increasing numbers of public companies reverting to private status to escape all the reporting the law now requires and the internal procedures of large firms, including marketing processes.

In short, small companies rarely follow textbook marketing process. We writers of textbooks would like to think that hinders their performance but the evidence for that is weak at most.

Are the most successful small companies customer centric? They obviously recognize that they depend on customers and inward cash flow, but I have come to doubt the conventional wisdom that firms, or even their marketers, should be customer driven. Let us explore the idea that start-ups are ego driven, not ego with arrogance but ego with empathy. A few examples:

- Bill Gates started Microsoft in his own home to satisfy his own needs as a computer user. To a large extent, Microsoft still innovates in the same way: not asking customers what they want, but deducing what would be attractive from Gates's and his R&D people's own intuitions.
- A number of coffee enterprises began simply because the entrepreneur believed he could provide better coffee. The customer has not been short of coffee suppliers for a century or two and yet within the last ten years new CEOs continue to leap, Tarzan-like, into the coffee marketing jungle. For example, David McKernan created Java Republic in Dublin in 2001 based on the quality of the green beans, a "21-minute slow roast," freshness, and ethical standards. That gave the business the quality and distinctiveness they needed (they claim to be the most expensive coffee in the world) but the other reality is that David McKernan is an extrovert who would have found one limelight or another.
- Similarly, Richard Branson created Virgin Atlantic in his own image. Some people find British Airways pompous and nannyish . Virgin Atlantic differentiates itself by being fun and having fun at the expense of the senior competitor. Even today, flying Virgin declares a youthful independence. Did the customers have any idea they wanted such an airline before it was created? Of course not.
- Finally, Michelle Mone was born into a poor Glasgow slum district but with a big personality. At fourteen she was telling market stallholders how to do business. At fifteen she became the family's only breadwinner. She had the looks to become a fashion model but a mouth that cut her catwalk career short, or so she told the annual conference of the Irish Marketing Institute in February 2005. She joined the marketing department of Labatts brewery but knew that she wanted her own business. The spark appeared the evening she found her own bra uncomfortable and could not find anything better in the shops. Ten years later, her "Ultimo" brand of bras and swimwear is a top global brand and she has bought out previous market leaders.

These four minicases have one thing in common: marketing is not driven by consumer research or insights but by the ego-driven founder passionately seeking fame as well as fortune and exploiting empathy with the end user. The product has to solve the problem that the entrepreneur has identified but that the consumer had no inkling of.

The question is whether this adding-value formula is true for small businesses in general.

## LARGE COMPANIES: INTERACTING WITH THE EXTERNAL MARKET

However dominant the CEO, large company marketing cannot be driven personally. Different parts of the organization must be free to innovate and at the same time coordinate what they do. They have to cultivate the former without allowing the need for coordination to either to stifle initiative or to allow transient marketers to bring bedlam. Marketers stay with small businesses for long periods, often because they have shares in them or other ties with the founding families.

The tension between autonomy and coordination only complicates the marketer's life in a large company. Indeed, the internal marketplace can become so dominant that it crowds out time for the external, namely, getting close to customers and understanding them and competitors. One U.K. company, “X,” employs about a thousand marketers on one brand in virtually one country and yet almost all marketing activities are outsourced to agencies and consultancies. Those who think that marketing one brand in one market should need only one person may consider X to be an extreme case. Perhaps it is, but the lessons apply to all large companies to some extent. This is an observation, not a criticism. Marketing by X, like that of many other large companies, is top class despite the excessive bureaucracy and introversion. Whether “despite” or “because of” is the question, but my answer is clear. We are talking complexity, not chaos.

The complicating factors include:

- Learning competes with knowledge. Innovation involves replacing the known with experimentation that may or may not prove correct. Owners of knowledge resent attempts to prove them wrong. The short tenure of marketers in large companies biases them toward innovation, or mere novelty, relative to their peers in other functions. If their competition is too one-sided, be it toward learning or knowledge, performance suffers. In theory, the planning process provides the battleground for testing new ideas against existing knowledge but in practice plans are part of gaining financial support. Extensions and new brand launches, for example, tend to appear in plans only after the launch decision has been made.
- Paradoxically, knowledge (exploitation) can also create the demand for new learning (exploration). The idea of “levels” of learning has long been around. Level 1 knowledge allows the firm to exploit existing assets, capabilities, and resources in a pressured environment that may not be available for level 2 developments, namely, exploiting the knowledge that change is needed to improve the firm’s position in a dynamic environment. At this second level, knowledge does not compete with but encourages learning and exploration; however, that needs slack resources from the operational first level.
- Very large marketing departments mean that the job has been divided into numerous specialties. A strategy team will devise the broad goals and pass them to other teams to take forward. The receiving team may not wholly accept what they are given. Instead of clear end-to-end accountability, the process becomes a game of pass the parcel with the parcel being transformed as it is transmitted. No one is finally responsible.
- Another large group of meetings involves the vertical dimension of the hierarchy. The rate of managerial turnover adds to the desire by senior management to pass wisdom down to their new hires and by juniors to impress their seniors. Planning is only one of the activities involving hierarchical meetings. Campaign approvals and reporting are others. Those unused to the ways of large companies are often astonished to find that no one is too clear who exactly has responsibility for any decision or outcome, nor can those involved explain after the event exactly who made the decision and how. In reality, decisions arise through talk-out, in other words, consensus is assumed when opponents have given up the argument.
- Internal communications are not confined to meetings. In large companies, e-mail has become more of a curse than a blessing, with some managers receiving hundreds every day. If they go away for a few days, the problem of sifting out the ones they really need to read and react to becomes formidable. Maybe in the future expert systems will provide electronic personal assistants and take care of the problem but, in the meantime, internal communications compound the inward focus of many marketers.

A company with one thousand marketers is spending two million hours a year without necessarily doing any marketing if it is all outsourced to agencies and consultants. They may be effective, depending on the quality of the marketing output, but they are certainly not efficient. And the bigger concern is that the process is internally, not market, oriented. When it comes to customer centricity, rhetoric rarely matches reality.

This caricature is drawn from life and highlights a central problem for large companies: complexity that causes marketers to look inward, not to the market. This context includes suppliers, whether consultants, agencies, or market researchers as insiders, not least because of their inevitable tendency to massage the client. I'm not suggesting that agencies distort the truth, the best ones are candid, but the fact remains that their clients provide their cash flow. The external agents are drawn into the internal party.

So the big question for large company marketers is how much time they give the realities of the marketplace. Do they go out with sales people? Take calls in call centers?

Observe what happens at the points of delivery? Deal personally with complaints? Compare service delivery with that offered by competitors?

The second question is how much time can they extract from the daily round of level 1 process for level 2, namely, exploring, experimenting, and improving level 1 processes.

## LARGE COMPANIES: INTERACTING WITH THE INTERNAL MARKET

After challenging excessive internal focus, it may seem contrary to call for more internal marketing. Marketers interacting with each other is quite different from promoting the marketing concept around the rest of the firm. The need for this arises from the earlier distinction between marketing as a whole firm activity and the narrower role given by large companies to specialist marketers. The firm's marketing addresses two constituencies: existing and prospective customers. Motivating existing customers to stay, to buy more, and to buy better depends on their whole brand experience, not just experience of promotions and advertising. See Figure 20.2 for examples of so-called customer touch-points. In this diagram, marketing is shown as driving all aspects of the customer's experience of the brand and thereby growing brand equity.

In a thoroughly market-oriented organization, the marketers will be canvassing colleagues who are already converted. Little additional effort should be needed although coordinating the different aspects of brand experience from the customer's point of view is almost always demanding. Other companies, whether they claim to be customer centric or not, present a greater challenge. Can marketers afford to take resources from their day jobs, as others will see it, to promote what these same others may regard as a partisan view of the business?

As ever, the CEO's attitude is crucial. More unusually, the attitude of the human resources function is critical too. Some regard internal marketing (communications) as part of their role and resent interference. Others welcome the professional skills that marketers can provide and the overarching need for the company to improve brand experience.

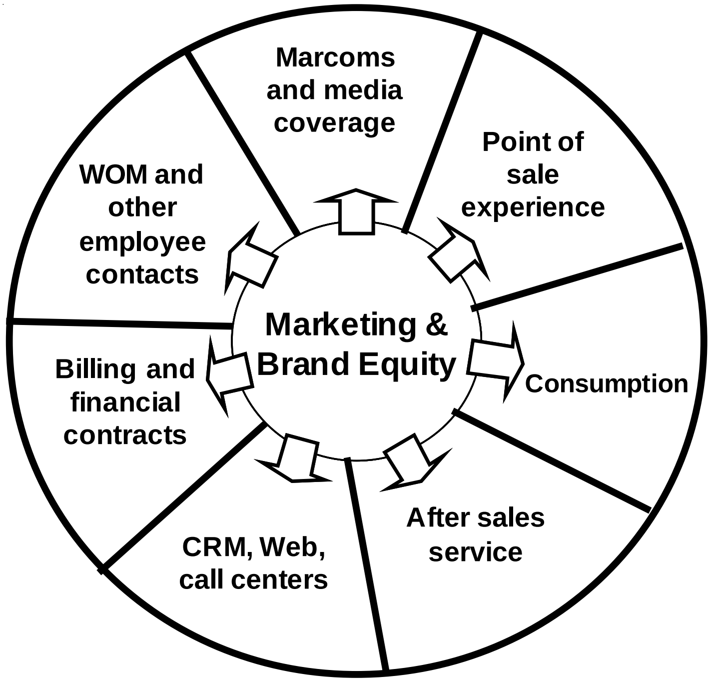
No simple answer is likely, so we are left, once again, with a question: how much resources, namely, time, creativity, and energy, should marketers divert from the external to the internal marketplace?

## ARE THE ANSWERS TO THESE QUESTIONS LIKELY TO BE MODERATED BY SECTOR?

This section first brings together the four key questions thus far before considering potential sector effects:

- Is it generally true, at least for small businesses, that marketing success is not driven by consumer research or insights but by the ego-driven founder passionately seeking fame as well as fortune and exploiting empathy with the end user?

Figure 20.2 **Brand Experience**




- How much time should large company marketers devote to immersion in the external marketplace as distinct from following internally driven processes?
- How much time can they extract from the daily round of level 1 process for level 2, namely, exploring, experimenting, and improving level 1 processes?
- How much resources, namely, time, creativity, and energy, should marketers divert from the external to the internal marketplace (other employees)?

The first question looks at the personal influence of a dominant CEO, which seems to be more likely to be key than business size or sector. One of the examples was Microsoft, hardly a small company, and IBM could be cited as another, albeit in the same sector. Other examples can be found across all sectors and, while examples are not proof, there seems little reason to believe that this question is sector sensitive.

The second question is about market orientation that has been repeatedly shown to correlate with profit performance irrespective of sector, albeit weakly. Exploration necessarily means some degree of market immersion but not necessarily a rapid payback. One would expect the returns on exploration to vary considerably by sector. In rapidly changing technology, exploration is both more necessary and better and more quickly rewarded when it is right. Slow-moving sectors, however, are likely to have poor returns on exploration. That makes market immersion possibly less financially attractive but no less necessary.

The third question is mostly invisible to marketers, which itself is a good enough reason for raising it here. Marketing capabilities, even dynamic capabilities, have received much academic attention but perhaps with little change in practice. Company processes die hard, not least because practitioners accept them as the company culture, the way the company does business. Marketers aim to work within their company's culture and rarely see it as their job to change it. After complaining about the more absurd aspects for some months after joining, the culture becomes part of the wallpaper. In any case, the typical marketer's job tenure is not long enough to worry about such matters.

My evidence for this is based more on personal observation than formal research, although my work on metrics shows how little changes. I recently presented senior marketing executives with the results from formal work into valuing market research benefits. They were accepted without question and only later did I reveal the work was over thirty years old. Marketing plans are written much as they were in the 1960s. More use of PCs and PowerPoint, of course, but those are technology, not marketing processes.

The question here is whether these observations have changed for some sectors relative to others. My personal sample is not large enough to be sure, but the impression is that company size matters more than sector. Some sectors, such as professional services, are newer to formal marketing than others, such as packaged goods. One would expect to find some correlations in the size of a marketing department with the length of time formal marketing has been part of the culture and with sector. And one would certainly expect the lack of change in capabilities to be related to firm size. But that would make the sector effect only indirect at most.

Finally, the fourth question considers the formalization of internal marketing. This has long seemed a fine idea in theory and various agencies, such as People in Business, have been around since 1990 to provide specialized expertise. Few now survive. Some built business for a while, sold out to large communications groups such as WPP or Omnicom, and then disappeared. Others simply folded. We can be sure that, in their fight for survival, they tackled all sectors. Their general demise (though a handful still exist) indicates that there was little or no sector bias.

## CONCLUSION

Technology has certainly changed the appearance of marketing capabilities, namely, the way marketing is conducted, and to some extent it has changed the reality, for example, database mining and quantitative analysis. But the highly technical aspects are conducted by only a few experts. Most marketers operate with the basic tools provided by Microsoft Office.

Technology aside, the major development has been our understanding of marketing assets. Short-term profit performance has always been, and always will be, measured as best as firms can, but the recognition of the need to adjust that by the change in brand equity is new. So our fifth and last question is:

- Does your firm have a compact (e.g., dashboard) and comprehensive presentation of all key brand equity metrics, reconciled with the firm's business model?

The difficulty for most firms with this question is relating changes in intermediate variables, such as awareness or intention to purchase, with behavioral metrics such as sales or market share.

The five key questions assembled here are important matters for CMOs to consider. They are moderated by the size of the business, or marketing team, but do not seem to be moderated by sector.

CHAPTER 21

# MARKETING'S FINAL FRONTIER

## The Automation of Consumption

JAGDISH N. SHETH AND RAJENDRA S. SISODIA

The marketing function has gone through a number of transitions over the years in a search for more efficient as well as more effective operating models. One of the key drivers of change has been the need to create a more efficient match between supply and demand, since many potential sales are lost due to the lack of the right inventory at the right time and place. To this end, many business-to-business companies in the past decade have moved toward the practice of "automatic replenishment" or "vendor-managed inventory," in which manufacturers take on the responsibility for managing inventory at the retail level. Monitoring starting inventory levels and sell-through volumes, manufacturers automatically ship additional merchandize when stock is depleted. The advantages of this approach are several: out-of-stock situations are greatly reduced, and many administrative costs associated with ordering, invoicing, and billing are reduced or eliminated. Implemented effectively, this approach results in higher levels of product availability at the point of purchase, with much lower average levels of inventory. The track record has been very strong; 80 percent of retailers now use some form of automatic replenishment, and companies have reported an up to 400 percent increase in inventory turns and 75 percent reduction in out-of-stock situations.

### LOOKING FOR A BETTER WAY IN CONSUMER MARKETS

Beset with inefficient and ineffective marketing approaches, the consumer market is now ripe for the widespread deployment of this approach. We strongly believe that marketing efficiency as well as effectiveness in consumer markets can be greatly increased through the routinization and automation of purchase and consumption. With creativity, imagination, and sound marketing, these arrangements could go considerably beyond "automatic replenishment" and become commonplace in the near future.

The opportunities and pressures that make this an appealing concept have been building for quite some time. Rising incomes, escalating time pressures, and a critical mass of affordable and powerful enabling technologies are driving the trend toward the automation of consumption. The affluent class now represents more than 35 million households out of 110 in the United States. Purchases of so-called luxury goods and services are growing at about four times the rate of overall spending (Silverstein and Fiske 2003). Over 60 percent of women over the age of sixteen

Adapted with permission from *The CRM Project: Defying the Limits*, Montgomery Research, 2000.

and 70 percent of mothers with children under age eighteen worked full-time in 2004, making households more wealthy but time-poor (U.S. Department of Labor 2005).

The automation of consumption can take place directly between consumers and manufacturers for larger purchases, and through intermediaries for smaller purchases. Suppliers of large items or major services will have a great opportunity to become the "one-stop-shop" supplier of choice for an ever-widening array of goods and services.

The automation of consumption, first and foremost, is aimed at simplifying life for buyers as well as sellers. For example, buyers should be freed of the burden of monitoring inventory levels of frequently purchased goods. It is about understanding customers so deeply and thoroughly that marketers can anticipate their needs and wants, often even before the customers themselves are consciously aware of those needs and wants. It reflects a "customer business development" mindset (becoming common in business marketing situations) applied to the consumer market, wherein marketers and consumers continually look for opportunities to elevate the mutual gains from their relationship. It is, in brief, autopilot marketing, in which most human intervention may only be required at take-off (relationship creation) and landing (relationship termination, in the event that it ceases to make economic sense).

Marketing efforts in the past have been inordinately geared to *acquiring* customers, with insufficient attention given to how best to retain and maintain those customers. As a result, most customer–provider relationships are intermittent, stop-and-go affairs. Rather than building on previous interactions, every encounter is treated like a new beginning. It is a well-known principle in physics that it is much harder to get a stationary object to start moving than it is to keep a moving object moving. In other words, "static friction" greatly exceeds "kinetic friction." In most marketing, however, the customer relationship starts from a standstill position every time, and is thus subject to a high level of static friction. Experience curve effects, that is, the benefits of mutual learning, are lacking, since every transaction is similar to the first transaction. The marketer fails to become more efficient and effective in meeting the customer's needs over time; likewise, customers continue to perform like novices in the relationship.

The current buying mode for many customers is "just in case" purchasing; large amounts of opportunistically acquired inventory accumulate in the basement. The automation of consumption will lower systemwide costs and improve value delivery to customers. This should result in higher overall profits; a well-honed approach will lead to large amounts of new value creation generally. Consider the benefits from Baxter's ValueLink system, which delivers hospital supplies directly to nurse stations and operating rooms rather than to a central warehouse. This allows hospitals to convert warehouses into clinical space. Likewise, consumers will be able convert inert storage space into usable living space.

## CONFRONTING CUSTOMER CYNICISM

Many marketers view today's customers as increasingly capricious: fickle, cynical, disloyal. Customers have evolved these defense mechanisms as a natural reaction to decades of marketing manipulation, noise, and sheer excess. Through long experience with never-ending promotions and marketing's long history of overpromising and underdelivering, customers have been trained to be highly deal-prone and cynical about marketing claims. They have low and declining brand loyalty, and little tolerance for underperformance. They switch suppliers at the smallest provocation, as evidenced by extremely high churn rates in many industries; in the telecommunications industry, for example, churn rates range from 30 to 50 percent per year in sectors such as cellular telephony and small business long distance service.

Customers today also have more knowledge, and thus power, than ever before. In part, this is due to the sheer availability of more objective information (much of it from new third party providers) than before. It is also due to customer cynicism; lacking trust in marketers, they feel the need to "arm" themselves with as much unbiased information as possible.

To many traditional marketers, with their antagonist view of customers, this knowledge is a threat; it allows customers to win every round, to "get a better deal" with them each time around. For more enlightened marketers, however, knowledgeable customers are an advantage. If a company is confident that it is delivering good quality and value, it can leverage its customers' knowledge and expertise to mutual advantage. Such customers may be more demanding in terms of quality and value, but typically have fewer requirements for customer service and support.

## CONSUMER STRESS AND DISTRESS

Our consumption-driven society is taking a heavy toll on many consumers, not because there is too much consumption, but because of the additional burden it places on consumers seeking to make reasonably informed purchase decisions. One of the ironies of how markets have evolved in the past few decades is that even as consumers have been presented with many more choices in the marketplace, the actual differences between the offerings have shrunk. With the widespread adoption of standardized production approaches such as TQM (total quality management) and ISO 9000 (a set of standards for global quality assurance and quality control systems), average product quality has improved, but so has the level of standardization and conformity across products. Even generic products offer good quality and a high level of standardized capabilities. Consumers are thus faced with the prospect of engaging in a great deal of shopping behavior (given the abundance of pseudochoices and seemingly random price differentials across stores and over time) with little incremental value to gain. There is little actual product differentiation (most differentiation today is image-based rather than innovation-based), and almost no customization or personalization in what customers do buy. To make matters worse (for consumers as well as marketers), advertising intensity correlates negatively with real product differentiation, so that the products most often advertised have little meaningful to say.

The result: the true ROI (return on investment) on shopping effort is very low, given the amount of time and physical and mental effort expended and the high level of commoditization in many product categories. The greatest tangible benefit of shopping effort to consumers is usually a defensive one: to ensure that they did not fall victim to opportunistic marketing tactics, and, hopefully, to try and take advantage of some ill-conceived tactics. Many customers also face high opportunity costs for their shopping effort (alternative uses of time to pursue personal as well as professional goals). If such customers forego extensive shopping effort, they risk being victimized by unscrupulous marketers.

No wonder, then, that consumers find many buying situations stressful—cars, groceries, clothing, financial products—and very few enjoyable. Many are paralyzed by simply too much choice—too many cereals, too many clock radios, too many TV channels. As a result, there is also a large body of evidence (e.g., the University of Michigan's Customer Satisfaction Surveys) that overall customer satisfaction is low and declining in many industries. Not surprisingly, customer loyalty levels are also very low, and most customers feel little long-run loyalty to even preferred suppliers.

Any alternative model, such as the automation of consumption, must be highly efficient in its use of *all* resources, not just time. It must also be built on a high level of mutual trust and respect, and the nearly complete absence of opportunistic action by both sides.

## SUCCESS FACTORS

### Mutual Trust and Respect

The automation of consumption requires that there exists a high level of mutual trust and respect between customers and marketers. Without trust, both sides will withhold information and access that is essential to value-creation. Especially early in a customer relationship, it is extremely important that the marketer strive for “zero defects.” This requires investment in capable and reliable information systems, with enough built-in redundancy to ensure that customers get exactly (or more than) what they were promised and what they expect. Once a high level of trust is established, customers will develop a degree of tolerance for occasional, unavoidable lapses in service quality. However, marketers must put in place a “recovery strategy” to deal with these lapses, so that they do not lose the customer, but in fact establish an even higher level of trust. Respect is another important dimension that is almost completely lacking in most marketer–customer relationships. As legendary advertising pioneer David Ogilvy said, “The consumer is not a moron; she is your wife” (1985, p. 170). Unfortunately, few companies show evidence that they respect their customers, and even fewer customers respect the companies they do business with (let alone admire or feel affection for them). Yet, without mutual respect, a beneficial long-term relationship is unlikely to result.

### Mutual Learning and Authenticity

Marketers and consumers both have to invest the time and effort needed to increase their knowledge about each other. Training classes for consumers may become commonplace, as they are for business customers today. Ultimately, if customer relationships are to be long, strong, and productive, marketing will need to become humanistically competent as well as technically competent. Consumers want relationships with providers that are authentic and empathetic, a need that grows more important with age. If the promise is the attention of a personal relationship, but the delivery is impersonal, customers will have a hard time feeling a human presence in the relationship and the marketers will be back in the era of transaction marketing and nonexistent “average” consumers.

### Ethical Behavior

With the automation of consumption, there may be many possibilities for unethical opportunistic action on both sides that would violate and ultimately destroy the trust between customers and companies. The customer surrenders the right to make ongoing choices, to verify the accuracy of shipments, to ensure pricing fairness. Companies invest upfront for benefits that they expect to receive later. It is an easy but myopic step for either side to take advantage of this for short-term gain.

### High Tech—High Touch Customization and Personalization

Today’s customers are increasingly heterogeneous; they do not fit into traditional stereotyped categories, and they certainly do not respond to mass market approaches. Marketers must provide customized as well as personalized services to customers. The must also monitor changes in customers’ lives to ensure that their services remain relevant and optimized. Along with the use of self-learning expert systems and sophisticated fulfillment systems, marketers must also ensure that there is a human face to their services. The more technology consumers adopt, the more they look to balance this with countervailing human elements. The dehumanizing potential of technology is such that marketers must be very careful. Used correctly, technology can add to rather than detract from human value. Consumers in an automated consumption relationship will not harvest all of their freed-up time for extra work; much of it will be used for meaningful social interaction (rather than anonymous interaction as happens in a supermarket).

### Epistemic Value

Like any relationship, one based on the automation of consumption is subject to maturing and the onset of boredom. If the relationship becomes excessively routinized, it will be taken for granted. Marketers must take the lead in revitalizing and dematuring relationships, by understanding consumer variety-seeking behavior. For example, as illustrated in the scenario at the end of the chapter, they can inject elements of surprise into the service.

## OVERCOMING INNOVATION RESISTANCE

Consumers everywhere tend to resist change. It is important to understand the psychology of resistance and use this knowledge in the development and promotion of innovations such as the automation of consumption. A failure to understand the psychology of innovation resistance has led to the failure of numerous innovations. The two most useful psychological constructs in understanding the psychology of innovation resistance are: (a) habit toward an existing practice or behavior, and (b) the perceived risks associated with innovation adoption.

The strength of habit associated with an existing practice or behavior is the single most powerful source of resistance to change. Given entrenched habits, individuals are not likely to voluntarily pay attention to innovation communications or try them out. In fact, the perceptual and cognitive mechanisms of such individuals are geared toward preserving the habit. This is because the typical human tendency is to strive for consistency and maintain the status quo rather than to continuously search for and embrace new behaviors (the exception is among true innovators, who are more likely to be social deviants and abnormal in their epistemic drive). In other words, the formation and sustenance of habits is much more prevalent than innovativeness among people.

The habit toward an existing practice includes all the behavioral steps involved in the process of selecting, acquiring, and using an existing alternative. In consumer behavior, it includes all the behavioral acts associated with shopping (time and place choices), procuring (money and effort choices), and consuming (storage, packaging, and serving choices) the product. In other words, habit includes the total behavioral stream as a system rather than just the terminal act.

A second major determinant of innovation resistance is the perception of different risks associated with the adoption of an innovation. There are three major types of risks: (1) aversive physical, social, or economic consequences; (2) performance uncertainty; and (3) perceived side effects associated with the innovation.

In order to implement the major behavioral change that would be required for the automation of consumption, marketers need to devise sophisticated strategies to break existing consumer habits and supplant them with new ones. They also need to alleviate the actual as well as the perceived risks associated with moving to this mode of consumption.

## CONCLUSION

The benefits of the automation of consumption are summed up in Mobil's phrase in its advertisements for its Speed Pass service: It's "like buying time without paying for it." The automation of consumption can work with all kinds of products, including commodities. The key is that the *experience* must not be commoditized, even though the core products may well be.

Several objections can be raised about what is described here. First, there is concern that a high level of automation will lead to widespread deskilling and dependence on others rather than self-reliance. Clearly, we have already lost skills that our forefathers used to have, but gained new ones. This is an interesting philosophical issue, but it goes to the heart of this phenomenon: Ricardo's Theory of Comparative Advantage, which is arguably the basis for much of how our economic life is organized. This theory clarifies the benefits of specialization and resource allocation. Ricardo demonstrated not simply that a country should export what it has in abundance and import what it has in scarcity, he showed that it should concentrate its resources on what it does efficiently and trade its surplus for what its neighbor does efficiently. If the neighbor makes a cheaper car, a country's response should not be to impose tariffs on it to protect its own inefficient car industry. Its response should be to buy cars from the neighbor, get out of the car business, and put its own resources to better use (Ricardo 1996).

Second, it is argued that many consumers derive a certain amount of enjoyment and sense of accomplishment by performing tasks such as cooking, yard work and even cleaning. Clearly, for some consumers, these dimensions are important and will outweigh other factors. However, we suggest that many of these automated activities will come back (or already exist) in the form of hobbies, which people will engage in for pleasure rather than out of necessity.

Finally, there is concern expressed about the likely loss of jobs and a decline in competitive intensity. The creation of new jobs and the substitution of some jobs for others are both central characteristics of a competitive economy. "Creative destruction" is far preferable in the long run to a job preservation mind-set, as that can severely impede progress. It can be argued that the likely lowering of competitive intensity is a good thing; there is simply too much frenzied competition in many sectors, with huge amounts of resources deployed simply to counter competitive actions, with little benefit to consumers. The automation of consumption could restore some much-needed stability to business relationships.

Clearly, the automation of consumption is a double-edged sword that could hurt as many marketers as it helps. Only those marketers that are able to make a rational, substantive case to the customer will benefit in a big way. In other words, the adoption of this marketing approach will disproportionately benefit companies with superior offerings, and create a near winner-take-all situation. Building on mutual learning and beneficial lock-in, those companies will enjoy the benefits of customer loyalty and longevity. With little random switching and churn, they will enjoy more predictable revenue streams. The automation of consumption is akin to what Seth Godin has called "subscription marketing," wherein customer revenues become a form of annuity (Godin 1999, p. 102). These companies will also be more profitable since they will lower their marketing costs across the board, and will enjoy the benefits of sharper experience curves with individual customers. Over time, companies will learn how to serve these customers more efficiently and effectively, and individual customers will increase their purchases while placing fewer demands on customer service.

Incremental value must be shared with customers; savvy consumers will demand it. Customers with a high lifetime value to the company will demand and receive special consideration. Currently, investment in customers usually stops after they have become customers, and loyal customers typically subsidize those that are less loyal, as well as the acquisition of new ones. Without being forced, smart companies will proactively invest resources in those relationships with the greatest long-term value.

## FUTURE PERFECT: ASSISTED LIVING FOR ALL?

*The scenario following ends with a listing of some of the concepts, issues, and technologies that are involved in making the scenario work.*

On the morning of October 23, 2015, John A. Consumer woke to the sound and smell of his automatic coffeemaker. After he stumbled into the kitchen, John poured himself a cup of coffee, thinking to himself that some of the oldest conveniences were still the best. Of course, this was no 1990s Mr. Coffee machine; this machine had a large canister of gourmet coffee beans on top, a built-in grinder and was connected to the filtered water supply. It automatically discarded its coffee grounds into the sink disposal. It was, in short, the perfect appliance—effortless, unobtrusive, and completely reliable.

As he opened the fridge, John marveled anew at how it was always well stocked and had just about everything he could want. The thrice-weekly delivery from the Fresh Direct service had replenished his fridge and pantry with fresh bread, milk, produce, and other items the previous day. They had picked up his laundry and delivered his shirts from the previous trip. They had also left some new firewood by the fireplace, and returned his repaired (and polished) shoes.

It had been two years since John had been inside a supermarket; at first, he thought he would miss it (squeezing the tomatoes and all that). But now he never gave it a second thought. Besides, he had never been very good at picking the sweetest honeydew melons or cantaloupes. Now, they were just right every time. And he was actually paying less for his groceries now than he had before. Guess those huge, well-lit, air-conditioned supermarkets cost a lot to run.

In the beginning, John spent about twenty minutes a week placing his online order. As he got more comfortable, though, and as his buying patterns became more discernable to the computer at Fresh Direct, he found that the shopping list offered to him when he first logged on was actually more appealing than what he would have created himself. Gradually, John had found himself making fewer and fewer changes to the list. About a year after he started using the service, John decided to let it go solo. Now he looked forward to the deliveries, knowing that each one always contained two or three surprises that were guaranteed to delight him (if not, he would get his money back, of course). John found that, as a result, he had tried new foods that he never would have thought to try earlier, and liked most of them a lot. Sometimes, it was an exotic fruit, or an unusual kind of cheese, even some new imported beer. Once a month, they even replenished his coffee machine with some great new beans, leaving a little pamphlet about it next to the machine. They did this with all of their “Just for You” selections.

Best of all were the fully prepared meals. John had invited a few friends to come to dinner that night, and he had asked for a meal for six. As he looked at the neatly packed containers and the two bottles of Italian wine, he saw the printed menu that had been sent with the meal. “Rustic Tuscany,” it said across the top. John was tempted to open a couple of boxes and take a peek (and perhaps a taste), but he resisted. The price was great—just a little more than it would have cost him just to buy the ingredients. He could have tried to make the meal himself, but the cost of his time (very high) and the value of his cooking expertise (very low) made that an unappetizing proposition.

John took his croissant and coffee into his study, and turned on his computer. As was his habit, he started by checking his e-mail. There was an e-mail from Paul Frederick & Co., informing him that they had selected four new shirts they thought he would like. John looked at the high-resolution images on his screen and liked what he saw. If he did nothing, the shirts would show up in his SmartBox in a couple of days, monogrammed and in his size, of course. The next e-mail was from Jaguar. John’s current Jag was coming off lease in a couple of months. The e-mail offered him a great lease rate on the hot new S-class that he knew had a long waiting list. But that was only for first-time buyers. If he wanted the car, they would bring it to his house and take away the old one on the day the lease ended. John was tempted to say "Yes!" on the spot, but reluctantly decided he should think it over a bit. Not that he expected to change his mind . . .

The third e-mail was from Scott Burka over at Delbe Home Services. This was John's favorite service of all. John had never been much of a handyman or a gardener, though he liked living in a big house and enjoyed looking at a well-tended garden as much as anyone else. For a ridiculously low $125 a year, Delbe took over everything to do with the house and the yard. When he had signed up, Scott from Delbe had done a complete inspection of the house, noting down all the makes, models, and condition of his appliances, heating and air conditioning systems, the condition of his carpets, hardwood floors, roof, outside and inside paint, and a dozen other things John did not even know you were supposed to worry about. Delbe then set up a Web page with all of this information, and updated it every time any work was done on the house. John rarely felt the need to go to this other "home" page; still, he had it in his bookmarks, and it was sure nice to know that it was there. Once every couple of months, using his own key, Scott came through and did a quick inspection. He sent service people to the house to take care of problems before John even knew he had them. Best of all, he didn't have to wait around for them to show up. John got a monthly e-mail from Scott updating him on what had been done and what was coming up and the money was paid automatically. The rates were as good as or better than those John would have paid had he dealt directly with the service contractors. In return for steady business, Scott had negotiated lower rates with them. If there was ever a problem, Scott handled it with the service technicians. Scott had also arranged for a cleaning service, and was now looking into offering a bundled cleaning/home maintenance/insurance package that would be like an HMO for the home. John thought that was a great idea and fully expected to sign up when the service was offered. John had raved so often about Delbe's comprehensive services that literally a dozen of his friends were now customers of Delbe's, or were on a waiting list.

The next message was from John's personal financial manager, with a full report on the previous month's activities in his account. John was starting to feel like one of those mega-rich athletes whose financial affairs are completely handled by a management company, and who simply receive a monthly allowance for incidental expenses—except there was no chance that John's money could get sunk into some fly-by-night scam. John was not mega-rich, by any means, though each monthly e-mail provided a gratifying report on his steady progress toward that goal. For a guy who had never quite mastered the art of balancing his checkbook, it was certainly comforting for him to know that all his bills were checked and paid on time. The only time John needed to think about them was when there was something unusual, in which case the item was automatically flagged for his attention. All of his spending was automatically categorized and entered into his Quicken register, and his monthly reports would on occasion point out that he had exceeded his budget in some category or another. Even his tax return was prepared and filed automatically. John's savings were automatically routed into appropriate investments by the "Financial Engines Investment Advisor," a very popular computerized service developed by a Stanford professor who was an economics Nobel laureate. As with every one of John's automated services, he had been assigned a personal advisor who could answer all his questions. As he grew familiar with the services, John found himself calling less frequently, though his all advisors always sent him personalized greetings on his birthday and other occasions.

The last e-mail was from his car. When he bought the car, John knew that it was equipped with a GPS device as well as the ability to send data and e-mail wirelessly, but he hadn't thought much of it. Not anymore. The car had saved him from some sticky situations more than once. John still found it hard to get used to these e-mails, though. The e-mails came infrequently, only when the car had something on its mind. Today, it had several things to convey. First, it reminded him (somewhat plaintively, he thought) that his lease was about to expire, and what it would cost him to buy the car if he wanted to. Second, it reminded him that it was due for an oil change, and that it had already scheduled several possible times with the dealership. John clicked next to the one that worked for him. Finally, the car pointed out that it needed new tires within the next thousand miles, and offered a direct link to Costco with the recommended tire size information already incorporated. With a few clicks, John purchased the tires and set up an installation time to coincide with the oil change.

The holiday season was approaching and John was starting to feel a little tense about all the gifts he still had to buy. But he was trying out a new system that he thought would make life a little easier. A nifty new website (MsManners.com) reminded him of upcoming occasions for giving gifts, and also suggested some ideas for each one. John had gone through a somewhat lengthy interview process when he signed up, and his "agent" knew what he expected to spend on each individual and on a given occasion. It also knew which of the recipients were friends, relatives, or professional contacts. So far, it had worked well; John had been able to send gifts with a single click, selecting from the offered choices and quickly personalizing a message for each. The company used John's personal font to create "handwritten" messages.

With Christmas looming, John thought he would also try out wishlist.com, a universal gift registry that he had been subtly promoting to his nieces, nephews, siblings, and others for several months. Wishlist.com was a universal registry; it allowed *all* people, not just those getting married, to create their own equivalent of a bridal registry. Sure enough, John found that about a dozen of his friends and relatives had in fact signed up. John quickly scanned each person's wish list; he smiled to himself at some of the entries ("Yeah, sure, George, someone's going to buy you a 96" HDTV," he thought to himself), but was able to quickly select items that were in his budget range. On two occasions, he decided to split the cost of an especially large gift with several of his relatives.

John glanced up at the clock. It was only 8:30 A.M.; he still had an hour before he had to make that video conference call to Bucharest. Glancing out the window, John saw a delivery truck pulling away from his driveway—an increasingly familiar sight nowadays. This particular truck was marked FedEx, but John knew that all the major delivery companies now used each other's trucks to deliver packages, so that the FedEx truck contained many packages that had originated with UPS, the U.S. Postal Service, AirBorne, or a variety of other smaller players. It was like completing a long distance phone call; the receiver did not have to be a subscriber of the same company that the sender used.

Putting on his slippers, John went into the garage. A small door in one of the side walls opened directly into his SmartBox, which sat unobtrusively next to his garage; it was even painted a matching color. Punching in his code, he opened the door and entered the small shed. The light went on, and he could see that he had received several packages the previous day, left there by delivery people using a code to enter the SmartBox from the outside. One was from Amazon.com. John had joined their "Must Read" club, though he now downloaded most of his books electronically into his eBook reader. The difference between this and the old "Book of the Month" club was that the book was specifically chosen for him, rather than the same book that was going out to everyone. In the one year he had been a member, John had yet to get a book that he hadn't liked a great deal. He didn't know how they did it, but it sure worked. John also saw a package from drugstore.com, containing some toiletries (they always knew when his blades and shaving cream were running low), a couple of prescription refills (he never had to remember to fill those anymore), and a sixty-day supply of a customized multivitamin his doctor had e-mailed in.

As John shaved and showered, he mused about how his life had become so much less crazed and stressful in the last few years. Gone were the weekly grocery shopping trips, the long lines, handling products a dozen times before he used them, the midnight milk runs. No more marathon bill-paying sessions on the last day of the month; John hadn't written a check in years. No more worrying about balancing the checkbook. No more need to keep track of when the car needed an oil change or new tires (the car "called in" its own service needs, and an e-mail showed up on his computer about when he could bring it in, or have it picked up from the office). Most of all, no more nagging worries about the house; "Do I need to change the air conditioning filter? It is time to service the furnace? Do the gutters need cleaning? Does the lawn need fertilizing? Is that insect damage in the shrubs?" Good old Scott was there to take care of all that.

Thinking back, John found it hard to imagine what life had been like in 2005; it seemed eons ago, a primitive, harried time. Now he had plenty of time to work out, socialize with his friends, even do volunteer work. And yet, he was working as much or more than before, making a lot more money, and enjoying it more as well . . .

Just then, the alarm went off, and John was jolted back into his *real* reality. He was back in 2005, and as he lay in bed thinking about his day, John groaned to himself. The house was a mess, he needed to do a huge grocery shopping trip, the lawn was too long, it was the last day of the month, he had no clean shirts, and several friends were supposed to come to dinner that evening. How was he going to finish that project at work? Shuddering, John pulled the sheet back over his face and shut his eyes tight, hoping to get back to that beautiful dream.

## EPILOGUE

In addition to the issues discussed in this chapter, the scenario also illustrates the following:

- Scope-based, one-stop-shop service provision: We will see the emergence of new kinds of intermediaries, who may be described as customer-focused service integrators. These companies will produce very few products or services themselves; their function will be to own and manage the customer relationship, and serve as the value-adding hub around which customers and service providers can interact.
- Responsiveness to special demands as well as routine replenishment: Companies cannot simply optimize for routine replenishment; their systems must be able to effectively respond to special demands.
- Producer economies of scale and the industrialization of service: The automation of consumption can only work if there is net value added. This would happen through the realization of efficiencies by providers that can leverage scale and specialized technologies to deliver higher quality service at lower cost than the alternatives available to the customer.
- Outsourcing of memory functions: Customers need to be relieved of the mental costs of monitoring and scheduling.
- Optimal matching of products and customers: Customers often make suboptimal decisions in selecting products because they lack the time or information to select the right alternative. Automated systems should be able to outperform customers in this regard.
- Mass personalization: Mass customization without personalization is sterile and emotionally uninvolving. Marketers need to be able to offer true personalization.

Everything that is described here is technologically feasible today, and the infrastructure to create and deliver the services exists today or is being developed. Many of the companies mentioned already exist (Fresh Direct, Paul Frederick, Financial Engines, Delbe, Wishlist.com, SmartBox).

The real challenge is customer behavior: how to get consumers to adopt this way of doing business. Besides the obvious benefits to marketers and consumers, there are also benefits to society in the form of greatly reduced marketing noise and wasted efforts. As Don Peppers has said, today's marketing has simply evolved into targeted harassment.

Clearly, the scenario described here applies to certain segments and not to the market as a whole. However, we do believe it will be quite broad-based, and will encompass middle-income consumers as well as high-income consumers. The cost savings that are inherent in this mode of operating (lower marketing costs, greatly reduced inventory levels and the related real estate expenses, better matching of supply and demand) mean that many of these conveniences can be provided at little or no premium compared to traditional ways; in many cases, they will cost less.

Marketing needs to concern itself with larger quality-of-life issues rather than the usual trivialities of cents-off coupons and advertising taglines. The automation of consumption represents one important way for marketing to make a greater positive impact on peoples' lives.

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CHAPTER 22

# THE MARKETING-IT PARADOX

## Interactions from the Customer's Perspective

PIERRE BERTHON AND JOBY JOHN

Information technology (IT) promises to deliver both increased firm efficiencies and customer satisfaction (Day 1992). Yet the paradox is that in recent years, despite accelerated investment in service industries such as banking, both productivity and customer satisfaction have deteriorated (Olazabal 2002). In this chapter we propose a solution to this paradox. We argue that it is *interaction value* that produces customer satisfaction and ultimately competitive advantage, and contend that interaction should be central to any marketing reform.

