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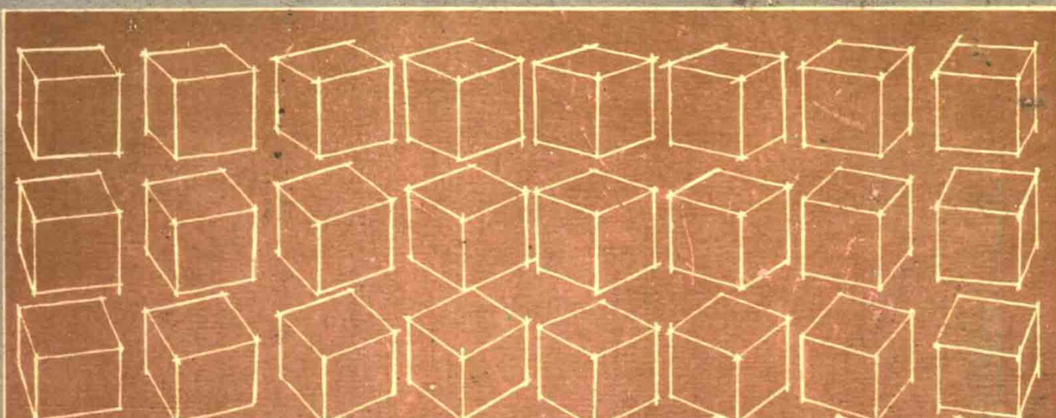
READINGS IN MARKETING STRATEGIES AND PROGRAMS



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PREFACE

The marketing manager of the 1980s lives and works in an environment that seems to be increasingly complex. Economic and demographic changes, new technology and new competition, and shifting social and cultural values are only a few of the external forces with which managers must contend in making decisions.

The articles contained in this book have been chosen to provide the reader with an understanding of some *perspectives* that can be employed to guide the decision-making process and some *procedures* that managers can implement in making specific decisions. In a complex and dynamic environment, it is important that managers become aware of the specific tools and concepts that can be employed to make decisions such as which market segment to select, how to structure and motivate the sales force, how to measure the profitability of a product or a customer group, or how to forecast sales. However, it is at least equally important that managers be aware of broader issues such as how decisions in marketing affect decisions in the other functional areas, how detailed decisions in different areas of marketing can be coordinated, how short-run marketing actions taken on behalf of one product will influence the long-term success of the total organization.

In order to provide an overall structure for presenting and integrating these perspectives and procedures, this book is organized to reflect the major elements of a *marketing planning process*. This process portrays the relationships among the major types of activities that marketing managers must perform in order to make decisions that are responsive to the marketing environment and that are effectively coordinated so that the organization's goals will be achieved.

Specifically, Part I presents perspectives and procedures that can be employed by top management in determining how the organization as a whole can respond to the environment and in specifying the role each product should play in achieving the organization's goals. In Part II, we have included articles that offer perspectives and procedures for analyzing the current market situation facing individual products and product lines. Specifically, these articles present approaches for analyzing buyer decision-making, for sales forecasting, and for examining the impact of changes in marketing effort and expenditures on sales and profitability. Part III incorporates articles that deal with the process of developing an overall marketing strategy for a product or product line and with processes for selecting the action programs (such as advertising and product development) that can be used to implement the strategy. Finally, in Part IV we have included articles that present methods for coordinating the implementation of the marketing strategy and for controlling performance. We have also included articles that offer perspectives and procedures for understanding the environmental and organizational factors that can influence performance.

As is the case with any book, a number of individuals were involved in the development process. We are particularly appreciative of the efforts of our editor at McGraw-Hill, Ms. Carol Napier, and of Dr. Charles Schewe, consulting editor in marketing for McGraw-Hill. However, we are most appreciative of the work of the many marketing educators and practitioners whose insights and efforts are reflected in the articles contained in this book.

Joseph P. Guiltinan

Gordon W. Paul

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CONTENTS

PART ONE

THE MARKETING CONCEPT AND CORPORATE MARKETING PLANNING

Marketing is a vital activity in any organization whose purpose is to provide goods and services. Whether an organization is designed to be profit-making or not-for-profit, its success will ultimately depend on how well it understands and meets the needs of its clients or customers.

