



CHAPTER I

INTRODUCTION TO MANAGING MARKETING

MARKETING PLAYS A CRITICAL ROLE IN TODAY'S BUSINESS ENVIRONMENT where maximizing shareholder value is an increasingly important goal. The essence of marketing focuses on how firms attract, retain, and grow their customers.

MARKETING AS A PHILOSOPHY

Firms with a marketing philosophy operate with an external orientation for the overall organization. Such firms focus their attention and resources outside the organization — to acquire, retain, and grow customers — but take careful account of competitors and the broader environment in which they do business. By contrast, internally oriented companies focus on internal organization issues such as products, services, and processes.

MARKETING IMPERATIVES

These are the must-dos of marketing. Executives with marketing and product management titles generally implement six imperatives. They are:

- Imperative 1: Determine and recommend which markets to address.
- Imperative 2: Identify and target market segments.
- Imperative 3: Set strategic direction and positioning.
- Imperative 4: Design the marketing offer.
- Imperative 5: Secure support from other functions.
- Imperative 6: Monitor and control execution and performance.

As a broader framework when thinking about markets and marketing strategy, the manager should use four principles of marketing to form the basis of marketing decision-making. These principles act as guidelines for implementing the six imperatives, and they are:

- Principle 1: Selectivity and concentration
- Principle 2: Customer value
- Principle 3: Differential advantage
- Principle 4: Integration

THE CHANGING VIEW

The changing view of managing marketing includes the following new ways for a firm to look at marketing:

OLD WAY	NEW WAY
Organizational survival a major firm objective	Shareholder value the major firm objective
Accounting profit critical	Shareholder value critical
Shareholder value an issue for finance	Shareholder value an issue for marketing
Firms operate to suit managers' goals	Firm operates to deliver value to customers
Marketing one of the firm's functions	Marketing a philosophy as well as a function
Internal orientations acceptable	External orientation critical for success
Firm must manage the <i>status quo</i>	Firm must manage change
Customers seen as a <i>necessary evil</i>	Customers seen as the firm's key assets
The supplier chooses options	The customer chooses options
Seller power dominates	Customer power dominates
Marketing department does marketing	All firm employees have a marketing orientation
Core of marketing job is marketing mix	Marketing job is six marketing imperatives

Marketing Question

Think about familiar firms. Choose two firms: one that exemplifies the old way and one that exemplifies the new way. Which criteria led you to identify these firms? Why?

WHAT IS MARKETING?

Marketing is the firm's fundamental activity. When marketing delivers **customer value** to satisfy customers' needs, the firm **attracts, retains, and grows customers**. If costs are in line, **profits** follow. Profits help the firm survive as an independent entity and secure the resources to grow and enhance **shareholder value**.

Marketing's role includes identifying opportunities, figuring out customers' needs, understanding the competition, developing appealing products and services, and communicating value to potential customers. When these tasks are done well, shareholder value increases. The competitive battle to attract, retain, and grow customers is at the heart of all business activity.

The firm must deliver greater **value to customers** than **competitors** deliver. Customers reward firms that deliver greater customer value by purchasing their products and services, today and tomorrow. This **exchange** is the basis of all markets. In sum, when the firm delivers greater customer value than its competitors, it is likely to earn profits, survive, grow, and make shareholders very happy. If customers perceive that competitors deliver greater value, ultimately the firm will perish.

MARKETING AND SHAREHOLDER VALUE

The shareholder-value perspective defines management's job as maximizing returns for the firm's owners — its shareholders. When this perspective dominates, government regulations tend to favor the owners. Active shareholder opposition, and sometimes-unfriendly takeover bids, tend to occur when the firm underperforms in increasing shareholder value.

The firm increases shareholder value only if its incoming cash flows earn a return on investment at least equal to its **cost of capital** (the weighted average of the firm's cost of equity and cost of debt). When the firm fails to earn its cost of capital, it destroys shareholder value. Customers provide revenues and cash flow when they believe that the firm's products and services offer better value than those of competitive alternatives.

Marketing Question

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

If marketing fails to deliver superior value, the firm may go out of business — by bankruptcy, merger, or acquisition. Today, customer value and shareholder value are closely intertwined. Increased acceptance of the shareholder-value perspective has raised the stakes considerably. If marketing does not perform consistently well, the firm should anticipate a bleak future.

MARKETING AS A PHILOSOPHY: EXTERNAL AND INTERNAL ORIENTATIONS

THE EXTERNAL ORIENTATION

The externally oriented firm looks outward to the environment and knows that customers are central to its future. This firm knows that its current products, services, and processes are the reasons for past and present success. It also knows that, as its external environment changes, its offers, structure, and processes must also change. The externally oriented firm does not fear change but invests in new capabilities and competencies to exploit opportunities and to create and serve customers.