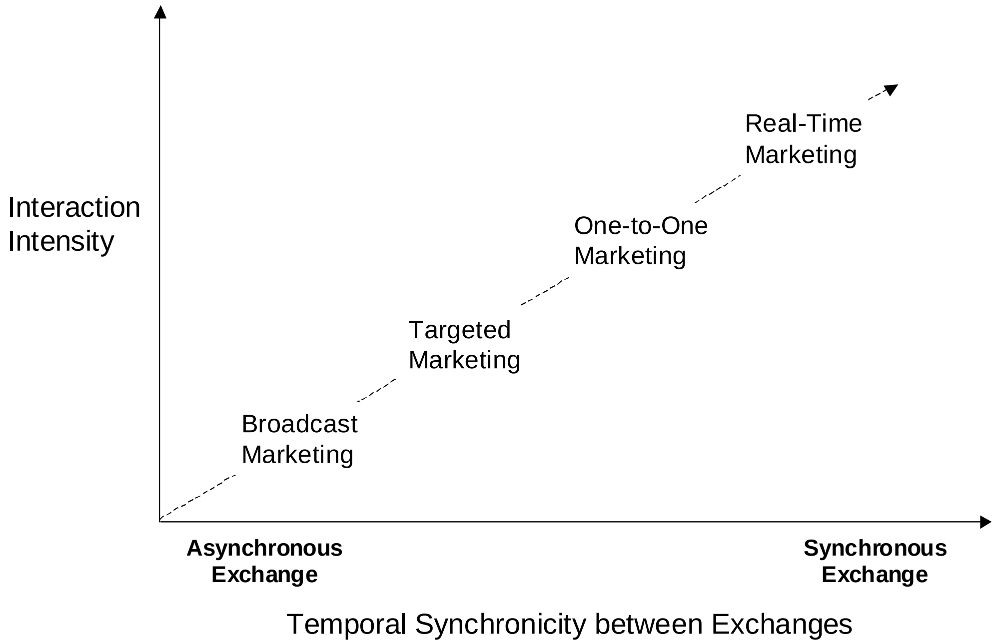
Interaction is defined as "reciprocal action, or influence of persons or things on each other" (OED 2005). Extending this, we define business interactions as purposeful, contextual exchanges involving two or more parties. Context may include specificity in terms of time, place, or persons, while purpose may include specificity in terms of direction, evaluation, and memory.

If interactions are purposeful, contextual exchanges involving two or more parties, *interaction intensity* represents the *value* of interactions in a marketing exchange. The relationship between interactions and information is pivotal; essentially it is through interactions that information is on the one hand consumed (i.e., existing information utilized) and on the other produced (i.e., new information created). Thus *interactive information intensity* can be defined as the value of interactions that consume and produce information.

The increasing importance of interactions in information-intensive contexts is most evident in marketing, the business function that is central to the interface with the customer. As the opportunities to interact with the customer have increased, so potentially has the interaction intensity or the value of interactions to the customer and the firm. Because information technology can facilitate increasingly synchronized, memorized, and individualized marketing interactions, which if properly managed can result in real-time, intimate conversations between parties (cf. Deighton 1996). Figure 22.1 is a graphic representation of how information technology has changed the type of marketing from broadcast marketing to real-time marketing in the information age.

Information technology increasingly allows the firm to store, access, and process huge amounts of information on customers faster and cheaper than previously possible. Similarly, customers increasingly have access to a greater amount of information on firms. This information is produced and consumed during IT-enabled customer–firm interactions. Thus, firms find themselves looking for decision-making heuristics to guide huge investments in information technology. Often these information technology decisions are made without a clear understanding of how to

Figure 22.1 **Interaction Intensity, Synchronicity, and Marketing**




deploy them for maximum returns. For example, traditional "brick and mortar" firms forced to embrace the internet as a new medium find themselves struggling to come to grips with how to incorporate the new technology into their existing way of doing business (*Economist* 2001). The experience of these firms has been less than satisfactory. We suggest that customer-centric firms will be successful in the design and implementation of information technology if they focus on how *interactions* with the customer use and produce information *to add value.*

Information to the firm has two value components: value-in-use and exchange-value (Repo 1986). One or both types of value may be realized through interactions with other parties (i.e., customers, suppliers, and so on). Moreover, interactions can generate *new* information, and thus potential future value or simply "potential-value." The return on investment of information technology is thus inextricably bound to interactions, for it is through interactions that information is applied (value-in-use), exchanged (exchange-value), and generated (potential-value). Overall, the return on investment in IT is the sum of the values that can be generated across a stream of IT-enabled interactions.

Interactions themselves also have two value perspectives: informational-value and customer-value. The former corresponds to the value of the information used and produced in the interaction; the latter, the value that the interaction provides to the customer and thus his or her corresponding value-accrual (current and future monetary streams) to the firm. Thus, in adopting an interaction-intensive perspective, firms need to focus on both customer and informational value. We argue that interaction value assessment needs to be an important input into decisions regarding investments in IT. To do this managers need an in-depth understanding of types of interaction and their value dimensions.

The purpose of this chapter is to add an interaction-intensive complement to the information-intensive narrative, and in doing so enrich our understanding of the challenges and opportunities provided by information technology. We introduce a generic set of concepts about interactions, and focus the insights primarily to the customer-firm dyad. The chapter is set out as follows. First, we explore the relationship between information and interaction intensity. Second, we examine the value dimensions of interactions, and apply this to the interaction of firms and customers. Finally, we present the manager with suggestions on how to increase the value from interactions with customers.

## INTERACTIONS AND INFORMATION

As defined earlier, interaction intensity is the value added by interactions along a value chain. It complements Glazer's (1991) definition of information intensity as the value added by information as part of exchange processes. As intimated above, the two concepts are closely related, for it is *through* interactions that information is both used and created.

However, the relationship runs both ways. For, as interactions migrate from the physical to the informational (i.e., from matter-intensive interactions to information-intensive interactions), the potential *cost* of each interaction falls and the potential for *automation* increases to 100 percent. When informational interactions are fully automated, cost tends to zero. Here, we have essentially frictionless interactions, where cost is uncoupled from frequency of interaction. Thus, we have potentially infinite scalability of interaction frequency.

However, as automation is typically adopted asymmetrically between parties, costs also tend to accrue asymmetrically. For example, the cost of sending of junk e-mails is essentially zero to the firm, but far from costless to the consumer. In other instances, benefits of automated interactions to the consumer can outweigh the costs. Thus, in the instance of automated updates on stock prices to a trader, the cost of checking the prices is outweighed by the benefit. This dynamic is explored in more detail later. The point is that interaction intensity in information-intensive environments is a double-edged sword. To be used effectively it needs to be understood.

## INTERACTION VALUE DIMENSIONS

We defined "interactions" as purposeful, contextual exchanges involving two or more parties, where context may encompass specificity in terms of time, place, or person(s), and purpose specificity in terms of direction, evaluation, and memory. Thus, value in an interaction is a function of seven components or dimensions, four for context, and three for purpose. They are outlined in detail in Table 22.1. *Context* comprises (1) the currency (time) of the interaction, or how temporally relevant it is; (2) the configuration (place) of the interaction, or how relevant it is to a particular place or setting; (3) the customization (person) of the interaction, or how tailored to a specific individual it is; (4) the communitization (persons) of the interaction, or how personalized it is to a group or collective. *Purpose* comprises (5) the continuation (memory) of the interaction, or the degree to which it utilizes memories of previous interactions; (6) the control (direction) of the interaction, or the extent to which the customer in real time directs the interaction; and (7) the contact or content quality (evaluation) of the interaction. These value dimensions can be applied to both the *form* and the *content* of an interaction, where form can encompass elements of both structure and process.

Each dimension captures a distinctive aspect of interactions and is about a specific type of value that can be derived from an interaction. These dimensions are both independent and combinatory and reflect both the efficiency as well as the effectiveness of the interaction. Thus, it is possible to have anything from a one-way to a seven-way combination of the dimensions.

We may now return to the paradox identified at the start of the chapter—that of decreasing

Table 22.1

**Interaction Value Dimensions**

| Dimension | Definition | Example |
|---|---|---|
| Currency | Up-to-period (time [virtual and real] sensitive interaction) | From a computer a consumer request the latest stock price for Apple Computers |
| Configuration | Up-to-place (space [virtual and real] sensitive interaction) | A consumer requests via mobile phone advice on finding a vegetarian restaurant within walking distance. Using GPS, your position is determined and a list of vegetarian restaurants, their ratings, distances, and the directions transferred to your phone screen |
| Customization | Up-to-person (individual tailored interaction, over and above time and place) | A tailor adjusts a business suit to the precise measurements of a customer |
| Communitization | Up-to-party (group sensitive interactions, over and above individual) | When selecting a new hire for a university marketing department, the often disparate wants, needs, and whims of the faculty need to be integrated |
| Continuation | Up-to-past (long-term/integrative learning interaction—the long-term learning, which integrates past and future in an interaction) | When booking a room at Hilton Heathrow, staff is alerted to the fact that as regular customer, who is asthmatic, you always request a nonsmoking room, with special pillows and bedclothes |
| Control | Up-to-me (the extent to which the customer—in real time—directs the interaction [this is a function of the flexibility of the interaction design]) | You decide to go away for the weekend, and contact your telephone provider to specify that you want all your phone calls diverted to your mobile for two days |
| Content | Up-to-expectation (the experiential quality of the interaction) | At a top cordon bleu French restaurant that you frequent with your partner, you experience the waiting staff as courteous and unobtrusive |

customer satisfaction, coupled with lower labor productivity within banks despite increased investment in IT. Using the interaction value dimensions identified, we can explore whether information technology has been used to add value to bank–consumer interactions:

- *Currency*—technology is supposed to speed up transactions, yet it takes three days for a transfer of funds to take effect; two to three days for a cash deposit made at an ATM to show up in your account; a day or more for a payment made via the Web to show up as paid.
- *Configuration*—technology supposedly makes location insignificant, yet ATMs, branches, and bank websites actually have very different capabilities in terms of service delivery.
- *Customization*—technology makes available customer-specific information, yet frontline staff typically do not recognize the customer or are unable to customize interactions with customers based on a customer's credit risk or value to the bank.
- *Continuity*—technology enables tracking of customer activity, yet if a customer makes regular business trips overseas, banks generally do not adjust their services to offer travelers checks or financial services tailored to the needs of the international business traveler.

- *Control*—technology should add value by putting the consumer in control, yet as many bank customers will testify, technology has often reduced their ability to direct interactions. For example, try closing a bank account online or from an ATM.
- *Contact*—technology is supposed to reduce the heterogeneity of the interaction quality of human-delivered services. Yet dirty, out-of-money, out-of-order ATMs with illegible screens, dodgy keypads, and another customer breathing down your neck all render the interaction experience less than salutary.

The managerial imperative is to design, and deliver, ideally differentiated interactions that are mutually beneficial to both the customer and the firm. To do this, firms will need to explore a number of issues. First, understand the customer's priorities in terms of the value dimensions. Second, identify possible trade-offs between dimensions. Third, identify the benefits of interactions from the firm's perspective. Finally, design and deliver differentiated interactions for which customers will be prepared to pay a premium.

For example, how much value does the customer place on the context of a particular interaction? Is the customer prepared to trade off context for currency? What value does the firm accrue if the interaction is provided? Thus, if the firm can provide an economically viable interaction in a context that adds value to the customer, the firm should consider finding ways to provide that offering. Below, we describe a number of examples of the value of customer–firm interactions in terms of the dimensions delineated in Table 22.1.

FleetBoston instituted the "customer experience crusade" (Hechinger 2001). The firm hired new staff to be stationed in the lobbies of its large-volume banks to serve as "meeter-greeters" assisting customers with their banking problems. Staff in these new positions are trained to anticipate and accost customers who look like they might need help, thereby preempting a potential service failure. Imagine the opportunities to serve clients at these interactions with the help of information technology such as hand-held wireless terminals that could access and conduct cashless transactions on these customers' accounts. The value of the interaction is manifested in its currency, context, and customization.

Alaska Airlines customer service agents enabled by miniature computers and printers approach travelers in front a flight information display and offer to look up their flight status, check them in, and hand them their boarding passes (Carey 1999). Once again the value of the interactions is evident in its currency, context, and customization.

The BBC in its coverage of the 2002 Winter Olympics extended its interactive TV service (Bennion 2002). Consumers could select from multiple simultaneous feeds from Salt Lake City to display up to three live feeds on the screen at once, in addition to up-to-the-minute results, medal tables, and event schedules (currency and customization). Future developments include the storing of preferences and viewing habits so that the service learns and customizes delivery (continuation).

Finally, interactions that are not mutually beneficial should be terminated. For example, the Securities and Exchange Commission forced online brokerages to intervene and disallow investors from day trading if their balances fell below a certain level. The brokerage firm benefits by preventing potential bad debts arising from impending margin calls in a down-market, and customers benefit by not risking their already depleting cash reserves and depreciating equity value.

## INTERACTION VALUE

For a manager, the decision whether to place resources into an interaction with the customer will generally depend on the perception of its ultimate (long-term) economic value. The customer evaluates an interaction and determines whether or not to enter into it based on its perceived value to him or her. As discussed, the value perceived in an interaction is manifested in the seven value dimensions of the interaction. The costs incurred by the customer in time, effort, and money are weighed against the benefits derived along the seven value dimensions of the interaction.

The total value of a set of interactions can be seen as a function of the number of interactions between parties over a period. Thus, the value of a set of interactions is the sum of the benefit of all interactions (to the firm or customer) minus the sum of the cost of all interactions (to the firm or customer). The value of a set of interactions can also be seen as the product of the number of interactions and the net average benefit of interaction and average cost of interaction.

For this analysis, it can be observed that the value of a set of interactions can be increased in one of three ways: First, by increasing the value of each interaction (holding frequency constant). Second, by increasing the frequency of interaction (holding the value of each interaction constant). Third, by increasing both the value and the frequency of each interaction. Of course, the challenge is that value and frequency can be inversely related. In some cases, the value increases with frequency while in others value might decrease with frequency. There are also examples where the value is independent of frequency.

## CONCLUSIONS AND IMPLICATIONS

With information technology, we are able to interact with each other in a multitude of different new ways. Technology in this information age has actually changed services and created new ones. Essentially, in a service economy the core difference compared to the manufacturing economy is the extent and variety of interaction between provider and customer. Indeed, we argue that the paradox of information technology actually decreasing customer satisfaction can be explained by a lack of focus and understanding of customer interactions. Managers need to take the customer-centric view in analyzing the value of the interactions that are made possible with information technology.

Information technology has increased not just the variety of modes of interactions, but also the frequency of interactions. Increasing the frequency of the interactions does not necessarily increase value or satisfaction. Therefore, we argue that an analysis of the relationship between the frequency and the value of the interaction completes the exercise. Is the value of the interaction directly and not inversely proportionate to the frequency of the interaction?

With this customer-centric view that focuses on the value of customer interactions, managers will find themselves using a structured approach in making information technology decisions. The approach we have outlined and discussed clearly applies to all business interactions, both internal and external, as well as upstream and downstream. We have chosen to focus on a specific type of interaction, the customer–firm interaction. We have also used more information technology-enabled interactions to allow the reader to apply the thinking to the information age context. We need to reiterate that ultimately the focus is the interaction and the information that is generated and used in that interaction, whether enabled by information technology or not.

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# PART 5

# MARKETING AND ITS STAKEHOLDERS

While the previous section focused on how to improve marketing by focusing on customers, this section includes marketing scholars' views on both the need and the desirability of taking a multiple stakeholder perspective on marketing. Stakeholders include employees, investors, suppliers, and society at large, especially the underprivileged segments of society (lately referred to as the "bottom of the pyramid," a phrase coined by C.K. Prahalad).

Lemon and Seiders argue that current marketing practice is skewed toward a short-term orientation and a relatively narrow concept of the customer. They suggest taking a longer time horizon and a broader view of the customer to encompass other stakeholders in marketing practice. For example, broadening from the core customer orientation to augmented customer orientation, it is possible to include the impact of marketing on nontargeted customer, unqualified customer, and future potential customer segments. Similarly, taking a long-term viewpoint, marketing practice can be assessed and measured in terms of its unintended consequences. The rewards for anticipating and avoiding the negative unintended consequences of market impacts are a function of controlling the risk. To be viewed as a good citizen is argued to have inherent, though somewhat intangible, rewards, the most apparent of which is the strengthening of brand equity. Lemon and Seiders lament the tyranny of current marketing metrics that encourage a short-term and narrow orientation. They suggest how value equity, brand equity, and relationship equity can be measured in ways that take into account a longer-term and augmented definition of customer orientation.

Russ Belk suggests that we need to focus on the vast number of consumers, especially in Africa and Asia, who have not benefited from globalization. While consumer desire has been democratized, especially after the collapse of communism and the spread of free market democracy, the growing inequality makes the global standard package of consumer goods no more than an impossible dream for the majority of the world's population. He suggests that we need to focus on affordability and accessibility of products and services to "bottom of the pyramid" markets. Furthermore, we must stimulate the entrepreneurial skills of the poor through microlending to eradicate poverty on a global basis. Pressure must be brought to bear to reorganize world trade and financial institutions to better represent the have-nots of the world. Global junk foods should be restrained from out-promoting more nutritious local foods. Dumping of unsafe products like high-nicotine cigarettes should be as difficult in the less affluent world as it is in the more affluent world.

Douglas and Craig also focus on international marketing. They strongly recommend that we must make marketing less U.S. centric. This can be done by conducting more research in other countries; testing the validity of U.S.-based theories and models in other countries; conducting what they call “emic” studies (focusing research on the unique characteristics of each country); developing multicountry research teams; understanding the role of marketing in transitional economies; and examining the relevance and role of marketing in emerging markets.

Chipp, Hoenig, and Nel also provide similar views. They focus on South Africa and suggest how marketers there and in other developing countries can avoid some of the mistakes made in developed countries.

Finally, Stringfellow and Jap suggest how marketing can regain its strategic importance in business by doing more internal marketing. It should break down the walls surrounding the marketing fortress and venture into other functional areas.

Chapter 23

# MAKING MARKETING ACCOUNTABLE

## A Broader View

Katherine N. Lemon and Kathleen Seiders

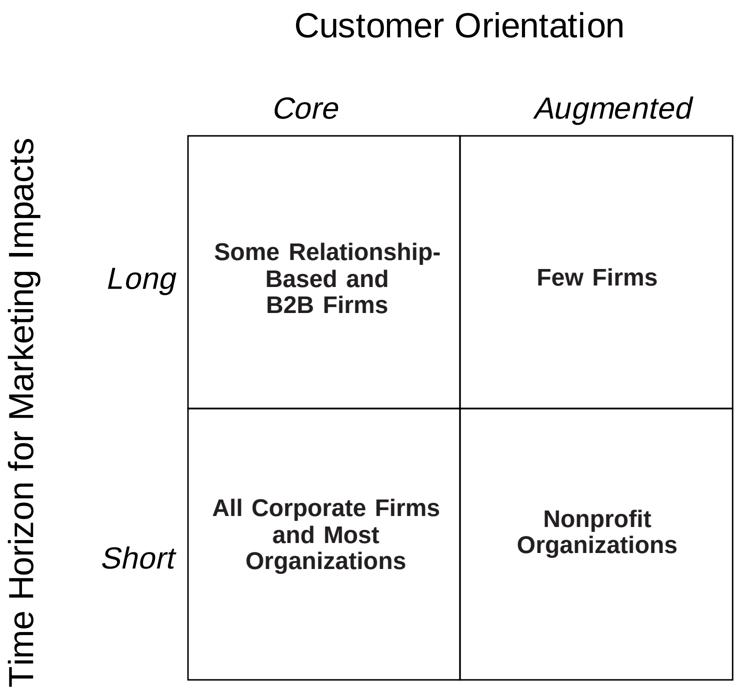
Marketing practice has long been skewed toward a short-term orientation and a relatively narrow concept of *customer*, with a focus on the immediate: immediate results and the immediately reachable customer. As marketers, we have adopted innovative technologies and acquired new capabilities that enable us to be even more productive in the short-term and more attuned to increasingly narrow customer markets. For example, we can deliver more effective promotions that produce faster and more formidable spikes in sales; we can collect finer information that allows us to segment, target, and execute at the most micro level.

Although we are more progressive and sophisticated marketers, our generally short-term, narrow customer orientation has interfered with our ability to consider and evaluate important marketing impacts that are widely felt over time. The marketing practices of a variety of industries —from pharmaceuticals to food—are justly criticized for their negative effects on the natural environment, population-wide health, and global culture. Despite the fact that such impacts may manifest as unforeseen and unintended consequences of otherwise compelling business decisions, accountability still falls to us.

The implications of a short-term perspective and narrow stakeholder view, as business behaviors, have been recognized in the literature for some time. Driven by emphasis on quarterly financial results, a short-term focus has characterized the behavior of public corporate firms for decades (Piety 2004). Corporate reward and compensation systems flow from financial metrics that evaluate markets in terms of periodic market share, revenue, earnings, share price, and rate of growth. Excessive emphasis on short-term performance has been linked to injudicious cuts in capital investment, research and development, pension funds, and such events as the Enron debacle (Deakin and Konzelmann 2003; Harrison and Fiet 1999). Collingwood (2001) argues that the *earnings game*—managing quarterly earnings for the investment community—skews corporate decision making and offers no true or enduring advantage to financial markets.

The flaws inherent in a narrow stakeholder perspective also have been compellingly articulated. Stakeholder theory, which argues that firms are responsible to multiple constituencies, has become institutionalized in the strategic management literature (see Freeman 1984). It is stakeholders, both as traditionally defined (i.e., customers, stockholders, suppliers, and employees) and more broadly defined (i.e., local communities, nonprofit organizations, and governments) that determine corporate reputation, of which corporate responsibility is one measure (Murphy and Laczniak 2006; Waddock 2006). Stakeholder theory links to the issue of short-term orientation, as decisions that are made to satisfy analysts' financial performance demands may please

Figure 23.1 **The Augmented Customer Orientation Matrix**




the market but have strongly negative consequences for various stakeholder groups (Post, Preston, and Sachs 2002). While responsibility management has become more systematic within organizations, “the borders of responsibility are difficult to define” (Waddock 2004, p. 26).

Just as stakeholder theory argues the need to balance the requirements and demands of various constituent groups, marketing practice would benefit from a more broadly defined concept of customer. Figure 23.1, the Augmented Customer Orientation Matrix, illustrates how the two dimensions of time horizon and breadth of customer focus interact to influence marketing decisions and reflect a firm’s core marketing values.

The vertical axis is easily interpretable, as marketing impacts can be viewed with a *short time horizon*—the immediate influence of marketing actions—or a *long time horizon*—influence that becomes visible only in some mid- or longer-term future. The horizontal axis is somewhat more complex: the term *core customer orientation* identifies normal practice where the overwhelming emphasis is on the primary, qualified target customer. *Augmented customer orientation* identifies a perspective in which an organization considers the effects of its marketing practice on a broader set of constituencies, including nontargeted customers, unqualified customers, and future potential customer segments. In this chapter, we explore approaches by which organizations can begin to consider the short-term and long-term effects of their marketing actions on both core customers and the currently unintended, or “augmented customers.”

Most companies’ marketing practices and values are positioned in the lower left area of the matrix, with a short time horizon for marketing impacts and a core (narrow) customer orientation. Objectives are driven by targets based on short-term metrics and the need for immediate results; if firms don’t succeed in this condition, they likely will not survive. Some organizations extend beyond this baseline area and also operate in other conditions. In industries where customer lifetime value is a dominant driver, that is, some business-to-business and relationship-based services, firms are compelled to also operate in the upper left condition, with a core customer orientation but with attention to the longer-term impacts of their marketing on existing customers.

The lower right area, where the time horizon is short and customer focus is augmented, is not well occupied within the corporate sector. Nonprofit organizations, however, have short-term financial constraints but must operate with an augmented customer orientation in their need to reach groups beyond their core target of contributors. In the upper right area, where the time horizon for marketing impacts is long and the customer orientation is augmented, the population of firms and other organizations is very sparse. Operating in this condition involves learning to evaluate and value products and services for their long-term marketing impacts, and recalibrating customer orientation to include strategies designed for more remote and lesser-known customer groups. Although departing from the traditional marketing mindset, firms that make this investment could better anticipate and control the unintended negative consequences of their marketing actions.

## THE QUESTION OF UNINTENDED CONSEQUENCES

Although managers are criticized for marketing's unintended consequences, we suggest that these impacts are often triggered by inadequate assessment of potential future scenarios. The probability of unintended consequences is unrecognized by firms and their marketing managers for a variety of reasons, and it is useful to consider the costs and rewards of adopting a longer-term, augmented customer view of marketing impacts. On the cost side, there is the potential expense of resolving legal disputes, the threat of negative publicity, and the uncertainty and risk of being dependent on a public relations solution. (However, putting controversial scenarios to rest can be managed, and the cost of public, political, and policy reactions lessens considerably if all companies in the industry follow similar practices.) A different set of costs would be represented by firm resources that would be needed to expand time horizon and customer orientation priorities.

The rewards for anticipating and avoiding the negative unintended consequences of marketing impacts are a function of controlling the risk. To be viewed as a *good citizen* is argued to have inherent though somewhat intangible rewards, the most apparent of which is the strengthening of brand equity. Of course, many firms seek more straightforward ways of building brand equity through good citizen behavior. Cause marketing, alliances with nonprofits, direct corporate philanthropy, corporate-named activist foundations, and programs that encourage employees to donate time to charitable organizations all are more easily realized alternatives. While we acknowledge that these are important activities that influence brand equity and corporate reputation, they do not address a firm's core business activities and the consequences of its marketing actions.

Beyond the costs and rewards, we recognize the extreme difficulty managers face in attempting to assess their organization's marketing impacts. As Freeman (1984) notes, the costs and benefits of some actions—such as those that prevent disasters—may be invisible and ignored by organizational reward systems. Moreover, Drumwright and Murphy (2004) report that the least proximate types of problems—those that occur at the aggregate level of society and relate to unintended consequences—are the most characterized by moral myopia. This suggests that marketers will need an organizational infrastructure as well as systematic processes to bring such problems into better focus.

Perhaps most challenging is the fact that the most far-reaching negative impacts occur at the industry level, for example, the computer industry's rapidly obsolete products have exacerbated ecological waste problems and fast food chains have long promoted high-fat, high-caloric diets that have contributed to widespread obesity. While some firms send the message that they are more virtuous than their competitors, and the largest companies are targets for greater criticism, these essentially are industry-wide issues: unintended consequences produced by ingrained and even core industry practices, perpetuated by intense competition and the low likelihood that the cooperation needed to address a socially important issue will emerge.

## CURRENT MODELS AND METRICS ENCOURAGE A NARROW VIEW

Current marketing approaches and market forces almost push firms into a short-term, core customer view. In particular, the metrics by which firm success is measured are almost all short-term focused. In addition, reward structures within firms (and at the market level) encourage short-term thinking and narrow customer focus. Finally, it is difficult for firms to assess the effects of their marketing actions on the augmented customer.

In terms of metrics, consider the tools crucial in today's measurement-hungry business culture. Current sales, current profit, and market share are tracked not only quarterly, but monthly, weekly, and even daily in most firms. This extreme focus on short-term metrics almost *requires* firms to take a short-term view of their marketing efforts. Reward systems at the firm level encourage this short-term focus. Within most firms, individuals responsible for marketing strategies and implementations often change positions every 18 to 24 months. For example, the average tenure for chief marketing officers at the top one hundred branded companies is 22.9 months, compared to 53.8 months on average for chief executive officers (Booker 2004). Informal discussions with marketing executives in many *Fortune* 500 firms suggest that this tenure is typical throughout marketing organizations. Marketing managers often begin a new job, develop an extensive marketing strategy (e.g., for a new product, service, or campaign), and then move on to another position before the strategy is implemented or evaluated.[1] Given the short tenure in each position, with the goal of promotion in mind, individuals are not rewarded for taking a long-term perspective in terms of marketing strategy.

Market-level reward systems also encourage short-term focus. Public firms must consider the effects of their actions on stock price. Currently, short-term metrics and results significantly influence investors and the value of the firm. In addition, a focus on the core customer (rather than a broader view) may also encourage short-term growth. Taken together, the firm's perceived need for short-term positive results and demonstrated, continued growth—in order to satisfy the investment community—leads to firms focusing their efforts in the lower left quadrant of the Augmented Customer Orientation Matrix.

Firms are also hampered in their ability to take a broader customer view by difficulties in evaluating the effects of marketing activities on unintended audiences. How does one assess the positive or negative impact of an advertisement or new product offering on the augmented customer? Current metrics and approaches do not provide an adequate approach for measuring these effects.

## CONSIDERING THE LONG-TERM AND AUGMENTED CUSTOMER VIEW: NEW APPROACHES

Our goal in this chapter is to suggest some ways in which marketing executives can begin to move toward consideration of a longer-term view of marketing's effects and consider the broader effects of marketing on unintended consumers. In particular, we believe that firms can move in these directions by adopting changes in terms of metrics, strategy, and marketing models.

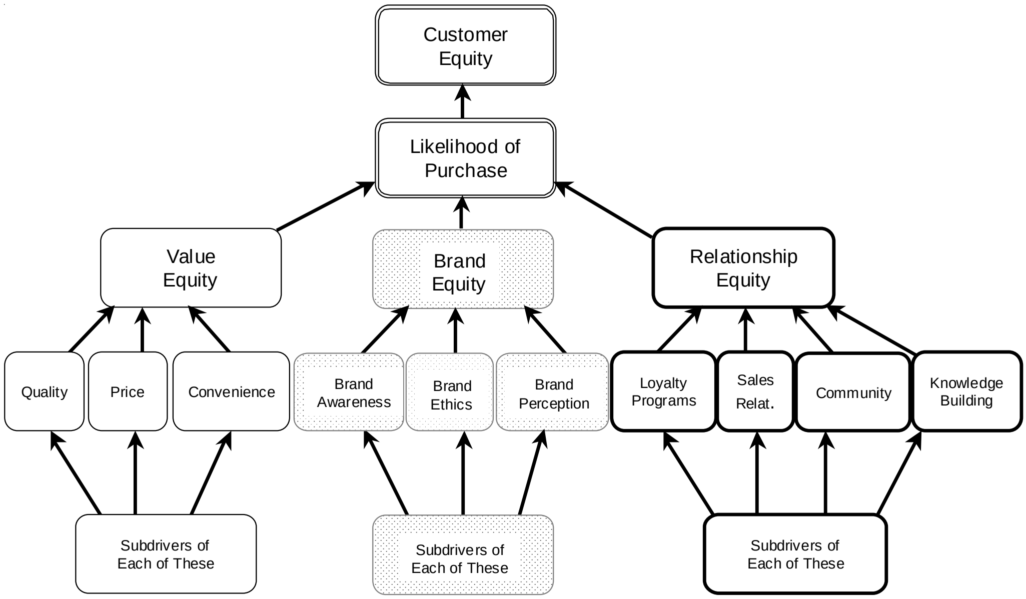
New marketing metrics that take a longer-term view have begun to have a significant impact on marketing. In particular, many firms are beginning to consider customer lifetime value as a crucial metric when evaluating marketing actions (Gupta and Lehmann 2005; Rust, Lemon, and Zeithaml 2004). Given that a firm's customers represent critical assets, measuring customer lifetime value and customer equity (both long-term, forward-looking measures) is becoming as important as measuring current sales and market share. In addition, firms should also lengthen the time horizon for evaluating the effects of marketing efforts. For example, firms should consider lagged effects of marketing actions (price changes, advertising, new product launch) on performance, as well as current effects. Finally, it is not sufficient to incorporate new measurements. Reward systems must also be updated to include these metrics. Two firms that have incorporated customer lifetime value metrics into their reward systems are Vanguard and Harrah's (Lal and Carrolo 2001; Quelch and Knoop 2003). Their marketing evaluation systems enable them to assess and reward performance based upon changes in customer retention and customer lifetime value.

Strategically, firms can broaden their perspective in at least two ways. First, in strategy development, new models enable the firm to consider the effects of marketing actions on these longer-term metrics (Rust et al. 2004; Venkatesan and Kumar 2004). Second, in customer selection and strategy development, firms should consider the augmented customer view, not just a core customer view. Firms should try to envision the effects of their strategic decisions (short-term and long-term) on nontargeted customers, unqualified customers, and future potential customer segments. This broader view may enable the firm to uncover opportunities or threats from the marketplace much earlier than if they focus more narrowly.

New models may guide firms as they move toward a long-term, augmented customer view. In particular, the customer equity framework (Rust, Zeithaml, and Lemon 2000) may prove a starting point, as it offers a customer-focused framework with a long-term perspective. The customer equity approach suggests that customer equity, defined as "the total of the discounted lifetime values summed over all of the firm's current and future customers" (Rust et al. 2004, p. 110), should be the key metric to evaluate marketing actions. In addition, the approach suggests that there are three key drivers of customer equity, and that, broadly, all marketing actions will fall under one of the three drivers: value equity (objective evaluation aspects such as quality, price, convenience), brand equity (subjective evaluation aspects such as brand awareness, brand attitude, and brand ethics) and relationship equity (aspects that increase customer switching costs, such as loyalty programs, customization and customer knowledge, and salesperson relationships). Rust et al.'s (2000) customer equity approach can be seen in Figure 23.2.

In applying the broader view advocated in this chapter, we can consider which drivers and subdrivers may be associated with more positive long-term consequences and a better consideration of multiple constituencies. For example, under value equity, consider each of the subdrivers: quality, price, and convenience. Aspects of quality that have broader implications include the impact of the firm and its products and services on the environment (e.g., recycled materials, fuel efficiency, pollution, product disposal costs), on individuals (e.g., organic food options, pharmaceutical side effects), and ultimately on societies (e.g., exporting culture through entertainment, influencing developing economies through the introduction of sustainable or unsustainable new technologies). In terms of convenience and price, location and attributes of distribution may influence the effect of a marketing strategy on both intended and unintended audiences. For example, recent turmoil in the United States over whether or not to allow individuals (or states) to reimport pharmaceuticals from Canada has implications for distribution and pricing (Anonymous 2005). The fallout from this issue could have substantial effects on pharmaceutical firms' pricing practices globally, and will have significant consequences on the ability of individuals in the affected countries to acquire these medications.

Figure 23.2 **The Customer Equity Framework**




*Sources:* Based on Rust et al. 2004 and Rust et al. 2000.

Brand equity offers substantial opportunity for the firm to broaden its view. Specifically, recent research has suggested that customers' perceptions of firms' corporate citizenship can influence customer equity (Rust et al. 2004). This suggests that, by engaging in actions that have a positive effect on the community, firms can improve long-term performance. Second, firms should consider the long-term effects of their actions on brand perceptions. Poor short-term decisions (for example, potentially offensive advertising, ethical breaches, or rushing products to market) may have lasting effects on customers' perceptions of the brand. Finally, firms may find opportunities to build brand awareness among constituencies that are outside their core customer segments. This brand awareness may create opportunities for future brand, product, or market extensions.

Relationship equity focuses on the firm's direct relationship with its customers. Firms should consider the long-term effects of any changes that may affect customer perceptions of this relationship. For example, reorganizations that move sales or service personnel from one account to another may have negative, long-term effects on customer relationships. Additionally, firms should consider the long-term consequences of outsourcing aspects of customer–firm interaction, such as customer service, unless they can ensure the quality of the outsourced resource. On the positive side, firms can build communities of customers (consider Harley-Davidson's Harley Owners Groups, for example). These communities should provide a long-term positive return for the firm, and may also lead to new opportunities in untapped customer segments.

In the limited space available, we have tried to provide a short overview of how a broad return on a marketing model, such as the customer equity framework, can provide a starting point for firms to move toward a long-term, augmented customer view. Other emerging models may also be helpful for firms moving in this direction. For example, Bhattacharya and Sen's (2004) model, which investigates how consumers respond to firms' corporate social initiatives, provides insight into these issues as well.

## NEXT STEPS

Moving forward, we see a need for the development of marketing models that evolve past the consideration of the core customer view—that begin to consider the augmented customer view. In particular, such models could investigate the effects of marketing actions on the firm's (and the broader community's) social (Coleman 1990; Lin 2001) or intellectual capital. In terms of social capital, defined as "resources embedded in a social structure than are accessed and/or mobilized in purposive action" (Lin 2001, p. 29), firms should consider how their marketing actions enhance or diminish the level of social capital in the communities they influence. For example, Saxton and Benson (2005) show a strong relationship between the number of nonprofits in a country and social capital. This suggests that increasing social capital may have far-reaching effects on a much broader set of consumers. In terms of intellectual capital, typically defined as the sum of all knowledge firms utilize for competitive advantage (Nahapiet and Ghoshal 1998; Subramaniam and Youndt 2005), firms could also measure the effects of their marketing actions on the intellectual capital of the broader community. Cardy (2001) suggests initial steps toward this approach. He builds upon the customer equity framework discussed above, and suggests that firms should evaluate the effects of human resources actions on "employee equity" with the underlying metric of employee lifetime value (i.e., employee retention and loyalty).

These suggestions require substantial research by the academic community and significant investments on the part of firms before they can truly be implemented. What, then, can firms do now to broaden their perspective, moving toward a long-term, augmented customer view? First, firms can evaluate their metrics. Shifting toward long-term metrics, or at least including such metrics in overall measurement and evaluation approaches is a significant first step. Second, firms should examine specific drivers or subdrivers of customer equity—drivers that firms can influence, drivers that will have effects on the augmented customer, and drivers that are likely to have effects in the long-term. Third, firms can include a section in their strategic plan that examines the effects of marketing strategies on nontargeted customer segments. It would be relatively straightforward for most firms to implement these three actions. This would result in greatly expanded horizons for the firm, and a significant shift up and to the right in the Augmented Customer Orientation Matrix. Why should firms take these actions? We propose that firms that are early movers in considering the long-term and taking an augmented view of the customer will see emerging trends first, will envision new opportunities earlier than rivals, and will gain and maintain substantial competitive advantage.

## NOTE

1. These ideas based upon the authors' informal conversations with individuals at several firms in many industries, including consumer packaged goods, business-to-business manufacturing, high technology, and pharmaceuticals.

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CHAPTER 24

# OUT OF SIGHT AND OUT OF OUR MINDS

## What of Those Left Behind by Globalism?

RUSSELL BELK

As was once true of the British Empire, the sun never sets on McDonald's, Microsoft, or Mickey Mouse. And as so many adventure movies set in the colonial era put it, the natives are getting restless. The agitated natives in the current era of global marketing are not only those who have had too much of the neocolonialist exploits of our multinational corporations, but also those who have had too little of the benefits of globalism, both as producers and as consumers. This chapter is about these latter-day left-outs who live in parts of the world or parts of our own cities that are largely undiscovered lands for the current captains of postindustrial industry and other sailors of the seas of globalism.

It is true that the globe is shrinking. Faster travel and faster communications make the once distant and mysterious native more and more accessible. Yet there is an asymmetry to this accessibility. For those of us in the more affluent world, it is relatively easy to tap into global flows of finance, ideologies, technology, people, and media (Appadurai 1996) as well as global flows of consumption (Ger and Belk 1996). We can buy Nikes made in Vietnam, hire Mexican *maquila* workers, listen to music from Mozambique, invest in Colombian coffee futures, and vacation in Bermuda. We can use a computer with chips from China and software with source code from India to access the Internet so we can follow our favorite Russian tennis star. As the last examples suggest, some of those in the less-affluent world participate in global flows as well, but most often as sellers of commodities (including their labor and skills), rather than as full-fledged consumers, much less as multinational marketers. They have neither the access nor the means to afford most of the glittering consumer goods of the world's economy, even when they help make them. Thus the village women, or *dagongmei*, drawn to work and live in the factories of Chinese Special Economic Zone cities, cannot afford to buy the clothes they make for the export market (Ngal 2003). Consumption for them is like it is for someone serving a life sentence in prison. The global images of consumers that they see on television and in magazines may as well depict life-forms in a different galaxy. Nevertheless, as Stiglitz (2003) pointed out, even though a low-paying job in a Nike factory seems like exploitation to many in the West, it may still be far better than staying on the farm and growing rice. It offers something that at least hints at participation in the global consumer village that they now know is out there. Their consumption may involve only a tube of lipstick, a pair of jeans, or a fashion magazine, but it gives them the illusion that they are on the path to becoming a part of the global society of consumption (Belk 1999; Canclini 2001; Ong 1987).

Much of Asia has benefited from globalism, and the new wealth and opportunities it has generated are slowly trickling down and making many Asian poor less poor. Even though many Asians are becoming better able to participate in global consumer culture, this is not the case in sub-Saharan Africa, much of South America, and many other impoverished nations where globalism has made things worse rather than better. Compared to the late 1970s, twenty countries in sub-Saharan Africa now have lower real per capita incomes (Giddens 2003). And despite world yearly economic growth of 2.5 percent throughout the 1990s, the number of people living on less than US$2 a day grew by nearly one hundred million (World Bank 2000). As this paradox of economic statistics implies, the gap between the rich and the poor of the world is growing ever larger. Coupled with the widened window on the world opened by global media networks and expanded telecommunication technologies, one predictable result is the growing envy, resentment, and hatred of the haves by the have-nots of the globe. Amy Chua's (2003) provocative contention is that since the demise of communism, the export of free market democracy together with growing gaps between the rich and the poor, which often divide along ethnic and religious lines, have propelled us into a state of growing violence, warfare, and terrorism. This is true not only between nations but within nations as well. Consumer desire has been democratized while growing inequality makes the global standard package of consumer goods no more than an impossible dream for the majority of the world's population. And the natives are indeed growing restless.

## WHAT'S WRONG WITH GLOBALISM?

Globalism and globalization are on the lips of many people these days and have become a topic of considerable interest in a variety of disciplines. There are many takes on globalism, some of which are positive, but most of which are negative or mixed. Initial fears that globalization would destroy cultures and homogenize the world have largely been dismissed as glocalization, hybridization, or creolization are accepted as more accurate depictions of the results of increased global marketing (Featherstone 1990; Ritzer 2004; Robertson 1992). This does not mean that globalization is not contentious or troublesome. Samuel Huntington (1993) sees it leading to a clash of civilizations that he characterizes as the West versus the rest. Benjamin Barber (1995) viewed globalism as promoting a new tribalism that he labeled "Jihad versus McWorld." Stiglitz (2003) sees the global economic policies enacted by the World Bank and the International Monetary Fund (IMF) as bankrupting the less-affluent world for the benefit of the more-affluent world. Thomas Friedman (2000, 2005) offers one of the few positive interpretations, celebrating globalization as liberating, empowering, and peace-promoting. No two nations with a McDonald's or that are part of the same global supply chain have ever gone to war or ever will, he suggests. Others have focused on such phenomena as global tourism (Urry 1990), cosmopolitanism (Breckenridge et al. 2002), global popular culture (Rollin 1989), and the collapse of time and space in global postmodernity (Featherstone and Lash 1999; Harvey 2000). The present treatment is narrower than any of these. It focuses on the global marketing organization and the global brand.