To be successful then, an organization must: identify customer needs, develop products and services that meet those needs, effectively communicate and distribute the product, and price the product at a level that meets the organization's financial requirements. However, before marketing managers can make decisions about the specific strategies and programs required for individual products and product lines, top management must select the markets the firm will serve and determine how resources should be allocated across the firm's various products. Organizations often change the definition of the "business" they are in over time as new opportunities and threats emerge in the economic, social, cultural, technological, demographic, and competitive environment. Further, different products in the firm's product line usually make different kinds of contributions to long-term objectives. For example, some products may provide a high rate of growth while others may provide high levels of profitability.

Corporate Marketing Planning is the process by which top management sets priorities regarding the markets it will serve and the types of products and services it will produce in order to achieve the long-term goals of the organization. The articles in the first part of this book present some concepts and tools that are highly useful in corporate marketing planning.

Levitt's article focuses on the *marketing concept*—the idea that business success requires a firm to be customer-oriented. However, the critical point of this article is that the detailed strategies and programs that a firm uses to satisfy customers must be adjusted over time. Marketing managers operate in a dynamic environment. Accordingly, managers must plan their strategies and programs and adapt their organizational structures to meet these changes. In fact, marketing is central to corporate strategy. Any organization must select the markets it wishes to serve and the products and services it wishes to produce based on an analysis of its ability to be competitive and profitable in satisfying customer needs.

One widely employed tool for examining the changing marketing environment is the *product life cycle*—a concept which links changes in sales trends for a product form or class to changes in the marketing environment. Smallwood's article demonstrates the need for modifying marketing strategies and programs over the product life cycle in order to adapt to changes in the degree of market acceptance for the product, in competition, and in the susceptibility of sales to economic changes.

Both the rate of sales growth for products and the marketing environment will change over time. Accordingly, a critical task for corporate marketing planners is to identify the role that each product in the firm's mix should play in achieving long-term corporate objectives. By establishing these roles, managers can identify the products that require greater shares of a firm's scarce resources as well as those that should receive lesser shares. The *product portfolio* concept discussed in Day's article has become a widely used tool for performing this task. Yet, as this article suggests, there are several pitfalls that managers face in employing portfolio models. In order to use these models effectively, it is important that managers determine whether the assumptions of these models apply to a firm's specific products and markets and that they recognize the difficulties and unintended consequences that can result from using inadequate definitions of the market and of inadequate measures of market share and growth.

In order for managers to assess the stage in the product life cycle, the growth opportunities, and the competitive position for each product, a definition of the relevant market in which each product competes is essential. The article by Day, Shocker, and Srivastava examines alternative methods that managers can use to identify the *product-market boundaries* within which a firm's products compete. The authors conclude that methods which focus on the variety of usage situations for a product provide the most useful ways of identifying competitive threats and growth opportunities.

READING **1**

MARKETING WHEN THINGS CHANGE

Theodore Levitt

The "marketing concept"—the idea that business success requires being customer-oriented rather than product-oriented, that a business ought to view itself not as selling goods or services but rather as buying customers—is by now an old idea. It means doing all things so that people will *want* to do business with you, or prefer to do it with *you* rather than with your competitors. Instead of talking about what to make or sell, business managers should think about what people will buy, and why.

The consequences of converting to this view of one's business can be profound for corporate strategy, pervasive for corporate organization, and enormously complicating for determining how things will have to be done.

Corporations that have made the shift have generally found the process agonizing. But once corporations have done it, done it right, and stuck to it, the results over time have always been excellent, and often spectacular. Marketing can be magic.

Everybody by now knows that marketing and selling are not the same thing. Selling tries to get the customer to want what you have. Marketing tries to have what the customer will want—where, when, in what form, and at what price he wants. Goods and services should be created not because somebody thinks something will be useful, but rather because somebody thinks about the needs and wants of possible buyers and users—and thinks about them in enormous detail, with infinite attention to minutiae: the design of goods and services, their packaging, how they're distributed and sold, pricing, the training and management of those who sell them, their advertising and promotion, the product-line planning, and the auditing of results and of the competitive environment.

To be customer-oriented is different from the old idea that "the customer is king." *King* connotes somebody in command who knows what he wants and demands that he get it. But, in most cases, customers don't know what they want, certainly not when it comes to the specifics of goods and services. They may want happiness, comfort, mobility, tranquility, security, functionality, and safety but not know how to get them. They may want specific products and services but may be confused or mistaken about the capacity of these to satisfy their needs. They often have needs they're not aware of and, even when they are, can't necessarily translate them directly into specific wants. They may want one thing but need another, or buy one thing but need something else. The famous examples of this truth are that people buy ¼-inch drill bits but need ¼-inch holes; they buy cosmetics but want "hope"—thinking personal enhancement will solve deep-seated problems of life.