INTERNAL ORIENTATIONS

OPERATIONS ORIENTATION

The firm with an **operations orientation** typically focuses upon reducing unit costs. There is nothing wrong with cutting costs, but cost-cutting should not be a priority when the firm introduces a new product or when product varieties, promotional effort, and short delivery times are crucial for attracting, retaining, and growing customers.

SALES ORIENTATION

Firms with a **sales orientation** focus on short-term sales volume. They are less concerned with profits and long-run customer relationships. They set prices too low and offer excessive discounts and/or too-favorable credit terms — and may create a perception of low quality. They spend little on marketing research and planning, target customers indiscriminately, offer too many products, and over-invest in finished-goods inventory.

FINANCE ORIENTATION

The firm with a **finance orientation** focuses too heavily on short-term profits. When a firm *manages by the numbers*, it tends to avoid expenditures with long-term payoffs. The finance-oriented firm mortgages its future by indiscriminately cutting back on R&D, capital investment, marketing research, and/or advertising. Pricing focuses on short-term profits, and planning processes are weak or nonexistent.

TECHNOLOGY ORIENTATION

A firm with a **technology orientation** focuses on RD&E (research, development, and engineering) and pays little attention to customer value. The firm's products are often over-engineered, but customers will not pay for features they do not need. First-class products are critical for attracting, retaining, and growing customers, but customer requirements must be at the center of the firm's product development focus.

THE SIX MARKETING IMPERATIVES

IMPERATIVE 1: DETERMINE AND RECOMMEND WHICH MARKETS TO ADDRESS

The first marketing imperative requires the firm to answer critical questions about its business and market portfolio:

- In which new businesses and markets should the firm invest — people, time, dollars?
- From which businesses and markets should the firm withdraw?
- Which current businesses and markets should continue to receive investment?
- How much investment should these various businesses and markets receive?

For Imperative 1, marketing plays two key roles:

1. **Identify Opportunities.** Marketing personnel should research the environment to identify potential opportunities and bring these to top management's attention. They should also collect and analyze data that bear on the entry decision. Marketing should also be intimately involved with the firm's current markets and businesses and advise on investment and exit decisions.
2. **Advise on Proposed Strategic Actions.** Many parts of the firm develop strategic initiatives. Marketing has the responsibility to insert itself into these decisions and provide marketing advice. If the firm does not fully explore the marketing ramifications of its decisions, disaster may ensue.

IMPERATIVE 2: IDENTIFY AND TARGET MARKET SEGMENTS

Marketing Imperative 2 states that marketing must identify **market segments** — groups of customers with similar needs that value similar benefits, with similar priority levels. After the firm has identified segments, it must decide which to target. Note that there are two parts to Marketing Imperative 2: an *analytic* part — identifying market segments; and a *decision-making* part — choosing which segments to target, based on the firm's ability to deliver value. Effective segmentation and targeting drive profits.

IMPERATIVE 3: SET STRATEGIC DIRECTION AND POSITIONING

In Marketing Imperative 3, the firm decides how to compete in the segments it has decided to target. For each target market segment, marketing must formulate performance objectives. Second, the firm must decide on its positioning for each segment. Together with Marketing Imperative 2, positioning completes the STP triumvirate — segmentation, targeting, and positioning.

Further, individual market segments are at different developmental stages, and different stages require different approaches. Finally, decisions about strategic direction also include questions of branding — how the firm wants its customers to view the corporate entity and its products — brand identity. The firm must continually assess its strategic direction and make the necessary course corrections.

IMPERATIVE 4: DESIGN THE MARKETING OFFER

Marketing Imperative 4 focuses on design of the **marketing offer**. The marketing offer is the total benefit package the firm offers to its customers. Tools for designing the offer are the most

Marketing Question

Interview an executive. Identify examples where functional silos (focused specialization) hurt performance — and where different functions worked well together. Name some firms that you believe are internally oriented and some that you believe are externally oriented. Why did you select them?

well-known part of marketing. The marketing mix elements, sometimes called the **4Ps**, comprise the basic building blocks of the firm's offer to the market. They are:

- **Product.** In general, the product embodies the major benefits the firm offers to satisfy customer needs — these benefits provide value to customers. The term *product* embraces both physical products and services.
- **Promotion.** Promotion embraces the various ways the firm communicates with its customers — informing and persuading customers to purchase its products. Promotion includes *impersonal communications* like advertising and *personal communications* like the sales force.
- **Distribution.** Distribution focuses on how and where the customer secures the product. To conform to the 4Ps framework, *distribution* is sometimes referred to as *place*.
- **Service.** The original 4Ps formulation did not include service. Service is treated as a separate item — now 4Ps and an S. Services can be a key distinguishing aspect that is very important in persuading customers to buy.
- **Price.** Price is what the customer pays. The firm establishes its feasible price by the equivalent amount of value it offers through its product, promotion, distribution, and service.