Protests at Seattle, Davos, Cancun, and elsewhere at meetings of the World Bank, the International Monetary Fund, the World Trade Organization (WTO), and the G7/G8 are one indication that all is not well in the global marketplace. It is significant that visible targets of the protestors have included prominent retail brands like Starbucks, McDonald's, the Gap, and Nike. While the protestors have multiple agendas, most are not against globalization per se. They instead advocate a more equitable, humane, and environmentally sustainable globalization that benefits the people and places that have been left out and left behind or whose condition has been substantially worsened by globalization (e.g., Danaher and Burbach 2000; Held and McGrew 2002;

Klein 1999, 2002; Thomas 2000; Wallach and Sforza 1999). The most salient criticisms from a marketing perspective are Naomi Klein's (1999) critique of global brands. These brands, she argues, roll roughshod over the sweatshop and temporary McJob labor hired to make or sell them and they use their corporate power to overwhelm the consumer. They co-opt cool, advertise in school, sponsor stars with irresistible allure, brand-bomb neighborhoods with their retail outlets, appropriate sacred icons like Gandhi, and in general colonize every area of our lives. And they do all this while bullying their way into every profitable corner of the globe, whether to take advantage of low wages and lax labor and environmental laws or still innocent consumers who can be made to lust after the Western modernity that they cast themselves as bestowing. While we in marketing know that much of this view exaggerates the power of promotion and inaccurately relegates the consumer to a passive role as pawn in the marketer's game, we nevertheless need to pay close attention to this message and consider the grains of truth on which it is based. This is especially true for dominant brands and in highly visible product categories like movies, the news, software, soft drinks, coffee shops, athletic shoes, clothing, fast foods, cigarettes, toys, discount stores, and gasoline. The larger and more successful the brand and the more omnipresent the product category, the more likely a target it becomes for urban legends, consumer boycotts, and sometimes violent protest (Fine 1992). These are the tactics by which the weak attempt to fight back and voice their frustration (de Certeau 1984).

Multinational marketing organizations have a much greater potential role in either exacerbating or changing this situation than might at first be imagined. In terms of financial resources, many multinationals have greater clout than most nations of the world (Barnett and Cavanagh 1995; Frank 2000; Sklair 1991). They also have greater name recognition than many nations, enjoy greater geographic dominion, and engender greater feelings of loyalty among their constituents. On the production side, the power and competitive nature of large multinational corporations means that they exercise absolute authority over their foreign factories and subcontractors. They are like feudal lords living large while those who depend on them for employment eke out meager wages, at least until lower-cost labor becomes available elsewhere (Bauman 1998). This is not to suggest that all multinational corporations lack a sense of corporate responsibility to workers or are unresponsive to consumers. Nor is the continued antiglobal protest against corporations like Starbucks and Nike entirely justified by the revised business practices of these firms (Starbucks now sells some Fair Trade coffee and Nike has made some of its Asian factories showplaces for good labor and environmental practices). But the point is that multinational consumer companies can and must do more to address global inequality and to combat charges of cultural insensitivity, homogenization, and environmental devastation. Together with governments, nongovernmental organizations (NGOs), and international regulatory agencies, multinational corporations can do far more to help those who have thus far been ignored or crushed by globalism.

## WHAT CAN BE DONE?

Consider the case of providing low-cost drugs for low-income Africans afflicted with HIV/AIDS. A combination of antiretroviral drugs is available that makes HIV/AIDS a treatable disease for those who can afford the US$500 to $1,000 per month cost. Although Africa has 70 percent of the adults and 80 percent of the children with HIV infections in the world, the vast majority of the 25.3 million AIDS-infected Africans cannot even come close to affording this cost (Kuadey 2004). A number of African countries have declared national states of emergency and sought to produce or purchase low-cost generic versions of these drugs—something that is allowed by the World Trade Organization TRIPS (Trade-Related Aspects of Intellectual Property Rights) agreement of

1995. However, they have been stopped from doing so by WTO red tape, threats of trade sanctions by the United States, and lobbying by the large Western drug companies that hold the patents on the AIDS drugs. The drug companies argue that they have invested billions of dollars in developing these drugs and that to have any hope of recouping these costs they cannot allow low-cost generic versions. At the Thirteenth World AIDS conference in Durban, the South African government, even offered to pay royalties of 2 percent to 5 percent to the drug companies for using their patents. During late 2003 world pressure forced an agreement to allow generic versions of the drugs where they are needed most in Africa, the United Nations has moved to obtain money to help impoverished African nations with drug costs, and the United States has committed money to making low-cost brand name (nongeneric) drugs available in Africa. Oxfam has called these actions "largely cosmetic" (Oxfam 2003). It remains to be seen what the effects of these political actions will be, but as of November 2003, only 7 percent of those in need of AIDS/HIV drugs in the world were receiving them (AVERT 2003).

While multinational pharmaceutical companies have a legal right to pursue profits from the drugs they have developed, to value profits above the lives of more than 25 million Africans is unconscionable. Barring unimaginable levels of world aid, there is no way that these people will ever be able to buy the drug brands on which the pharmaceutical giants hold patents. South Africa's offer of royalties would mean profits where there would otherwise be none. But even without profit, a larger ethical view of this dilemma would split it from the exchange economy and place it within the gift economy (Vaughan 1997). Those who would couch this as paternalism confuse it with compassion and also misread the gender of giving. The years that the drug companies have spent trying to avoid giving in to world opinion have already cost millions of lives in the less-affluent world, while simultaneously stimulating hatred of the pharmaceutical industry. Africa has not only suffered economically from globalism, it has paid an unthinkable price in human lives. If ever there was an area where marketing needs reform, this is it.

But let us consider a very different case where human lives are not at stake: counterfeit luxury branded goods in the less-affluent world. Again multinational brands such as Rolex, Louis Vuitton, and Hugo Boss argue that their intellectual property rights are being violated and demand action by their own governments, the WTO, and the governments of nations where counterfeits are being produced. The goods here are not AIDS cocktails, but extravagant luxury items. The counterfeit versions sell on the streets of the less-affluent world for such low prices that it is clear that they are not the real version of the brand. Since almost none of those who buy these cheap versions would otherwise be buying the much higher-priced authentic versions, it could be argued that the luxury brands are not really being harmed by the counterfeits, while ingenious imitators in less-affluent countries are benefiting from the desire of consumers in their countries to gain some measure of dignity by buying an imitation status good. Those who would counterargue that the image of the brand is diluted by having cheap imitations around may fail to appreciate the ability of high-end consumers to distinguish the real from the fake (Wong and Ahuvia 1998). I am currently engaged in a seven-country study of consumer ethics with Timothy Devinney and Giana Eckhardt in which we find that consumers in both more-affluent countries like Sweden and the United States and less-affluent countries like China and India frequently feel morally justified in buying fake luxury goods because they regard the high prices charged for the originals to be immoral, especially when the workers who produce these goods in the less-affluent world are paid nowhere near world class wages (Belk, Eckhardt, and Devinney 2005). While the case may not be as clear for unauthorized versions of music and films, and consumers would feel very differently if they were unknowingly driving a car or flying in an airplane with counterfeit parts, it also seems clear that multinational luxury goods manufacturers have been overzealous in attempting to protect their trademarks and copyrights. Attempting to do so can also sometimes result in a great deal of negative publicity for the firm, as with the seemingly endless "McLibel" case (as it was called by the popular press) in the United Kingdom in which McDonald's lost the battle for public opinion by prosecuting two environmentalists for distributing allegedly libelous pamphlets (Schlosser 2001). With luxury goods, it could additionally be argued that imitation is the most sincere form of flattery. That is, the desirability of having the authentic version may sometimes be enhanced rather than diminished by the presence of knock-off versions. So even though compared to HIV/AIDS drugs, luxury goods may seem frivolous, there are also multiple reasons for the multinational firms that make the authentic versions to be more forgiving of those who copy them.

The mention of McDonald's in the preceding paragraph also provides an entry point for considering another criticism that is often leveled against multinational marketers: that they are homogenizing (or sometimes Westernizing or Americanizing) the world by the ubiquity of their offerings. I have already suggested that this charge of cultural imperialism is now largely dismissed by anthropologists and others who suggest that glocalization, hybridization, or creolization is the more likely result of globalized marketing. While it might seem that Disney movies, American television shows, CNN news, and Western music have proliferated everywhere, this observation fails to recognize both local and regional adaptations and local re-interpretations of the meanings of global products. As Liebes and Katz (1990) found in studying how people in different parts of the world watched the U.S. television series *Dallas*, local meanings may be quite different from those formed by the U.S. audience. Other studies of the reception of Western films and television in Trinidad (Miller 1990), Belize (Wilk 1993), the Dominican Republic (Klein 1991), Tonga (Gailey 1990), and Aboriginal Australia (Michaels 1988) have found these portrayals of Western life to be a catalyst for criticizing more than emulating the West.

McDonald's in Asia provides a good example of both how its foods and characteristic operating model have changed to adapt to local preferences (Watson 1997). Thus, in Beijing for example, rather than being an informal eat-and-run place, McDonald's is a place to hang out, do homework, and (for women especially) linger. In adapting to the local, the multinational company also creates a warmer image and may even come to be thought of as local. Thus one group of Japanese Boy Scouts visiting Chicago was surprised to find that the United States has McDonald's too. But Chua (2003) suggested that the firm must do more than localize their offerings in order to deflect local resentment, including engaging in local charitable donations and other income-redistributing activities. Using local managers rather than expatriates is another obvious way that the multinational firm can come to be perceived as sincerely local rather as a patronizing foreign outsider.

As Johansson (2004) pointed out, unlike most domestic marketing that acknowledges the marketing concept and makes a real effort to deliver what the consumer wants when introducing a new product or service, most global marketing assumes that what is wanted at home will be wanted abroad. In order to go farther in helping those left out of globalism, a firm might not only tailor its offerings to local preferences, but actually design products geared to the less-affluent consumer. In a book called *What Can Multinationals Do for Peasants?* (Serrie and Burkhalter 1994), a number of useful illustrations of locally appropriate technologies and products are offered in areas such as agriculture, cooking, transportation, and power. Not all products need to be localized, but many are, even if it is something as simple as selling in smaller, more affordable containers and being certain not to violate local values and religious precepts in ingredients and advertising. As Prahalad (2004) argues, because there are so many poor people in the world it is possible to target appropriate low-cost products and services to them that can result in high sales and high profits—to do well by doing good. A striking example is the success of Kama Sutra condoms in India, despite the availability of free condoms from the government and other sources (Mazarella 2003). Prahalad (2004) also emphasizes utilizing and stimulating the creative and entrepreneurial skills of the world's poor. While smaller in scale than the projects he advocates, a good example of doing so is found in the microfinance operations of the Grameen Bank, initially established in Bangladesh. The Grameen Bank has funded numerous small and very small business enterprises in the world's most impoverished areas. A project might involve lending money to a woman who uses it to buy a cellular phone and phone service and then rents the phone out to local customers who need to make calls. Or she might start a walk-in Internet service or a small shop selling groceries. Such projects help the poor to help themselves in earning a living. They may stop short of founding what will become multinational firms, for that is not their intent. But as the communication examples illustrate, these projects can bring people more in touch with the world by connecting them to others, while at the same time empowering them locally. And the Grameen Bank itself has become a multinational success story by catering to the poor and offering an alternative to loan sharks.

## CONCLUSION

Much more is needed than I have outlined here. Pressure must be brought bear to reorganize world trade and financial institutions to better represent the have-nots of the world. Even more international debt forgiveness for the world's most impoverished nations is essential. Global junk foods should be restrained from out-promoting more nutritious local foods (Belk 1988). Dumping of unsafe products like high-nicotine cigarettes should be as difficult in the less-affluent world as it is in the more-affluent world. International tourism must be managed in a way that helps revenues stay in the less-affluent world rather than be extracted from it by multinational airlines, travel agencies, auto rental firms, hotel chains, and food suppliers (Belk and Costa 1995). The United States and Europe must curtail subsidizing their agriculture so their prices can undercut Third World farmers. The United States must stop imposing trade tariffs even as it forces less-powerful countries to drop their own tariffs (Black 2001). The IMF and the World Bank must reverse disastrous requirements for sudden structural readjustment in the less economically developed world. Even seemingly innocent efforts like donating used clothing for the less-affluent world can have disastrous negative effects like destroying indigenous textile industries (Bloemen 2002). These and similar suggestions need to be applied not just to poor nations, but to less-affluent parts of rich nations as well. And in order to consider any of these reforms and shifts in perspective, marketing must be reformed in such a way that the bottom line reaches beyond dollars and euros to the bottom of our hearts. The sun must never be allowed to set on our souls.

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CHAPTER 25

# EXPANDING THE PERSPECTIVE

## Making U.S. Marketing Relevant for the New World Order

SUSAN P. DOUGLAS AND C. SAMUEL CRAIG

As the globalization of business becomes increasingly prevalent, marketing must respond to the rapid changes that are occurring throughout the world. Dramatic expansion of the communications and distribution infrastructures is resulting in more interchanges and linkages between cultures and marketing communities in different parts of the world. Many U.S. firms have moved into international markets, and some such as Coca-Cola, IBM, Ford, and Colgate derive a major proportion of their profits from markets outside the United States. Increasingly, start-up firms are born global as technological advances facilitate rapid communication across geographically distant and disparate locations.

Yet, while U.S. businesses are rapidly becoming global in their orientation, marketing academia remains firmly U.S. centric. Attention is focused on problems and issues relevant to the United States such as use of couponing, scanner data, choice models, Web browsing behavior, sophisticated statistical models, and so on. Reliance is placed on U.S. data to develop and test theories and models that are grounded in practices and realities observed in the United States. Even where issues relating to markets outside the United States are examined, these same models and theories are typically applied without regard to their relevance elsewhere or the implications of differences in the nature of market behavior and its environmental context.

As U.S. hegemony comes increasingly into question, the time is ripe to move beyond this U.S.-centric perspective and to pay greater attention to issues, ideas, and approaches in countries outside the United States. Rather than assuming that trends in other countries will parallel those in the United States, more importance should be attached to examining differences in environmental conditions in other countries, as, for example, the fragmentation of the market infrastructure in developing countries and how this impacts the evolution of marketing activities. In addition, more focus is needed on issues unique to other countries such as the importance of the consumerist movement in places like Sweden and Denmark, the role of government influences on marketing activities in other countries, or the challenges associated with the shift from a command to a market-driven economy in transitional economies. Further, investigation is needed of the marketing implications of the increasing interlinking and integration of markets around the world, and whether the relevant unit to study may be a geographic region or area of the world rather than a country. Only if such issues are addressed will the United States continue to contribute to the advancement of marketing thought and keep pace with the emerging trends of the new millennium.

## THE INTERNATIONALIZATION OF MARKETS

With current advances in communications and technology and the increased movement of people, goods, ideas, and images across the world, markets are becoming increasingly interlinked with marketing activities extending beyond national borders. This requires more attention to world markets as a whole rather than treating markets on a country-by-country basis (Craig and Douglas 2004). Media networks such as CNN and BBC World span national boundaries in response to increasing international travel and interest in events in other countries, while publications such as *Time, Business Week,* and the *Wall Street Journal* have editions tailored to different regions of the world. The MTV channel spans the world with different programming adapted to each region, such as Brazil, India, and so on. Increasingly, U.S. firms are expanding operations in other countries, establishing programs and strategies at a regional or global level. Icons of U.S. culture such as McDonald's, Nike, and Starbucks are to be found throughout the world. Equally, U.S. films constitute a major export and dominate box offices in most countries worldwide.

As U.S. firms expand into other countries they develop internal mechanisms for the exchange of information, ideas, and products from one part of the world to another. Activities are coordinated at the regional or global levels to exchange information and ideas through meetings or information systems. A new product that has been successful in one location or a promotion that has worked in one context may be tried in another. Experience relating to a similar market environment, for example, dealing with the problems of distribution to small, undercapitalized retailers may be exchanged from one area to another.

While business has become increasingly global in its scope, academia in the United States has largely failed to come to terms with the new reality in establishing research priorities. One way of assessing the amount of academic research and consequently interest in international topics is the number of articles categorized as dealing with international or comparative marketing in the *Journal of Marketing.* Articles appearing in one of the field's premier journals should to some extent reflect the general level of attention being paid to international topics. In the period from 1990 to 2003, 1,002 articles appeared in the *Journal of Marketing.* Of these, only 3 percent (32) dealt with international or comparative marketing and in some years there was only one or none.

The dearth of articles dealing with international and comparative topics further reinforces the notion that U.S. academics are focusing narrowly on marketing topics germane to the United States. If, however, marketing theories and research are to progress and to reflect the growing internationalization of the strategies, organization, and activities, greater attention is needed to internationalizing the scope of U.S. research and writing. Research and theoretical contributions from researchers in other countries need to be better incorporated into the existing base of U.S. literature and opportunities created for the exchange of ideas, information, and methodological approaches among marketers from different countries.

## MAKING MARKETING LESS U.S. CENTRIC

In order for such goals to be achieved, a number of steps need to be taken by U.S. researchers to broaden perspectives beyond the current U.S.-centric focus. These are described in the following sections.

### Greater Emphasis on Conducting Research in Other Countries

Greater attention is needed to conducting research in countries outside the United States. This should go beyond examining issues typically studied in the United States, such as consumer information processing or branding strategy or the impact of new technology, to look at some of the issues arising from the fundamentally different social and political structures in other regions of the world such as Latin America or Eastern Europe. While much research conducted in the United States assumes the existence of a free enterprise economy, the role of public policy or government influences is considerably more pervasive in other countries. This may result in greater regulation of marketing activities such as, for example, the composition and labeling of products and their sale to different consumer segments such as children, the poor, or the elderly; the regulation of retail prices and wholesale and retail margins; the prohibition of advertising of certain products on TV, or the regulation of advertising copy; the regulation of use of couponing and other types of promotional activities, store opening hours and location, and so on.

In some countries such as Japan or Italy the predominance of small family businesses may have important implications for how marketing activities are organized. as compared with countries such as Germany and the United Kingdom, where large-scale businesses with professional management are more common. Retail distribution is more fragmented in the former countries, with resultant longer channels of distribution and the shift of functions such as inventory management and the breaking bulk or building assortments further back in the channel.

At the same time, this research should go beyond studying issues relating to other large industrialized countries similar to the United States to studying other types of countries such as smaller industrialized countries, which may have different characteristics and research issues. These differences may be particularly marked in relation to issues such as ethnocentrism, attitudes toward foreign products and brands, and so forth.

### Testing the Validity of U.S.-Based Theories and Models in Other Countries

Radical differences in the very fabric of society and the way in which it functions call into question the relevance of marketing theories and models developed in response to conditions in the United States. Rather than blindly assuming that these provide an appropriate framework for research in all contexts, it is important to explicitly test their salience and validity in other contexts (Craig and Douglas 2005). This requires carefully examining the underlying assumptions of the theory or model developed in the United States to see whether these also hold in other countries studied. These might, for example, relate to the structure of society, the role of vertical versus horizontal relationships or the underlying value system of a society.

The strength of vertical relationships in Japanese society has, for example, important repercussions on the structure of channel relationships and the ties between different intermediaries in the channel. Similarly, in examining the dimensions of national culture identified by Hofstede (2001) based on research conducted in the West, a new dimension of long versus short-term orientation was identified in China based on values suggested by Chinese scholars. These appeared related to the teachings of Confucius and reflected persistence and thrift as opposed to personal stability and respect for traditions.

Where the assumptions of the theory do not hold, the relevance of the theory or model outside the United States needs to be reexamined. For example, Cerha (1985) found that the horizontal two-step flow of personal influence developed by Katz and Lazarsfeld in the United States (1955) did not hold in Sweden due to the flatter societal structure. If, on the other hand, the assumptions do hold, then the relevance of the theory can be tested by examining its predictive ability in another country or context. For example, the relevance of consumer ethnocentrism in countries outside the United States can be tested to see whether or not ethnocentric consumers have negative intentions to purchase foreign goods and show preference for domestic products.

### Conducting "Emic" Studies

A further imperative is to conduct research in other countries adopting an "emic" perspective. Adopting this perspective focuses research on studying the unique characteristics of each country and on identifying and probing these in-depth (Berry 1989). This is in marked contrast to an "etic" approach, which is primarily concerned with identifying and assessing universal attitudinal and behavioral concepts and developing pan-cultural or "culture-free" measures of these (Berry 1989). More broadly, indigenous psychological theories may be applied rather than imposing those developed based on Western values and beliefs. Adopting this approach entails identifying culture-specific concepts and developing culture-specific measures of these. Each facet is understood in its own terms and interpreted in relation to its context rather than making a comparison relative to other countries or cultures.

### Developing Multicultural Research Teams

For progress to be made both in improving understanding of issues specific to other countries and in identifying relevant theories and models to guide research, the research team should incorporate members from each of the different countries in which research is conducted. While each researcher will tend to have a different perspective embedded in his or her own cultural background and research training, he or she will also be able to provide input with regard to issues characteristic of his or her own country and how to adapt existing models to accommodate such issues.

Multicultural research teams also provide a means for "decentring" the research design together with the theories and concepts that both guide research and are generated from it (Craig and Douglas 2005). Participation of researchers from different cultural backgrounds in the initial phases of the research design will help ensure that emic theories and constructs provide input to the research design. Such multiple perspectives are also critical in interpreting results and their implications across different cultural contexts.

### Examining the Relevance and the Role of Marketing in Emerging Market Countries

Over half the world's population lives in twenty-four emerging countries, including China, India, Indonesia, and Brazil. Yet the role of marketing in such countries is sadly neglected. Marketing is nonetheless a vital engine of economic and social development. It establishes a conduit for the flow of goods and services and creates value for both producers and consumers integrating the wants, needs, and resources of consumers with the capacities and resources of producers through a sequence of exchanges.

At the same time, by establishing such networks marketing creates purposeful, risk-taking managers and entrepreneurs in such emerging countries. It becomes a creator of small businesses and a catalyst for economic development and growth. Marketing thus plays a vital role in the formation of a vibrant and thriving middle class who are consumers of products and services and at the same time are essential to those products and services being brought to the marketplace. Yet little attempt has been made to examine or explore the broader social and economic role marketing has played as a stimulus for change in such nations.

Equally few attempts have been made to examine what specific issues are relevant in these nations and whether concepts developed and studied in industrialized countries also apply in these contexts. Yet lower levels of income, lack of consumer information, and poorly developed marketing infrastructure suggest that relevant issues may be strikingly different. Further attention to identifying and examining such questions is clearly needed.

### Understanding the Role of Marketing in Transitional Economies

With the breakup of the Soviet Union in the late 1990s, a substantial number of countries changed from command economies where the government controlled and regulated industry and commerce to market economies where private enterprise prevails. This has resulted in sweeping changes throughout society. Instead of a limited supply of goods dictated by the functioning of a planned economy, marketing has now begun to play an important role in the creation and satisfaction of demand. Consumers who once were confronted by a limited range of choices (if any at all) are now facing an increasingly wide range of alternatives and, in addition, are bombarded by Western-style advertising.

The way in which this transition is occurring and its causes and effects in different countries need to be further examined. The lessons to be learned for marketing remain obscure. Experience in these countries may, for example, provide a natural experiment in understanding how attitudes toward advertising and other promotional activities are formed and change over time. Similarly, some valuable insights might be gained in understanding the issues and difficulties faced by producers in adjusting to this new regime. The growth of branding and competitive pricing tactics has important implications for the efficiency and productivity of the marketing system. Study of these issues in the transitional economy context may provide important insights into the mechanisms underlying the effective functioning of a marketing system.

## CONCLUSIONS

Academic marketing has been at the cutting edge of developments in the United States. However, the world has changed and academic marketing must respond to the changes by embracing this new reality. United States academics must begin to examine marketing as it exists beyond the confines of their country and investigate the challenges faced by marketers in other parts of the world. Failure to do so will be unfortunate, not only because of the loss to our understanding of what is happening in the larger world, but also to our insights about the generality of marketing laws and theories. As Reavis Cox (1965, p. 161) presciently remarked forty years ago, "Paradoxical though it may seem, what we stand to gain most from studying other marketing systems, is not so much what they tell us about others but what they force us to learn about ourselves in order to understand what we see abroad."

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CHAPTER 26

# WHAT CAN INDUSTRIALIZING COUNTRIES DO TO AVOID THE NEED FOR MARKETING REFORM?

KERRY CHIPP, SCOTT HOENIG, AND DEON NEL

Many chapters in this volume have identified pressures for reform in marketing in the industrial countries (which can be approximated by the Organization for Economic Cooperation and Development) so that the profession can fully take on its role as a productive element in companies and society at large. These pressures may also apply to the academic sectors of marketing (mostly universities and other forms of training programs) that are closely linked to the profession.

In this chapter we consider similar concerns in the context of an industrializing economy to better understand where elements of this critique may prevail in this setting. We do this because we feel that marketers in developing areas, faced with growing skepticism toward the profession in both the developed and developing sectors of the world's economy, have a special need to understand the areas where the discipline has succeeded and failed so as to restimulate developed sectors in their own economies and not make the same mistakes with new segments. And, marketers in industrialized economies can gain some insight from successes and failures marketers have encountered in other parts of the world.

We focus on the geographic area of South Africa. This setting is similar in many ways to other industrializing areas of the world, such as those found in various countries in South America and Southeast Asia. South Africa has an advanced, competitive, and growing industrial and services sector, which must serve quickly changing segments of consumer and industrial markets; a significant portion of the economy characterized by small entrepreneurial operators, certain of which are transforming into larger concerns; a high level of unemployment, some of which is transforming into underemployment and full employment; and substantial academic presence monitoring these changes.

We identify a number of major sources of reform pressures, and examples of initiatives that have developed and could be developed that may avoid future need for reform. We discuss these issues using observations from interviews with business and academic leaders around the Johannesburg area, combined with our collective experiences with managers and other participants in each sector.

## THE GENERAL SITUATION

Marketing in South Africa has much the same purpose for firms as that in other companies across the world: to enhance revenues by connecting to customers with various services and products, using well-targeted communication, distribution, and pricing, subject to prevailing economic, market, social, political, and legal constraints. When the industry is competitive, this also involves creating some form of sustainable differentiation to maximize long-term profitability. One way this differentiation can be maintained is through continual innovation in product, process, and the organization of marketing itself.

Small, medium, and large enterprises in South Africa are no exception to the industrialized world in that they face many external and continually changing marketing challenges from each of these areas: the competitive and legislative environments, the markets and customers they serve, and organizing and staffing their marketing function to effectively address these external challenges. The economy and subsequent markets are forecast to continue their current longest span of continuous growth since 1945 (currently at 4 percent annually) through at least 2007 or 2008 (*Sunday Times* 2004). As a whole the markets served by the companies are not large ones, with a population of 44 million, 27 percent of whom are unemployed (with 57 percent below the poverty line), but becoming more employed as the economy grows (*Sunday Times* 2004). In many industries competition is moderate to strong with a few large firms (often either large South African companies or even larger multinationals) dominating the markets. The high unemployment, combined with South Africa's active and ongoing transformation from its apartheid past, has caused the South African government to underline the need for firms to include a social element in their business ethos, both in what they do and in their work practices. As a result, there is a strong motivation to employ social appeals in corporate marketing policy.

To add to these pressures, South Africa has, in many respects, a dual economy. As such it can be viewed as a global microcosm with two distinct sectors, that is, a highly developed segment that has similar levels of development and goes through similar trends as those in the developed world, and an underdeveloped and developing sector whose patterns closely follow that of underdeveloped and emerging markets. Correspondingly, the country has a sophisticated marketing apparatus in place, which coexists with many market segments that are not fully dealt with, understood, or tapped. These segments are generally low-income and high-risk, but with good growth potential. South African corporations are now forced to deal with all segments as future growth, global developments, and government initiatives all point in this direction.

The challenge, therefore, for marketers in South Africa is to continually find new ways to meet the demands of customers and marketplace conditions characteristic of a rapidly changing developing economy, outmaneuvering whatever competition may be present. Those who have succeeded have demonstrated that marketing tools can be used effectively, moreover, that marketing, when employed effectively, has little need of reform.

*In this setting, therefore, marketing has an enhanced need to constantly refocus, in both form and product.* In order to achieve this, marketers must sharpen their vision and continually renew their energy to keep their actions in alignment with the basics of their profession. In areas of business that this is not applied, seeds for reform are sown.

The conditions described demonstrate that marketing in an industrializing economy differs in some areas from typical marketing in an industrialized economy in both form and content; namely a greater variety is evident. Marketers must seek to connect with and satisfy at the one end a sophisticated, global, Westernized segment along a continuum to a rural, remote, underdeveloped segment at the other end. These conditions, enjoined with legislated and other environmental pressures to include social upliftment as part of corporate strategy, create the special challenges that must be addressed in this setting for marketing to be effective.

## SUCCESS FACTORS IN THIS INDUSTRIALIZING COUNTRY SETTING

It is in this context that we turn to the key success factors found in our interviews with South African managers: *understanding and connecting with customers; innovation* through products and services, markets and marketing strategies; and effective *internal organizing, staffing, and training* to support the marketing function. Again, these factors appear to be no different from what managers in other parts of the world find, except that their effective execution seems to require an enhanced level of supervision and continual refocusing to address the rapidly changing local conditions. Furthermore, the execution of marketing processes is often at a different level to those found elsewhere. Each of these key success factors (which also helps prevent the need for reform) will be discussed in turn.

**Understanding and Connecting with Customers**

This appears to involve two main elements: companies need to continually monitor changes in segments to keep abreast of developments in the lifestyles and attitudes of each market; and they must resegment quickly using this information. Several ongoing studies have effectively measured lifestyles and cultural backgrounds across the entire population of South Africa, and have categorized the multiple lifestyles using highly advanced methodologies. One ongoing study in particular, the All Media and Product Survey (AMPS), sponsored by the South African Advertising Research Foundation (SAARF), regularly samples adults representatively from all of the wide range of economic groupings in South Africa to develop profiles ranging from those living in subsistence conditions to the wealthy business professional. This study gathers information that contains a remarkable variance in factors such as languages understood and spoken, household and personal income, household composition, consumption of various types of food and beverages, media usage, entertainment events attended, family and religious celebrations and types, and technology (such as cell phone and satellite dish) usage. This study is annual and conducted on a nationally representative sample of 12,400. It is done on a not-for-profit basis and the data is available through many secondary companies that design access and management programs around the study. Thus, the survey itself provides a national reference for all marketing managers and media owners, ensuring that all marketers in the country are abreast of developments within the market. Many of its terms, such as SAARF Universal Living Standards Measure (SULSM), which supersedes ethnic and other groupings, have entered into the national marketing lexicon.

This kind of information allows marketers to understand better how, with technological improvements available and increases in income level, niches vary, not only across profiles, but also in the ongoing make-up of the profiles themselves. As an example, AMPS includes a yearly lifestyle segmentation study, which tracks movements in the way in which people spend their discretionary time. Once lifestyle groups are ascertained, they are assumed to be in vacillation rather than to be fixed for extended periods—a different approach to many of the international lifestyle segmentation studies. It is through the responsive use of information of this type that marketers can see consumers and better understand how to more effectively connect with them.

A common element needed to connect with customers across these segments in South Africa (and possibly other industrializing countries) appears to be the desire for a trusting and longer-term relationship with merchants and companies that culminates in the need for a social element in corporate and marketing policy. This creates conditions quite unlike those found elsewhere, with the morality and ethics of marketing coming into sharper focus. Part of the reason for this lies in a global backlash against Westernized "hard sell" approaches and an increased consumer resistance to marketing in all its forms. And, a major portion of South Africa's reconciliation process during its ongoing transformation from a primarily white-dominated state to a democracy that actively promotes multiculturalism involves emphasizing the need for trust between the different ethnic backgrounds.

Fostering this trust therefore can be a tool for companies to achieve maximum consumer buy-in to their marketing strategies, which generally are not aggressive or focused on the hard sell. Rather, communication with customers and potential customers tends to have a long-term relationship focus in mind. As part of this, respecting privacy also is becoming more important as a means to foster trust, and reducing the memories of control from the formerly intrusive intelligence service of the South African police of the apartheid era.

Many companies have used social concerns as part of their appeal to gain consumers' trust, which not only adds to the firm's image, but also creates an atmosphere of authenticity in company communications. This type of appeal appears to have some success, as one marketing manager we interviewed stated, "people aren't getting meaning out of money anymore." In this setting, many have found that a creditworthy social donation is more effective than a price reduction.

Such social appeals are, however, not vague and distant. Successful firms have built marketing models that connect with causes or concerns that are close to consumers' hearts. More than this, though, is that these concerns come with little or no costs, whether these are monetary or non-monetary. Woolworth's, a successful retailer, focuses on the niches present in the upper end of the market. Woolworth's concern is consumer health, which is packaged together with environmental health. Both are socially responsible causes, but, nonetheless, those that affect the consumer in a visible manner. MySchool is a profit-making social marketing firm, which makes money by rewarding everyday parental purchases at regular retailers, with a contribution to the consumer's favorite charity: their child's school.

## Innovation

Continuous *innovation* lies at the heart of developing-country marketing models to serve multiple goals involving the creation of new markets or penetrating existing markets involving quickly changing niches. South African companies are often compelled, either through necessity or government directive, to deal with lower-end markets that many organizations elsewhere would find too high in risk. Banks, for example, have been forced to supply services to the lowest-income sector, individuals who are traditionally "unbanked." This directive has seen banks design an entire range of products directed at this high-risk, low-return market. Not only are the markets high-risk, but, as already discussed, to enter many of them, companies must gain trust and promote socially active causes in the face of a nontrusting past. This forces companies to rethink their marketing strategies and develop uniquely adapted product, service, communication, pricing, and distribution tactics. Many successful organizations have done so through accurately targeting a niche market or group of niche markets, for both the fast-moving consumer goods markets and the financial and other services markets, which include insurance, banking, telecommunications, and tourism.

Product and service development has seen the most success when a long-term, innovative, relationship-driven approach has catered to changing niches. In the industrialized world, more specialized retailers, such as Anita Roddick's Body Shop, also use innovative ways of approaching product offerings, most of which speak to key consumer concerns, such as the environment, health, and community development. But the South African experience has demonstrated that this is also possible for services, which do not appear to be ready candidates for the social and health conscious environment, to act on this trend. Discovery Health, a short-term medical insurance company, changed the common, but disliked, model of selling short-term insurance into one more welcomed by customers: through offering insurance as a health product. This company actively promotes healthy lifestyles among its members by linking their loyalty club to various healthy behaviors. Members are awarded points for attending a gym, having regular check-ups, stopping smoking, and other positive health orientated actions. In addition, this insurance company has negotiated reduced rates for health and fitness clubs for its members, so that they pay a nominal fee to belong to their local gym. This example underscores many of the key issues: the company is seen as active in caring for its members, it builds relationships and trust; its focus is long term and it has followed the niche trend toward health and fitness. It is authentic because members can clearly see the benefits for a health insurer in keeping them healthy. This concept has been successfully introduced into other developed countries.

Such practice follows closely on other innovations that have centered on the necessity, given the social and historical conditions in the country, of companies developing social forms of marketing. But South African environmental conditions are such that various government directives have encouraged, if not mandated, a social focus in the policies of the formal business sector. Social programs have been developed and communicated in innovative ways, such as the above examples of Discovery Health, Woolworth's, and MySchool. Regardless of these innovative approaches, however, these initiatives are seen to be authentic; they tie in closely with the core business function of the company concerned. Authenticity lends weight to reputation and avoids the embarrassments suffered by other organizations when their business practices are scrutinized and fall short. Such authenticity is a further step away from the hard-sell and it lends an additional aspect to the corporation so that it is no longer seen as merely short-term profit driven, or purely out for itself, thus this helps curtail the skepticism that greets many marketing communiqués.

Distribution is another area where the variety of approaches, both in form and content, is clearly evident. Large retail brands, such as Coca-Cola, are sold in far more direct means than found in the developed world. To distribute products, successful marketers have developed unusual and innovative channels that provide goods or services at access points most convenient to the customer, as well as meeting social objectives. Some banks now have both high-contact access points for low-income consumers, as well as Internet for high-income, low-contact customers. Large corporations have reduced the underemployed and gained large community participation in their brands through changing the distribution of their products from larger retailers to small sellers. Coca-Cola, for instance, provides one-person street and suburb vendors with refrigeration and stock, while the wireless telecomm providers (Cell C, MTN, Vodacom) distribute the sale of cellular airtime in a similar manner. And in many of the townships (such as Soweto), many "spazas" (home shops) are seen selling various products or services that are popular with their neighbors, as a means to both improve distribution and enhance individual income. This novel approach to distribution involves a great deal of work with consumers and also goes some way to reducing underemployment. Indeed, the informal sector takes care of a much product delivery through street stalls, sellers at street corners and traffic lights, and the sale of everything from furniture to plants along main roads. At a single traffic light, vendors offering products and distributing pamphlets often surround consumers in cars, selling everything from newspapers to sunglasses, and, when it is raining, umbrellas.

While there is undoubtedly a strong entrepreneurial spirit in the country, both with young organizations such as MySchool, there appears to be a major threat to many of the entrepreneurs from an overemphasis on short-term focus. Some local financiers have the need to see fast returns on their money, or are hesitant to invest without large guarantees, or, alternatively, large shares in budding enterprises. Certain entrepreneurs see the purchase of their successful new enterprises by large corporations as a goal—a fast way of earning money and then exiting the environment. Such practices can stifle competition and innovation in the long term. Moreover, if not managed properly, the ways in which smaller enterprises have connected with consumers may be easily destroyed when customers see that they are dealing with a large corporation with an ethos that is perceived to be different than that of the enterprise's founders.

## Internal Organization, Staffing, and Training

The third success factor concerns internal organization, staffing, and training that allows the marketing function to be effective in the changing setting. This involves two main components: the actual operation and staffing of the companies and the preparation of future employees by the academic institutions. It is in these areas that we heard the greatest concern voiced for improvement from the managers we talked with, centering on attitudes of management and corresponding corporate culture, which often can prevent marketing from taking its full role in the company. A short-term focus in management, along with an emphasis on choosing top management personnel from the financial disciplines (such as accounting), was often seen as leading to a cost saving, and immediate results-driven focus. Marketing often was considered as little more than a functional department rather than a corporate philosophy and, as a consequence, its value limited to the four Ps (product, place, promotion, and price) and customer relationship management (CRM). In firms that have deemphasized the subtleties of internal marketing, the roles of all employees in creating customer relationships, in developing innovative ways to collect valid and reliable data on consumers, of building reputation in branding, and, most importantly, of innovating in the marketing process, can all be in jeopardy.

To staff marketing positions, career paths and employee packages must attract top talent. Unfortunately, in the firms we interviewed, marketing frequently was not viewed as a breeding ground for the highest-quality personnel. Corporate career advancement often was not found to be orientated toward long-term benefits, and it did not appear to tolerate failure or encourage risk-taking behavior, two key components needed when targeting new markets or trying new approaches. In addition, training through rotation, which enables the marketer to more effectively interface with all areas of the corporation, was generally not provided. Each of these areas needs to be addressed so that marketers can better ensure that their programs are more sustainable and future orientated.

Educational institutions also have a role to play. Our review found that little has been done to encourage the culture of innovation in marketing thought, both in undergraduate and graduate programs. Much focus has been on content rather than process and the four Ps have become prescriptive, doing little to review critiques of marketing. Marketing education overall lacked focus on the process of innovation and risk management, the very concepts that were viewed as necessities in marketing reform, and it did not conceptualize the role of the marketer within the broader organization.

Some organizations we interviewed felt that the future prevention of the need for marketing reform lay in developing a scholarship-oriented business education for marketing graduates, ensuring that the general fundamentals of business science, in both quantitative and qualitative areas, as well as the value of disciplined thought in problem solving, are communicated. But such an approach begs the question of the business generalist as a preferred educational product over the marketing specialist. Thus some attention needs to be directed toward a clearer delineation of the contribution of the marketing specialist. Such a demarcation may also help reestablish the role of marketing as a philosophy in the broader organization and its importance for the entire organization rather than just the marketing function. And, if a critique of marketing practice is embedded in marketing education, future marketers may be more inclined to view marketing as a dynamic and responsive process so that they avoid rehashing weary marketing models to an oversold and jaded market.

## CONCLUSION

The success factors we have listed in this discussion are by no means mutually exclusive—in fact, it appears that the more of these factors companies use, whether large or small, the more success they may have in their marketing efforts. Large corporations that effectively organize to seek innovative ways to deal with high-risk markets in their approaches thereby foster consumer belief in their products and marketing messages. And small entrepreneurs who use their skills to quickly adapt and connect with clientele by tapping into causes that are close to their hearts can also be successful. By doing this, both large and small companies are helping solve a social problem at the same time as marketing their products.

Is there anything revolutionary that can be learned from the South African setting about ways to prevent the need for marketing reform in developing, or even more developed, country settings? Not really, except that when a simple but vigilant and energetic focus is placed on the fundamentals of the marketing process, little reform is needed. Conversely, when this is ignored, calls for reform may be triggered.

Nevertheless, the strong drivers toward entering high-risk markets, with one eye on social concerns, may force marketers in this area to draw on more innovative approaches in daily marketing practice than they otherwise would have. Correspondingly, the wide variety of market conditions forces a greater range of approaches. Most significantly, the success of the hard-sell is absent; marketing must appear to be authentic and address the key social issues of its market in order to succeed. Thus, the tools used may not be entirely new; so perhaps it is the marketers who need reforming rather than the discipline. A lot of the youth and zeal of new markets, such as South Africa’s, can help marketers recapture their lost vision.

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CHAPTER 27

# LEVERAGING MARKETING'S INFLUENCE IN TEAM AND GROUP SETTINGS

ANNE STRINGFELLOW AND SANDY D. JAP

Marketing should play a powerful and influential role in the firm. However, marketing has become marginalized in many firms. We believe that marketing can increase its influence in business organizations, not simply to gain power for its own sake, but in order to maximize firmwide outcomes. This chapter examines potential sources of leveraging marketing influence at various levels in firms, providing several suggestions for improving marketing's influence throughout. After a brief discussion of the marginalization of marketing, we consider the sources of influence. Thereafter, we examine firms' need for marketing influence. This is followed by a discussion of suggested methods for improving marketing's influence, particularly in team and group settings. The chapter concludes with an overview of the implications for reforming marketing.

## MARKETING'S MARGINALIZATION

Evidence in the United States and European markets suggests that the marketing function is marginalized across firms and industries. For example, in the United States, the average compensation of a U.S. marketing executive is only 69 percent of that of a finance executive, and only 91 percent of that of a manufacturing executive (Pfeffer 1994), indicating that firms value marketing executives less than finance or manufacturing executives. Research on British companies indicates that other functions perceive marketing as being concerned only with tactical matters such as advertising and promotions instead of strategic issues (Shipley 1994). Indeed, marketing is so poorly perceived in industrial and business-to-business companies that its importance as a function ranks only above human resources (Meldrum and Palmer 1998).

Additionally, when one considers the path to the chief executive officer (CEO) door, a background in finance is a more powerful predictor of becoming a CEO than is a background in marketing. Among the hundred largest firms listed on the London stock exchange (the FTSE 100), twice as many CEOs come from finance backgrounds as from marketing backgrounds (Lewis 2002a). Moreover, marketers are also scarce on top management teams. In the United States, only one of the top twenty Fortune 500 companies has a chief marketing officer (Melkman 2004), and in Great Britain only five of the FTSE 100 companies have a board-level marketing position (Simms 2003).

Members of technical functions, such as finance and engineering, regard marketing as intuitive and nontechnical (Benjamin 1993). Apparently, the quantitative aspects of marketing are not prominent and the technical aspects are underappreciated. It may also be the case that the marketing function suffers from a common fallacy—that because one has experienced something, he or she can then be an expert at it. In other words, since one has been a customer, one must therefore know something about how to sell. Of course, we recognize that this line of reasoning is not any more appropriate than concluding that if one had been born in a garage, one must therefore be a car.

Collectively, the evidence overwhelmingly indicates that marketing suffers from a lack of recognition in many firms. However, there are CEOs who recognize that marketing has access to customer needs and is therefore in the best position to determine how a firm's resources could be utilized to meet these needs while maximizing profits. These CEOs recognize the central role that marketing could play in the organization and "want marketers to become full partners, understand the whole business, and come up with ideas linked to driving profits" (Lewis 2002b, p. 3). This is marketing's rightful place in the firm and marketing must move toward it.

## MARKETING'S VALUE

We believe that the marginalization of the marketing function in a firm is a grave and serious mistake. Marketing, along with R&D, are vital "rainmaking" functions that develop new product ideas and new markets that can translate into sustainable competitive advantages, such as added value for customers and increased growth for the firm. In fact, research has shown that marketing influence at the top management level is associated with a firm's innovation and growth (Barker and Mueller 2002). It has also been demonstrated that, on average, firms that are marketing-oriented experience improved firm performance. For example, one study conducted on British firms showed a 5.3 percent greater total shareholder return in firms in which the CEO had marketing experience (Ambler 2003). Another study using data from Japan showed that business performance (relative profitability, relative size, relative growth rate, and relative share of market) was correlated positively with customer evaluations of firms' customer orientation (Deshpandé, Farley, and Webster 1993). Finally, research conducted in the United States found a significant positive relationship between customer orientation and subjective measures of firm performance (Jaworski and Kohli 1993; Slater and Narver 2000). Taken together, these findings suggest that the marginalization of marketing is not in the firm's best interest, and that marketing influence should reverberate throughout the entire firm, for the overall health of the company.

Marketing is particularly important when (1) competition levels are high, (2) environments are dynamic, and (3) customers are concentrated. In highly competitive environments, technical superiority in products may be insufficient to assure profitability. Marketing expertise is necessary to insure that the product continues to create value in the eye of the customer. Consistent with this, Workman (1993) found that high-tech firms were unable to sustain their competitive advantage over time without improvements in their marketing capabilities.

Marketing is also essential in highly dynamic environments where customer requirements are changing rapidly. Advantages accrue to organizations that match their internal complexity to the level of complexity of the external environment (Lawrence and Lorsch 1967). The notion of requisite variety (Weick 1979) suggests that combining diverse knowledge produces better innovation outcomes, particularly in fast-changing environments. Since different functions scan different parts of the environment and obtain different types of knowledge (Arrow 1974), in highly dynamic environments marketing's detailed knowledge of the customer must influence the firm's strategy. Otherwise, the firm will pursue goals and objectives that cause it to be left behind as customer needs move on.

Marketing's influence is particularly vital when the firm's target segments consist of a few large customers. Here, close relationships with customers are vital so that marketers may discover latent opportunities to creatively anticipate and meet customer needs. This is the path to improved profitability and sustainable competitive advantages. However, recognition of value-adding opportunities is necessary, but not sufficient, for profitability. What is needed, in order to take advantage of the opportunities, is that marketing enhance its influence over other key functional areas of the firm.

A common theme throughout this section is the idea that in circumstances where customers—including every individual and organization that can influence the sale of the product—are vital to the firm, then marketing must also be vital. Clearly, this is because managing the firm's relationship with customers and external publics, both upstream, downstream, and horizontally, is the essence of the marketing function. Hence, the only firm where marketing's marginalization is warranted is the firm that has no need for customers. Such a firm does not exist.

## GROWING MARKETING'S INFLUENCE

We have shown that marketing is an important contributor to growth, and that in highly competitive, dynamic industries or firms with a concentrated customer base, marketing influence is particularly vital to firmwide success. How then can the marketing function improve its influence within the firm? We ask this question not for the promotion of marketing for its own sake, or even at the expense of other functional areas, but with an eye toward group outcomes.

There is no gain for marketing to be promoted at the expense of the group. In fact, there are numerous studies that suggest that unequal power among group members can negate the benefits of bringing diverse opinions to decision making. Instead, in any team setting, whether it be a top management team or a procurement team, marketing plays a vital role in preventing dysfunctional group dynamics such as *groupthink*—which occurs when the group converges too quickly on a solution and neglects consideration of other key factors (Janis 1972). In addition, marketing's minority external view may improve the quality of group decisions since majority opinions are enhanced by the existence of consistent counterarguments from a minority (Nemeth 1986). To this end, marketers must prevent an overemphasis on other functional areas without a consideration of potential marketing contributions to the group effort. For example, in a new product development team, marketing's influence may be necessary to highlight the possibility of revenue enhancement and prevent an overemphasis by the group on manufacturing processes and cost-cutting efforts.

Thus, we see that throughout the firm, marketing plays a critical role in its interactions with finance, accounting, manufacturing, R&D, and other critical functional areas in team settings such as new product development, procurement, and top management. In order for marketing's influence to grow within the firm, marketers must promote their influence within these settings in order to improve the group's overall outcomes. To this end, we outline several ways in which marketing might accomplish this goal. Throughout the discussion, there is the assumption that marketing's power should not grow at the expense of group outcomes or at the expense of any particular function. Instead, the emphasis is on enhancing marketing's influence while *simultaneously* improving group outcomes.

### Truth Supported Wins

Individuals across functions tend to be "selective preceptors" (Dearborn and Simon 1958) with a tendency to rely on their functional background as the dominant approach for solving problems. This tendency introduces a host of specific values and beliefs that color the worldviews of its members, analogous to the effect of national cultures. These values and beliefs are often tacit, rather than explicit, and may lead to unintended misunderstandings. Marketing is faced with the task of how to best combat this. Research has shown that in many team settings, the "lone voice in the wilderness" is generally an unsuccessful approach to winning influence on the team. Instead, marketing should look to at least one other function and convince that individual of the value of a marketing approach. In this way, truth that finds support in at least two members is more likely to influence the group's outcomes (McGrath 1984).

### Understand Their Culture

Another strategy to convince other functions of marketing's utility is to identity marketing's specialist knowledge of customer needs in a language that other functions can understand. In this way they can recognize marketing's expertise. In order to persuade functions that are more quantitatively based, marketers should also use quantitative metrics to argue their position. In doing so, they can more effectively communicate marketing principles, highlight key tradeoffs, and improve the predictive power of the group outcomes.

As an example, consider marketing's influence on new product development teams. This influence is generally lower in technologically oriented organizational cultures (Atuahene-Gima and Evangelista 2000; Workman 1993). However, this does not necessarily mean that marketing cannot be influential. In fact, Workman (1993) observed that marketing was able to gain some measure of influence in a major technology company. These marketers gained credibility, not by their knowledge of marketing, but by showing their understanding of products and technology, and demonstrating to the engineers how they could add value. In this case their expert power was supplemented by their persuasiveness power, which stemmed from knowledge of how to "sell" their ideas to an engineering audience.

### Expand the Pie

Another avenue for expanding marketing's influence in procurement teams, new product development teams, and top management teams is to move the focus of the group from "pie-division," or negotiations over how to share the rewards of their joint efforts among the various functions, to "pie-expansion," which involves growing the overall level of rewards for all parties (Jap 1999, 2001). Thus, instead of negotiating about the group's location on an efficiency frontier (pie-division), the focus of the group's activities is on moving the efficiency frontier away from the origin (pie-expansion). This can be accomplished in several ways. One approach would be for marketing to highlight and target new markets and segments for the firm to pursue. Also, the marketing function could propose a plan to develop strong relationships with key customers to identify latent and emerging needs that could be creatively and uniquely satisfied by the firm. In this way, revenue is grown and profits improved. Another approach would be to develop strategic sourcing agreements with the supply base to cut costs and provide sourcing stability in the long run.

### Group Metrics

From the onset of any team formation, key marketing metrics should be a part of the group's performance metrics. In light of marketing's rainmaking functions, factors such as customer relationship equity, revenue enhancements, and other customer-focused activities designed to detect, monitor, and respond to customer needs over time should be key elements of the group's overall outcomes. These metrics serve to keep track of the outcomes of marketing actions and provide justification for investments in marketing activities with long-term payoffs.

### Breadth and the Path to the Corner Office

Previously we mentioned that one reason for the ongoing scarcity of CEOs with a marketing background is these candidates' lack of breadth. Research has shown that factors in determining the expert power of members of top management teams are the number of functional areas in which experience was gained, and the number of different positions held in a firm (Finkelstein 1992). Managers with a breadth of functional experience are promoted more quickly and to higher levels (Bunderson 2003). This is because successful CEO candidates possess "metafunctional expertise," which refers to "a broad understanding of the roles played by and the relationships among the different functions on a multifunctional team combined with some depth of expertise in those functions of greatest strategic import" (Bunderson 2003, p. 459). Hence, marketing executives must ensure that they gain significant exposure to line management and other functional areas to ensure their eligibility for promotion to CEO level. Assignments with direct profit and loss responsibility should be chosen in preference to a string of pure marketing assignments. Another approach for encouraging breadth is at the educational stage, where marketing educators can expose their students to the importance of generalist skills and experience outside of the marketing function. By exposing oneself to the functional perspectives and jargons, top managers can improve their ability to state their case in a way that appeals to managers with different backgrounds.

Another path to the CEO office comes with the creation of "C-level" marketing positions. Given the critical role that marketing plays with respect to managing the customer relationship and the firm's increasing dependence on this relationship, it follows that more firms should appoint chief marketing officers (CMOs). Indeed, recent evidence indicates that this is a growing trend in firms that recognize the value of their customers. For example, in July 2003, General Electric (GE) appointed Beth Comstock to a newly created chief marketing officer position. When announcing the appointment, GE Chairman and CEO Jeff Immelt said: "We are making GE a more externally focused, market-driven company to better serve our customers and their future needs" (General Electric 2003). The food and beverage industry has also recently seen the appointment of a number of chief customer officers (CCOs) tasked with building earnings per customer. Examples include Campbell's soup, Coca-Cola, and Kellogg's (Johnson and Schultz 2004). This recognition of the importance of customers and the marketing function to the financial health of the firm is well overdue.

## CONCLUSION

We have reviewed marketing's influence in organizations and formulated several suggestions for leveraging the influence of marketing in firms. The goal of these suggestions is not to increase the power of the marketing function at the expense of other functional areas. Rather, it is an attempt to ensure that marketing fulfills its proper role in organizational group settings by effectively representing the perspective of the customer.

What emerges from the discussion is that, in many situations, marketers could be more influential because of their marketing expertise and proven track record (their expert power). At the top management level, the focus is often on gaining influence with the chief financial officer. Here, the current movement toward demonstrating returns on investment (ROI) in marketing represents a step in the right direction. At the product development team level, the focus is usually on representing customer interests to technically trained peers. In either case, and particularly in situations where marketing is not the dominant organizational culture, marketers' ability to frame arguments in terms understood by members of the other function (their persuasiveness power) and to build common ground with representatives of other functional areas (their referent power) determines the extent of their influence.

What does this mean for reforming marketing? To us it strongly suggests a need for marketers to break down the walls surrounding the marketing fortress and to venture out into other functional areas. We may return to the fortress with renewed understanding of areas where marketing can add value to the organization. Alternatively, we may never return to the fortress, choosing rather to serve as missionaries to spread the marketing message throughout the organization, and possibly ending up as CEOs along the way. In either case, the influence of marketing will increase, bringing with it increased returns for the organization.

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# PART 6

# ACADEMIA, HEAL THYSELF

## Reforming Marketing Scholarship and Education

This section is a collection of thoughts about the academic side of marketing, focusing on how marketing academics need to change their scholarship as well as their instruction to make them more valuable to marketing professionals, consumers, and society at large.

In a very thoughtful article, William Wilkie suggests that we need to go back to the study of aggregate marketing systems (AGMS), which consist of three actors: producers, consumers, and government entities. For the last half century, marketing has focused too much at the managerial and consumer levels, resulting in a fragmentation of the discipline. In the process, marketing has lost its impact and influence on all three stakeholders. As research specialization has increased, this risk has increased. Knowledge outside a person's specialty may first be viewed as noninstrumental, then as nonessential, then as nonimportant and finally as nonexistent in terms of meriting attention.

Gary Lilien considers the state of marketing to be a tale of two cities: it is at the best of times and it is also at the worst of times. He believes that part of the reason is that marketing as practiced by most marketers and as taught and researched by most academics is a narrow, silo-based operation addressed either in a predominantly quantitative or predominantly conceptual manner. Really good marketing requires, according to Lilien, a deep integration of science and creativity. It is, indeed, perhaps the most schizophrenic of business activities. It requires skill in problem identification, problem framing, and creativity as well as discipline to collect appropriate data, create metrics and benchmarks, and develop demonstration of economic value.

Rajiv Grover believes that it is market*ers* who need reform and not market*ing.* There are two reasons concerned academicians are insisting on marketing reform. The first relates to their perception that most academic marketing research is irrelevant to marketing issues in organizations and, to their exasperation, such research is held in higher regard in the discipline. The second source of their discontent stems from their perceptions of marginalization of the authority of practicing marketers by nonmarketers, as evidenced by the involvement of the latter in making marketing decisions. According to Grover, though not obvious, the two sources of discontent are related, with the first being the cause of the second.

Grover suggests five potential approaches to make future research more managerially relevant and, therefore, more impactful: selecting the right problems for research, modifying the intellectual rigor perception, coordinating varied research efforts in a particular area or knowledge domain, developing a distinctive identity for marketing, and creating support from the business sector. Similarly, he recommends that our teaching, especially in MBA programs, should be modified to include and integrate both strategy and operations. In his view, we teach too much strategy and not enough operations.

Jagmohan Raju finds that marketing in practice is becoming more marginalized, as evidenced by the declining tenure of the chief marketing officer (CMO). But marketing as a discipline in academia is growing, as evidenced by student enrollments and increasing size of departments of marketing, as well as by the number of manuscripts submitted to major marketing journals. He believes that since marketing is an applied discipline, marketing academia can enhance the prestige and position of marketing practitioners by choosing the audience (academics vs. practitioners), doing the right things versus doing things right (relevance vs. rigor), encouraging Ph.D. students to go for industry careers in addition to academic careers, valuing consulting activity in annual performance evaluations, and teaching what we discover in our research.

In a very insightful and provocative chapter, Morris Holbrook suggests that too much emphasis on customer orientation and confusion about who is our customer has created enormous problems in classroom teaching. In the old-fashioned elementary school he attended, the customer was the teacher and the producer was the student. The student produced homework, wrote exams, and the teacher as a customer rewarded the student as a producer with appropriate grades, promotion, and graduation.

This changed to a system where the school became the producer and corporations became customers. Schools produced job candidates and the corporation rewarded the school with employment opportunities. This revised model "freely acknowledges that careerism has come to dominate the academic process and that the inherently selfish interests of big business play a major role in shaping educational policy without any real regard for the moral or intellectual development of individual character." This perspective elicits great outrage from students, who do not want to be regarded as products. Students would rather be viewed as customers, similar to patients in a hospital, parishioners of a church, voters in an election, or inmates at a prison.

This has led to the third emerging view that sees the school as a producer that offers MBA degree diplomas, networking opportunities, and career counseling in exchange for tuition dollars, generous donations, and favorable evaluations from its students, regarded as customers.

Holbrook suggests a fourth and preferred model. He suggests school as producer, student as a channel, and society as the customer. The school produces knowledge and transmits it through the students to society. In return, society offers respect and good will to the student and the student offers appreciation to the school. In this supply chain model, the major purpose of the university lies in the creation and dissemination of knowledge.

Rajan Varadarajan, drawing on his experience as editor of two major academic journals in marketing (*JM* and *JAMS*), suggests that reviewers and editors of scholarly journals must insist that authors provide managerial, public policy, and scholarly implications of their research. He also suggests a tighter integration of marketing strategy and consumer behavior research. Finally, he suggests examining the current marketing curriculum, especially for doctoral students, to see if it includes rapidly changing environmental forces and their implications on marketing theory and practice.

## Chapter 28

# THE WORLD OF MARKETING THOUGHT

## Where Are We Heading?

William L. Wilkie

Does marketing need reform? is a welcome question. I have become increasingly convinced that there are critical issues in our field that require attention and discourse within the college of marketing and I raise several of these that I see as most pressing. In this chapter I address three essential points, one as background, and two as key issues for us to consider, discuss, and hopefully rectify:

- As a background perspective, in my view the academy of marketing needs its own identity in certain of these discussions—we need to be more specific in our referents when analyzing our field. It is interesting to recognize that in recent years, when discussing "marketing," we often implicitly equate marketing practice and marketing academics, as if the problems, opportunities, and issues are equivalent in these spheres. While the two do have a symbiotic relationship, clearly there are also occasions for which issues, perspectives, and behaviors will be sharply distinct. My personal interests are in the realm of marketing thought, which links closely to marketing academia. Thus my discussion here will involve issues and possible reforms for marketing academia.
- One central issue for academics to address is, Is there any need for aggregate perspectives in our conception of the field of marketing? If we consider this only briefly, it becomes clear that our modern conceptions of marketing are really not aggregate in nature—they are very much centered on individual managers, firms, or consumers. As a result, we likely do not possess the best mental frameworks with which to be addressing some of the problems confronting our field, such as those raised elsewhere in this volume. So in this chapter I'd like to explicitly direct our attention to the concept of an aggregate marketing system as an organizing framework from which we might better consider our field as a whole. Further, in this regard the new definition of marketing from the American Marketing Association appears especially problematic: comments on its potential deficiencies are also offered in this discussion.
- The second key issue involves the question, Is knowledge being lost from our field? Again, only brief reflection allows us to recognize that our scholarship attends easily and eagerly to knowledge accreting in our field (i.e., the exciting new discoveries at the frontier). However, I've become increasingly concerned that this directed attention to incremental advances in specific sectors is also leading to a situation in which we are in the process of losing knowledge in other sectors of the field. It appears, moreover, that this is happening both at indi-

vidual levels and as a community of scholars. In this regard, we also appear to be allowing (encouraging?) a suppressive publication infrastructure to develop—one that is discouraging future contributors and their potential contributions to knowledge across a broad swath of our field.

## ISSUE ONE: WHAT HAS HAPPENED TO AN AGGREGATE PERSPECTIVE IN MARKETING?

### The Aggregate Marketing System

Before delving into specifics, some brief background may be helpful. The commentary in this chapter springs from a long-term project in which I and my colleague Elizabeth Moore have been exploring the question, What *is* marketing, anyway? One of the two primary reports of our project findings to date appeared in the *Journal of Marketing's Special Millennium Issue,* under the title, "Marketing's Contributions to Society" (Wilkie and Moore 1999).[1] There, in order to capture the concept of "society," we built on perspectives from an earlier era and proposed the concept of an aggregate marketing system (AGMS)—a huge, powerful, yet intricate complex operating to serve the needs of its host society. The AGMS is recognized to be different in each society, as it is an adaptive human and technological institution reflecting the idiosyncrasies of the people and their culture, geography, economic opportunities and constraints, and sociopolitical decisions. The three primary sets of actors within the system are seen to be: (1) marketers, (2) consumers, and (3) government entities, whose public policy decisions are meant to facilitate the maximal operations of the AGMS for the benefit of the host society.[2]

Our initial goal was to explore the AGMS of the United States. Early in the process we recognized that much of the marketing system operates behind the scenes, known only to those persons involved in pieces of the operation itself. It is challenging, therefore, for outside observers to fully appreciate the scope and nuances of marketing, a useful reminder to us academics as well.[3] Three early insights that we gained were that marketing's contributions (1) accumulate over time, (2) diffuse through a society, and (3) occur within the context of everyday life. This makes it difficult to distinguish them at any given point in time, so we took a one-hundred-year glimpse at what the U.S. AGMS is delivering to daily life today versus one hundred years ago, when the academic field of marketing was beginning to form. Here's a little of what we found:

> At the turn of the century in 1900, few homes had running water, so the average housewife had to carry nine thousand gallons per year from the well source outside. Only 3 percent of homes had electricity: for the rest this meant reading with no electric lighting and keeping house with no labor-saving household appliances, and, of course, no radio or television. Food purchasing and preparation took forty-two hours per week, versus less than ten hours today. Home heating was often limited to only the kitchen, versus central heating today, and there was no home air conditioning. Virtually no one had a gas-powered vehicle: there are some two hundred million motor vehicles registered in the United States today, all having been delivered through the AGMS. Infant mortality was common at the time, about one in every ten births, and life expectancy in 1900 was only forty-seven years. Today's health and well-being has improved dramatically, with infant mortality much less than 1 percent and life expectancy at almost eighty years. Similar comparisons exist on many other fronts as well: it is clear that the AGMS has delivered a substantially better standard of living to its society across time. (Wilkie and Moore 1999)

But why give so much credit to marketing for these advances? Clearly it isn't responsible for discoveries, inventions, or production operations. Our point was that today we are simply not conceiving of marketing as a system in the world, and that if we were to do so we would easily see that it is, *in tandem with other systems such as research and development, finance and banking, production, and so forth,* clearly engaged in both delivering a standard of living to society and constantly supporting innovations to raise these standards.

In order to examine marketing as a system, we began by learning directly in detail from marketers who were doing it, then illustrated this with a vignette we called "Breakfast at Tiffany's." We join Tiffany Jones in New York, have breakfast with her family, and inquire how this breakfast has managed to come about. Imagine Tiffany sitting in her apartment, picking up her cup of coffee, blowing across the top of the cup. How did this cup of coffee get here? We trace the process, discussing the planting of coffee, where it is planted, why it is planted, how it is sold by contract, how it is harvested, how it is graded, processed, bagged, warehoused, and transported to the United States by sea, mixed, roasted, packaged, then shipped through the channels of distribution to retail, where Tiffany has purchased it. We then move to her breakfast pastry and repeat the system analysis, though this one is much more complex because there is new product development involved, plus fifteen ingredient sourcing systems similar to that for coffee. We then point to each of the foods being consumed by each family member, as well as to the kitchen support system (appliances, cutlery, utilities, etc.), which also had been provided by the AGMS at prior points, and which are still delivering benefits through use.

During this illustration we note the set of structured, practiced activities that are already developed in an infrastructure sense. This is a marketing system at work, in the sense that there is buying and selling occurring at all stages, with temporal dimensions, planning, employment, capital investment, movement, production, risk taking, financing, and so on, all taking place with the expectation of transactional exchanges occurring to fuel the system's continuing operation. We further point out that the AGMS is routinely providing these kinds of breakfasts for a hundred million households every day, and that this is just a miniscule portion of its total activity. It is very clear that the AGMS is huge, practiced, and powerful. In our discussion of aggregating these separate systems into a whole we attempted statistical estimates of sizes, and arrived at some thirty million Americans—about one in five workers—directly employed in the marketing operations of the AGMS. This raises some very interesting challenges for us in conceptualizing the field, unless we've already conceived that there are thirty million marketers in the United States alone!

Of considerable import for this book is what came next in our analysis, namely an assessment of the various activities embedded in our illustration of the systems for these two products. It turned out that *we found seventy-five marketing-related activities embodied in those two little examples.* For each one, we asked whether a marketer in the firm is (1) primarily responsible, or (2) has an influence, or (3) doesn't even have an influence. The results were instructive: of the seventy-five marketing system activities, we saw that marketing managers control only about thirty, or less than half. They do have influence on most of the others (consumer usage and some aspects of governmental operations were viewed as uncontrollable), but they are not in control, and this is not what we're calling marketing today. *My personal lesson from this was that this property of the system demands a perspective on marketing that reaches far beyond a controllable decision of someone called a marketing manager.* At a minimum, it requires an inclusive appreciation of business organizations and processes, as clearly has been recognized elsewhere in this book, and also requires an appreciation of roles that the government plays in facilitating development of the system's infrastructure and operations. In brief, it calls for a larger conception of marketing.

## A Historical Perspective on Marketing Thought

Have we ever had such larger conceptions in the field? Yes, clearly this used to be the case. My basic perspectives are captured in a Fall 2003 *Journal of Public Policy & Marketing* article titled "Scholarly Research in Marketing: Exploring the 'Four Eras' of Thought Development" (Wilkie and Moore 2003).[4] In this effort we examined the evolution of marketing thought across the last one hundred years, including the growth of the knowledge infrastructure (journals, associations, conferences, etc.) and trends and paradigms characterizing thought progression in the field. We found that writings on marketing and society were common in the first half of the century. For example, consider these quotes from two leading marketing thinkers of the time, who apparently viewed their scholarly and professional roles more broadly than we do today:

> It is the responsibility of the marketing profession, therefore, to provide a marketing view of competition in order to guide efforts at regulation and to revitalize certain aspects of the science of economics. . . . For surely no one is better qualified to play a leading part in the consideration of measures designed for the regulation of competition. (Alderson 1937, pp. 189, 190)

And, from Ralph Breyer:

> [M]arketing is not primarily a means for garnering profits for individuals. It is, in the larger, more vital sense, an economic instrument used to accomplish indispensable social ends. . . . A marketing system designed solely for its social effectiveness would move goods with a minimum of time and effort to deficit points. In doing so, it would also provide a fair compensation, and no more, for the efforts of those engaged in the activity. At the same time it would provide the incentive needed to stimulate constant improvements in its methods. These are the prime requisites of social effectiveness. (1934, p. 192)

Then, about 1950, the world of marketing thought began to undergo a major academic paradigm shift in modes of thinking. Era III had begun, now featuring (a) an overt *marketing-as-management* orientation, and (b) an overt *reliance on the behavioral and quantitative sciences as means of knowing.*[5] These approaches to marketing thought have now been dominant for a half century in the field: as noted at the start, our modern conceptions of marketing are no longer aggregate in nature—they are very much centered on individual managers, firms, brands, and consumer behaviors. In this regard, the new definition offered by the American Marketing Association is worthy of serious consideration.

## AMA's New Definition of Marketing (2004)

Recently the American Marketing Association convened a process (under Professor Robert Lusch) to update the definition of marketing. The first formal AMA definition had been developed in 1935, and was retained for fifty years until being modified in 1985, and then modified again in 2004.[6] Here are the three definitions:

> (Marketing is) the performance of business activities that direct the flow of goods and services from producers to consumers. (1935)

> (Marketing is) the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives. (1985)

> (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. (2004)

Examining the direction of these definitions reveals a narrowing of focus over the time, quite in accord with the historical trends just noted (and discussed at length in Wilkie and Moore 2003). Notice that until 1985 the field's definition was pluralistic, thereby easily translatable to more aggregated issues such as competition, system performance, and contributions to consumer welfare. The 1985 change then firmly turned focus toward the manager's tasks as embodied in the four Ps (product, place, promotion, and price); interestingly, by focusing on the concept of mutually satisfactory exchanges it also implicitly defined marketing to be in the best interests of consumers. Overall, these changes made it more difficult to adopt more aggregated perspectives on the field.

The new 2004 definition is much in the same spirit, with a singular focus on the individual organization acting alone. This is not simply my reading, but is also clear from the leaders of the initiative. For example, according to the head of the AMA's Academic Division:

> What we (now) have is more strategic. Now it says marketing is really something that makes the organization run. (in Keefe 2004, p. 17)

**Some Concerns about Equating Marketing with Management**

To be clear about my personal position, let me say that I quite agree that the conception of marketing as a strategic and tactical activity undertaken within individual organizations is a most reasonable view for marketing managers to take, and for academics to use when appropriate. My concern, however, is with this as such a dominant conception of our field that it forecloses other directions for thought development. In essence, I see a sole focus on the firm to be *incomplete,* in that some broader questions go unanswered precisely because the managerial perspective within a firm does not need to consider these questions in order to act in that firm's interest. For example, let us consider the following items.

*The Competitive Nature of the AGMS.* A sole focus on the firm does not provide constructs with which to assess marketing more broadly. For example, when eight or twelve firms compete in a market, how do we assess the marketing that is occurring? It would appear inefficiencies would be natural in such settings, yet these are not assessed with this focus. Extended to public policy, moreover, what does this conception of marketing have to offer to antitrust theory and enforcement?

*Marketing's Inputs into Consumers' Resource Allocation Decisions.* One of the major tasks confronting every consumer is to decide on how to allocate his or her budget for purchases, as well as the time and effort to be expended on each. But what if we ask, How well do marketers help consumers with their budget and effort allocation decisions? Our short answer: Very poorly. *In the aggregate (i.e., all marketers taken together) our marketing system simply proposes far too much consumption for any individual to come close to undertaking.* The system acts as if consumer resources and wants are infinite and insatiable: every product and service category is advocated as worthy of consumption for virtually every consumer. *It thus becomes mandatory for every consumer to ignore most marketing programs, resist many others, and respond positively to only a relative few* (see Wilkie 1994, chap. 2, for a discussion of this perspective). My point here is that the extreme heterogeneity of marketing activity cannot possibly serve an individual consumer well in terms of personal allocation choices (excepting in a partially informative sense), and that *this characteristic surely makes it difficult to equate each marketer's best interest with each consumer's best interest.*

*Marketing within Specific Categories and Inputs to Consumer Decisions.* This same issue arises if we narrow our focus to firms within specific product or service categories. Within each category, marketers as a set are offering each consumer *highly conflicting advice* as to which sources (both brand and retailer) to select. The system's marketers are also often employing intrusive persuasive attempts, demanding attention and consideration from consumers who would not be best served by the option being advocated. (Let me stress that I do not offer this as a criticism, but as a descriptive characteristic of our marketing system that is simply not evident enough from the managerial perspective on marketing.)

Further, it seems to me that the greatest risk of equating the field of marketing with the managerial decisions being made inside all organizations is that *the goals of those organizations are also being adopted by marketing thinkers, but without any external or neutral appraisal.* This leads to something akin to a lack of direction, or blanket approval, regarding the reality of what the marketing world in total is undertaking.

Let us consider some issues that come to mind as we ponder this issue, and ask whether this is a satisfactory solution for marketing scholarship. For example, when we implicitly adopt the goals of an organization engaged in marketing, exactly whose perceived interests are being served, and does this matter to us? The many egregious examples found in political campaigning, lobbying, fraudulent schemes, bid rigging, energy gouging, channel stuffing, and so on are sufficient to alert us to the fact many organizations are highly imperfect entities with a highly mixed set of motivations. Also, in most organizations persons other than marketers are setting priorities, and not necessarily with marketing's sensitivities to consumers. For example, I recently heard of an analysis showing that—across providers—most users of cell phones end the month with a large number of unused calling minutes and that most customers were not enrolled in the plan best for them in terms of their actual phone usage. Is this successful marketing, then?

In general, I'm suggesting that the impacts that marketing is having on the world are a legitimate concern for scholarship in our field, and much of this will relate to the twin issues of marketplace competition and pressure for profitability and stock market price gains in organizations. Further, any such assessments of marketing performance are likely to benefit if more aggregated perspectives are called upon.

Finally, I should mention that this line of thinking has helped me to realize how interesting it is that "the marketing concept" was introduced just at the beginning of the shift to the managerial view of the field, and has been a bulwark in characterizing marketing ever since. Because we have overtly characterized our field's mission as meeting the needs of customers, we have not had to consider what's actually being undertaken by the huge numbers of marketers who are working in parallel day after day after day, in terms of the actual meeting of consumers' wants and needs. Again, this would seem to be a much more reasonable task were we also to be thinking of marketing in a larger, systemic sense.

In closing this section, I think it is important to note that defining marketing in a larger sense was in fact considered in the development process for the AMA's new definition for the field.

When interviewed about the definition, Professor Lusch spoke directly to this point:

> Some view [marketing] as a managerial activity, but others view it as a broad societal activity . . . Europeans and Australians, for example, were most likely to argue that marketing is a societal process . . . I don't disagree, but . . . because it's used to introduce students to the discipline, we needed something comprehensible. (in Keefe 2004, p. 18)

I have long admired Professor Lusch's views and work, and realize that he had to make conscious choices with this definition. However, it is telling that the AMA seems to be pointing toward introductory students with the definition. This does not seem to be an appropriate guide for directing scholarly pursuits in marketing, so perhaps my concerns about the definition are actually not very serious. For what it's worth, however, I'd like to officially weigh in on the side of those who were suggesting that marketing is best understood when its societal impacts are being formally considered, as in the context of an aggregate marketing system.

## ISSUE TWO: IS KNOWLEDGE BEING LOST FROM OUR FIELD?

In the space remaining, I will briefly point to some other key points involving knowledge development in the field. First, the importance of a solely managerial perspective on the AMA's restrictive definition has little to do with their focus itself, which I like. Instead, the danger lies in subsequent impacts on effort, attention, and transmission of marketing knowledge. Within the context of an increasingly specialized and fragmented academic field of marketing, two brief quotes capture my concern:

> It is troubling to realize that knowledge does not necessarily accumulate in a field—that knowledge can disappear over time if it is not actually transmitted. (Wilkie 1981)

> As research specialization has increased, this risk has increased—knowledge outside a person's specialty may first be viewed as non-instrumental, then as non-essential, then as non-important, and finally as non-existent in terms of meriting attention. (Wilkie 2002).

In our exploration of the four eras of thought development it became clear that many research insights and findings did not get passed on, but were "left behind" as researchers turned their attention to new areas of interest. This finding prompts us to look more closely at whence the academic marketing thought leaders of the future will come, and how their scholarly training and predispositions will be shaped. How are they being educated to think about the field of marketing? Specifically, for me, are they being educated in the societal domain of marketing issues?

To examine this question, we undertook a survey of AMA-Sheth Doctoral Consortium participants (Wilkie and Moore 1997). The results were most interesting. Somewhat surprising to me, personal interest in the topic was high: two-thirds of these doctoral candidates felt that this area should be covered in PhD education, and wanted to learn about it. However, fewer than one in ten had ever taken a course in the subject. Further, they reported their self-ratings of expertise to be low, regular readership of the journals most pertinent to marketing and society as very low, and their participation in the conferences for this area as very low. Finally, many of these respondents answered that they do not see this area as professionally relevant for them, at least at the current stage of their careers.

Doctoral programs sorely need to reconsider this issue, but this will not happen unless marketing scholars are willing to admit that knowledge is being lost from this field. My true concern in this regard is not for the aware scholar who opts to make an informed choice to avoid societal issues, but instead is for later generations of scholars (today's and the future's doctoral students) who may not gain enough background to even realize that a choice is available to them.

## CONCLUSION: IT IS TIME FOR A MARKETING ACADEMIC SUMMIT TO ENHANCE SCHOLARSHIP IN OUR FIELD

The interest in this book and the turnout for the Bentley Symposium that precipitated it is further evidence of unrest within marketing academia, and a need to explore means to create a better context for scholarship in the future. Worthy topics that I personally would suggest for consideration include: (1) the character of business schools' vocational objectives for university faculty members, (2) the "publish or perish" system's incentives and time constraints, (3) the character of the modern journal publication system, (4) the nature and objectives of research-oriented doctoral programs, especially the extent to which failure to provide sufficient background in intrinsic domains of marketing thought may be leading to problems for the future of the field, and (5) the implications, problems, and opportunities presented by the twin forces of globalization and the Internet. Such a summit is feasible. Similar efforts have been undertaken before in our field in the form of task forces on thought development, with interesting and impressive results (e.g., AMA Task Force 1988; Myers, Massy, and Greyser 1980). It seems clear that a new effort is needed today.

## NOTES

1. Interested readers may download a copy directly from web2.business.nd.edu/Faculty/wilkie.html.
2. As pointed out in the classic volume by Vaile, Grether, and Cox many years ago (1952), marketing systems perform two distinct macro-tasks for their societies: (1) delivering the standard of living for the citizenry, and (2) creating a marketplace dynamism that fosters and supports continual innovation and improvement such that the standard of daily life is enhanced over time.
3. Studies have shown that the less familiar a person is with the marketing field, the more likely he or she is to equate marketing with advertising or selling, the most visible portions of marketing to laypersons. As a person learns more, the view deepens and he or she begins to appreciate the richness of the field (Kasper 1993).
4. A copy of this article is also available at http://web2.business.nd.edu/Faculty/wilkie.html.
5. This was followed by Era IV (1980 to the present), which has maintained these core modes for thought development, but now with a fragmentation of the mainstream of marketing thought (Wilkie and Moore 2003).
6. A very informative article (Keefe 2004) in the *Marketing News* can be consulted for more information on this topic.

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Chapter 29

# MARKETING

## A Tale of Two Cities

Gary L. Lilien

Charles Dickens began his *Tale of Two Cities* with the line “It was the best of times, it was the worst of times.” So it seems to be for the marketing profession today, both on the academic and on the practice side. The chapters in this volume address the question, does marketing need reform? I don’t have a clear answer for that question, but marketing at least needs a better press agent.

Throughout my career, my colleagues and I in marketing have felt like the Rodney Dangerfields of business. We get no respect. Many years ago, Peter Drucker noted “business has only two functions: innovation and marketing.” No wonder he added that “marketing is too important to be left to marketers.” Why has it come to this? Why does marketing (but neither finance nor operations nor human resources) need reform?

Part of the reason is that marketing as practiced by most marketers and as taught and researched by most academics is a narrow, silo-based operation addressed either in a predominantly quantitative (bring in the data miners!) or predominantly conceptual (bring in the agency creatives!) manner.

Really good marketing is not like that at all. Indeed, really good marketing requires a deep integration of science and creativity. It is, indeed, perhaps the most schizophrenic of business activities. It requires skill in problem identification, problem framing, and creativity as well as the discipline to collect appropriate data, create metrics and benchmarks, and develop demonstrations of economic value.

As the information age has lowered the cost of documenting value in most organizational functions, and as management-by-dashboard has become more pervasive, firms are less tolerant of business as usual and are demanding business as possible. Marketing has generally been slow to react, but react it must.

This quantitative/creative schizophrenia brings to mind what C.P. Snow (1993) originally raised in a 1953 essay where he discussed the dichotomy between science and literature, and his belief in the need for closer contact between them. Both of Snow’s “Two Cultures” must thrive within the marketing profession for it to be healthy. And the challenge is how to stimulate healthy schizophrenia within the profession. To paraphrase Snow, we have to humanize the scientist and simonize the humanist in the marketing profession for it to prosper. Indeed, as Hoch (2001) pointed out, a combination of formal models and intuition outperforms either pure approach to marketing decisions.

Marketing problems need both approaches. A classic story from the early days of operations research (OR) recalls the OR group (the techie or quant group) that was brought in to improve the elevator service in a recently opened office building. Building management was receiving numerous complaints about unacceptably slow service and the OR group carefully analyzed and reprogrammed the elevators, but was only able to achieve a marginal improvement in (objective) service. Finally one member of the group had a bright idea—the complaints indicated that folks in the building "felt they were waiting too long." That is a perception and not a technically defined metric. So they cleverly addressed the perception by installing mirrors in each floor landing in the building, providing some distraction for those awaiting service. The complaints about the slow service ceased because the marketing "quals" had reframed the problem in a way that was much easier to address.

Ideas like this have been adopted in the Disney Company's work on "guestology," where engineers work alongside psychologists, designing systems that are both efficient from an engineering perspective and from the customer's perspective as well. Queues generally move (people are happier when they perceive progress); customers are told how long they will wait (there are signs that say, "When you reach this point, you have 10 minutes to wait") and Disney generally beats the posted waiting time (you will wait about 8 minutes when they say you will wait 10—a gain relative to expectations) yielding happy customers.

Most real marketing problems have a quantitative and a qualitative component. Design engineers are given budgets and goals. The products engineers develop will be used by people. How should the design requirements incorporate the humanistic or customer-use element? We need humanists in marketing to answer that question properly.

And for the creative, or (purely) intuitive marketer—business is moving much too quickly, generating much too much important data to make decisions based on intuition. Each day, global airlines reoptimize their fares and seat allocations on all their routes and route-segments for a year in advance. That task, involving tens of millions of decision-variables, cannot possibly be addressed by intuition alone.

Marketing must be reformed in such a way that it addresses the world through the eyes of the scientist at some times and through the humanist at others, when appropriate. The benefits are potentially enormous, but if such a perspective were easy, many more people would use their scientist/humanist bifocals so that they could look through the correct lens at the right time

While I don't have a prescription for marketing reform here, whatever prescription emerges should address the following ideas.

**Embrace Schizophrenia**

Lorange (2005) closed his "memo to marketing" with the following:

> Marketing . . . must become a model for innovation rather than follow a strategy of incrementalism based on the mere administration of brands . . . *it must learn to embrace ambiguity by recognizing the importance of data and intuition*. The goal is to be at the forefront of seeing new business opportunities based on facts and insights . . . the task of marketing has become increasingly difficult—and more important than ever before. (p. 20, emphasis added)

Note that Lorange cites marketing as a key engine for organizational innovation and he challenges the function to embrace the necessary schizophrenia or ambiguity needed to achieve that position. This echoes the point that Clancy and Krieg (2000) made when they stated that "counterintuitive marketing grounded in rigorous analysis of unimpeachable data is the key to success" (p. xii).

### Escape from the Silo

When Drucker said that marketing was too important to be left to marketers, he was calling for marketing to get out of its silo. Wind (2005) presents a case for marketing as the "engine of business growth." But a necessary condition for that engine to generate power is that it becomes cross-functional. Increasingly, marketing will not be able to create value or insights on its own but will be able to do so only in concert with other disciplines and functions of the firm—finance, R&D, operations, distribution. The opportunity here is for marketing to catalyze changes in organizational architectures and entire business models, creating truly significant rather than marginal value. The challenge is for the marketing profession—both the practitioner and the academic—to learn how to survive and thrive outside the comfort of its traditional silo.

### Demonstrate and Document (D&D) Value

Anderson and Narus (2003) stress the importance for the marketing function to continually demonstrate and document (D&D) value. These are two separate steps—-the developments needed to demonstrate value and the associated documentation. Most of what masquerades as such demonstrations today are "success stories"—the firm ran program X and sales were 14 percent higher than a year earlier. But how do we know that without program X sales would not have been 20 percent higher? This success story or folk wisdom approach—a post-only research design—is bad science and unacceptable as credible evidence for effectiveness. Marketing must continually run experiments as part of its way of doing business, with appropriate selection of pre- and post-measurements and test versus control situations. New marketing campaigns often provide attractive venues for such situations, and are especially effective test beds when using direct channels or the Internet. In any case, the D&D approach requires specification of metrics (the documentation or dashboard items) as well as the selection of the test and control venues as part of doing business.

### Enterprise Value Resides in Customer Knowledge

Peppers and Rogers (2001, for example) have helped popularize the notion that a firm can no longer maintain a competitive advantage in most industries through technological leadership. Technology and business models are too easily and rapidly copied. Rather, they argue that deep customer knowledge is an asset that cannot readily be copied—a relationship, by definition, takes time to build. Marketing, the owner of the customer interface, has the ability to help the firm execute that real option, that is, help turn that customer knowledge into a sequence of correctly designed and targeted offerings (created by the firm or within the firm's value net) to generate long-term, noncopy-able value.

I have suggested that marketing does need reform—that we are in a new age of marketing myopia (acknowledgments to Ted Levitt). The symptoms of myopia are clear; the prescription requires courage and imagination. If we have the courage and imagination, marketing can lead business advances in academia and practice in the years to come; if we don't, marketing will forever be wondering who moved our cheese.