IMPERATIVE 5: SECURE SUPPORT FROM OTHER FUNCTIONS

Imperative 5 focuses on how the firm's functions work together to ensure the firm makes the right marketing offer. Marketing requires two very different types of support:

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

IMPERATIVE 6: MONITOR AND CONTROL EXECUTION AND PERFORMANCE

Marketing Imperative 6 focuses on monitor and control — letting the firm know whether or not it is achieving its desired results. If results are not on track, the firm must make changes.

Essentially, marketing should ask three questions and take the appropriate actions, based on the answers:

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

THE FOUR PRINCIPLES OF MARKETING

THE PRINCIPLE OF SELECTIVITY AND CONCENTRATION

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

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

THE PRINCIPLE OF CUSTOMER VALUE

According to the **Principle of Customer Value**, the firm's marketplace success depends on providing value to customers. This principle is central to marketing's job. Customer insight should drive design and implementation of marketing offers. Customer value should drive the firm's product and investment decisions — and its performance evaluations.

THE PRINCIPLE OF DIFFERENTIAL ADVANTAGE

The **Principle of Differential Advantage** is closely related to the Principle of Customer Value. Differential advantage is similar to having a *competitive advantage*, a *unique selling proposition*, or an *edge*. The Principle of Differential Advantage asserts that the firm *should offer customers something they want that they cannot get, or believe they cannot get, elsewhere*. In other words, it must offer greater customer value.

To implement this principle, the firm must develop well-designed market offers based on the elements of the marketing mix. If the firm achieves a differential advantage, it should secure improved prices. This principle leads to several implications:

- **Competition.** The principle emphasizes competition. To avoid competitive parity, the firm's offer must be better than competitors' offers. The firm must create and re-create its differential advantage to beat competitors.
- **Superiority of Differential Advantages.** Some differential advantages are better than others. A differential advantage based on product design or product availability may be more sustainable than a differential advantage based on communications.
- **Eroding Differential Advantages.** Competition will eventually erode away even what appears to be the most sustainable differential advantage. Maintaining differential advantage is marketing's most fundamental challenge, and the search for differential advantage must be ongoing.
- **Cannibalizing a Differential Advantage.** To stay ahead of competition, the firm must be willing to cannibalize its own offerings. However, many firms will not pay this price, in part because political constituencies for the firm's current offering are so strong.
- **Differential Advantage and Difference.** A *differential advantage* is different from a *difference*. The critical issue is for the differences to create benefits that customers recognize, truly value, and are willing to pay for.

THE PRINCIPLE OF INTEGRATION

Successful integration — critical for all marketing efforts — has two dimensions:

- **At the Customer.** The firm must carefully integrate and coordinate all design and executional elements of the offer it makes to customers.
- **In the Firm.** To achieve integration at the customer, the firm must integrate and coordinate all of its functional activities; this is often very difficult.

The firm with an external orientation is more likely to achieve integration, because the shared value of serving customers promotes a common purpose. Those responsible for designing and implementing the marketing offer agree on priorities and develop close and cooperative working relationships.

Marketing Question

How has eBay used the four Marketing Principles in developing its business?

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TRUE / FALSE QUESTIONS

1. Firms with a marketing philosophy operate with an internal orientation.
2. At an internally oriented firm, you often hear the statement, "That's the way we do things around here."
3. The technologically oriented firm places excessive effort in getting customers to buy what the firm has to offer, in contrast to getting the firm to offer what customers want to buy.
4. Marketing is the only function with explicit responsibility to focus attention outside the firm.
5. A differential advantage is a net benefit or cluster of benefits, offered to a sizable group of customers, which they value and are willing to pay for but cannot get, or believe they cannot get, elsewhere.

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MULTIPLE CHOICE QUESTIONS

1. Which of the following embraces marketing as a philosophy and is externally oriented?
 - a. finance orientation
 - b. all selections are internal orientations
 - c. operations orientation
 - d. technological orientation
2. The firm with a(n) _____ is typically less concerned with profits and long-run customer relationships.
 - a. sales orientation
 - b. operations orientation
 - c. finance orientation
 - d. technology orientation
3. A firm with a(n) _____ mortgages its future by indiscriminately cutting back on R&D, capital investment, marketing research, and/or advertising.
 - a. sales orientation
 - b. operations orientation
 - c. finance orientation
 - d. technology orientation
4. Which of the following is the most recent addition to the marketing mix and is treated as a separate item?
 - a. product
 - b. distribution
 - c. service
 - d. promotion
5. Which of the following four Principles of Marketing emphasizes competition?
 - a. The Principle of Selectivity and Concentration
 - b. The Principle of Customer Value
 - c. The Principle of Differential Advantage
 - d. The Principle of Integration

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