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Chapter 30

# MARKETING OR MARKETERS

## What or Who Needs Reforming?

Rajiv Grover

Of late, part of the academic marketing community has shown growing interest in reforming the discipline of marketing. It might even be justifiably argued that some progress toward this end has already been made. The interest in reform in the concerned academicians seems to have arisen from two main sources of discontentment. The first source relates to their perception that an appreciable level of research conducted in academic marketing is irrelevant to marketing issues in organizations and, to their exasperation, such research is held in higher regard in the discipline. The second source of their discontentment stems from their perception of marginalization of the authority of practicing marketers by non-marketers, as evidenced by the involvement of the latter in making marketing decisions.

Though not fairly obvious, the two sources of discontentment are related, with the first being the cause of the second. A lack of research with useful managerial implications (that are clear and *definitive* at some level of abstraction) produces a corresponding lack of availability of cutting-edge, practically applicable teaching materials. The dearth of teaching materials, in turn, results either in repetition of concepts in marketing courses or in delivery of educational content that is half-baked and, hence, inapplicable. In either case, the student takeaways from marketing courses tend to be rather simplistic. This simplistic view of marketing translates into a confidence in nonmarketing professionals about their capability to make marketing decisions.

With the practical relevance of its efforts forming the key basis of the need for reform in the marketing discipline, the essential work that needs to be done may be seen as two-fold. First, the discipline needs to adopt specific approaches for ensuring that marketing knowledge that is "useful"—of practical value—is continuously and efficiently generated and appropriately disseminated on a real-time basis. Second, the discipline needs to ensure that there are structural and functional mechanisms in place that serve to facilitate progress toward those approaches.

The call for generating new outputs of relevant knowledge cannot be answered without changes in inputs (outputs result from inputs). Those inputs are represented by the outlook, behaviors, and research and teaching activities of the academicians in the discipline. Thus, for appropriate reform to occur in the marketing discipline, there needs to occur a reform in the academicians. In other words, academic marketers themselves need to change and transform some of their research and teaching activities in order to bring about a change in the marketing discipline.

This chapter discusses how marketing academicians might reform the discipline by reforming their own research and teaching. It recounts what the past has been and what the future might be with the academicians undertaking certain steps to shape it proactively. It specifically addresses the issues of practical relevance of the discipline's efforts, providing a brief historical perspective of how academic marketing grew to stray away from practice, and then listing potential approaches that academic marketers might consider for generating and disseminating marketing knowledge that would be perceived as more useful in terms of practical relevance.

## THE ISSUE OF PRACTICAL OR MANAGERIAL RELEVANCE IN ACADEMIC MARKETING

There have been extended debates in the marketing discipline on whether the discipline's research and teaching efforts should be concerned with practical or managerial implications at all. The pure-theorists claim that like physicists, biologists, or mathematicians, academic marketers are also scientists, and thus practical relevance should not be interjected into their research discussions. The proponents of practical relevance, on the other hand, maintain that if practical relevance is not of much import, then such marketing academicians should practice their profession in other academic departments—departments that directly support or are directly relevant to their research, whether they are statistics, psychology, sociology, or any other. The advocates of practical relevance argue that as long as marketing academicians want to be in marketing, and marketing is a distinct function in business organizations, the results of the efforts of marketing academicians must be material to business organizations. In their estimation, although a publication might not have direct managerial utility, it should at least be able to articulate how the direction of research could eventually impact or improve marketing practice in the broader world.

Evidence now indicates that a preponderance of marketing academicians have begun to give some attention to the issue of practical relevance in their papers and dissertations. Even though the incorporation of this issue in research may still many times be superficial, slow, or force-fitted, the debate over it seems to be slowly becoming muted and less contentious.

In order for marketing academicians to be able to consider some approaches and mechanisms for reform, an appreciation of how academic marketing got to where it is would be appropriate.

### The Past: How the Research and Teaching Pendulum Swung

The academic discipline of marketing grew as an "applied" field, historically developing by borrowing theories from other disciplines. Many would agree that economics was the "mother" discipline for marketing, and that some other disciplines, such as psychology, social psychology, sociology, anthropology, and statistics, were significant contributors to the field. During the initial stages of the growth of marketing, most of the academic research in the discipline consisted of direct application of theories or methodologies from these disciplines to the problems in marketing. Given that marketing was a new and virgin territory and that there were thus many potential ideas that researchers could bring in, most of the issues that were chosen for research (generally from the parent disciplines) produced knowledge that had not been previously available and was, hence, perceived as useful by marketers both in practice and academics.

With business schools struggling to attain respect among other schools by demonstrating that their research was based upon accepted research protocols (i.e., accepted in other fields) and was not "atheoretical," the trend of borrowing and applying methodologies from other disciplines continued and picked up pace. Similar to some other business disciplines, academic marketing too carried on its pursuit of avoiding being cast as a vocational field, focusing on inserting (whether discriminately or indiscriminately) theoretical rigor in its teaching and research. It thus kept moving away from practice, with the issues that were researched made artificially simple to allow them to be resolved in a manner that embraced conventional methodological rigor.

The nature of the problems or issues selected for research in the early stages stemmed from the background and training of the initial scholars in marketing, which were acquired from areas outside of marketing. Furthermore, the discipline did not strive to ensure that the candidates recruited into the doctoral programs were aware of or sensitive to the needs of the marketing world. The irrelevance of the problems researched persisted and did not diminish any with time since the newer problems investigated and studied were almost always based upon previous research that had solved innocuous problems in the first place. The cycle so continued (and does so to this day to a certain extent). In that vein, the research and teaching pendulum continued to swing, and, in the eyes of some, had swung to quite the extreme when researchers in marketing loathed the thought of having to provide any real *marketing*—let alone *managerial*—implications of their research! Thus, though there were improvements over time in the types of problems selected for analysis, progress in the field was not as significant as might have been with the right channels in place, such as direct interactions with managers.

As time went on, research in marketing started falling into three broad areas—quantitative/analytical, behavioral, and managerial/strategic. Besides the general distancing of academia from practice, some academicians, especially those in the managerial/strategic areas, thought that research in the quantitative and behavioral areas was particularly lacking in practical marketing implications. For these managerial researchers, insult was added to injury when the areas of quantitative and behavioral research started commanding greater respect in the discipline than managerial research. Furthermore, because of the associated prestige and the types of intellect required by these two research areas, an increasing number of budding academicians started gravitating toward them.

In the perception of some academicians, however, it was not only the two areas of quantitative and behavioral research that went adrift in terms of their bearing on real-life business issues—the managerial/strategic research area also drifted in that direction. These academicians cited, for example, the effort of managerial/strategic-area researchers to build a *unifying theory* of marketing to be a wild goose chase. That marketing could have any theory, let alone a unifying one, or any laws did not seem feasible to them. They felt that even if erroneously expounded, such a theory would be amenable to being easily proven false by practitioners.

All in all, many saw the divide between academics and practice widening, with academics being unable to keep pace with the requirements of practice.

### Shaping Future Research: Swinging the Research Pendulum in the Other Direction

There has been a growing and increasingly prevailing sentiment among many in the marketing discipline that the research and teaching pendulum should be brought back and made to swing in the direction of practical relevance and of generation/dissemination of more applicable knowledge. In that light, five potential approaches are discussed below for academic marketers to consider incorporating into the future focus of their research. These are:

- Selecting the right problems for research
- Modifying the intellectual rigor perception
- Coordinating the varied research efforts in a particular area or knowledge domain
- Developing a distinctive identity for marketing
- Getting support from the business sector

### *Selecting the Right Problems to Research*

Selecting the right marketing problems for research would be the first key step for academic marketers to consider taking toward generating meaningful applications and solutions for business. Problems selected for research should represent those for which businesses or industries of one type or another seek solutions. In that context, it is not important which of the areas of research—managerial, behavioral, or quantitative—is more useful. Rather, any type of research can prove valuable as long as there are demonstrable benefits from it for some businesses or industries.

For identifying meaningful problems, it would be necessary for researchers to stay in touch with and interact with the practicing world. This does not necessarily imply that all researchers need to be in commune with practicing managers all the time. What the academicians would need to ensure is that the discipline has constant exposure to the business community and that there are a sufficient number of avenues set up for a regular flow of information and issues from the business world. They would thus need to establish adequate channels for the orchestration of such interactions (examples of which are currently represented by the Marketing Science Institute and the Product Development and Management Association).

An argument presented against this approach of finding solutions for the real problems of the business industry is that it falls in the domain of management consultants. That argument can be countered by distinguishing that management consultants attempt to resolve specific problems for individual clients and, unlike academicians, do not have the distinct focus or goal of advancing knowledge frontiers that can be generalized or are oriented for the greater good. In that regard, their motivations for solving problems, and hence their solutions, are quite different from those determined by academicians.

### *Modifying the Intellectual Rigor Perception*

The educational curriculum that prospective marketing academicians go through imparts to them a regimen of certain research methodologies, instituting in them a preference for those methodologies when conducting research work. Thus, while organizations such as the Marketing Science Institute represent commendable efforts that are underway to bridge the academic and business worlds, the bias for orienting their work toward acceptable types of methodological rigor many times prevents marketing academicians from appropriately or completely attacking the marketing problems brought to fore by such organizations. Certain types of methodological rigor have come to be coveted by many researchers and have also come to be equated by the discipline with intellectual rigor. Unfortunately, such methodological rigor alone may not be conducive to resolving many real-world business problems. To make matters worse for the potential of real-world problem resolution, the brightest and the best students tend to be attracted to the rigorous-methodology/constrained-problem domain because of its equation with intellectual rigor. Real-world problems thus miss the opportunity of being worked on by these high-caliber researchers.

It is proposed here that marketing academicians attempt to modify their disposition on traditional methodological rigor and not construe such rigor to be the sole indicator of intellectual rigor. The scientific and intellectual rigor that a particular research is based on should be determined on a case by case basis, depending upon the problem being resolved. Eventually, researchers should strive to ensure that the marketing discipline *encourages, expects,* and *respects* the employment of appropriate creative techniques that are scientifically thorough for resolving a given real, complex problem.

Apart from rigor at the paper level, individual researchers should strive for another type of rigor—at the level of individual program of research. Such rigor would entail a controlled approach by the researcher in gradually chipping away at the shortcomings and assumptions of the individual's past research. With researchers conscious of and working toward resolving complex issues, the coordination of research at the discipline level becomes easier. This issue is addressed next.

### *Coordinating the Numerous Research Efforts of a Particular Area or Knowledge Domain*

Knowledge can be efficiently produced if individual research efforts on an issue serve as the building blocks of possible solutions for that problem. In that light, researchers do evaluate each and every effort of theirs in terms of the potential for making a contribution to a particular problem or domain. An extension of that consideration points to a need for an instillation of a certain degree of orderliness that could possibly be brought about by timely, periodic snapshots of the state of affairs and further needs in a given domain. Without attempts at some form of coordination of individual research initiatives, there is a danger of chaos, of the possible attempts at resolving an issue going adrift, or of the domain or issue losing its very significance.

Perhaps the domain of relationship marketing (RM) would serve as a good case in point in the preceding context. When relationship marketing came to the fore, there was a flurry of papers claiming the wonders of the new paradigm and its ability to be a panacea for all that ailed marketing. Three or four years into the introduction of the concept to marketing, twenty-nine definitions of RM had been proposed, out of which ten had used the word "relationship" itself! Definitions were constructed using any of the following phrases: refers to, achieved by, purpose of, objective of, associated with, attempts to, assumes, reflects, emphasizes, and involves. Some papers claimed that RM was between two parties; others proposed it as between more than two parties. Some thought that RM was relevant only in the long term; others thought that it was appropriate even in the short term. But more importantly, when scholars tried developing it as a science, constructs proposed were all over the place in terms of whether they were antecedent, consequence, or mediating variables. For example, Opportunistic Behavior and Relationship Benefits were each modeled as both antecedent and consequence variables and Commitment and Trust were each modeled as both consequence and mediating variables. The unfortunate outcome of the situation was that there was no final resolution. Perhaps there can be no possibility of a resolution being achieved through this linear track of thinking. The truth may be that there is a positive feedback cycle between the two variables, of commitment breeding trust and of trust breeding commitment. Perhaps the choice of linear hypothesis, as compared to the positive feedback loop hypothesis, was dictated by the methodological correctness with which it could be tested, the data requirements and measurement challenges being arduous for the constant feedback model. A simple but erroneous conceptual model was thus advanced because it could be tested in the traditional methodologically rigorous manner.

The result of RM being all over the map and positioned as having no significant limitations in scope was that it faced pushback from many and absolute rejection by others. It would have been beneficial if, instead, at some point early in RM's popularity, a leading journal had published an article on the caveats of RM, including issues such as: When is RM not applicable? Do all consumers want a relationship with a frequently bought consumer nondurable brand? How is extracting value from a relationship over time different from pricing strategies that incorporate low up-front costs and fees for membership, subscription, or licensing? What role do intangibles play in relationships, and how is this role any different from the notion of intangibles in the concentric-circles model of augmented product?

Based upon the lessons learned from issues such as RM, it would seem that a deliberation of a given issue as a whole and a coordination of the full range of research efforts related to its various parts would go a long way toward overcoming the deficiencies and assumptions of the individual efforts.

### *Developing a Distinctive Identity for Marketing*

The kind of research proposed in the preceding sections would be risky and more time-consuming for any academician and would be associated with lower chances of making it successfully through the journal review process—*unless the research and publication parameters are changed in the discipline.* The latter is precisely what is being presented here as a key to developing a distinctive identity for the marketing discipline.

Changes in the research and publication parameters to reward innovative ways of addressing marketing issues that face businesses would not only bridge the gap between the academic and business worlds, but also move toward giving marketing its own identity. Senior researchers would have to lead by example for the change, by publishing articles with the kind of themes being advocated here as well as by encouraging modifications in the acceptance criteria of marketing journals. Journal editors and reviewers would also have to become more accepting of such research. Baby steps in this direction, individually and collectively by all in the discipline, can be envisioned to produce an upward spiral that would eventually culminate in marketing acquiring its own identity. This, in turn, can be anticipated to bring about a better recognition of the contributions of the marketing discipline and thereby, a greater level of self-confidence in the academicians regarding those contributions (rather than a search for approval from economists or psychologists).

### *Getting Support from the Business Sector*

With the discipline meticulously tackling appropriate problems and exuding confidence about the value of its research, marketers will have a stronger base for approaching businesses regarding funding of their research. It is heartening to note that despite the recognized limitations of the research and teaching conducted by business schools, business schools are still heavily supported by business entities. One can only anticipate with enthusiasm what that level of support would be if the work that marketers put out in the field is more relevant to the business sector. Needless to say, researchers could base such work, in addition to any innovative methods, upon judiciously chosen and appropriately modified theories and methods from other disciplines as necessary. (The important point is that the dog—the problem—should wag the tail—the methodology—rather than the other way around.)

## SHAPING FUTURE TEACHING: SWINGING THE TEACHING PENDULUM IN THE OTHER DIRECTION

Having addressed to some degree how academic marketers can ensure *generation* of useful knowledge, it would be in order to discuss some points regarding how they can ensure the appropriate *dissemination* of such knowledge. From that perspective, marketing may be considered as made up of two streams or components—the strategy stream and the operations stream.

### The Two Components of Marketing: Strategy and Operations

The strategy component of marketing comprises the philosophy that professes that the basic approach of conducting business should be based upon satisfying the needs of customers—whether current or future and whether expressed or latent. It claims that such philosophy assures the long-term financial viability of a business. The component incorporates macro issues such as target segments, positioning, value propositions, brand equity, and so on. It entails knowledge that, to a large degree, is tacit.

The operations component of marketing is the part that involves the all-important details of every one of the marketing functions and marketing know-how, for example, how to listen to the voice of the market, how to research advertising effectiveness, how to measure brand equity, how to develop pricing strategies, how to develop and test optimal promotional strategies, how and when to establish relationships, and so forth. The details may be carved up in any of a variety of ways—as customer linking, bonding and sensing, as four Ps (product, place, promotion, and price), as attracting and satisfying customers, as creating and fulfilling demand, or as a new paradigm of relationships. All these relate to and provide answers for an organization's day-to-day operations. Marketing models (quantitative, behavioral, or others) and research techniques constitute a significant part of this component. Knowledge in this component is mostly explicit.

### Teaching the Two Components

In disseminating marketing knowledge, marketers err on two dimensions. First, in their pedagogical approach, they do not differentiate enough between the strategy and operations components of marketing. Rather, they incorporate the two components into one unit and then treat that unit either as a science or as an art, neither of which is a perfectly accurate approach. Second, in teaching the operations component, marketers do not cover the necessary materials in sufficient detail to guard against their potential misapplication. Topics belonging in the realm of this second component are not taught with all the caveats spelled out. Nor are they comprehensively covered from all angles to provide solutions for all product-market nuances. Because of such treatment, many solutions that are proposed in marketing are either discarded altogether or applied erroneously.

It is proposed that marketers consider it essential to delineate the strategy and operations components of marketing in teaching courses and in other methods of dissemination of marketing knowledge. As already mentioned, the knowledge base represented by the two components is quite different—implicit in strategy and explicit in operations. Delineation of the two components would ensure that they can be focused upon individually toward the goal of boosting the impact and perception of marketing in every sphere, whether as a research and teaching subject in business schools or as a function in business organizations. As it stands today, the strategy component is so ingrained in the DNA of routine business that its learning and practice is warranted for all top managers and chief executive officers (CEOs), as well as for nonmarketing departments, such as finance, manufacturing, and R&D. The operational component, on the other hand, is expected to be executed exclusively by marketing professionals.

The strategy component of marketing, given its tacit nature, should to be taught as much like an art as a science. A close analogy to this might be found in cooking, where a master chef needs to gain expertise about the science of food and also master the art of cooking. An interesting mix of art and science, the knowledge of the strategy component appeals to, and is pertinent and useful to, both marketers and nonmarketers. If marketers want to advocate the philosophy that for any firm, the route to long-term financial viability is through satisfying customer needs, then the strategy component becomes basic in business. As such, it should be taught to all business students as a fundamental course in marketing rather than as a capstone course to marketing majors. If taught to all, practiced by all, and considered useful by all, the concept of marketing strategy will, in most likelihood, be adopted and absorbed by other disciplines. And the more other disciplines borrow from marketing, the more marketing will be able to establish its own identity—representing a potential cause for celebration. That situation would be similar to economists enjoying a borrowing of their concepts by other fields. Marketers must, however, watch out for the associated temptation of resting on their laurels, and just like economists keep their wares current, they must too.

As far as the operations component of marketing is concerned, both the breadth and depth of what is imparted by academic marketers in its education can be improved, with the potential caveats and pros and cons in its practical application pointed out more effectively and thoroughly. As mentioned earlier, this component has heavyweight contents—quantitative and other models, research, simulation, and decision support systems, to name a few, to aid in marketing decisions. For any meaningful learning to occur in this regard, students ought to be *actually* engaged in real operational steps and processes, examples of which include: allocating and buying media for the dollar amount budgeted by a particular advertising strategy, writing storyboards, conducting research to test the effectiveness of a message, learning and applying different advertising response models and reviewing their pros and cons, testing the effectiveness of various promotional strategies and campaigns, designing measurements systems for customer satisfaction and its drivers, and segmenting a particular product market with real data in a real competitive landscape. The point is that it is not sufficient for students to know, for example, only the hierarchy of effects and the other psychological components of advertising. There is more to advertising in the business world than its scientific basis. The same is true for other areas of marketing.

If teaching courses for the operations component are not constructed with more in-depth consideration to potential real-world applications, there is a danger that either materials from the strategy component will be repeated in these courses or that the relevance of the information disseminated will miss its mark. Additionally, without attaining a good grasp of this component, marketers in business are apt to misapply and misuse models that form a key part of the component.

The structure of marketing electives generally presents ample scope and time for allowing incorporation of the aforementioned details. Marketing courses for MBAs and undergraduates are generally less demanding and exacting than courses in subjects such as finance. There seems to be a hierarchy or pecking order in subject majors, with students who have quantitative abilities tending to opt more for a major in finance or accounting. By increasing the level of its expectations from students and by delivering more intensive content, marketing can expect to impact that trend and attract more students who are seeking a challenging stream of work. It needs to be pointed out though that the recommendations for more intensive content, rather than based upon an intent to make the discipline difficult, are based upon a recognition of the value such knowledge content can bring to business. In the current environment, because such information is not routinely available in business and does not make up a routine part of marketing, not only are *marketers* marginalized but also *marketing* tends to be looked at in a skeptical or unsure manner by senior managers. As one CEO said, “when executives from other disciplines ask for dollars, I know what I am getting in return; with marketing, I never know if the money will be well spent.”

Thus, academic marketers may consider redesigning marketing education such that marketing strategy details are taught as a part of a fundamental marketing course to all business students, and marketing operations is taught in all its depth and breadth to marketing majors.

## INSTITUTING FACILITATING MECHANISMS FOR THE PROPOSED APPROACHES

With some potential approaches for the reform of their research and teaching having been identified for academic marketers, the following suggestions are presented regarding some mechanisms they might institute for facilitating progress in that direction.

### Reframing and Redefining the Role of Journal Editors

Editors of marketing journals can contribute in a significant way to moving the discipline forward. The discipline would benefit from structuring editorial positions such that in addition to having responsibilities for receiving articles for review, forwarding them to reviewers, collating reviewer comments, making final decisions, and executing other gate-keeping functions for research publications, these positions are expected to play an expanded leadership role. Editorial function may thus be defined to encompass a requirement for setting some vision for the knowledge domains researched in the discipline and for leading and coordinating research in a purposeful direction, in a well thought out and concerted manner. In the context of this chapter then, it would follow that editors should encourage attempts at investigation of the kinds of problems discussed herein and bring about required changes in acceptance criteria and acceptable methodologies for research publications.

### A New Body to Steer Research and Teaching

An avenue through which marketing academicians might move their cause forward is with one or more formal bodies of relevant experts—boards, panels, committees, or commissions (similar to the Financial Accounting Standards Board, but with a rather different scope)—responsible for laying down research and teaching guidelines, standards, criteria, and so on. By having a permanent structure for setting and resetting direction in this manner on an ongoing basis, marketing academicians would ensure that there exists a forum for discussion of critical marketing issues and that marketing knowledge domains make more meaningful contributions. The efforts of such a steering force would allow the agenda of the academicians to be reviewed and revised as necessary, and might also earn better recognition for the discipline.

For greater effectiveness, it would be appropriate for the suggested body or bodies to have diverse representation from all hierarchical levels of marketing researchers, teaching instructors, and editors, as well as marketing professionals from the business sector. A rotating membership (of a two- or three-year term) would probably be most effective in ensuring a broader input base and continual generation of fresh perspectives.

### Publication of a Textbook on the State of the Art of Marketing

Marketing academicians might find that their concerns regarding reform are partially addressable through publication of a textbook that takes stock of existing marketing knowledge (including marketing models, theories, and methods) and that outlines where marketing knowledge is deficient and what kinds of information are still missing at this juncture. A snapshot of the existing knowledge base and the current marketing environment would be helpful to both students as well as academicians. For students, it would point out what and how to practice and where to be careful. For academicians, the book would serve as an excellent source of potential ideas for research.

## Chapter 32

# DOES MARKETING NEED REFORM SCHOOL?

## On the Misapplication of Marketing to the Education of Marketers

Morris B. Holbrook

When Ted Levitt famously penned his updating of conventional wisdom borrowed from Peter Drucker under the title "Marketing Myopia" back in 1960, this canonical *Harvard Business Review* article raised some important issues concerning the weaknesses of Levitt's professed fealty to an extreme form of customer orientation. The problem with excessive obeisance to the customer—various critics correctly noted—is that what customers want may be too expensive to produce profitably (the highest possible quality at the lowest possible price); may be illegal, environmentally dangerous, unethical, or otherwise damaging to society (styrofoam, cigarettes, SUVs); or may not be anticipated as desirable until actually offered on the market (compact discs, laptop computers, iPods, Listerine). Pretty soon, most thoughtful commentators had begun to agree that success requires a balance of the customer orientation (external focus) and the product orientation (internal focus) weighed against other imposing environmental forces (the systems view) toward the end of enhancing profits in order to survive (the ecological imperative). Many ways developed to say essentially the same thing—namely, that effective marketing strategy for a brand, product, or firm seeks an ecological niche in the marketplace so as to achieve a differential advantage based on a distinctive competence that supports prosperity or what I like to call survival with dignity.

This episode in the history of marketing thought would have been instructive and salubrious if it had been settled and put to rest then and there. But the specter of overzealous customer orientation—like the ghouls in a low-budget grade-B horror movie—refuses to die, rising zombie-like from the grave of dead metaphors to walk again among us as a potential threat to our clear vision of what we are doing and why. Indeed, more recently, the misplaced doctrine of customer orientation has infected a number of areas where the people in charge ought to know better—medicine, religion, politics, the penal system, and . . . most lamentably . . . education. To a frightening extent, university administrators have come to regard the student as a customer whose satisfaction should guide the purposes and operations of the educational institution. In league with the hedonic bent of our inherently greedy society—seeking always the good life via a lucrative participation in the free enterprise system—this student customer tends to place a woefully misguided premium on two major criteria: entertainment and career advancement. As the college years advance toward their potential culmination in a professional degree such as an MBA, the balance tends to shift from the former (entertainment) to the latter (careerism) so that the MBA mind obsesses about nothing so much as what every scrap of information (as distinct from knowledge) will contribute to the student customer's fund of bankable skills (as distinct from growth of intellectual capabilities). In this climate, the student customer views the school as a vendor of career-relevant diplomas. Business-related publications (*Forbes, US News & World Report, Business Week*) evaluate schools according to how much their academic degrees are worth on the job market (the net present value of future earnings less tuition and the opportunity costs of foregone income). In short, all pretense of academic values surrenders to an ethos that emphasizes an anti-intellectual preoccupation with the bottom line or, in other words, with the highest monetary payoff for one's educational dollar.

Nowhere does this anti-intellectual ethos of career-oriented customer orientation take root more strongly than in a business school. And—ironically in the extreme—nowhere do we find a devotion to customer orientation in the academic community voiced more vociferously or with more sanctimonious subservience to the student as customer than among those very marketing professors whose allegiance to student satisfaction runs in a direction diametrically opposed to the more soundly conceived principles of effective marketing strategy that they teach in the classroom. As one appalling example, consider the widespread adoption of required core courses in marketing offered to students grouped into clusters that take all their classes together. Such a system maximizes the student satisfaction that stems from incessantly networking with one's classmates. But, by necessitating the standardization of course offerings across sections, it runs directly counter to every known principle of market segmentation. Professors unlucky enough to teach such a course find themselves producing a standardized mass-marketed commodity that paradoxically embodies the often-lamented majority fallacy—that is, the demonstrably false premise that a single offering can please everybody or, in other words, the single greatest marketing error that it is possible to commit.

In this brief chapter, I shall use these regrettable aspects of business education in general and marketing instruction in particular as a cautionary tale to illustrate the pitfalls of what can happen if we push marketing too far (into areas where it does not belong) or, more accurately, if we misconstrue the meaning of the marketing concept (by confusing it with a misbegotten version of customer orientation).

The particular manifestation in which customer orientation rears its ugly head in the field of education in general and of marketing education in particular entails a view of the academic institution as a business that provides services to its students regarded as customers. This misconception of the academic project has evolved over the course of time from earlier perspectives that emphasized rather different aspects of the key exchange relationships involved.

Once upon a time, back in the distant days when I was a boy in elementary school, we used to regard the student as a producer who offered homework assignments, exam papers, and term projects to the teacher as customer in return for good grades, promotion to the next-higher class, and eventual graduation. This admittedly old-fashioned model looked something like this:

**Old-Fashioned Model**

| | |
|---|---|
| PRODUCER | CUSTOMER |
| Student | Teacher |
| Homework, Exams, Projects ➔ | ← Grades, Promotion, Graduation |

From a societal viewpoint, this outmoded conception of student-as-producer and teacher-as-customer left a lot to be desired. One might argue that, under the old-fashioned model, students felt the need to work for grades and other academic honors rather than for self-improvement or intellectual fulfillment. One might lament the absence of a thrust toward learning-for-its-own-sake. One might suggest that teachers gained an unfair power advantage over those under their tutelage. But, that said, the old model did retain some sense of the faculty's responsibility for determining what themes and topics best suited the needs of its students—much as a doctor is responsible for prescribing a treatment appropriate to the disease at hand or, at least, was thus accountable before the days when increasingly customer-oriented pharmaceutical companies such as (say) Merck began to spend more on television commercials for (say) Vioxx than Pepsi or Budweiser spend advertising their cola and beer products in hopes that patients will go to their physicians with special requests for pills promoted by the media. (And let's not get started on the subject of Viagra, Levitra, and Cialis.)

Whatever the merits of the old model, it began to lose sway as baby boomers chased dwindling employment opportunities in an increasingly competitive job market. Soon an MBA became a near-requisite ticket for success on the career ladder. The leading business schools came to be viewed by corporate recruiters as refined screening devices for identifying the most promising job candidates. The value added by an elite B-school depended less on what it taught its students than on its savvy in recruiting, selecting, and matriculating the best and the brightest. Under this revised interpretation of a school's mission, the model of the relevant exchange process took a new form in which the academic institution produced job candidates by turning its raw materials (students) into finished products (graduates) in return for employment offers from corporations as its major customers. This revised model now appeared as follows:

**Revised Model**

| PRODUCER | CUSTOMER |
|---|---|
| School | Corporation |
| Job Candidates ➔ | 🡐 Employment Offers |

The only thing that I like about this revised model is that it possesses the advantage of openly calling a spade a spade and thereby explicitly naming the particular type of manure that the educational system happens to be shoveling. That is, the revised model freely acknowledges that careerism has come to dominate the academic process and that the inherently selfish interests of big business play a major role in shaping educational policy without any real regard for the moral or intellectual development of individual character. Interestingly, today's students find this revised model offensive even though the vast majority of them support it with their own overt behavior. To greet a student who has missed several classes due to a busy interviewing schedule with the news that he or she has behaved like the true product of a diploma mill would be tantamount to suicide in the end-of-term student evaluations. When a colleague once mentioned the revised model in class as an alternative view of the academic system at a major business school, students expressed such unrestrained rage that a dean forced this teacher to apologize to his class. The dean did not explain why merely stating a simple fact of life should require an apology. The reason, of course, is that—put in its briefest and bleakest terms—students do not want to be regarded as products. Rather—like patients in a hospital, parishioners of a church, voters in an election, or inmates at a prison—they wish to be regarded as customers.

Thus, the emerging view sees the school as a producer that offers MBA-degree diplomas, networking opportunities, and career counseling in exchange for tuition dollars, generous donations, and favorable evaluations from its students regarded as customers. This customer-oriented model takes the following form:

**Customer-Oriented Model**

| | |
|---|---|
| PRODUCER | CUSTOMER |
| School | Student |
| Diplomas, Networking, Careers ➔ | 🡐 Tuition, Donations, Evaluations |

The pernicious nature of this customer-oriented model appears almost too obvious to require discussion. Suffice it to say that it represents an ugly logic in which the rewards of education take the most banausic possible form—premised on the purely utilitarian benefits of money, status, and power—while the reciprocal contributions of the student customers are as perfunctory, instrumental, and lacking in moral foundation as it is possible to imagine. Yet when the dean of a major business school recently referred to the activities of what one used to call Student Affairs under the new heading Customer Services, not a single voice rose in protest. Rather, the logic that students receive the soulless transfer of wealth-engendering career opportunities in return for their tuition dollars has taken root so strongly that no one even notices the enormity of the ethical and intellectual transgressions routinely transpiring when, to paraphrase the old adage, the inmates are running the asylum.

By now the potentially exasperated reader will have begun to wonder whether I have something better to offer. Am I just complaining and bemoaning the inequities of the new regime in academia? Or have I got something up my sleeve that I claim as an improved model? The answer is that I do not believe that the blame for this calamitous decline down the path toward customer orientation in business academia lies with marketing as a discipline—neither with marketing professionals nor with marketing educators. Rather, I believe that the fault lies with a mistaken view of marketing strategy or with a misapplication of the marketing concept. To repeat a point made earlier, the problem results from a misunderstanding of the proper role played by customer orientation as a force to balance product orientation in conjunction with other environmental factors toward the attainment of an ecological niche that permits survival.

In this connection, it makes sense to view the student as a customer but as a customer of a type altogether different from that normally assumed. Specifically, I believe, the student should be viewed as a customer whose role is analogous to that played by the channels of distribution in conventional marketing thought. That is, the student acts as an intermediary by whom the school's production of knowledge is transmitted and transferred to members of society in a position to benefit from it. This supply-chain model takes the following shape:

**Supply-Chain Model**

| | | |
|---|---|---|
| PRODUCER | CHANNEL | CUSTOMER |
| School | Student | Society |
| Knowledge ➔ | Knowledge ➔ | |
| | 🡐 Appreciation | 🡐 Goodwill, Respect |

In this supply-chain model, the major purpose of the university lies in the creation and dissemination of knowledge. Put differently, the school and its faculty work toward the creation of new ideas, concepts, and insights that may or may not prove useful to the members of society facing real-world problems in general and to the members of the business community seeking profitable applications in particular. The student's role, as a leading member of the channels of distribution, is to assimilate the relevant knowledge and to transmit its contents to those members of society in a position to achieve useful applications. In return, society will reward the academic institution and its faculty with goodwill and respect transmitted through the school's former students in the form of appreciation for their privilege of participating in the educational experience. Very often, of course, the transmission and application of knowledge through students in the manner envisioned here will involve ideas, concepts, and insights of relevance to the practical solutions of business problems by business corporations. At other times, the knowledge transmitted may be of the type that sheds light on issues of social concern or that enriches the intellectual environment of the community at large. In either case, the role of the student is only partially that of a customer—a customer only in the sense of an intermediary whose purpose, like that of Wal-Mart or Home Depot or even PETCO, is to serve the members of a larger community of end users. In this sense, the marketing enterprise of relevance to an academic institution involves a push-through rather than a pull-through strategy. Students can take comfort in the implication that they resemble a pet owner (acting as part of the channel of distribution) more than they resemble a Cocker Spaniel (the end user).

So, in the end, the marketing concept stands unscathed. Marketing, it turns out, does not need reform school so much as schools need to reform their view of the process wherein they create and transmit knowledge to society at large, whether in the context of learning in general or in that of business education in particular. In this sense, all academic activities involve the instruction of those who will ultimately perform a role as channels of distribution in the marketing of ideas, concepts, and insights of potential relevance to other members of society. Thus the challenge to our discipline within the context of a university lies in reforming the misapplication of marketing to the education of marketers.

## REFERENCE

Levitt, Theodore (1960), "Marketing Myopia," *Harvard Business Review*, 38 (July/August), 45–56.

Chapter 33

# MUSINGS ON THE NEED FOR REFORM IN MARKETING

Rajan Varadarajan

> But what is most special about the American research university is that it is a place where authority of ideas, rather than the idea of authority, reigns supreme. At Harvard, we consider it an extremely important accomplishment when a 25-year-old graduate student who has been here a mere 18 months makes a discovery that disproves the pet theory of a 55-year-old professor who has been here 30 years. Indeed, the professor whose theory has been disproved might be the first to congratulate that graduate student. (Summers 2003, p. 144)

> I grant that scientists often fall in love with their own constructions. I know; I have. They may spend a lifetime vainly to shore them up. A few squander their prestige and academic capital in the effort. In that case—as economist Paul Samuelson once quipped—funeral by funeral, theory advances. (Wilson 1998, p. 52)

It's reasonable to presume that the impetus for either a marketing scholar or a community of marketing scholars to pose the question, does marketing need reform? could conceivably be discontent with the current state of, for example:

- marketing practice
- applied research in marketing
- laws and regulations governing the practice of marketing
- scholarly research in marketing
- marketing education at institutions for higher education

In this chapter, I address the question of the need for reform in marketing in the following contexts. Concerns voiced by marketing academicians regarding the:

- Diminishing influence of the marketing discipline (and marketing scholars) in the academic discourse on strategy
- Diminishing influence of the marketing function (and marketing managers) in organizations
- Specter of deficiencies in scholarly research in marketing or marketing education leading to the marginalization of the marketing function (and marketing managers) in organizations

## ALLEGED LOSS OF INFLUENCE OF MARKETING IN ACADEMIC DISCOURSE ON STRATEGY: ACRIMONY IN THE IVORY TOWER REVISITED

Reminiscing about marketing's loss of influence in the academic discourse on strategy, Day (1992, p. 324) noted: "Within academic circles, the contribution of marketing, as an applied management discipline, to the development, testing, and dissemination of strategy theories has been marginalized during the past decade." Among the reasons for the loss of influence, according to Day, are the following:

- Preemption of marketing frameworks, concepts and methods by other fields of inquiry.
- Tendency to employ theories and frameworks of other academic disciplines, and the attendant lop-sided balance of trade in influential ideas.
- Ceding of territory by shifting the balance of research activity further toward micro issues.
- Tardiness in addressing important issues and tendency to stay too long with outmoded characterizations of strategy processes and issues.[1]

Also published in the issue containing Day's (1992) article is an article by Sheth (1992) titled, "Acrimony in the Ivory Tower: A Retrospective on Consumer Research," and two invited commentaries by Bagozzi (1992) and Chakravarti (1992). Considering in tandem the issues addressed in these writings, I have often wondered whether the editorial policies of some of the scholarly journals in our field also shoulder some of the blame for marketing's loss of influence in the academic discourse about strategy. Specifically, the editorial policies of scholarly journals in the field of consumer research that seem to be predisposed to exclude managerial implications of research from the scope of articles published. The predicament of marketing educators caught between the following editorial policy positions is unenviable:

- In order for a manuscript to be considered for review and publication in the journal, the author must clearly articulate the managerial implications of the research reported.
- Even if the author has valuable insights to share about the managerial implications of the research reported, the journal is neither interested nor inclined to provide journal space for such insights to be disseminated in the article.

What are the likely consequences of mandating authors to elaborate on the managerial implications of their research regardless of whether they are interested in or equipped to do so? An editorial by Cunningham and Enis (1983, p. 6) is instructive on this issue. They noted: "In sharp contrast to the analytical rigor characterizing the research design of many papers, the discussion of managerial implications is often nothing more than speculation. Too few researchers discuss their work with practitioners and even fewer involve them in the project, for example, as 'feasibility advisors.'"

What about the likely consequences of explicitly excluding managerial implications from the scope of published articles? The message to the researcher seems to be, "keep the knowledge of the managerial implications related to your scholarly research on consumer behavior to yourself, or explore other avenues for dissemination of any such insights." From the standpoint of the advancement of the field, some likely long-term consequences are:

- Inefficiencies in knowledge dissemination and utilization.
- Researchers, neither being trained nor encouraged to give careful thought to the managerial implications of their research.
- Advancement of "demand side perspective of marketing strategy" being adversely impacted.

The "implications" section of a manuscript is a researcher's *informed* point of view on issues such as the following.[2] Given the conceptual underpinnings and empirical research findings of a research study in marketing, what changes should be considered by:

- *Firms* in how they behave (compete, conduct their business, etc.) in the marketplace?
- *Public policy agencies* in regard to how firms should be allowed to behave (can compete, can conduct their business, etc.) in the marketplace?
- *Researchers in marketing* in regard to how they conduct scholarly research or in the focus of their scholarly research?
- *Marketing educators* in regard to what they teach in the classroom or how they teach?
- *Consumers* in regard to their behaviors pertaining to product acquisition, consumption, possession, and disposition.

Interestingly, of the above, it is only the implications of the conceptual underpinnings and research findings for *firm* behavior that seem to be a source of controversy in the field of consumer research. Although *implications for firm behavior* and *managerial implications (implications for managerial behavior)* refer to one and the same issue, for some reason, the latter phrase does not seem to resonate too well among some academic constituencies in our field. Perhaps, doing away with the term "managerial implications" and using the term "implications for firm behavior" instead, might be conducive to allaying the concerns of some researchers.[3] Regardless of the phrase used, the reference here is to implications for the behavior of the firm at various levels such as the brand, product category, product-market, business unit, and so on. That is, changes that a manager, acting on behalf of the firm, should consider instituting in light of the conceptual underpinnings of the study and empirical research findings.

### Current State of Marketing Strategy Informed by Consumer Behavior Theory and Research

Strategy exists at multiple levels in an organization, chief among them the corporate, business unit, and functional levels. *Corporate strategy* refers to a firm's decisions pertaining to the business arenas in which to compete. A firm's corporate strategy decision manifests as its business portfolio and relative emphasis (resource allocation) among businesses in the firm's portfolio. *Competitive strategy* refers to strategy at the business unit level and is concerned with where and how individual businesses in the firm's portfolio should compete in the marketplace in order to achieve and maintain defensible competitive positional advantage(s)—cost leadership and differentiation. *Functional level strategies* are integral components of a business's overall competitive strategy concerned with facilitating the achievement of competitive positional advantage(s) by the business. The issue of marketing's influence in the academic discourse on strategy arises in the following contexts:

- the distinctive and overlapping domains of corporate, business, and marketing strategy (e.g., Varadarajan and Clark 1994), and

- the role of marketing in strategy (formulation process, content, and implementation) at the corporate and business unit levels (e.g., Webster 1992)

More so than these, an even more fundamental issue that we should be concerned about is the current state of marketing strategy, informed by consumer behavior theory and research. Marketing strategy, as a field of study, can be viewed as primarily concerned with describing, understanding, explaining, and predicting the competitive *marketplace behavior* of a business to facilitate the achievement of a competitive advantage. Illustrative of questions fundamental to the field of marketing strategy are the following:

- What *explains* the marketplace behavior of competing businesses?
- How *should* a business compete in the marketplace given the characteristics of the industry in which it competes and the characteristics of customers that constitute its target market?

As implied by the second question, a business's marketing strategy decisions are impacted by both supply side and demand side considerations. The *supply side perspective of marketing strategy* refers to how a business should behave in the context of the structural characteristics of the industry in which it competes (e.g., number of competitors, size of competitors, entry and exit barriers, and industry growth rate), its competitors' history of past behavior, and so on. The *demand side perspective of marketing strategy* refers to how a business should behave in the context of the characteristics of its target customers (e.g., attitudes, beliefs and preferences; number and size; purchase frequency; and sensitivity and responsiveness to various marketing instruments), their history of past behavior, and so on. The term "should behave" here refers to "competitive behavior conducive to achieving superior marketplace and financial performance."

Over the past quarter century, the impact of insights from industrial organization economics and strategic management literature on the supply side perspective of marketing strategy has been considerable. However, the state of the demand side perspective of marketing strategy appears to be somewhat stagnant or neglected.[4] The content of marketing strategy courses (at all levels—bachelors, master's, and doctoral) is also indicative of a similar imbalance, characterized by extensive coverage of marketing strategy informed by supply side perspectives and sparse coverage of marketing strategy informed by demand side perspectives.

Against this backdrop, a question that merits addressing is, what would it take to change this lopsided situation? In my view, it would require consumer researchers in our field taking the lead in exploring the implications of research on consumer and customer behavior issues for firm behavior. As alluded to earlier, firm behavior encompasses behavior at various levels such as brand, market segment, product category, product market, and business unit. A stronger link between consumer behavior theory and research and marketing strategy problems could pave the way for a marketing strategy knowledge base that is infused with valuable insights on the implications of research-based knowledge on consumer and customer behavior for firm behavior.

At the most fundamental level, the interface of consumer behavior and *marketing* strategy encompasses issues such as:

Consumer behavior and positioning strategy
Consumer behavior and advertising strategy
Consumer behavior and sales promotion strategy
Consumer behavior and pricing strategy
Consumer behavior and product strategy

Consumer behavior and branding strategy
Consumer behavior and brand extension strategy
Consumer behavior and co-branding strategy
Consumer behavior and Internet strategy
Customer satisfaction and marketing strategy
Customer loyalty and marketing strategy
Brand loyalty and marketing strategy
Customers' quality perceptions and marketing strategy

Undisputedly, many of these issues have been explored in considerable depth, and textbooks on consumer behavior provide valuable insights into marketing strategy informed by demand side considerations. However, in some quarters, the resistance to *accelerating diffusion of such knowledge* through scholarly journals seems to persist. Is the chasm really wide and unbridgeable?

The history and origins of some journals devoted to consumer research issues sheds insights into the reasons why their editorial policies exclude managerial implications from the scope of manuscripts published in them. Scholarly journals do periodically revisit their editorial policies and institute changes as warranted. All one can hope for is that the concerns voiced in this section would receive some consideration when journals revisit their editorial policies. The rationale for singling out implications of research for *firm behavior* (changes that firms should consider instituting in regard to how they behave/compete/conduct their business in the marketplace) from the scope of articles published is not self-evident.

## ALLEGED DIMINISHING INFLUENCE OF THE MARKETING FUNCTION IN ORGANIZATIONS: SHOULD MARKETING ACADEMICIANS BE CONCERNED?

Concerns over the diminishing influence of the marketing function in organizations have been repeatedly voiced by marketing academics over the years. Illustrative of such concerns are the following excerpts:

> For the past two or three decades, marketing has effectively ceded its strategic responsibilities to other organizational specialists who have not, until recently, been guided by the voice of the customer. (Webster 1997, p. 49)

> CMOs are far from complacent about marketing's role in the firm, this study finds. To secure corporate-level influence, marketing must develop tools to quantify its contribution to firm growth and profitability, reinforce its traditional strength in branding, and broaden its view to encompass not just new products, but new business opportunities. (Webster, Malter, and Ganesan 2003, p. 29)

> Consequently, marketing's share of voice at the corporate level has declined. Research now demonstrates that, at large companies only 10 percent of executive meeting time is devoted to marketing. As the attention and imagination of CEOs have shifted to other functions, marketing academics have bemoaned marketing's declining influence within the firm. (Kumar 2004, p. 3)[5]

Merlo, Whitwell, and Lukas (2003) use the phrase "Marketing's Tribulations in the Marketing Literature" (table 1, pp. 340–42)to characterize the large body of literature focusing on issues pertaining to the standing of marketing in organizations and in academe. In their synthesis and critique, they delineate four recurring concerns advanced in literature on marketing's perceived lack of influence: (1) lack of strategic focus, (2) poor awareness, detached from reality, (3) poor reputation and marginalization, and (4) lack of effective measures of the performance impact of marketing. Besides distinguishing between two broad literature streams that assess the impact of marketing on organizational performance and analyze the role of marketing within the firm as a functional unit, respectively, they characterize a third stream as literature that *bemoans* marketing's lack of influence as an organizational philosophy or as function.

### Marketing's Declining Influence within the Firm: Opportunity for Scholarly Research or Cause for Concern?

Even if assertions concerning the diminishing influence of the marketing function in organizations made in some studies were to be true, whether marketing academicians should *bemoan* marketing's declining influence within the firm would depend on the underlying causes. If the decline were a consequence of the commissions and omissions of marketing academicians in the areas of scholarly research or the content of marketing education imparted to students in classrooms at institutions for higher learning, there is certainly a need to be concerned. (More on this in a later section.) On the other hand, if factors *other than* deficiencies in scholarly research in marketing or the content of marketing education are the primary root cause, there is no reason for marketing academicians to *bemoan.* Instead, it should be viewed as an opportunity for scholarly research. Our primary obligation as academics is to engage in disinterested pursuit of truth—*describing, understanding, explaining,* and *predicting* marketing phenomena of interest. The following quote from a recent article titled, "Why We Built the Ivory Tower?" succinctly conveys this point of view:

> After nearly five decades in academia, and five and a half years as a dean at a public university, I exit with a three-part piece of wisdom for those who work in higher education: do your job; don't try to do someone else's job, as you are unlikely to be qualified; and don't let anyone else do your job. In other words, don't confuse your academic obligations with the obligation to save the world; that's not your job as an academic; . . . Marx famously said that our job is not to interpret the world, but to change it. In the academy, however, it is exactly the reverse: Our job is not to change the world, but to interpret it. (Fish 2004, Section A, p. 23)[6]

In other words, if evidence were to suggest that the influence of the marketing function in organizations is on the decline, the principal focus of marketing academicians should be on understanding, explaining, and predicting this phenomenon by researching questions such as:

- What explains the relative influence of different organizational functions in firms?
- What explains changes in their relative influence (i.e., decreasing versus increasing influence)?
- What explains the emergence of dominant coalitions in firms (certain organizational functions emerging as more dominant and wielding greater power than other functions)?
- What explains the marketing function being more influential in certain types of firms, industries, cultures, and so on, than in others?
- How are various macroenvironmental trends likely to impact on the relative influence of the marketing function in organizations in the future? Will it diminish or increase, and why?

Extant literature in management on dominant coalitions and the relative power of organizational functions can serve as a foundation for exploration of questions such as these.

Concerns over the lack of influence at the corporate level are not unique to marketing. Gartner Inc., a U.S.-based consulting firm, surveyed 450 non-information technology business managers on their perceptions of the relative influence of various organizational functions in the boardroom. The study found that of the eight organizational functions considered, information technology was ranked seventh and human resources eighth in terms of impact on setting strategic direction for the company. The study also provides suggestions on steps that chief information officers could undertake to enhance their influence in the boardroom (*Financial Times* 2004).

Whether questions in the genre of what managers in various functional areas can do or should do in order to elevate their stature in the eyes of the CEO and the boardroom belong under the rubric of scholarly research pursuits in business disciplines is debatable. On the other hand, questions in the genre of what explains various functional area managers engaging in behaviors to enhance their stature in the eyes of the CEO and the boardroom? clearly belong under the rubric of scholarly research pursuits in business disciplines.

**Marketing's Declining Influence within the Firm: Fact or Myth?**

The *empirical evidence* presented in support of a decline in the influence of the marketing function in organizations (e.g., Ambler 2003; Webster et al., 2003) must be viewed as preliminary at best, and with caution. For the most part, the studies tend to be exploratory and descriptive, based on samples that cannot be construed as representative of the larger population, and limited to firms in North America or Western Europe. On the other hand, *at the conceptual level*, the number of macroenvironmental trends that can be invoked to argue that the importance of marketing in organizations is likely to be on an ascendant rather than a descendant trajectory is quite substantial. Consider, for instance, the following:

- Globalization of markets—the challenges faced by firms in serving customers worldwide
- Globalization of industries and emergence of global competitors
- Growing importance of managing a firm's market-based assets—brand equity, channel equity, and customer equity—from the standpoint of organizational growth, survival, and long-term financial performance
- Growth of the Internet and the attendant increase in the number of e-informed and e-empowered customers
- Growth of the Internet and the growing power of electronic word of mouth
- Rising customer expectations and rising customer satisfaction threshold

The marketing thrust of a number of recent additions to the business lexicon, such as listed here, also portend an increasingly important role for the marketing function in organizations:

- CRM—customer relationship management
- MKTGM—marketing knowledge management
- MKTM—market knowledge management (market is used here as more encompassing—customer knowledge, competitor knowledge, marketing knowledge, etc.)

CRM, MKTGM, and MKTM entail market and marketing knowledge acquisition, dissemination, and organizational responsiveness in a 24/7/365 competitive business environment.

In summary, increasingly firms tend to view "planet earth" as the target market for their product offerings and often use the same brand names to market their product offerings worldwide. In a growing number of industries, in the face of installed capacity (supply) exceeding demand, stimulating demand or striving for a larger share of current demand are competitive imperatives. The growing market for digitized information products presents a whole new set of challenges and opportunities to firms. Unlike physical products whose supply is constrained by installed capacity, once created, the available supply of digitized information products is virtually unlimited. Unlike other organizational functions such as manufacturing, procurement, and R&D, which engage in activities that result in a firm incurring costs, the marketing function in organizations is entrusted with primary responsibility for revenue generation. Such considerations suggest that observations concerning the diminishing influence of the marketing function in organizations must be viewed with caution.

## IS THE MARKETING FUNCTION IN ORGANIZATIONS ON A TRAJECTORY FOR DEVOLVING INTO A DEPARTMENT OF AD COPY AND CENTS-OFF COUPONS?

In an editorial essay, as an introduction to a special section of a recent issue of the *Journal of Marketing* on "Linking Marketing to Financial Performance and Firm Value," Lehmann (2004, p. 74) noted:

> Put simply, if marketing wants "a seat at the table" in important business decisions, it must link to financial performance. Otherwise, by focusing on the measures it is most comfortable with (e.g., awareness, attitude, sales), it will continue to lose ground to other areas, in fields such as product development (e.g., research and development, design) and to devolve into a department of "ad-copy and cents-off coupons." The task is not easy, but the reward is great.

As noted earlier, if allocation of an increasingly larger percent of marketing resources to programs such as cents-off coupons by businesses is based on considerations *other than* deficiencies in scholarly research in marketing and marketing education, then the phenomenon should be viewed as an opportunity for scholarly research in marketing. Research focusing on issues such as the following can inform marketing practice as well as shed insights into potential biases in managerial decision-making processes that result in marketing managers making suboptimal decisions.

- What explains the behavior (change in behavior) of firms in respect to their pattern of deployment of marketing resources?
- What organizational characteristics and environmental characteristics explain differences in the pattern of allocation of total promotional resources to short-term marketing programs such as consumer and trade sales promotion versus long-term brand-building programs such as advertising?

However, Lehmann (2004), in his recent editorial essay, as well in his earlier works (e.g., Lehmann 1997), cautioned that deficiencies in scholarly research in marketing and marketing education could eventually lead to the marginalization of the marketing function in organizations. Is Lehmann's cautionary note concerning marketing function devolving into a department of ad copy and cents-off coupons within the realm of possibilities? Over the long term, deficiencies in the state of scholarly research in marketing and marketing education imparted to students at institutions for higher learning is likely to have an adverse impact on the standing of the marketing function in organizations under the following scenarios:

- The curriculum content of various business disciplines (what is typically taught in business schools in various courses and subject areas such as marketing, finance, and accounting) having an impact on their relative influence in organizations.
- Scholarly research in various business disciplines such as marketing, finance, and accounting having an impact on their relative influence in organizations, both directly as a consequence of research utilization and indirectly as a consequence of the impact of scholarly research on what is taught in the classroom.
- The perceived relative contribution of various organizational functions to the bottom line of firms having a direct bearing on their relative standing in organizations.

Does the current state of scholarly research in marketing and marketing education suffer from severe deficiencies? An answer to this question must await a task force of marketing scholars undertaking a comprehensive and objective assessment of deficiencies in the substantive, theoretical, and methodological research traditions at the marketing discipline level and various subdisciplines such as advertising, consumer behavior, marketing channels, marketing ethics, and marketing strategy. As regards deficiencies in the realm of marketing education, questions such as the following must be addressed:

- In order to perform effectively in the rapidly changing marketplace, what competencies and skills must marketing practitioners of tomorrow possess?
- To what extent are marketing academicians informed and responsive in their roles as researchers and educators to changes in the environment and organizations that impact on the competencies and skills that marketing practitioners of tomorrow must possess?
- How well are the competencies and skills that marketing practitioners of tomorrow must possess are currently being imparted in marketing coursework at institutions for higher learning?
- To what extent are students currently enrolled in doctoral programs in marketing receiving the kind of training they need in order to impart cutting-edge and relevant marketing knowledge critical to tomorrow's marketing practitioner?

In regard to both calls for reforms in the realms of scholarly research in marketing and marketing education, certain caveats need to be borne in mind. For instance, in the context of calls for research linking marketing to financial performance and firm value, there is the need to guard against going overboard. Indeed, metrics matter, but financial metrics is not the be-all and end-all. Marketing science is at peril when researchers focusing on measures that are appropriate in the context of the research questions being addressed and the underlying theory (e.g., attitudes and beliefs) are criticized as focusing on the measures they are most comfortable with and disregarding financial metrics. Marketing science is also at peril when researchers force-fit constructs (i.e., financial performance constructs) that do not belong in the nomological network.

Although I do not have a verbatim quote that I can cite here, since my years as a doctoral student I have been privy to occasional remarks by marketing academicians, the gist of which can be summarized as follows: "Marketing academicians are not the hired hands of for-profit business organizations. Hence, there is no need to belabor about either the managerial relevance or managerial implications of our scholarly research pursuits." Representative of points of view in direct contrast to the above include Webster and colleague's (2003) article titled, "Can Marketing Regain Its Seat at the Table?" and Lehmann's (2004, p. 72) cautionary note: "Put simply, if marketing wants 'a seat at the table' in important business decisions, it must link to financial performance." Clearly, with any reform initiatives there is a need to guard against being swayed too much by either the "we are not the hired hands of for-profit business organizations" or the "if marketing wants a seat at the table" stance.

With regard to marketing education, calls for changes in business curriculum content have been frequent and have been addressed in numerous published works, mostly in the context of the MBA degree program. For instance, in an article titled, "The Upwardly Global MBA," based on a survey of 100-plus executives in more than 20 countries, Andrews and Tyson (2004) identify the repertoire of knowledge, skills, and attributes that MBA degree programs should be designed to equip the students with.[7] However, the initiative for reform in specific reference to the field of marketing must necessarily come from and be led by the community of marketing educators. Interestingly, Andrews and Tyson use the term "customer-driven education" in reference to higher education, a credence product (or a product that's salient on credence attributes). This brings to fore an important issue: what is or should be the role for customers (stakeholders such as students and employers) in the design and development of credence products such as higher education?

## CONCLUSION

My musings on the alleged loss of influence of marketing in academic discourse on strategy, the diminishing influence of the marketing function in organizations, and the specter of the marginalization of the marketing function in organizations presented in this chapter are intended to stimulate further debate and discussion on the topic. Even if warranted, the pace of *major reforms at the macro level* in the realms of scholarly research in marketing and marketing education might be somewhat slow in light of the need for collective deliberation and contemplation. However, *incremental reform at the micro level* is an everyday occurrence, with some marketing scholar somewhere in the world instituting some changes in his/her scholarly research pursuits and instructional material. The following quote by Dr. Leslie Aiello succinctly conveys this point: "I always tell my students that I've taught for 30 years and I've never given the same lecture twice. Hardly a year goes by when something new isn't found" (Wade 2004, p. D2).

## NOTES

1. See Varadarajan (1992) for my commentary on Day (1992).
2. A more detailed discussion of this and other related issues (a broader construal of relevance and implications of scholarly research in marketing) can be found in Varadarajan (2003).
3. From the standpoint of the advancement of the discipline, neither of the following extreme positions that some marketing academicians seem to hold (advocate) is likely to serve us well: (a) The litmus test for assessing the relevance of a scholarly research in marketing is its managerial implications; or (b) The managerial implications of scholarly research in marketing is not an issue that we should be concerned about, since marketing academicians are not the hired hands of business organizations.
4. It is conceivable that the body of research-based knowledge of marketers, advertising agencies, market research firms, and consultants on consumer and customer behavior and its implications for marketing strategy practice is quite extensive. However, such knowledge is proprietary and does not reside in the public domain.
5. Here, Kumar (2004) cites Ambler (2003) in support of only 10 percent of executive meeting time being devoted to marketing.

6. I recognize that in marketing as well as in other disciplines, academicians are involved to varying degrees in research that has the potential to change the world in ways big and small. However, applied (policy) research, whether in marketing or in other fields, should be informed by basic (pure) research. Miller (1991, p. 4), points to the following distinctions between the two:

- **Basic (Pure) Research**
  *Nature of problem:* Seek new knowledge about phenomena to establish general principles that explain them.
  *Goal of research:* Produce new knowledge including discovery of relationships and the capacity to predict outcomes under various conditions.

- **Applied (Policy) Research**
  *Nature of problem:* Seek to understand social problems and to provide policy-makers with well-grounded guides to remedial action.
  *Goal of research:* Produce knowledge that can be useful to policymakers who seek to eliminate or alleviate social problems.

7. I often wonder whether during the past quarter century, at every major university, the MBA program structure and curriculum might have been revised more often than any other master's program offering of that university.

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# PART 7

# A NEW MISSION FOR MARKETING

Marketing remains a fundamentally noble calling, as it seeks to align the interests, needs, and desires of individuals with those of profit-seeking corporations and other societal institutions. The chapters in this concluding section help to end this book on a positive note by reminding us how essential marketing is and how it can reclaim the high ground within companies, with customers, and in society.

According to Fred Webster, many marketing scholars put forth arguments that marketing competence in the form of a customer orientation, market knowledge, and a focus on customer value would be the key to business performance and profitability in today's dynamic market environments. Unfortunately, there is now widespread concern and mounting evidence that marketing has lost, not gained, the expected influence in the firm. Instead, the sales function has become much more powerful and has been allocated resources once controlled by marketing, as firms have increasingly focused on short-term tactics and sales revenue more than long-term market development strategy and profitability. Marketing's role appears to have been diminished in terms of both effectiveness and trust.

Webster suggests that to regain its influence within management circles, marketing managers and educators need reorientation. On the business side, marketing managers must learn what their company's financial statements mean and how they are created. They must identify the real marketing drivers of financial results and shareholder value. Similarly, marketing educators need to reassess the relationship between their research and their teaching. He highlights three sets of issues: the dangerously false idea that rigor and relevance are in conflict; the need to train PhD students with an understanding of the total field of marketing as an academic discipline with historical roots; and the need to train MBA and undergraduate students for the future, not just the present.

Berry and Mirabito suggest that marketing has had a positive, defining impact on society. Marketers have influenced the creation of myriad goods and services that have lessened the drudgery of housework, enhanced consumer's self-confidence and sense of style, and enabled consumers to use their time—a finite resource—in more productive and satisfying ways. However, despite these contributions, the net impact of marketing on the quality of life has shifted, subtracting rather than adding value. The enormous power for social good that marketing once wielded has diminished and has even been misused. Misuse of social power leads to decline of social power. And this is happening with marketing.

According to Berry and Mirabito, marketing can operate on a customer need-centered or customer desire-centered basis, or it can strive to balance needs and desires. Need-centered marketing stresses helping customers improve their lives over a long time horizon. Desire-centered marketing stresses satisfying customers' immediate wants. Need-centered marketing shapes and reshapes markets. Desire-centered marketing caters to customers' present demands. Customers dictate and marketers oblige.

Berry and Mirabito believe that marketing as a profession and as a discipline has lost its way—and much of its credibility and influence—by emphasizing the satisfaction of customers' desires at the expense of customer needs. Desire-centered marketing can never be as effective as need-centered marketing. The most powerful brands have been built on satisfying customers' needs. The authors suggest that marketing must take the high road because its true mission is to improve peoples' quality of life, where quality is measured as the percent of time a person spends in a state of well-being. Furthermore, this is not a "feel-good" mission but rather a mission that strengthens financial performance and credibility among shareholders. The right marketing is the soul of an organization, guiding, cajoling, teaching, and inspiring other decision makers to act and invest on behalf of creating customer well-being. The right marketing is the voice of the customer inside the organization, the customer's advocate, the customer's friend. The right marketing strengthens with deeds marketing's credibility, influence, and future vitality in an organization and in society.

Keller and Kotler suggest embracing a "holistic marketing concept" in which the customer is not the only stakeholder. Holistic marketing recognizes that everything matters with marketing—customers, employees, other companies, competition, as well as society as a whole. It therefore includes internal marketing, relationship marketing with multiple stakeholders, integrated marketing, and performance marketing.

Grove, John, and Fisk recommend a renewed focus on *people* in marketing. The role of people in marketing is vital, especially in services industries. The people factor creates greater intimacy between the producers and the consumers, which is how it used to be in the pre-industrial age. The authors recommend that it would be beneficial to augment the scientific method that is so prevalent in the field with insights from the arts. By integrating aspects of art into marketing, the field may be able to escape the passionless, nearly dehumanized marketing approaches that are currently in vogue in the field.

Haeckel believes that industrial age marketing is obsolete and we need to think from the postindustrial age perspective. He suggests that the best way to implement the marketing concept is to embrace a sense and respond perspective. Its premise is that rapid, unpredictable, and often discontinuous change is baked into the logic of an information economy. As a result, businesses must learn to respond effectively to what individual customers need/want/prefer now, rather than execute efficiently plans that are based on predictions about what markets will want in the future. He uses the analog of a bus driver versus the taxi driver. The bus driver has a predictable, fixed route and fixed stops and knows what the destination is. It does not matter whether there are passengers waiting to take the bus. On the other hand, the taxi driver cannot start without a customer because without a customer he doesn't know where to go. The essence of the postindustrial economy is an exchange of information *about* value from customers *for* the production of value from producers. Haeckel believes value creation should not start with capabilities but instead with development of a design system with subsystems. Second, these subsystems should be designed for interaction between them. In sense and respond designs, coherent, system-level behavior arises from quasi-autonomous, self-organizing behavior. This is a network approach to value creation.

Finally, Sheth and Sisodia focus on three stakeholders of marketing: practitioners, academics, and policymakers. They suggest that marketing should be reorganized as a corporate staff function similar in structure and impact to finance, human resource, and information technology. As a corporate staff function it should report directly to the CEO. Also, it should have corporate-wide responsibility for branding; managing external suppliers of marketing such as ad agencies, market research companies, and outsourced call centers; managing business development; and acting as a coordinator and facilitator of marketing across different business units. As a staff function, marketing should have both capital and operating expenditure budgets, similar to the information technology function. Sheth and Sisodia also recommend focusing on newsworthy research and encouraging programmatic contractual research that is peer reviewed. Lastly, they suggest the establishment of a National Academy of Marketing as well as certification and recertification of marketing professionals to enhance the public perception of marketing.

Chapter 34

# MARKETING

## A Perpetual Work in Progress

Frederick E. Webster, Jr.

In broad terms, marketing management can be defined as the process by which the firm responds to a changing marketplace. The past two decades have certainly been a period of rapid marketplace change, seen in the following environmental forces:

- global competition
- organizational cost-cutting and down-sizing
- heightened emphasis on short-term financial measures of business performance including return on investment and quarterly earnings per share
- increased use of outsourcing, often to offshore vendors
- order-of-magnitude improvements in information processing speed and telecommunications
- the Internet revolution including the boom, bust, and rebirth of electronic commerce
- rapid growth of discount mass merchants such as Wal-Mart, Home Depot, and Target

As organizations have changed in response to their environment, it would be logical to expect that marketing would also change. Given the presence of tougher competition, more demanding customers, and increasingly powerful channel members, marketing should have been leading organizational change. In fact, several marketing authors in the 1990s (for example, Day 1992; Haeckel 1999; McKenna 1991; Srivastava, Shervani, and Fahey 1999; and Webster 1992) put forth arguments that marketing competence in the form of customer orientation, market knowledge, and a focus on customer value would be the key to business performance and profitability in these dynamic market environments. Unfortunately, there is now widespread concern and mounting evidence that marketing has lost, not gained, the expected influence in the firm. Instead, the sales function has become much more powerful and has been allocated resources once controlled by marketing as firms have increasingly focused on short-term tactics and sales revenue more than on long-term market-development strategy and profitability (Webster, Malter, and Ganesan 2003). Marketing's role appears to have been diminished in terms of both effectiveness and trust. This brief chapter will examine some of the causes and consequences.

### CAUSES OF THE DECLINE OF MARKETING

The causes of marketing decline are both internal and external to the firm and, within the firm, both within and outside of the traditional marketing function.

**Forces External to the Firm**

We began by noting the macrotrends in the environment that have influenced the changing role of marketing within the firm. Here we expand briefly on their influence on the marketing function.

The increasingly competitive environment has forced firms to find areas where costs can be reduced without doing damage to top-line revenues or bottom-line profits. Financial results are measured and reported on a quarterly basis according to commonly accepted accounting standards and disclosure rules of the securities exchanges. The long-standing focus on quarterly-earnings-per-share has been sharpened by the increased portion of equity investments held by pension funds, mutual funds, and fund managers who are likewise focused on short-term performance by their measurement and reporting requirements. Everybody wants to be above average in performance when compared with various indices and this leads to heightened trading activity and rapid movements in and out of stocks caused by only small changes in revenue and earnings projections and results.

As top management and financial management officers seek ways to enhance these measures of performance, marketing expenditures are an obvious place to look. Many marketing budget items, such as investments in new product development, geographic market expansion, brand-image-building advertising, or new retail display materials, can be reduced or eliminated without an immediate effect on the financial numbers. While astute marketing managers would like to be able to argue that their spending is an investment in the long-term growth and profitability of the business, they usually lack compelling conceptual models or economic and financial data to defend themselves. Nonmarketing managers see marketing budgets as “expenses,” not investments, and “expenses” get “cut.” By and large, marketing managers have not had the tools to argue convincingly that their investments in market research and market development will produce superior returns.

Outsourcing of manufacturing, often to partners in the less-developed countries, as a cost-cutting strategy is well known, but it sometimes comes with a loss of control over product and service quality. Branded products manufacturers have been under intense pressure from their mega-retailer partners such as Wal-Mart to do more manufacturing offshore. Increasingly, customer service activities involving telecommunications and data processing have also been sent to India, Russia, and other places where there is a pool of low-cost labor that is highly competent and familiar with the English language. Credit card companies, catalogue marketers, and computer hardware and software firms have all made good use of such partnerships. In the drive to reduce costs, long-term strategic marketing goals of building customer satisfaction, loyalty, and profitability may receive secondary consideration as these elements of the marketing mix are managed from an operations, not a marketplace, perspective.

**Nonmarketing Forces within the Firm**

As these outside competitive, cost-cutting pressures impact upon the firm, the organization changes in important ways. Strategic planning departments, once thought to be critical to long-term success in business development and optimal resource allocation, disappeared very rapidly in the early 1980s when it was realized that their efforts were expensive and time-consuming and often resulted in disastrous delays in strategic response to a changing marketplace. In many of the more sophisticated corporations that had led the strategic planning revolution, marketing had been co-mingled with strategic planning to enhance long-term business development, to bring more customer focus into the strategic planning process, and to tie strategic business unit marketing strategies to overall corporate strategy. Unfortunately, few of these firms gave much thought to preserving the organizational marketing capability part when formal strategic planning was put to the ax.

It was common for planning and marketing responsibilities to be removed from the corporate level and decentralized into strategic business units in pursuit of the twin objectives of reduced costs and enhanced market responsiveness. It was not often the case, however, that marketing responsibilities were assigned to a marketing professional, a manager with previous training and experience in the marketing discipline. Especially in industrial firms, the recipient of new marketing duties was likely to be a person in field sales or someone with a technical background such as an applications engineer or a product/market manager. The result was usually a decline in the total level of marketing competence and skills within the organization.

It is worth noting the implicit assumption here that marketing is something easy to learn, something "anybody can do," an assumption that would not be made about most other critical management functions. There is a serious lack of appreciation of the nature and value of marketing knowledge and skills as organizational assets. Rather, marketing is often seen as a personality characteristic and skill set, not as a body of knowledge and management competence. It is a fair criticism that marketing managers are often not finance-literate. It is also true, but less commonly said, that very few managers from other functions are marketing-literate.

Responding to the dominating influence of mega-retailers, marketing strategy and brand management responsibilities have migrated to the field sales organization. However, in most companies, sales and marketing are organizationally distinct functions. One is much more likely to see a vice president of sales and a vice president marketing than a single executive vice president of marketing and sales.

### Forces within Marketing as a Function and a Discipline

Marketing as a management function and an academic discipline must share responsibility for its diminished power and effectiveness. Marketing educators and marketing practitioners have not done a very good job of conveying the relevance of marketing knowledge as a distinct discipline. Marketing scholars have preferred to talk to one another rather than to managers; marketing managers themselves have a hard time distinguishing between marketing and sales and often revert to the sales mentality under the pressures to make the revenue and profit numbers. Short term drives out attention to long term every time.

From the perspective of top management and other functional managers within the firm, marketing often seems incapable of justifying its budget requests with analytically based marketing programs and demonstrated results from earlier expenditures. Marketing managers have often countered with the argument that they do not have the market research funds to measure postprogram results. The measurement of marketing productivity is now recognized as the single greatest challenge, and opportunity, facing marketing managers.

On the academic side, we can cite several factors that have led to a perception, not unfair or unrealistic, that published research in marketing has had decreasing relevance for all but a small portion of managers who must deal with the myriad of marketing problems and decisions. These factors can be briefly summarized as follows:

- Top-level marketing journals have editorial policies discouraging the publication of conceptual papers and results based on qualitative, observational, clinical research methods. Important areas in the development of marketing thought have been ceded to the strategic management discipline and to general management journals.

- Consumer behaviorists have been reluctant to publish in marketing journals and have favored tightly controlled laboratory experiments with student subjects over less-structured research with actual consumers in field settings. These results are often not generalizable to actual marketplace behavior. Some scholars have even argued explicitly that research with managerial relevance is *by definition* tainted and not to be trusted.
- The availability of large-scale databases has encouraged research on marketing tactics intended to produce immediate and relatively easily tracked sales results within stores, on Internet sites, or in telephoned responses. Sales promotion has received a disproportionate share of attention relative to other marketing variables. Armed with proven statistical models and empirical results, marketing managers find it easier to justify price cuts and other tactical expenditures than strategic investments in the future of the business.
- Marketing scholars have tended to ignore field sales management as a research venue even as selling budgets grow in importance relative to marketing expenditures. Many business schools have dropped sales management courses from their curricula as the definition of the intellectual domain of marketing evolves, intentionally or otherwise, toward exclusion of field sales.
- There is a longstanding bias toward consumer products and services to the exclusion of business products and services. Most research studies involve consumer goods, with a heavy emphasis on frequently purchased packaged goods. Managers in industrial marketing firms have few opportunities to use academic marketing research and the marketing literature to guide their work and to gain support for their efforts within the firm.

## CONSEQUENCES OF MARKETING'S DECLINING INFLUENCE

The decline of marketing can be seen in several specific outcomes within organizations. Most basically, marketing as a distinct function has often all but disappeared within many organizations. One manager in a firm we studied noted that in his company, the marketing function had essentially "run the corporate bureaucracy" in the past and represented the majority of the middle management layer in the organization.

Another manager stated, "It once seemed obvious that Marketing Management was destined to assume ultimate influence—and control—over the American corporation. With few exceptions, that has not happened."

As marketing responsibilities were dispersed throughout the organization, some people argued that this was actually consistent with the original marketing concept and its assertion that marketing was really not a separate function at all but "the whole business seen from the customer's point of view." It was presumed that the entire organization would become more customer-focused and market-driven, a highly desirable outcome. One of our respondents commented "Every part of the company now says '*We* are the customer interface.'" However, the pressures of running a business often take the "designated marketer's" eye off the ball and there is actually less advocacy for the long-term interest of the customer and a decline in overall marketing competence. Paradoxically, quoting another manager, "As the marketing point-of-view pervades the corporation, Marketing as a function seems destined to dwindle."

Such marketing competence as has remained at the corporate level has tended to focus on global, not day-to-day or product-level, brand management, which is now the responsibility of people in the field who work closely with the trade, and on advertising and other forms of marketing communication that are best purchased and controlled from a centralized perspective. These remaining marketing staffs tend to be quite small, often only one senior-level manager with a small support group.

The major dimensions of the multiple issues that now face marketing managers can be summarized as follows:

- Managing the trade-off between long-term and short-term goals
- Deciding which marketing activities should be budgeted as capital investments vs. expenses
- Arguing forcefully that price cuts that impact the revenue line should not be treated as "below the line" marketing expenses
- Making clear, within the organizational structure of their firm, which marketing functions require centralized, specialized marketing competence and which marketing activities are cross-functional processes that require decentralized marketing direction
- Advocating for customer-orientation vs. product- and technology-orientation and making customer value the strategic objective of all activities
- Defining the real customer of the company, whether it is the end-user or the reseller, and managing the brand and customer relationships within this strategic framework
- Defining clearly the roles and responsibilities of sales and marketing and the relationship between the two

## HOW MARKETING CAN REGAIN A SEAT AT THE TABLE

If marketing management is to regain its influence within management circles and to justify its status as a distinct academic discipline within the management profession, there is a clear need for reorientation. That reorientation requires some major shifts in direction both from management and from thought leaders within the marketing field.

On the business side, marketing managers (encouraged by their CEOs and financial colleagues) must learn what their company's financial statements mean and how they are created. They must identify the real marketing drivers of financial results and shareholder value. This may require substantial investments of time and money in gathering market data, tracking the results of multiple variables within marketing programs, and analytical modeling of both a conceptual and statistical nature. Considerable attention should be devoted to understanding the links between customer value and shareholder value through strategic pricing. Likewise, it is critically important to measure brand equity and to relate this to the value of the firm.

The marketing measurement issues are at the core of the development of the field at the moment. Three presentations to the American Marketing Association's 2004 Summer Educators Conference by marketing consultants, whose work keeps them at the interface of marketing thought and marketing practice, were recently summarized by the editor of *Marketing Management* (Neal 2004):

- Return on investment measures are necessary but not sufficient; marketers need to evaluate investments in brands, communications, and customers against other strategic objectives for the firm and to assure that they are managed in an integrated framework of marketing and business strategy.
- Measures of sales volume, profit, cash flow, etc., do not relate directly to marketing performance; specific marketing measures are needed for such key variables as brand equity, the most valuable business asset for many firms.
- Marketing as investment vs. expense is only part of the problem facing marketing managers; equally important is the fact of the declining productivity of marketing expenditures, reflecting not only the economics of diminishing returns caused by media fragmentation and proliferation but a fundamental loss of trust of marketing by both consumers and company

> managers. Marketing must become both more precise and more relevant, for consumers as well as for companies.

Marketing educators need to reassess the relationship between their research and their teaching. We can highlight three sets of issues: the dangerously false idea that rigor and relevance are in conflict; the need to train PhD students with an understanding of the total field of marketing as an academic discipline with historical roots; and the need to train MBA and undergraduate students for the future, not just the present.

The false dichotomy between rigor and relevance in academic research has a number of negative consequences. We have noted the lack of impact on management practice from research that is too narrowly focused on relatively unimportant problems and emphasizes methodology over results. Marketing is fundamentally a business practice, not a subbranch of economics, and as such is an applied discipline by definition. At the same time, management practice has suffered from a lack of analytical rigor. It has often been said that there is nothing as useful as a good theory. At this critical juncture in the development of marketing as a discipline, new emphasis must be placed on conceptual and theoretical developments that will move the field forward.

The great universities have always been based on the traditions of rigorous research. This is not the place to debate the proper balance of research with teaching, except to recognize that great researchers are not always great teachers and great universities need both. The most respected scholars will always be those who can do both exceptionally well. There is something troubling about a growing practice at some leading business schools to specify professorships for teaching, labeling their holders as second-class citizens who couldn't cut the research mustard. The most exciting teachers are those who are excited by their own research and can convey that excitement about their knowledge of their field because they are contributing to it. Likewise, great researchers, whose ideas have the longest-lasting impact, have been motivated by a basic desire to solve important problems. They envision "clients" who will benefit from their work and those clients are seldom other researchers who are working on the same problems. Authors might think about this when a paper rejected by one journal is submitted to another, only to be submitted for review again to one or more of the same reviewers. Journal editors should think twice when they see that only a few members of their editorial board are likely to be interested in and knowledgeable about the underpinnings of a particular paper. Incest produces ugly outcomes.

On the teaching side, it is important to look at the state of PhD education as a starting point because these programs are producing the teachers of tomorrow. What are *they* being taught? Marketing department chairs report that they have great difficulty in identifying programs that are preparing PhD students to do research and teaching in the area of marketing strategy. The field is currently overwhelmed by modelers and behavioral decision theorists. Important work for sure but not the whole story! As Wilkie and Moore (2003) have forcefully argued, stewardship for marketing as an academic field of study has not characterized scholarship for the past two or three decades. Fortunately, some leading programs are now incorporating seminars on the development of conceptual knowledge in the field and a review of its historical development. These young PhDs should be highly marketable because of their enhanced ability to convey a body of received knowledge to tuition-paying marketing students as well as to contribute to it.

In teaching marketing to our undergraduate and MBA students, we must recognize a common problem and resolve to address it: the sad fact is that many students elect marketing majors because they have little tolerance for quantitative material as found in courses in accounting, finance, economics, statistics, and mathematics. Marketing teachers need to reinforce the importance of the underlying logic and rigor of analytical methods and to teach their application and relevance to solving marketing problems. Students, like researchers, must be taught to abandon the false dichotomies of theory and practice, rigor and relevance. Of course, this is easier said than done, but it *must* be done. Marketing teachers must incorporate sound accounting and financial concepts into their teaching, which will likely require that they themselves get some additional training and make some additional intellectual commitments to broadening their understanding of marketing.

Marketing educators need a current, complete, and correct understanding of the nature of marketing practice if they are to avoid the failure of teaching students concepts, techniques, and skills that are relevant for jobs that are rapidly disappearing or no longer exist. We must accept our share of responsibility for the fact that marketing has lost influence with both managers and consumers. To quote Rajiv Grover at the Bentley College symposium which was the genesis for this book: "The main reason that marketing is getting marginalized is because much of our research and teaching has become orthogonal to practice" (2004).

## MAKING PROGRESS IN DEVELOPING THE DISCIPLINE

Marketing will always be a work in progress unless it dies as a distinct discipline. If academic research is to contribute to the development of the discipline in significant ways, there needs to be a broadening of its objectives and its horizons. The intended audience of research results must be enlarged to incorporate real-world users of the research, a focus on real-world problems both long term and short term, and larger numbers of business managers across multiple disciplines as well as within marketing. Marketing authors should take on responsibility for familiarizing future general managers with fundamental marketing concepts and techniques, updating these concepts and techniques for the realities of the present and future market environment. Researchers must be sure that their work is idea- and theory-driven, not just data-driven. The marketing field in general must make a new commitment to integrating consumer behavior theory and research with marketing problems and practice. Researchers, especially those with a primary interest in strategy and organization, should continue to develop the paradigm of marketing as organizational processes, not separate business functions. It is important to work on the definition of the borders of the field of marketing, to specify which organizational processes are within the intellectual domain of marketing and which are not. More interdisciplinary research with colleagues from organizational behavior and strategic management is certain to produce interesting and important results with practical significance.

Senior marketing managers have expressed concern about how marketing will develop in the future (Webster et al. 2003). Change in most firms seems to be driven more by dissatisfaction with the status quo, not a clear vision of what marketing should be or where it is going. Even if marketing will always be changing in response to an ever-changing market environment, it will be stronger if it has a clear sense of purpose and direction.

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## CHAPTER 35

# RECAPTURING MARKETING'S MISSION

LEONARD L. BERRY AND ANN M. MIRABITO

Over the years, marketers have had a positive, defining impact on society. Marketers have influenced the creation of myriad goods and services that have lessened the drudgery of housework, enhanced consumers' self-confidence and sense of style, and enabled consumers to use their time—a finite resource—in more productive and satisfying ways. Supply chain managers have wrung excess costs out of distribution systems, reducing unnecessary expenses to customers. Advertisers have entertained television audiences with novel and informative campaigns.

Despite these contributions, however, the net impact of marketing on the quality of life has shifted, subtracting rather than adding value. Clever products and promotions encourage consumers to overeat, take on debt, and fritter away their money on lottery tickets. The enormous power for social good that marketing once wielded has diminished and has even been misused. Misuse of social power leads to the decline of social power. And this is happening with marketing.

Most marketers—indeed, most firms—want to create value for consumers. They know that customers reward firms whose products solve their problems. To be sure, most important new products are designed to satisfy customer needs and desires. But markets are dynamic and firms must be prepared to anticipate and respond to changing needs and desires. Many firms that initially focus on creating differential value for the customer shift their focus to maximizing short-term value for the firm after they have launched a successful product. Firms that focus on near-term results inevitably become more internally focused and more reactive. Reinvention loses out. Costs rise as marketers resort to heavy advertising spending and expensive promotions to sell products less well suited to the changing market.

Marketers are not alone in shifting focus from creating customer value to protecting firm resources as products mature. Financial stewards may shift emphasis from reporting financial results to framing financial results. Operations managers may shift emphasis from improving quality to cutting costs, outsourcing, and downsizing.

### THE ROAD MOST TRAVELED

Marketing can operate on a customer need-centered or a customer desire-centered basis, or it can strive to balance needs and desires. Need-centered marketing stresses helping customers improve their lives over a long time horizon. Desire-centered marketing stresses satisfying customers' immediate wants. The two approaches often lead customers to different mindsets, to different habits. Need-centered marketing shapes and reshapes markets. Desire-centered marketing caters to customers' present demands; customers dictate and marketers oblige. Desire-centered marketing follows short-term trends.

We believe that marketing as a profession and as a discipline has lost its way—and much of its credibility and influence—by emphasizing the satisfaction of customers' desires at the expense of customer needs. Desire-centered marketing can never be as effective as need-centered marketing. The most powerful brands have been built on satisfying customers' needs. Many of those brands risk becoming dinosaurs because marketers have failed to shift the brand's focus as customers' needs shifted. Instead, too many companies have responded with tactics designed to flog value out of the existing offering, rather than with strategic reinvention to maintain congruency with customers' needs. The history of several product categories illustrates this thesis.

Cigarette manufacturers originally supplied a product to help customers relax. During World War II, the U.S. government gave billions of cigarettes to soldiers because cigarettes were considered calming. As scientists began to understand the carcinogenic properties of cigarettes, the tobacco companies missed the opportunity to create healthful products that might promote relaxation.

Similarly, in an era of uncertain water quality and limited refrigeration, Coca-Cola's concoction of caffeine, sugary syrup, and water met consumers' needs for a nonalcoholic, portable refreshment. Today's consumers have easy access to safe beverages, but they are threatened with the risk of obesity. Coca-Cola's product line may satisfy consumers' desires for a crisp, refreshing drink but does little to help consumers with their need to eat healthy, nutritious foods.

McDonald's is another case in point. Consider how McDonald's fortune slipped as its mission shifted from satisfying needs to satisfying desires. At the time McDonald's was born, restaurants were known for uneven quality and cleanliness, and they often reeked of alcohol and stale cigarettes. McDonald's filled consumers' need for a family-friendly restaurant offering consistently prepared wholesome food—beef, potatoes, cheese—at attractive prices in a clean facility. The jingle and golden arches appealed to consumers' desire for fun. Thus, McDonald's success came from fulfilling essential needs and desires.

The company lost much of its luster among virtually all of its stakeholders in recent years, however, not because of weak advertising campaigns but because of the company's failure to respond to changing nutritional standards. Instead of crafting healthier menus, the company focused on developing promotional deals, toy giveaways, and marginally innovative sandwiches.

Today, McDonald's is trying to recapture its former icon status with fresh salads, more chicken products, and children's Happy Meals featuring sliced apples and milk as alternatives to fries and soft drinks. The company has quickly become one of the largest buyers of fresh apples, grape tomatoes, and spring mix greens in the country. It may succeed in making sliced apples a popular snack. However, the fast food giant remains burdened with overcoming the stigma of being the leader of an industry that seemingly specializes in bad-for-you food.

## MARKETING'S MISSION

Marketing's true mission is to improve people's quality of life, where quality of life is measured as the percent of time a person spends in a state of well-being. This is not a feel-good mission, but rather a mission that strengthens financial performance and credibility among stakeholders. Most people respond favorably to marketing that improves the quality of their lives and vice versa. Firms that add to rather than subtract from the quality of life are more likely to enjoy customer loyalty, stakeholder trust, regulatory freedom, and high employee morale and productivity. Firms that subtract from the quality of life should expect the opposite effects.

Improving the quality of life is the only mission that enhances marketing rather than diminishes it. By not adhering to that mission, marketing has taken on an ugly public face. Approximately 60 percent of all households in the United States registered their telephone numbers on the

Federal Trade Commission's National Do Not Call Registry during its first year of operation to avoid telemarketers phone calls. Telemarketing, once a powerful selling tool, has lost much of its punch and much of its freedom. Clearly, the majority of consumers do not regard telemarketing as useful and many consider it annoying or manipulative. When given the opportunity to stop the calls, an astonishing percentage of consumers seized it. The Do Not Call Registry seems a rather impressive wake-up call that marketing needs to reconsider its reason for being.

The future of marketing need not be bleak. Properly conceived and channeled, marketing can do so much good. Who in the organization is better equipped to lead the firm to customer value-creating offerings than the marketer?

Marketers and the organizations they represent can use marketing to harness the power of social profit in pursuit of financial profit. Companies create social profit when their actions produce net benefits to society. Social profit accumulates when customers, employees, and communities are better off because of a company's actions. Whereas many companies would not be missed if they suddenly disappeared, companies creating social profit would be missed because their actions contribute to the greater good. Social profit creates benefits beyond financial profit, and the benefits are not confined to the organization.

Social profit and financial profit are mutually reinforcing in the long run. Customers are willing to pay for products and services that genuinely benefit them. Too often, however, obsession with short-term financial profits drives consideration of social profit—and marketing's long-term influence and viability—right into the ground. It doesn't have to be this way.

## TAKING THE HIGH ROAD

Many marketers have chosen to take the high road. A few examples will illustrate how some companies have prospered by adhering to marketing's primary mission.

Auto insurance is a necessary service but not a wanted one. No one looks forward to buying auto insurance or making a claim after an accident. Progressive, the third-largest auto insurer in the United States and among the most profitable large companies in the country, would clearly be missed were it to disappear. Few companies have been more imaginative or bolder in satisfying customers' needs and desires for a service as nonhedonic as auto insurance. Perhaps no other auto insurer has done more to build customers' trust for a service prone to mistrust.

Progressive readily provides prospective customers the insurance policy rates of competitors alongside its rates. In 2002, Progressive began scrolling its rates and competitors' rates on the company website, facilitating easy price comparisons. Competitors' rates appear even when they are lower than Progressive's. For more than ten years, Progressive has used immediate response vehicles (IRVs) to transport claims representatives to an accident site quickly to assess damage and, in some cases, to pay the claim on the spot. Progressive is expanding its network of service centers where customers can bring their damaged vehicles and obtain a rental car. Progressive arranges for the repairs and gives customers a text-message pager that transmits car repair updates. In the truest spirit of marketing, Progressive has improved the customer auto insurance experience enough to at least partially decommoditize a commodity service. "We have a high tolerance for innovation and experimentation," explains Glenn Renwick, the company's chief executive officer (Coolidge 2005).

Progressive satisfies desires in an industry that typically focuses only on satisfying needs. Chuck E. Cheese's restaurants, on the other hand, satisfy needs in an industry that typically emphasizes satisfying desires.

Parents with young children face a big challenge when it comes to finding a fun venue for an evening out. Most family restaurants rely on chicken fingers and crayons to engage younger guests. Placemat word games and coloring may entertain elementary school children but often do not provide sufficient stimulation to engage preschoolers. For about the same price as dinner in other family restaurants, Chuck E. Cheese's restaurants offer families with young children pizza and a salad bar, a live stage show, a chance to hug lovable mouse Chuck E. Cheese, and hours of fun in the restaurant's playroom. The playroom captures the excitement and hullabaloo of a carnival but on a scale appropriate for small children. Visit a Chuck E. Cheese's and you will see toddlers enchanted by the miniature merry-go-round and various car and truck rides. Preschoolers become pinball wizards, play skeetball, and toss basketballs. Children fly a pedal-propelled airplane a breathtaking three feet in the air. Virtual reality rides include wave runners, motorcycle races, and roller coasters.

Chuck E. Cheese's offers fun, value, and safety. Families are invited to enjoy the playroom facilities even if they don't buy the food. Some of the attractions are free, such as the sky tube overhead climbing structure and a toddler play zone. Other games and rides cost only one token (about a quarter), and most games offer tickets that children can cash in for souvenir prizes. Rides are small enough to allow children to safely climb on and off. The children revel in the autonomy of choosing rides and Mom and Dad enjoy dinner and conversation while supervising their children from a short distance away. The Kid Check program gives parents an extra cushion of security that a preschooler will not wander off. A staff member greets guests at the door and stamps the wrists of all members of each group with an identifying code. When it's time to go, the staff checks the wrists of each group member under a black light to make sure that "everyone who comes together, leaves together."

More than two hundred thousand children each year celebrate their birthdays at Chuck E. Cheese's. Indeed, Chuck E. Cheese's novel concept has proven to be a winning business model. The restaurant reports record revenues and earnings and its stock outperforms the restaurant industry (CEC Entertainment, Inc. 2003).

## RECAPTURING THE MAGIC

Marketing academicians must play a key role in guiding the redemption of the profession. Marketing academics introduce college students who will become managers to the discipline. Educators have the underappreciated opportunity to create (or correct) students' impressions about marketing's role in society and in organizations as well as to explore its promise to effect positive change.

To teach the "right" marketing, academics must first understand it themselves. Far too often, educators teach the wrong marketing. The wrong marketing is persuading people to buy; the right marketing is helping people to live well. The wrong marketing is catering exclusively to customers' desires; the right marketing is finding creative ways to fulfill customers' desires without neglecting their needs. The wrong marketing focuses on creating value for the firm; the right marketing focuses on creating value for the customer and the broader community in which the customer lives and the firm operates, earning a financial return, stakeholder trust, and loyalty as a result. The wrong marketing is led; the right marketing leads. The wrong marketing emphasizes the now; the right marketing emphasizes a stronger future. The wrong marketing is selfish; the right marketing is generous.

The right marketer is the soul of an organization, guiding, cajoling, teaching, and inspiring other decision makers to act and invest on behalf of creating customer well-being. The right marketer is the voice of the customer inside the organization, the customers' advocate, the customers' friend. The right marketer strengthens with deeds marketing's credibility, influence, and future vitality in the organization and in society.

Marketing can be great again; its luster can be regained, but only if those who teach and practice it embrace its core purpose, which is to improve the quality of life.

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CHAPTER 36

# HOLISTIC MARKETING

## A Broad, Integrated Perspective to Marketing Management

KEVIN LANE KELLER AND PHILIP KOTLER

Too often marketing is conducted in a fragmented, piecemeal fashion that results in suboptimal brand performance. Marketers overlook or fail to adequately incorporate important concerns that impact or are impacted by their decisions. Holistic marketing is the design and implementation of marketing activities, processes, and programs that reflect the breadth and interdependencies of their effects. Holistic marketing recognizes that "everything matters" with marketing—customers, employees, other companies, competition, as well as society as a whole—and that a broad, integrated perspective is necessary. Marketers must attend to a host of different issues and be sure that decisions in any one area are consistent with decisions in other areas. Four components of holistic marketing are internal marketing, integrated marketing, relationship marketing, and performance marketing. This chapter introduces the concept of holistic marketing and briefly addresses these four components.[1]

### THE HOLISTIC MARKETING CONCEPT

Marketing has become markedly more complex. The straightforward, well-honed mass marketing techniques of previous decades are no longer as effective as they once were. Marketers now must make a host of difficult, interrelated decisions, dealing with numerous issues internal and external to the company.

As a consequence, marketing is done very differently now from how it was done in years past. Marketing is no longer done by just the marketing department. Companies are reviewing internal structures and processes and how they conduct their marketing. Because mass market advertising is not as effective as before, marketers are exploring new forms of communication, such as experiential, entertainment, permission, and viral marketing. Firms now sell goods and services through a wide variety of direct and indirect channels. Customers are increasingly telling companies what types of products or services they want and when, where, and how they want to buy them. To satisfy these customer needs, marketers are developing strong ties to various partners and channel members. Goals and objectives have become much more multidimensional as marketers attempt to maximize their financial return on investments while also being socially responsible, community involved, legally appropriate, and so on.

Without question, a whole set of forces have appeared in recent years that call for new marketing and business practices. Marketers now must do many things, and do them right. Companies need fresh thinking about how to operate and compete given a new marketing environment and the realities of the modern economy. Marketers in the twenty-first century are recognizing the need to have a more complete, cohesive approach that goes beyond traditional applications of the marketing concept.

*Holistic marketing* is the design and implementation of marketing activities, processes, and programs that reflect the breadth and interdependencies of their effects. Holistic marketing recognizes that "everything matters" with marketing—customers, employees, other companies, competition, as well as society as a whole—and that a broad, integrated perspective is necessary. Marketers must attend to a diverse range of different issues and be sure that decisions in any one area are consistent with decisions in other areas.

Holistic marketing is thus an approach to marketing that attempts to recognize and reconcile the scope and complexities of marketing activities. Figure 36.1 provides a schematic overview of four broad themes characterizing holistic marketing.

- *Internal marketing,* ensuring everyone in the organization embraces appropriate marketing principles.
- *Relationship marketing,* ensuring rich, multifaceted relationships are created with customers, employees, investors, channel members, and other marketing partners.
- *Integrated marketing,* ensuring that multiple means of creating, delivering, and communicating value are employed and combined in the optimal manner.
- *Performance marketing,* ensuring that the financial, brand equity, social, legal, ethical, community, and environmental effects of marketing decisions are all adequately accounted for.

We next briefly highlight some key issues in each of these four areas.[2]

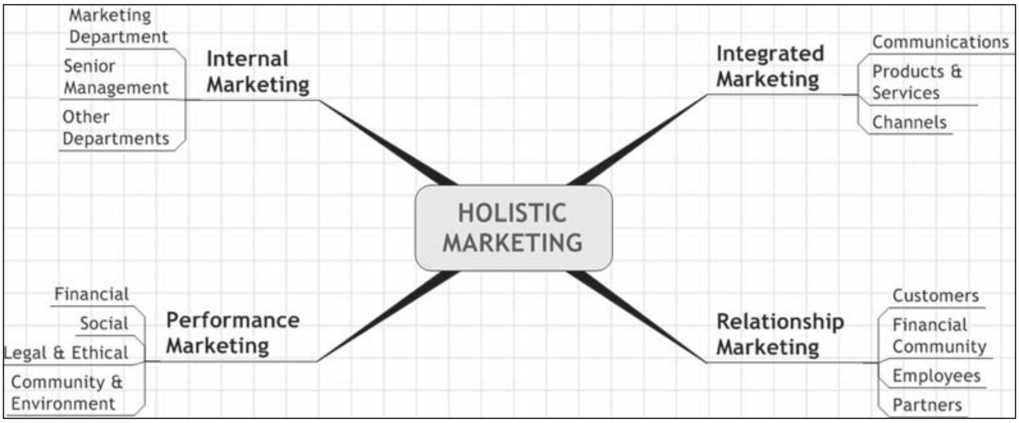
## INTERNAL MARKETING

Marketing is no longer the responsibility of a single department—it is a company-wide undertaking. Marketing drives the company's vision, mission, and strategic planning. Marketing succeeds only when all departments work together to achieve goals: when engineering designs the right products, finance furnishes the right amount of funding, purchasing buys the right materials, production makes the right products in the right time horizon, and accounting measures profitability in the right ways. Such interdepartmental harmony can only happen, however, when there is a clear understanding of customers and the company's marketing orientation and philosophy toward serving them.

Holistic marketing incorporates *internal marketing,* ensuring that everyone in the organization fully understands, accepts, and implements appropriate marketing principles. Internal marketing involves hiring, training, and motivating employees who want to serve customers well and market effectively. Marketing activities within the company are as important—if not even more so—than marketing activities directed outside the company. In fact, skillful internal marketing helps to ensure that external marketing can be done properly so that marketing programs fulfill and even surpass customer expectations.

Internal marketing must take place at different levels. At a very core level, the various marketing functions—personal selling, advertising, customer service, brand management, marketing research—must work together. There cannot be internal conflict within the marketing team such that the sales force thinks brand managers are pushing the wrong products at the wrong price or that brand managers think that the advertising director is pushing the wrong ad campaigns, and so

Figure 36.1 **Holistic Marketing Dimensions**




on. All these marketing functions must be coordinated from the customer's point of view. At a broader level, marketing must also be embraced by other departments in the organization. Marketing is not a department so much as a company orientation, and marketing thinking must be pervasive throughout the company.

Internal marketing also involves bottom-up and top-down marketing. Bottom-up marketing involves marketing managers directing marketing activities to maximize sales and brand equity for individual products for particular markets. Although such close, detailed marketing supervision can be advantageous, creating strong brands for every different possible product and market in this way is an expensive and difficult process and, most importantly, ignores possible synergies that may be obtainable.

Top-down marketing, on the other hand, involves marketing activities that capture the big picture and recognize the possible synergies across products and markets to brand products accordingly. Such a top-down approach seeks to find common products and markets that could share marketing programs and activities and only develops separate brands and marketing programs and activities as dictated by the customer or competitive environment.

Unfortunately, if left unmanaged, firms tend to follow the bottom-up approach, resulting in many brands marketed inconsistently and incompatibly. Marketing in a top-down fashion requires centralized and coordinated actions from high-level marketing supervisors to establish brand architecture, assemble brand portfolios, and provide marketing leadership. Given this guidance, bottom-up marketing can then concentrate on achieving deep consumer understanding, building strong customer bonds, and promoting product innovation.

## RELATIONSHIP MARKETING

Increasingly, a key goal of marketing is to develop deep, enduring relationships with all people or organizations that could directly or indirectly affect the success of the firm's marketing activities.

*Relationship marketing* has the aim of building mutually satisfying long-term relationships with key parties in order to earn their trust or retain their business. Although customer relationship management is at its heart, relationship marketing is more than that. Relationship marketing requires cultivating the right kinds of relationships with the right constituent groups. Four key constituents for marketing are customers, employees, marketing partners (channels, suppliers, distributors, dealers, agencies) and members of the financial community (shareholders, investors, analysts). Relationship marketing builds strong economic, logistical, and social ties among relevant parties.

Successful relationship marketing offers the potential for smoother operations and superior customer solutions. The ultimate outcome of relationship marketing is the building of a marketing network—the company and all its supporting constituents and stakeholders with whom it has built mutually beneficial relationships. Marketing networks are invaluable company assets. Increasingly, competition is not between companies but between marketing networks.

Developing strong relationships requires understanding the capabilities and resources of different groups, as well as their needs, goals, and desires. Each party must be treated differently. Rich, multifaceted relationships with key constituents create the foundation for a mutually beneficial arrangement for both parties.

## INTEGRATED MARKETING

The marketer's task is to devise marketing activities and assemble fully integrated marketing programs to create, communicate, and deliver value for customers. Complicating the development of integrated marketing programs is that marketing activities come in all forms.

*Integrated marketing* is based on two premises: (1) Many different marketing activities should be employed to create, communicate, and deliver value and (2) all marketing activities should be coordinated to maximize their joint effects such that the whole is great than the sum of its parts. In other words, the design and implementation of any one marketing activity is done with all other activities in mind.

Products and services are at the heart of value-creating marketing activities. To communicate and deliver value, two key components of an integrated marketing program are integrated communications and integrated channels. An integrated communication strategy involves choosing communication options that singularly build equity and drive sales, but that also reinforce or complement each other. A marketer might selectively employ television, radio, and print advertising, public relations and events, and public relations and website communications so that each makes its own contribution, as well as improves the effectiveness of other communications in the program. Marketers must mix and match communication options to build brand equity, that is, choose a variety of different communication options that share common meaning and content but which also offer different, complementary advantages.

Integrated channel strategy involves ensuring that direct and indirect channels work together to maximize sales and brand equity. Direct channels involve selling through personal contacts from the company to prospective customers by mail, phone, electronic means, in-person visits, and so on. Indirect channels involve selling through third party intermediaries such as agents or broker representatives, wholesalers or distributors, and retailers or dealers.

Direct and indirect channels offer varying advantages and disadvantages that must be thoughtfully combined to both sell products in the short run as well as maintain and enhance brand equity in the long run. As with communications, the key is also to mix and match channel options so that they collectively realize those two goals. Thus, it is important to assess each possible channel option in terms of its direct effect on product sales and brand equity as well as its indirect effect through interactions with other channel options.

In many cases, winning channel strategies are those that develop "integrated shopping experiences" and cleverly combine direct and indirect channels. For example, consider the variety of channels by which Nike sells their athletic shoes, apparel, and equipment products:

- *Branded Niketown stores.* Niketown stores offer a complete range of Nike products and serve as showcases for the latest fashions.
- *Niketown.com.* Consumers can place Internet orders for a range of products on Nike's e-commerce site.
- *Retail.* Nike products are sold in retail locations such as shoe, sporting goods, department, and clothing stores.
- *Catalog retailers.* Nike's products appear in numerous shoe, sporting goods, and clothing catalogs.
- *Outlet stores.* Outlet stores feature discounted Nike merchandise.
- *Specialty stores.* Nike equipment from product lines such as Nike Golf and Nike Hockey are sold through specialty stores like golf pro shops or hockey equipment suppliers.

Integrated channels of this kind must be managed in a way to maximize coverage and effectiveness, while minimizing cost and conflict. Marketers must address the tradeoff of having too many channels (leading to conflict among channel members or a lack of support) or too few channels (resulting in market opportunities being overlooked).

## PERFORMANCE MARKETING

Finally, holistic marketing incorporates *performance marketing* and understanding all the different effects arising from marketing. Performance marketing involves assessing brand equity, customer equity, and financial returns from marketing activities and programs as well as addressing broader concerns and their legal, ethical, social, and environmental context.

Marketers increasingly are being asked to justify their investments to senior management. Marketing, however, works in a variety of direct and indirect ways, affecting brand awareness, image, attitudes, intentions, behaviors, and so on. As a consequence, marketers need to employ a wide variety of measures to assess their marketing efforts. Marketing metrics can help firms quantify and compare their marketing performance along a broad set of dimensions. Marketing research and analysis can then assess the financial efficiency and effectiveness of different marketing activities. Finally, firms can employ organizational processes and systems to make sure that the value from the analysis of these different metrics is maximized by the firm.

Accountability to key stakeholders forces marketers to be able to justify the short- or long-run financial effects of marketing activities. Yet, effects of marketing clearly extend beyond the company and the customer to society as a whole. Marketers must carefully consider the role that they are playing and could play in terms of social welfare in its broadest sense. Marketing performance requires that companies determine the needs, wants, and interests of target markets to satisfy them more effectively and efficiently than competitors, but in a way that preserves or enhances customers' and society's well-being. At times, they must balance and juggle the often-conflicting criteria of company profits, customer satisfaction, and public interest. Marketers can engage in cause marketing and other socially responsible marketing programs that provide mutually beneficial outcomes in that regard.

## CONCLUSIONS

As marketing becomes more complex, marketers run the danger of overlooking or ignoring too many important factors in their decisions, arriving at suboptimal, piecemeal solutions as a result. The problem is exacerbated by industry marketing gurus and the popular press who promote overly simplistic solutions through aggressively promoted books and other means.

Holistic marketing eschews such approaches by recognizing and addressing the multidimensional nature of marketing. Holistic marketing requires that marketers adopt a broad perspective and address the scope and complexities of marketing activities to improve marketing management. In particular, superior holistic marketing is evident when companies effectively employ internal marketing, relationship marketing, integrated marketing, and performance marketing.

Holistic marketing requires broad, cohesive thinking. Holistic marketing also necessitates that marketers transcend conventional, but dated, marketing thinking. For example, a traditional depiction of marketing activities is in terms of the four Ps of the marketing mix: product, price, place, and promotion. From a holistic marketing perspective, such terminology is a narrow way to highlight what matters most with marketing. To capture the four components of holistic marketing more completely, a more appropriate set of four Ps might be: people, processes, programs (which would include the old four Ps), and performance.

## NOTES

1. This chapter is based, in part, on material that appears in Kotler and Keller (2006).
2. An early conception of holistic marketing by Kotler, Jain, and Maesincee (2002) viewed it as "integrating the value exploration, value creation, and value delivery activities with the purpose of building long-term, mutually satisfying relationships and co-prosperity among key stakeholders" (p. 31). According to this view, holistic marketing maximizes value exploration by understanding the interrelationships between the customer's cognitive space, the company's competence space, and the collaborator's resource space; it maximizes value creation by identifying new customer benefits from the customer's cognitive space, utilizing core competencies from its business domain, and selecting and managing business partners from its collaborative networks; and it maximizes value delivery by becoming proficient at customer relationship management, internal resource management, and business partnership management.

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CHAPTER 37

# BACK TO THE FUTURE

## Putting the People Back in Marketing

STEPHEN J. GROVE, JOBY JOHN, AND RAYMOND P. FISK

The question has been posed: "Does Marketing Need Reform?" It's a question that is likely to generate as many responses as there are folks who take the time to mull over the query. Inherent in the question is the supposition that something is wrong or amiss with the current state of marketing. After all, the dictionary defines *reform* as "improve by some alteration" and "change from worse to better" (www.m-w.com). Given that definition, we argue that, yes indeed, marketing does need reform, but it's more a matter of refocus than cataclysmic change. The reform that we believe is needed is a rediscovery of the importance and impact of the people component of the marketing enterprise. Whether it's the individuals who enact an organization's marketing effort or the customers themselves, the significance of the human element as a critical component of marketing has somehow eroded in the academic field of marketing. It's time to restore people to their proper place in marketing.

### HOW WE GOT HERE

The changes that have occurred over the years to marketing as an academic field and as an organizational activity are obvious and profound. Marketing has become much more systematic and precise by embracing scientific methods of inquiry. Simply flipping through the pages of the *Journal of Marketing*, the *Journal of Marketing Research* or the *Journal of Consumer Research* will attest to this point. For a variety of reasons, it seems that marketing has grown to be more focused on measurable outcomes as well. Tangible and finite results are paramount and deemed to be the strongest indicator of market success. Wall Street's imperative of quarterly earnings and sales growth is no small influence on the responsibility of marketers. Finally, there is a greater and more pronounced emphasis on the implementation of technology in marketing. Whether it's the ability to collect, access, and distribute data quickly and efficiently or the ease and reliability that it offers organizations and their customers, technology commands a special status within the marketing enterprise. Indeed, it is perhaps the force of information technology that has created the increased emphasis on metrics and the quantification of all things human.

Collectively, there is little doubt that these changes have helped to establish marketing's credibility as both a discipline and a practice. However, we are convinced that this transformation has occurred with a significant tradeoff or expense. The people that comprise the marketing exchange—the employee and the customer—have been recast in a narrower and less realistic form as the various changes in marketing have occurred. Ultimately, perhaps by default, the human side of marketing has been devalued or dismissed. It may simply be a matter of a changing emphasis as marketing evolves rather than a conscious decision, but the accent on the people element of marketing has nevertheless eroded. It is our contention that there is a need to reconstruct marketing by returning the full importance of people to the character of marketing.

## THE ROLE OF PEOPLE IN MARKETING

The people of marketing that we are particularly concerned about as the discipline's transformation has occurred are the customers and the employees that represent the organization to the customers. Both have seemingly been bleached of their spirit and soul as organizations focus on such phenomena as return on quality, lifetime value, harnessing information technology, and e-commerce. The former are, of course, essentially the raison d'etre for the marketing organization. After all, without customers, marketing doesn't exist. The latter are the organizational boundary spanners that directly interact with the customer. As such, they serve as conduits of information to and from the customer, and from the customer perspective they *are* the organization.

Nevertheless, whether the folks in question are household consumers or industrial buyers, service personnel, sales representatives, or retail employees, they are people that have often been reduced to a number or a function. Left by the wayside are their inherent human qualities and broader importance. The transformation occurs through stages. In the case of the "people" in an organization, the depersonalization follows a path that leads from the person in toto, to the person by name, to his/her job position, to one's status as employee, to his/her role as a workforce asset, to one's utility as an organizational asset, to—finally—his/her ability to generate revenue or wealth for the organization (see Figure 37.1). At each successive stage in this progression, more and more of the "whole" person is lost until at the final stage the human features are virtually nonexistent. The dehumanizing progression is equally as pronounced in the transformation of the person in the customer realm as marketing recasts the person through the intermediary stages of market, segment, target, buyer, and customer asset. The human element and whole person nature of the individual is diminished at each point along the slippery slope of depersonalization.

To underscore our point, one needs only to examine the newly fashioned definition of marketing offered by the American Marketing Association:

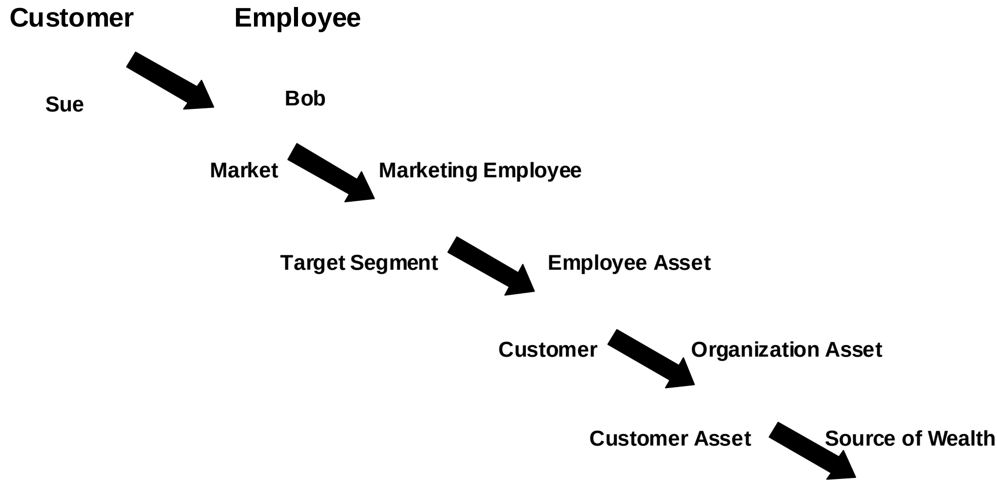
> Marketing is an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. (Keefe 2004, p. 17)

In this definition, the person as customer is narrowly cast as "customer value" to the organization and its stakeholders while the role of people in the organization's effort to develop and manage customer relationships is unclear at best. Or worse, the definition is presumptuous in asserting the notion that customers want to be "managed." When did marketing become so oblique?

## THE CUSTOMER IS *KING?*

Marketing's objectification of people is visible and pronounced in how it approaches its most important concern—the customer. Consider the case of widely acclaimed and broadly supported marketing practice, customer relationship management (CRM). Over the past fifteen years, customer relationship management has taken center stage among marketing's critical activities, yet it is often void of any true regard for the customer as a person. Arguably, CRM should be the

Figure 37.1 **Slippery Slope of Depersonalization**




embodiment of the marketing concept to the fullest. Organizations that adopt the tenets and philosophical underpinnings of CRM profess to be committed to the customer. The rhetoric runs rampant. Terms such as customer equity, lifetime value of the customer, customer assets, and the like pepper the CRM discourse. Indeed, customer relationship management is built on old school thinking: the customer is *king;* the customer is *sovereign.* Yet for all of its spotlight on the customer, CRM typically ignores the people aspect of the customer. Much as Bambi the deer is simply venison to the hunter, Bob the person is often merely a buyer to the marketer—even the marketer that embraces CRM. Customers are myopically and narrowly viewed in terms of revenue generation. (See Figure 37.1.) This shortcoming may in fact be behind the recent realization by many firms that CRM has failed to deliver on its promise. Built largely on information technology that focuses at the transactional level and the particulars of purchase and sale, CRM programs typically provide little or no meaningful knowledge of the customer as a person upon which true relationships are built (see Dorsch et al. 2001). The essence of the customer—the people part—cannot be found in a database that tracks purchase patterns and preferences over time or calculate the cost of a lost customer in dollars and cents. It is becoming increasingly clear that unless companies fundamentally change the way they view their customers, CRM technologies will continue to fail. This is indeed unfortunate since today's information technology provides companies and customers with tremendous opportunities and capabilities to establish and maintain true relationships by augmenting face to face interaction and providing the means to create distance relationships that are potentially more personal than are currently pursued.

## THE *PEOPLE* FACTOR?

As a further illustration of the dilemma we posit, consider the following with respect to employees. Some years ago, services scholar Len Berry (Berry 1988) addressed the importance of employees in service delivery as the "people factor," recognizing that the service workers who interact with the customer are a significant source of differentiation. Ostensibly, that observation can be extended beyond services to all of marketing. In the context of our arguments here, Berry was at least infusing the employee component of exchange with the need for the human element—a pronouncement that is underscored by his and his colleagues' research on service quality (see Parasuraman et al. 1988). After all, three of the five dimensions of service quality that they uncovered in their comprehensive study are directly related to human characteristics (i.e., empathy, assurance, and responsiveness) and the other two, in part, reflect human aspects as well (i.e., tangibles and reliability). Yet, even the "people factor" concept as it relates to service quality places primary importance on what the person as employee represents in terms of a finite and specific set of characteristics to facilitate an exchange that benefits the organization. While it is easy to see how such characteristics are important for service success, to reduce the person to his/her potential in those few areas fails to appreciate the whole person and the numerous other sources of individuality that may be relevant. Personal attributes such as desire, concern, gregariousness, flexibility, genuineness, approachability, initiative, innovativeness, and so many more are overlooked or dismissed.

The role that is played in the marketing exchange by the *whole* person is lost when the organization's focus is on only a few characteristics. How many times have positive attributes of people as employees been overlooked and the benefits of an optimal interaction with the customer sacrificed because marketing decision makers have neglected the *true* spirit of the people factor? Whether employees perform in a service, sales, or retail capacity, their value and the human capital they represent simply cannot be reduced to a personality inventory, a fixed collection of desired skill and characteristics or monetary terms. Workers connect with their customers for a variety of reasons, many of which may not be captured by such means. Personnel decisions regarding hiring, rewarding, or terminating employees based on a rigid set of criteria may sacrifice potential relationships that employees who don't possess the approved profile are able to form and nurture with particular customers—customers who may find the "Stepford Wife"-like employee unappealing. Much may be lost in terms of customer equity. Moreover, the subjugation of unique personal character has potentially far reaching societal implications (see Ritzer 1993).

Simply put, customers don't have relationships with organizations—they have relationships with people. Clients are loyal to people who work for an organization—not to the organization itself. Real customer knowledge and the ability to establish relationships reside with people. Tacit knowledge held by employees is likely to be more meaningful and valuable than the explicit knowledge about customers captured by information technology and stored in computer databases. Prior to the industrial revolution, business organizations were much closer to their customers as employees brought to bear all their (tacit) knowledge in all interactions with the buyer. Mass production and the mass consumption that it spawned resulted in the transformation of business such that marketers became removed from the end customer. Direct exchange between manufacturers and the customer became a thing of the past as intermediaries in the distribution and logistics chain developed. Lost in transition was meaningful personal interaction. Clearly, information technology has revolutionized organizations' knowledge management capabilities, yet it has also reduced the complexity of people to sheer numbers and shallow statements. Customers and employees are more than just numbers and words that appear on an organization's balance sheet or computer files.

## WHAT CAN BE DONE?

Marketing is (or *should* be) about people. Organizations and their markets are comprised of people—not things, not creators of wealth, not financial assets, not some numbers representing lifetime value or the like. Yet, the bureaucratization of society and its institutions has replaced the human element of interaction with people as a means to an end (see Ritzer 1993), and the institution of marketing has not escaped that fate.

What can be done to recenter the marketing field on people? Perhaps, as a start, it would be beneficial to augment the scientific method that is so prevalent in the field with insights from the arts. By integrating aspects of art into marketing, the field may be able to escape the passionless, nearly dehumanized marketing approaches that are currently in vogue in the field

Centuries before the development of the scientific method, human beings created and reveled in art of various types. In their highest forms, the arts are often considered to enhance and enrich human life. The arts reflect and express the human condition, and they connect with people because of that. In many ways, art is a communication medium that speaks to people personally. Isn't this what marketing should do? Consider, for instance, the performing arts—those arts characterized by live human performance such as theater. For years we have championed the metaphor of theater as a means to comprehend, to think about, and to implement marketing activities such as service delivery and personal selling (Grove, Fisk, and John 2000). These and many other marketing endeavors are essentially human performances that embody theatrical expression by employees and customers alike. Principles found in theater can provide fertile ground to grow and nourish the ability to relate to customers as people and to bond with them emotionally. By recognizing and embracing the potential contribution that theater can pose for nurturing the people aspect of marketing, it may be possible to assuage the erosion of the human element in the field. Lessons learned from other art forms such as music may have similar effects. Infusing marketing with a softer, more ethereal character to complement the harder, more exacting manner that currently exists is desirable.

The philosopher Aristotle once mused, "the aim of art is to represent not the outward appearance of things, but their inward significance" (BrainyQuotes.com)—an aspect of buyer–seller interaction that is often lost in marketing as a science. However, it bears noting that our criticism is not with the tenets of marketing as a science per se, rather, it is with its exclusionary prominence. By elevating positivism, marketing has reduced other ways of knowing, thinking about, and practicing the enterprise to a lesser or nonrelevant status. Fields such as psychology and sociology entertain multiple paradigms and arguments are offered for alternate views of understanding phenomena in those fields. We argue that to embrace the human element more fully, marketing should follow their example. Marketing is, after all, multidisciplinary in nature and should continue to draw from its rich and diverse heritage. By doing so, and specifically looking to the arts, the people or human aspects of marketing might be rediscovered.

Some are likely to say that the perspective on marketing that we have posed here is based on a romanticized view of the past—that the marketing we have described never truly existed. Others may offer that it is an impossible dream to think that marketing can return to a time or world that can no longer be found. Regardless, our position is that marketing needs reform that stresses the human element of the enterprise. It is foolhardy to believe that the type of change we believe is necessary, can, or will, happen overnight. It is more likely that significant reform rests on an incremental, yet continuous, emphasis of the value and importance of workers and customers as people that will eventually blossom into the marketing we envision.

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CHAPTER 38

# MARKETING REFORM

## A Meta-Analytic, Best Practice Framework for Using Marketing Metrics Effectively

JOHN U. FARLEY AND PRAVEEN K. KOPALLE

In a discussion session with marketing managers from a broad array of industries at an Marketing Science Institute conference on marketing metrics in London, the consensus was the following: (1) while an ever-growing amount of marketing-related data is flowing into marketing departments, it is often not used because the capability is not available to produce useful and timely summaries, and (2) despite the demands of senior management for hard evidence about marketing's contribution to performance, the means necessary to demonstrate linkages between various measures of marketing activities and firm performance are not available.

### MARKETING METRICS AND MARKETING REFORM

Important parts of the marketing world were under heavy pressure to reform even as this symposium met. One of the most important pressures for such reform has been generated within the firm but outside of marketing. There is widespread demand from the top managements and from other parts of organizations for the development and implementation of marketing performance metrics that allow marketing managers to quantify their contribution to firm performance. (Another major pressure for marketing reform is technologically driven; it is the somewhat delayed but nonetheless rapid growth of interactive marketing [Barwise and Farley 2004b]. While this is beyond the scope of the present discussion, it will have the important side effect of generating orders of magnitudes of additional and potentially useful data about buyers and potential buyers.)

We discuss structuring ongoing analysis of marketing data (metrics) in a form resembling a series of designed meta-analyses based on a form of best practices analysis.

### WHY THE GROWTH IN USE OF MARKETING METRICS?

Marketing metrics are hardly new. A study of marketing expenditure by leading marketing firms in five industrial countries (Barwise and Farley 2004a) found that most firms regularly report one (or more) of six marketing metrics to the board of directors. Examples range from the obvious—use of market share by 79 percent and perceived product/service quality by 77 percent of the sample firms—to the less obvious—estimated customer or segment lifetime value, used by only 40 percent of the sample. There are significant country differences, with German firms claiming to be the heaviest users and Japanese firms the lightest. There is a consistent pattern of intended increased use in the future for all metrics in all countries, and the metrics are complementary.

Ambler (2003) lists five theoretical perspectives that are relevant to the current growing interest in marketing metrics:

1. *Control theory*, which suggests the need for ex-post information on marketing programs as an essential part of the cycle of analysis, planning, implementation, and control.
2. *Agency theory*, which focuses on the contract between a principal and an agent and specifically on the need for the terms of the contract to be structured to provide incentives to the agent to meet the principal's objectives.
3. *Brand equity*, developed as a concept in the late 1980s, plays a major role in growing recognition that intangible assets account for a large and increasing proportion of shareholder value. Marketing metrics are part of a wider quest for a "balanced scorecard" of performance (Kaplan and Norton 1996).
4. *Market orientation*, where research suggests that market-oriented firms tend to enjoy superior performance.
5. *Institutional theory*, which suggests that as marketing metrics become more widespread among firms, the use of metrics is likely to become an institutional norm, which will encourage further uptake among late-adopting businesses (Meyer and Rowan 1977).

Metrics are generally believed to be linked to short- and long-term financial performance (Ambler 2003), but the prologue to this chapter indicates limited efforts in practice to measure relationships of metrics to performance, much less to track them for stability over time. In terms of published literature, most metrics have yet to be shown to be systematically associated with current and future financial performance (Lehmann 2002).

## DESIGNED META-ANALYSIS AND GENERALIZING ABOUT MARKETING METRICS

In this chapter, we propose a "designed meta-analytic" approach to generalizing the performance impact of various marketing metrics. It is meta-analytic to the extent that the focus of the designed system can be used to develop generalizations about marketing performance across various dimensions—markets, countries, segments, time, and so on. Looking forward, the designed meta-analysis can also be used, through statistical decomposition of various effects, to estimate likely results in yet unstudied research environments—a fact that gives it particular potential for analysis of international situations in which some countries or markets have been studied but others have not.

Conventional meta-analysis studies related to the marketing mix have focused on much-researched topics like advertising effectiveness. Most published marketing meta-analyses are ex-post, based on available parameter values from relating various metrics to performance (e.g., advertising to sales and thence to profits). A considerable improvement may be realized when questions of assessing parameter differences are built into the analysis in the first place—in both collecting and simultaneously estimating response parameters from the raw data. We propose such a built-in approach to developing marketing metrics.

The idea of such "designed meta-analysis," presented in Deshpandé and Farley (1998), involves incorporating differentials in intercepts and slopes that connect explanatory variables or characteristics of measurements to one or more dependent variables. Examples from such analyses include response parameters of firm performance to various operationalizations of measured market orientation, as well as country-specific differentials in parameters relating performance to market orientation, innovativeness, or corporate culture (Deshpandé, Farley, and Webster 2000).

The designed approach can also be used to test the appropriateness of combining data on the same variables from different sources or using slightly different questions to measure the same phenomenon. (Such source and measurement differences seem to be the rule rather than the exception in comparative marketing studies. These differences often seem to stymie efforts to make generalizations using straightforward statistical comparisons.) In a market-focused study of performance of large Vietnamese firms (Deshpandé and Farley 1999), for example, one sample drawn randomly from a population of firms and another drawn from managers in a senior management executive program did not differ in terms of average responses or estimated sensitivities of firm performance to those responses. Therefore the samples could be combined.

## USE OF BEST-PRACTICES IN MODEL SPECIFICATION

"Best practices" thinking in this chapter refers to the elements and the nature of the specified model (for example, a marketing mix model) that can be used to structure the designed meta-analysis. Best-practice analysis approaches generalization directly through identifying how "best" decisions are made, in contrast to the meta-analytic goal of providing best estimates of parameters on which to base decisions. This approach is in the spirit of benchmarking (searching for best practices, innovative ideas, and effective operating procedures), which has a history almost as long as modern manufacturing.

A best practice approach can be especially helpful for generating exploratory models. For example, the market mix models discussed later in this chapter are based on discussions with consultants familiar with the products and markets, combined with in-depth survey of the trade literature dealing with the various product/market combinations.

## AN EXAMPLE: DESIGNED META-ANALYSIS OF INSTITUTIONAL FINANCIAL SERVICES

As an example, we use the relatively unstudied business-to-business markets for two financial services (bonds and foreign exchange) in two countries that are leaders in these businesses (the United Kingdom and the United States). The data, provided by Greenwich Associates, cover three years of their annual interviews with representative samples of major customers in these markets. Table 38.1 shows results of estimated change of probability of choice of a given supplier resulting from a 10 percent increase of each of the marketing inputs. (The model is a logit specification that captures the two-stage process of the choice and use of a dealer. The model itself and the estimation procedures are discussed in depth in Farley, Hayes, and Kopalle [2004]).

The table summarizes succinctly the results of estimated market response in over twenty-two thousand choice situations (certainly a large amount of data) that recur over time in the two countries and two markets. The metrics, elements of a marketing mix specification, include price, promotion (principally sales effort), and product differences. The response values are larger in the more heterogeneous bond markets. For the manager, price is critical in all four markets. Promotion is also important, but product differentiation generally has less impact. The responses were significantly different between markets and countries, but they did not change over the three years studied. (With very large samples such as these, relatively small differences will be significant; for example, a Pearson correlation of .02 is significant at .05.)

Table 38.1

**Percent Change in Probability of Choice (Usage) for a 10 Percent Change in Each Marketing Mix Variable in the Four Country and Market Combinations**

| | Price | Promotion | Product |
|---|---|---|---|
| U.K. bond | 0.231 | 0.079 | –0.004 |
| U.S. bond | 0.311 | 0.131 | 0.068 |
| U.K. foreign exchange | 0.072 | 0.050 | 0.029 |
| U.S. foreign exchange | 0.102 | 0.092 | 0.092 |

## ON PARAMETER STABILITY OVER TIME

Parameters of the sort shown in Table 38.1 are more easily generalized if they are stable over time. If they are, there is no need to start from scratch in each time period.

It is thus worth noting that parameters of the metrics such as in Table 38.1 do tend to be stable over periods of time as they were in this case, although the meta-analysis should continue to check for stationarity as its use is repeated over time. For example, in a more comprehensive meta-analysis of determinants of firm profitability over time, published response parameters relating firm performance to advertising and R&D were stable over a period of half a century (Capon, Farley, and Hoenig 1996).

## CONCLUSIONS

It is pretty clear that the considerable published research linking marketing metrics to performance has relatively little currency with managers of the type represented in our prologue. Our guess is that this is rather typical. Academic researchers might learn from Delaine Hampton (2004) of P&G, who expressed the view at the 2004 Marketing Science Conference that academic journal publication represents about 20 percent of the distance of an idea to implementation, while managers expect researchers to bring ideas (approximately) 80 percent of the way. There is no clear, quick way of closing this gap, but a systematic framework for repeatedly modeling different time periods, different products, and different markets measured in different ways for different managers (such as the one we suggest here) may be helpful, at least in making the common approach familiar to users of results.

A related point is that marketing managers as well as their managers will probably underestimate the calendar time and resources (man years of time, for example) required to develop systems that continuously relate metrics to measures of firm performance and firm values. This makes it especially important to develop consistent frameworks that can be used and that will become familiar across units of the firm for this purpose. An interesting, somewhat analogous case related to this point is in the area of modeling and designing sales territories. Zoltners and Sinha (2004) report a more or less steady increase in sophistication of sales districting procedures over a period of years, but always based on additional improvement of the basic approach developed at the outset of the work.

For the future, there may be scope for efficient frontier benchmarking (Horsky and Nelson 1996) based on simulations using models like the example discussed earlier. This may lead to more attention to optimization involving metrics. Also for the future, relatively straightforward expansion of product/market combinations for applying a designed meta-analysis type of modeling should broaden the array of environments in which such an approach might be considered acceptable within a given firm.

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## Chapter 39

# DESIGNING A BUSINESS FROM THE CUSTOMER BACK

## A Post-Industrial Management Competence

Stephan H. Haeckel

I am honored by the opportunity to add my two cents to this ritual of existential angst that marketing celebrates periodically—over a span of at least thirty years and counting, in my experience.

It strikes me as bizarre that, just as companies are beginning seriously to confront the issues of discovering and coproducing value with customers, the marketing function is increasingly focused on justifying its existence. The marketing concept, now a half-century old, is becoming the business concept. But marketing departments, the natural home of customer-centric knowledge and initiatives, seem to have largely devolved into a sales support function—and an expensive one at that. One chief executive officer recently discovered that his marketing department, having outsourced most of the real work of advertising and communications, was still spending two-thirds of its budget *internally!* Unable to imagine what possible value was being created by an internal staff that didn't actually *do* anything, he immediately simplified marketing's problem of justifying itself by reducing the marketing budget by 50 percent.

How did this happen? How did it come to pass that the highest priority for academic research in the minds of MSI Trustees has become "marketing measurements"—a.k.a. self-justification arguments and techniques? And this precisely in a time that straddles the historical transition from an industrial to a postindustrial economy. If ever business needed academic help in reconceptualizing the theory and practice of managing its relationship with customers, it is now.

Let me suggest that the way for marketing to earn its keep in the twenty-first century is to return to its mid–twentieth-century roots: to the marketing concept. One might frame the challenge as one of reinterpreting for the Information Age the axiom that businesses exist to create and keep customers. I will use this chapter as a call to action for the Academy, because I don't think the current generation of business leaders is likely to do this on its own—too much Industrial Age baggage and too many three-month performance horizons. So implementing a managerial transformation will probably fall to the next generation of executives—the one that business schools are now educating. But for that to happen, academics must be prepared to provide the next generation of leaders with a postindustrial MBA curriculum (PIMBA). This PIMBA will be a new managerial framework, based on new axioms, concepts, and profoundly different prescriptions. I will briefly indicate some of the major discontinuities and differences between it and the current legacy framework.

We're about halfway across the great divide between an industrial and a postindustrial society and economy. The transition was formally, forcefully, and convincingly announced by an aca-

Figure 39.1 **Managerial Implications of Unpredictability**

| | Demise of Efficiency Managerial Framework | Emergence of Adaptive Managerial Framework |
|---|---|---|
| STRATEGY | Strategic plan OF action | Strategic design FOR action |
| STRUCTURE | Functional hierarchy | Network of modular capabilities |
| GOVERNANCE | Command and Control | Context and Coordination |

demic, Daniel Bell, thirty-two years ago. Since then, the academic and business practitioner communities have identified new forms of behavior, new technologies, new techniques, and new leadership qualities to address the imperatives of the postindustrial economy. But we are trying to bolt these new adaptive ideas, technologies, and behaviors into an Industrial Age managerial framework that systematically discourages them.

Peter Drucker (1991), who codified the Industrial Age managerial framework of the mid–twentieth century, wrote that "No new theories on which a big business can be built have emerged . . . but the old ones are no longer dependable."

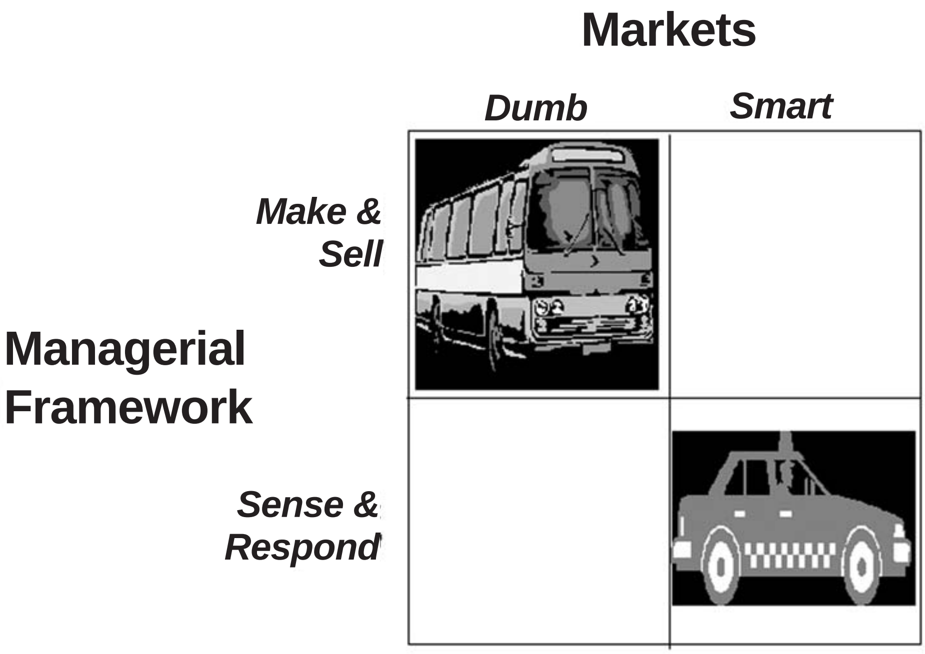
There is now at least one successor candidate—the name I have given it is *sense and respond.* Its premise is that rapid, unpredictable, and often discontinuous change is baked into the logic of an information economy. As a result, businesses must learn how to respond effectively to what individual customers want/need/prefer *now*, rather than execute efficiently plans that are based on predictions about what markets will want in the future.

If you buy that as a premise, then the concepts of strategy, structure, and governance must change radically (Figure 39.1). Strategy, instead of being a plan of action, becomes a design *for* action. Structure no longer follows strategy, it *becomes* strategy—a strategy for transforming a network of capabilities into a system for coproducing customer value.

And finally, organizational governance changes from command and control, where the knowers are at the top and the doers are at the bottom of an organizational hierarchy of authority, to context and coordination, where leadership declares a global context within which people can improvise and self-synchronize to produce coherent behavior at the enterprise level. The purpose of this context declaration is to make unambiguously clear the answers to three questions: what are we here to accomplish; how do we relate to each other; and what are the boundaries that govern, but do not dictate, the actions we take in pursuing organizational purpose.

Figure 39.2 depicts Rashi Glazer's way of representing that change (1999). Rashi, as many know, talks about "smart markets." Smart markets are the postindustrial, information intensive

Figure 39.2 **Smart Versus Dumb Markets**




markets in which products, customers, and firms become highly interactive and adaptive and information-intense. Dumb markets are not "stupid," but dumb in the sense of not being able to talk, not being interactive. Of course, there still are dumb markets, but we've got one hundred years of theory and practice to instruct us on how to organize a business to address those markets. I call that collective construct "make and sell." Plan, develop, make, and sell the products that you (and by the way, your competitors) can reliably predict the customer will need.

That frames strategy as a game against competition, and from Michael Porter (1980) we have learned that this is the right way to think about strategy in a world that is sufficiently predictable.

Rashi and I use the icon of a bus to represent a company that uses advanced market research techniques to find out where most customers plan to be and where they plan to go; hires rocket scientists to figure out the most efficient way to get most customers from where they say they're going to be to where they say they're going to go; then invests in buses and hires drivers who they train to do what? To execute the schedule. The schedule is an early binding of capabilities that then is executed with maximum, ideally six-sigma efficiency. A few years ago, the *Times* of London reported on a productivity initiative by the London Bus Authority. It seems the authority had raised the bar so high that only one bus driver was able to meet all the requirements: He got the bus out of the barn on time, stopped everywhere he was supposed to at the time he was supposed to, got the bus back to the barn on time, used no more gas than the plan called for, and ran over no more pedestrians than the plan called for. The only thing he was unable to do—because there was no time—was to open the doors to let customers on and off. But he made his numbers, and his measurements had nothing to do with getting customers to where they wanted to go. In fact, customers were, truth be told, a nuisance. They would sometimes get sick, or want to change a $20 bill, or want to get off between stops—all of which were unpredictable and all of which were terribly inefficient. But this bus driver was an A performer precisely because he closed the door to customers. (How many businesses do you know today that use 800 numbers and websites to shut the doors on customers because it's considered too expensive to have real people address their problems? And because of this, how much more do you like doing business with a Lands End or the insurance company USAA—where you talk with a human being who has access to what these companies already know about you, and who seems genuinely interested in helping you do business with them?)

Back to our bus driver, who can start work every morning without a customer. He doesn't need a customer because he has a schedule. A taxi driver, on the other hand, operates in sense and respond mode, and cannot start work without a customer. Why is that? Because without a customer she doesn't know where to go. Who does know? Only the customer. And that to me is the fundamental transaction of the postindustrial economy; an exchange of information *about* value from customers for the production *of* value from producers. The tricky part of this is that in smart markets with smart products that change dynamically, customers often can't tell you what they need. They need diagnostic help. I have no idea what the best digital camera would be for me. I have no idea what the right telephone plan is for me. And I have no idea what kind of anti-spam software to use; nor do I trust any of those providers to give me an honest answer about it. I darkly suspect they want to sell me what they happen already to have made. How likely are you to agree to codevelop value with someone you think is more interested in extracting value from you?

That leads to the question of what we mean by value. Specifically, what do we mean by customer value? Much of the literature today takes it to mean value of the customer to the firm, measured as lifetime value (LTV), or by loyalty. But increasing the lifetime value of a customer cannot be the design point of a firm—LTV is a firm's *reward* for producing value *to* a customer.

If a firm is to operate as a system, you can't design it to produce a reward for operational excellence; and you can't design a system to optimize the function of one of its parts. It must be designed to produce a state change in an external system. Value to the customer is value produced for an external system, a value that can, and in this view of the world should, become the design point for a business. In a recent executive education session Glazer and I proposed what we modestly called the "fundamental equation of business."

$$V = V_p + V_c$$
$$V = \text{Total Value Produced}$$
$$V_p = \text{Value to the Producer} = \text{LTV} = \text{Price} - \text{Cost}$$
$$V_c = \text{Value to the Customer} = \text{Benefits}_{\text{Relative}} - \text{Price}_{\text{Relative}}$$

Value is the sum of value delivered to the customer, and value received by the producer. Value to the customer is benefits minus price, where *benefits* means the dollar value assigned to tangible and intangible effects, and *price* incorporates, similarly, such things as monetary price, inconvenience, and other intangible negatives. Value to the producer is price minus cost, which also incorporates such intangibles as loyalty effects and opportunity costs.

Total value can be thought of as a waterfall, and the purpose of the collaboration between customer and producer is to maximize the height of that waterfall by increasing the dollar value of the benefits received by the customer, and by reducing the cost to the producer of delivering them. The game with customers is to maximize total value through the exchange of information about value (from the customer), and the structuring (by the producer) of a value-producing system that incorporates customer and producer capabilities. Having maximized the height of the waterfall, the price is set, instance by instance, which determines for each instance how much of the value created will flow to the customer, and how much to the producer.

The concept of an organization designed to collaboratively produce customer value implies that a distinction is made between the design point of the organization, and the reward for a good design, which is what shareholders get. If you don't make that distinction, and you think enhanced shareholder value is the design point, you end up doing things like buying back your own stock, investing in the discovery and exploitation of loopholes in the tax law, and doing creative accounting—all of which are logical things to do if your design point is increasing the share price to the stockholders. Such logic is reflected in the strategy of several insurance companies, who now see underwriting risk not as its value proposition, but as a means of raising cash to invest in the money market. Making money has become, literally, their real business.

Networks are the generic structure of postindustrial organizations. They provide the basis for a modular design, and they provide connectivity. But they don't provide interoperability and coherence. The way to add these attributes is to transform a network of capabilities into a value-producing system, using the principles of systems design. These principles, which are related to but different than "systems thinking," specify the *interactions* between accountable roles necessary to produce a desired affect on a customer.

Applying the principles of systems design to create collaborative organizational structures for action will be a core competence of postindustrial managers. Two of these design principles are regularly violated in current business practice. The first: that you always design a system by decomposing its function into subsystems, and the subsystems into lower-level subsystems. You never, ever start with the capabilities you have, and try to bolt them together into a system. And yet that's what frequently happens in post merger integration projects. That's also what happens in most reorganizations. We look at the capabilities we've got, and we try to figure out how we can integrate those into a value-producing system. That is a flagrant violation of a first principle of systems design.

A second frequently violated principle: do not design the actions of the components, design the *inter*actions between them. The interactions between them are—at least in the sense and respond prescription—the exchange of deliverables between organizational roles. Optimizing processes focuses on designing and presequencing the *actions* of components, as opposed to specifying the interactions between them. Process optimization makes great sense in stable environments where efficient replication produces economies of scale. But in environments of unpredictable change, six-sigma execution of a process to accomplish what has become the wrong thing is a recipe for disaster.

The systems design of roles and accountabilities that transforms a network of capabilities into a value-producing system is the strategy document of sense and respond organizations. It is a design for action, not a plan of action. It uses some but not all of the capabilities in a given network, because some of them won't make the cut after decomposition of the value proposition into its constituent capabilities. The strategic design shows the interactions between, not the activities of, people who are accountable for the production of specified outcomes, and who are evaluated by the role receiving those outcomes. It is these interactions that produce the system-level effect, a state change in the form of an effect that constitutes additional value to the customer.

Strategy as a system design for action *dissolves*, rather than solves, perennial issues that have plagued managers for decades. The issue of organizational alignment disappears, because alignment of the component parts is precisely what is specified in a systems design. Synergy is unavoidably produced, because the interaction of component roles produces an effect that cannot be produced by any subset of roles.

Clarity about roles, accountability, and authority, lack of suboptimization and fragmentation:

These follow naturally from a systems design. But some make and sell "best" practices are flat out bad practices, because they are antisystematic: for example, line of sight measurements, which call for the same outcome from multiple subsystems, creating redundancy and making accountability for the outcome ambiguous. And one would never ask a question such as, what is the return on marketing investment? any more than one would ask the question of an automobile designer or owner, what is the return on investment of a gasket or a carburetor? Because they are parts of a system, the loss of any of them makes the system incapable of delivering its function.

In sense and respond designs, coherent, system-level behavior arises from quasi-autonomous, self-organizing behavior. ("Quasi" because these behaviors are governed, though not dictated, by the declared organizational context.) The manager/designer does not specify any level of subsystem design beyond that he/she feels comfortable with. Double-click on any one of those roles, and you will see their subsystem design, a design that can be a make and sell, highly optimized process that deals efficiently with a stable set of inputs and outputs, or can be another, highly adaptive subsystem within which improvisation is the norm. Because all roles are dispatched using a universal and general commitment management process, *how* the role produces its outcomes is not a strategic issue.

The effective incorporation of customer and supplier capabilities occurs because they become a part of the same design, as the decomposition of the design point customer value determines which capabilities are needed from the customer and which from the supplier. Once you've invested in instantiating the design, each customer request can reconfigure the organization. Supply and value capabilities become "chains" only at the last possible moment—when dispatched by a customer-facing role. This achieves late-binding of capabilities. Products are the earliest form of binding of capabilities, designed and manufactured far in advance of a request by customers. Process design is a way of achieving later binding, where the sequence in which capabilities are linked is specified in advance. But dispatching capabilities in response to (or better yet, in anticipation of) a current request, like a taxi company does, provides maximum adaptability.

Ideally, dispatching is not only reactive to an articulated current request—but follows from the kind of sensing and responding that a doctor does when diagnosing your stomach ache as appendicitis. The doctor is not predicting that you need an appendectomy. The doctor is telling you what you need before you know it. He or she can interpret the data that you're sending out with your EKGs and blood tests and from his/her palpations and probes.

The metrics that have emerged from early adopters of this managerial framework include:

- Response cycle time reduction
- Response quality (as evaluated by the effect created on customers)
- Scope and number of requests successfully addressed
- Organic growth in revenue and profits
- Win rates, auditability
- Employee morale

The first metric is the length of response cycle time relative to the opportunity change cycle. That's a vital sign, because keeping up with change is a survival trait. The second metric establishes that response quality is not measured by traditional customer satisfaction metrics; It is measured by the state change in value *to* the customer. The effect on the customer may or may not occur if you delivered the product or service you promised. But that effect is the design point, and the key question is did the customer realize improved responsiveness, quality, operational results, and so on?

The scope and number of requests successfully addressed is the focus of the third metric. It is important to keep track of the number of times you have to say no bid (because, for example, the risk is too great, or the capabilities aren't there). If the same request keeps recurring, this suggests how you might expand the value scope. And because your capabilities are modular, you have combinatorial mathematics working for you. If you incorporate a new capability into a new systems design to create greater value, you get a substantial increase in the number of possible requests that you can profitably respond to. That's a significant potential improvement in a firm's ability to grow organically.

The last two metrics are internal indicators of organizational health that should improve as a by-product of success in co-creating value with customers.

I have given a very high-level synopsis of the sense and respond managerial framework in order to make the point that a basis already exists for educating postindustrial managers on a new managerial theory whose premise is increasing amounts of unpredictable change. My exhortation to those in the marketing academy is to seize the initiative in introducing this to the next generation of managers. After all, designing adaptive customer-backed businesses is becoming a strategic competence and marketing ought to be the function that co-opts it. First, that's supposed to be our job: minimizing the gap between what the customer needs and what the firm can respond to. Second, according to Harvard's Kash Rangan, the competence of organizational design has not been picked up by any of the other disciplines in the business school. And third—perhaps most important—I'm convinced we really know how to do this. We now have a few case studies, and the start of a learning curve. But while we know the principles, we don't have a sufficient body of experience from which to develop best practices regarding the new set of choices managers must make in this new framework. There is an enormous number of researchable propositions awaiting empirical testing by the readers of this volume.

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## Chapter 40

# HOW TO REFORM MARKETING

Jagdish N. Sheth and Rajendra S. Sisodia

Marketing is a vital and highly visible institution in free market societies around the world. However, it is suffering from major problems with each of its major constituents: a lack of respect within the corporation and a lack of trust by consumers. Taken together, these two major deficiencies have placed marketing in society's doghouse as, more often than not, a shallow, wasteful, and polluting influence.

Why is this happening? We believe that this is because marketing has become excessively driven by a short-term managerial agenda, and has lost sight of its fundamental mission: to represent the customer's interest to the company. Just as the role of government is to represent the public's interest and to align other societal interests with that goal, the role of marketing is to represent the interests of customers, and to align the interests of other stakeholders with that goal.

## THE POWER TO HEAL—OR HARM

Marketers should think of themselves as healers; after all, their job is to meet the functional and psychological needs of their customers, and leave them satisfied and even delighted. They should adopt this perspective at the individual as well as at the societal level. The best doctor is not the one who makes the patient dependent on him or her, but who makes the patient well. The most successful doctor is one whose patients need to see her least—because she knows how to cure them, and how to keep them well.[1] Marketing's job should be analogous to that of an outstanding physician.

Marketing tactics are like potent drugs with potentially serious side effects. It is important to understand that there are in fact no "main effects" and "side effects"—these are just convenient labels we apply to connote which effects we choose to observe and measure and which ones we would rather ignore. Unfortunately, the side effects of marketing today—noise pollution, customer irritation, excessive consumption, unhealthy lifestyles—tend to overwhelm its intended main effects. If that is the case, we need to reconsider the diagnosis and treatment.

*Indications*: As with any drug, we must understand the proper indications that call for its use. What is the appropriate marketing response to each condition? Some responses may alleviate the symptoms in the short term, but may deepen the problem in the long term. For example, General Motors now finds it virtually impossible to sell most of its cars without deep discounts and constant promotions; its latest offer was to extend its employee discounts to all customers.

*Dosage*: Every medicine is also a poison, and determining the right dosage is critical. In many cases, the initial dosage varies from a maintenance dosage. The volume of advertising, for example, must be monitored very carefully. Too much advertising has been shown to cause a backlash among consumers (like an allergic reaction). For example, in a series of controlled experiments, Anheuser Busch found that increasing advertising spending beyond certain levels led to declining sales (Ackoff and Emshoff 1975).

*Resistance*: Related to the above, the overuse of a drug builds up resistance in the user, and this resistance often extends to society at large. More and more customers are becoming not only resistant to many strains of marketing, but are becoming actively allergic as well; not only do they not respond to many marketing efforts, they actively resist them (see the chapter by J. Walker Smith in this volume). E-mail marketing, for example, started with 30 percent response rates. Its overuse and abuse led to response rates dropping precipitously and ultimately to a thriving spam-blocker business to protect users from the continuing onslaught of unwelcome messages.

*Interactions*: Certain drugs work well in combination, some cancel each other out, and others can interact in deadly ways. Likewise, well-integrated marketing efforts work to reinforce each other, while disjointed efforts waste resources and can lead to enormous losses.

*Vaccines vs. Cures vs. Treatments*: The best medicines are vaccines, which prevent a disease from occurring in the first place. The next best are cures; the key here is early detection in order for the cure to be effective. The least desirable option is an ongoing treatment: a medicine that needs to be taken as long as the condition persists. Such medicines simply alleviate the symptoms but do not attack the underlying cause. They generate huge amounts of revenue for the companies that sell them. Many such medicines cause dependency; users who stop using them may find themselves worse off than they were before they started using them. Marketing should try to create programs that are more like vaccines and cures, and only rely on ongoing treatments when there is no alternative. For example, if marketers create a superior value proposition for customers, positive word-of-mouth carries the product forward, without the need for constant advertising and sales promotions, both of which are costly and have negative side effects.

*Lifestyle Changes*: Drugs may be an attractive and easy short-term solution, but a better way to address many chronic and seemingly incurable problems is through lifestyle changes. Sometimes conditions such as high cholesterol, high blood pressure, diabetes, and many others can be greatly helped through lifestyle changes, including diet and exercise. The side effects of these treatments are all positive, unlike the drugs. Likewise, companies should strive to make changes that will reduce their need for constant advertising, frequent sales promotions, and other expensive marketing habits. If General Motors had more “must have” products and a better reputation for quality, it wouldn’t suffer the heartburn of anemic sales. Many companies are hooked on excessive price promotions (perpetual “sales”). By moving to an “everyday fair price” approach, they can create a much saner marketing environment.

Marketing managers should look to heal their customers by developing a holistic understanding of their needs. However, many have become too prescription happy, and are always ready to reach into their bag of tricks to find a tool that will “fix” a problem. They must refocus on overall wellness and wean themselves and their customers from dependency on harmful short-term fixes.

## MARKETING SIMPLICITY

> *Along the way, of course, I was going to be adding to the world’s knowledge of man, no doubt. But there was already a lot of that, to put it mildly. Possibly, there was enough.*
>
> —Norman Rush (*Mating*)

How much more do we need to know about the micromanipulation of consumer behavior? To paraphrase Rush, possibly we know enough. We are hyperanalytical and heroically rigorous about trivialities. Meanwhile, the big, important questions go begging, and marketing’s increasingly ugly public persona, like the graying image of Dorian Gray in the mirror or the proverbial elephant in the living room, is for the most part studiously avoided.

We need to rediscover our own essence, to become a truly self-justifying profession. A firefighter may never have the slightest doubt that he or she is doing something socially valuable. But marketers are routinely filled with angst about what they do, how they do it, how much it costs, who it benefits, who it hurts. Getting a cheap laugh by showing lizards talking or having a horse release gas into a candle (just two of last year's Super Bowl ads) does not represent the epitome of what marketing can contribute to society.

But marketing *can* be a self-justifying profession! And we can and must celebrate such marketing when we see it. Produce great (not just good) products, sell them *only* to people who would benefit from them, treat your employees, suppliers, retailers, and other business partners with respect and decency, be a good citizen wherever you are—and make good, but not obscene, profits doing all that.

Quite simple really.

## ALIGNING MARKETING AND SOCIETY

Marketing's raison d'etre is an eminently noble one: it alone is charged with the responsibility to align the interests of corporations and their customers (and by extension, society as a whole). It can be the civilizing influence on the brute force of capitalism. But the reality of how marketing has been practiced, in toto, is that it has abrogated its responsibility toward customers and has become the handmaiden of short-term corporate interests. No wonder that it has lost trust with consumers. Marketing has become too focused on competitors, and as a result has given short shrift to customers. The growing influence of the strategy literature on marketing thought and practice has caused many marketers to lose sight of a fundamental truth: without delighted customers, no amount of strategizing ultimately matters.

We should not underestimate the power of market forces and that of marketing to shape virtually every aspect of a society's mores, attitudes, and culture. Used wisely and with restraint, marketing can harness and channel the vast energies of the free market system for the good of consumers, corporations, and society as a whole. Used recklessly, it can cause significant harm to all of those entities as well.

Mainstream marketing ignores societal concerns at its own great peril. Marketing and society have been moving on increasingly divergent paths, and this will result in escalating conflict and criticism of marketing as a profession and a discipline. To remedy this, we must look at the role of marketing from three stakeholder perspectives—those of policymakers, academics, and practitioners. Taking such a holistic view is important, since a piecemeal solution will not suffice. All three stakeholders of marketing must take the initiative to revitalize and reenergize marketing by making it a positive force for society at large.

### Policymakers

Neither legislation nor regulation seems to be working well to curb abusive marketing practices. Most laws that pertain to marketing practices are seldom enforced; others are enforced only when lawsuits are filed. Marketing policymaking is currently reactive and driven by political agendas.

The primary problems that marketing faces in the public policy arena are that nonmarketing experts are generally chosen to lead important regulatory agencies, and (partly as a result), marketing is subject to ad hoc, reactive, issue-driven legislation and regulations rather than well-conceived initiatives designed to foster long-term improvements and direction-setting.

The heads of most federal agencies dealing with marketing issues are political appointees, unlike the heads of agencies such as the Centers for Disease Control (CDC) and the National Institutes of Health (NIH), which are scientific appointments. The marketing profession has the clout both as an industry and as an academic discipline to seek the appointment of regulatory policymakers with a scientific orientation rather than a political agenda.

We advocate establishing a National Academy of Marketing similar in reputation to National Academy of Science, the National Endowment for the Arts, and the NIH. These preeminent agencies all have a scientific orientation to policymaking. The timing could not be better. After the collapse of communism, fostering a market orientation has become an important issue worldwide. Many prime ministers and presidents of countries are very much marketing-minded now, even to the extent of “branding” and “positioning” their own countries. We should seek to make marketing more relevant to society by encouraging nonprofit marketing, nation branding, and citizen relationship marketing. We should seek to establish public–private partnerships to make marketing a socially relevant science, so that capable people are attracted to marketing. We should also invest in developing primary and secondary education curriculum that socializes good marketing approach and practices.

We need to reestablish marketing’s identity as a noble profession, rather than a parasitic one that feeds on people’s insecurities and adds little to society. Most importantly, we must establish rules and regulations for licensing marketing professionals, comparable to financial service providers. It is interesting to note that today the selling of financial products is highly regulated, and customers are afforded a number of protections. But the ways in which products such as automobiles are sold is hardly regulated; anyone can be a marketer, and can seemingly say anything they want to customers.

Marketing must become a full-fledged profession on par with, for example, the accounting and medical professions. It is time to require the mandatory certification and recertification of marketing practitioners. Consider the fact that the Institute for Supply Management (formerly known as the National Association of Purchasing Managers) has a well-established certification program, and requires that managers renew it every five years through continuing education. In business-to-business marketing, marketers have to deal with highly professional, certified purchasing managers. It is important that marketers are at least as professional in how they market as purchasing managers are in how they buy.

Instead of resisting all government regulations and scrutiny, as is the instinctive reaction of most companies, the marketing profession should support well thought out regulations that eliminate shoddy practices and are thus to the advantage of companies that practice “good” marketing. Marketing academics and practitioners should work hand in hand with the government to ensure that marketing policymaking is purposeful and forward looking and has a scientific rather than a political orientation.

## Academics

The three main issues with current academic research in marketing are (1) it is too heavily focused on consumer-oriented concepts and theories; (2) it has become too driven by an explicitly managerially driven agenda; and (3) it is too highly specialized and esoteric.

The first point is fairly straightforward; academics need to better understand and appreciate business-to-business marketing, which in general works much better than consumer marketing. Let us consider the second point.

*Should Marketing Academics Serve Managers or Customers and Society?*

As marketing academics, whose interests do we serve? and whose interests should we serve? These are not merely academic questions—they go to the very heart of what makes marketing relevant to a corporation and worthwhile to society.

It is a fair criticism of the academic marketing discipline to say that we have not had the impact on business practice that our colleagues in accounting, finance, and operations have had. We believe the reason for this is that we have abandoned our unique role in the world—as the voice of the customer—and have become just another business function serving the narrowly defined short-term interests of companies.

It is clear that, for the most part, marketing academics have been trained to serve the interests of marketing managers. Wilkie and Moore (2003) describe how the present era of marketing scholarship has been characterized by the strong dominance of the managerial perspective, which holds that "the major purpose for academic work is to enhance the effectiveness of managers' marketing decisions" (p. 132). Most of our efforts are aimed at helping marketing managers make better decisions. The extent to which we have succeeded in doing so is open to debate, but the proposition that this is what we have been driven by is not.

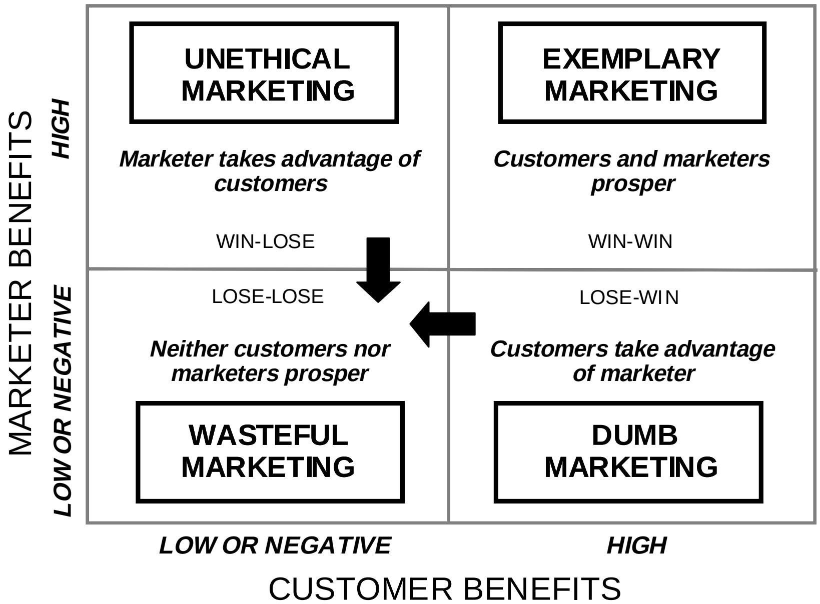
In many ways, this is as it should be—after all, it is ultimately marketing managers who pay our salaries by hiring our students. However, a crucial question arises as to the definition of the term "effectiveness" in this context. Is it synonymous with "maximizes sales and profitability," or does it imply decisions that are simultaneously in the customers' as well as the company's best long-term interests? We submit that only the latter perspective represents a worthy and sustainable delineation of what should concern us as marketing academics.

In our introduction to this volume, we used the chart repeated here to suggest that too much of marketing practice is dumb, unethical, or wasteful (Figure 40.1). The job of marketing managers is to align the interests of customers and society with those of the company. The job of marketing academics is likewise to facilitate that alignment. If academics seek to overtly advance the short-term bottom-line interests of managers and companies, they do them a great disservice. They become complicit in the myriad ways in which modern marketing practice often runs counter to marketing's own first principles: that the definition of success begins with doing right by the customer and ends with the achievement of a healthy bottom line.

This needs to change. Marketing should be less about representing the company to the customer and more about representing the customer to the company. Unfortunately, the latter perspective has been getting short shrift by corporate boards as well as journal editorial boards. We believe that the *primary* goal of marketing academics should be to serve the interests of customers first and managers second.

By donning the customer-perspective hat more or less permanently, marketing academics can go a long way toward making marketing a positive force that enhances the quality of life of consumers. Our research efforts should be aimed at measuring the degree of the customers' resentment at exploitative pricing and promotional tactics, and the spillover it has on the company's other businesses. We should be pointing the way toward *enlightened marketing practices* (analogous to sustainable economic development, which seeks to safeguard the physical environment while permitting vigorous economic activity). The "environment" we should be seeking to safeguard is the rapidly depleting pool of goodwill that consumers possess toward most companies. Our equivalent of global warming is rising customer cynicism. The ozone layer of mutual trust between customers and marketers has steadily been burned away—as a result of the marketing profession's many small and large abuses over the decades. Marketing managers are too close to

Figure 40.1 **Marketer and Customer Benefits**




the battle lines to be able to see this problem in its full dimensions. They are too consumed with daily hand-to-hand combat with their competitors—even, it often seems, with their customers.

Some years ago, Bill Wilkie conducted a survey of PhD students in marketing, and found a high level of interest in the societal aspects of marketing. However, the same survey showed that the vast majority of students had received little or no exposure to societal issues in their doctoral education (Wilkie and Moore 2005). This is a very important omission, since the doctoral students of today are the educators of future managers. We must take the critically important step of requiring all doctoral students in marketing to take a course on Marketing and Society, and should encourage more of them to make this an important component of their research agenda.

Academics are urged by the editors of some marketing journals to include a section in their articles under the heading Managerial Implications. Perhaps editors should also ask for a section titled Customer and Societal Implications. Of course, it could be argued that this should be implicit under Managerial Implications; after all, good marketing managers are supposed to align customer and company interests.

*Focus on Programmatic, Newsworthy Research*

In addition to explicitly adopting more of a customer perspective, as discussed above, marketing academics should undertake funded, programmatic, and newsworthy research rather than highly specialized, esoteric, and ad hoc research. Editorial boards and editors of journals must insist on a high level of relevance, not just rigor. Even important research in marketing is not seen as newsworthy. As a result, practitioners as well as policymakers largely ignore the outcomes of most academic marketing research. Other professional disciplines do a far superior job generating newsworthy research. The day an important article is published in the *New England Journal of*

*Medicine* or the *Journal of the American Medical Association,* it gets national and global attention. It should be the responsibility of the editors of marketing journals, not just authors, to ensure this kind of publicity.

Research in marketing is usually nonfunded ad hoc research, not programmatic research. Tremendous talent gets wasted, as highly capable people end up doing mostly mundane work. An example of programmatic research in marketing was Columbia University's Buyer Behavior project, for which half a million dollars was raised from companies. A series of articles, books, and dissertations resulted. The Marketing Science Institute performs an extremely valuable role in aligning faculty research topics with the expressed needs of companies. However, most research projects in marketing are funded out of university or business school research budgets, with no long-term strategic direction.

We should establish a peer review process for research proposals for external funding. The biggest potential funders in this country are corporations. At Pillsbury and General Mills, the most exciting work on consumer behavior is not being done by marketing but by R&D scientists in what they call the kitchens. Procter & Gamble has many times more PhDs than most university science departments. Nokia and Motorola excel at understanding what their customers are looking for. Researchers at these companies are focused on understanding consumers as users, unlike academic marketing, which tends to focus largely on consumers as buyers.

We should have more postdoctoral programs to initiate programmatic research, as is common in medicine and engineering. Our PhD graduates have no experience managing programmatic research. To encourage such a long-term perspective, we should lengthen the tenure clock to at least ten years. Finally, editorial boards and editors of leading journals must insist on a high degree of societal relevance in addition to scientific rigor. This will make our research more newsworthy and relevant to the needs of consumers, companies, and society.

## Practitioners

For practicing managers, there are three key issues. First, they need to rediscover the customer-centric essence of marketing. Second, marketing is measured by its impact on the profit and loss (P&L) statement; instead, a balance sheet perspective is needed. Third, marketing is organized in most companies as a tactical sales support function, but needs to be elevated to a strategic staff function. Taken together, the latter two factors cause marketing to be driven primarily by short-term agendas.

### *Rediscover the Joy of Marketing*

Marketing is the one business function that is explicitly charged with maintaining an outward focus on markets and customers rather than on internal factors. However, other business functions have steadily become more externally oriented and customer-driven over time, while ironically, marketing seems ever more driven by concerns divergent from customer interests.

Too many marketers have lost sight of the fundamental guiding principles of their calling. For marketing *should* be viewed as a calling, not just another profession, since it alone defines itself on the basis of enabling the greater well-being of customers. The only people who should become marketers are those that care *passionately* about customers. Instead, unfortunately, the profession seems to attract more than its share of individuals with a passionate focus on their own short-term gains.

Marketers must focus on enhancing customers' quality of life, rather than maximizing the sales of their company's products. They need to understand how quality of life is defined by each customer, and tailor what they do accordingly. Marketers should go beyond the narrow and the mundane that preoccupy them, and learn how to leverage their considerable powers to make their customers truly happy.

In practical terms, this means that instead of figuring how to create products that maximize profits for them, managers should focus on the process of creating products and marketing programs that deliver high levels of real value to customers. Instead of studying which advertising tactic is most likely to, in essence, trick a customer into trying a product, they should focus on what kinds of communications are useful and valuable to a customer, and which ones are simply irritating or misleading.

Taking such a perspective does not mean that marketing managers would be doing their companies a disservice, or helping customers to take undue advantage of their company. If we believe that the path to enduring business success must without exception go through the intermediate stage of true customer contentment, then this in fact is the best way to achieve a higher level of business success.

There are a number of companies that represent the best of what marketing can do. These companies inspire tremendous devotion and loyalty—even love—from their customers. Instead of obsessing about share of market or share of wallet, these companies strive for a high "share of heart"—of *all* of their stakeholders, not just customers. Without fail, such companies are led by visionary individuals with a strong emphasis on human values, and are deeply involved in their communities. Their employees are highly competent, enthusiastic, and joyful. Their shareholders are amply rewarded as well; most are also customers, and many are employees. Almost without exception, these companies accomplish all this while spending less on marketing than their peers. We feature thirty such companies and describe the secrets of their success in our forthcoming book *Firms of Endearment* (Sheth, Sisodia, and Wolfe 2006).

### *Elevate Marketing to a Corporate Staff Function*

Marketing needs to move from the P&L statement to more of a balance sheet approach. Unfortunately, most marketing executives don't understand balance sheets. It is abundantly clear that marketing can and does create assets of considerable tangible value. Many retailers today are creating new brands based on their strong market presence. If they want to, they can sell those brands to a manufacturer or anyone else. For example, Sears's brands such as Craftsman, Kenmore, and Diehard probably have more value than the market cap of the entire company.

Today, advertising, product design, market research, sales promotions, public relations, and even selling and distribution are usually handled by specialist providers. In fact, the bulk of marketing dollars are spent on outside suppliers; much of marketing has become strictly a coordination function within the corporation. However, few marketing managers have much expertise on how best to manage suppliers or properly coordinate their activities. They also lack an adequate understanding of the proper demarcation of activities that *should* be performed in-house and those that are best outsourced.

We believe that the best way to get marketing to adopt a long-term perspective is to change it from a line function primarily concentrated at the business unit level to a corporate staff function. One company that has already done this is Alcoa. As a corporate staff function, marketing should be considered as strategic as finance.

In most companies today, the most powerful person after the chief executive office (CEO) is the chief financial officer (CFO), not the COO (chief operating officer) or president. The CFO is a staff position, but is very powerful. Similarly, the head of information technology (IT), the chief information officer, doesn't report to the CFO anymore, but rather directly to the CEO. Similarly, the general counsel reports to the CEO and the board. The fourth major staff function is human resource management. These functions are organized in such a way that, in addition to having corporate staff, they are also distributed into the functional, regional, and product organizations. They become part of the operating "atmosphere" of the company, providing guidance, inculcating values, nurturing, ensuring adherence to standards, and so on. Corporate staff functions are managed from a compliance as well as a strategic perspective, and marketing should be no exception.

There should be a board-level standing committee that oversees marketing, similar to the Audit, Compensation, and Governance committees. The head of corporate marketing should be called the chief customer officer (CCO) instead of chief marketing officer to minimize internal perception and image problems about marketing, and should report directly to the CEO. The CCO should be responsible for branding, key account management, and business development. Importantly, marketing must be given both capital expenditure and operating expenditure budgeting responsibilities and authority, similar to the IT function.

## CONCLUSION

The world has changed a great deal in the past two decades, but marketers have adapted to it in only superficial ways. Not only must marketers accept the reality that customers today are far more empowered than ever before, they must embrace it to fashion a "new deal" with customers, one predicated on respect, integrity, and a long-term vision.

Current demographic megatrends add to the urgency of the need to do so. Every market in the world is evolving rapidly. Emerging markets such as China and India are growing fast, but consumers there already have access to cutting-edge information tools that enable them to blunt the edge of traditional marketing weapons. Developed markets (e.g., North America, Europe, Japan) are characterized by much slower growth and a simultaneous maturing of the population, blurring of gender distinctions, and the rise of feminine values in society and hence the marketplace. Increasingly, consumers are in the more highly evolved later stages of life, which is reflected in every aspect of how they lead their lives. Marketing must learn how to relate to such consumers.

The problem, of course, is that as people have matured and markets have evolved, marketing has not; it remains stuck in a juvenile time warp of gimmickry and shallow imagery. While people have become more preservation and conservation minded, marketers have remained wasteful spendthrifts. While people have become more spiritual in outlook, marketing remains crassly materialistic. While people focus more on achieving their own potential, marketing remains obsessed with "keeping up with the Joneses." While people are digging deeper to discover the substance of people and things, marketing remains fixated on outward appearances. While people are more concerned with authenticity in every aspect of their life, marketing is riddled with inaccuracy and insincerity.

Clearly, marketers have to change a great deal to adjust to this new world order.

## NOTE

1. Today's pharmaceutical industry appears to be completely driven by creating lifelong treatments for chronic conditions rather than searching for cures or preventive measures. Many products today are being designed with recurring revenues in mind—a variant of the old razor and blade approach, complete with monopoly margins on the supplies (e.g., filters for refrigerators, ink cartridges for printers, etc.).

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