The marketing concept urges business people to think not just in terms of their problems at home, at their plants, at their offices, but of customer needs out there in the marketplace. When there is a need, there is a problem. People don't buy goods or services, factories or systems. They buy the expectation (or promise) of solving a problem, even the promise of avoiding a problem. Most mouth refreshers are bought with this latter hope—to avoid the problem of giving offense. Electric utilities buying giant $45-million coal-fired steam boilers buy dual and opposing hopes—simultaneously to solve the problem of how to reliably produce low-cost electricity and to avoid innumerable ecological, regulatory, construction, economic, and start-up problems.

FORGET THE MARKETING CONCEPT?

Among America's larger corporations, there are no more successful practitioners of the marketing concept than IBM and Revlon. IBM, under the Watsons and their successors, have done it in a scrupulously professional and self-conscious fashion; Revlon, under Charles Revson, in a brawling entrepreneurial and unself-conscious fashion. Both ways worked like magic. Yet both IBM and Revlon have recently done some strange things—they seem suddenly to have abandoned marketing practices that made them famous in favor of practices that made others fail.

When companies that have done things well for so long suddenly shift to another mode, it pays to pay attention. In the present cases, what appears to be happening is the abandonment of some central principles of the marketing concept. That alone calls for a closer look.

The IBM Reversal

IBM was not the first company to enter the commercial computer business. It was, in fact, a particularly late latecomer. But in what seemed like no time, it captured some 80% of the mainframe segment of what, in 1976, was a $20-billion industry. It did so largely by being a singularly dedicated and spectacularly effective marketing company. Through its entire history, right through 1976, IBM's top-tier executives were almost exclusively persons who rose in the organization via marketing. In that entire history, only two top executives were scientists, but neither was in the topmost inner circle.

Thus, claims to the singular advantage imparted by the Forrester memory drum notwithstanding, IBM, the master symbol of twentieth-century science and technology, succeeded in business largely because of its marketing prowess. It had industry managers who developed marketing plans, sales programs, and sales training for specifically targeted industries and companies. Its salesmen were as specialized in the industries to which they were assigned as in the hardware they offered for sale. IBM's software was included in the package, inseparable from the single set price for the hardware. This pricing scheme ensured that the customer's equipment would indeed be programmed to do the promised job and that there would be no price haggling that might lead to hard selling when what was needed was sensitive marketing.

Sensitive marketing meant that IBM designed installation facilities for the customer, redesigned his entire data collection and reporting systems, trained his data processing people, took the shakedown cruise, and then later developed new EDP applications to help the client even more. In the process, the client became an even bigger and more dependent customer. Meanwhile the customer had the option of either paying the single nonnegotiable price outright for everything or leasing its equipment with virtually no punitive cancellation provisions. If ever there was a thoroughly marketing-oriented professional organization, it was IBM. And it worked like magic. Others copied it to the letter.

But in November 1976, IBM seemed suddenly to abandon all that—at least in its venture into the world of minicomputers, officially called Series/1. In marketing Series/1, however, IBM did follow one central tenet of the marketing concept: if customers prefer something that competes with your own offering, don't stand on principle and pride. Offer it as well, even it it risks the more rapid destruction of your present market. This is called creative destruction. So far so good.

But with Series/1, IBM made its sales force product-oriented rather than customer-oriented. The sales force became dedicated to selling Series/1, and that's all. There was no specialization of the sales force by customer segments, none of that supremely successful elaboration of customer services. The emphasis was on push: sell, sell, and sell hard to everybody on the pike. And there were no more leasing options; it was cash on the barrelhead, in spite of the fact that IBM's enormous financial resources had for years been used with such competitive effectiveness to give customers easy leasing terms.

Why the sudden abandonment of what had worked so well for so long?

With Series/1, as in its original entry into the computer business, IBM was an imitator, a follower of others that had preceded with the product into the market many years earlier. But when the computer was a relatively new idea in the early 1950s, its manufacturers knew a great deal more about its potential uses and usability than its potential users. The needs of potential users for the product had to be converted into actual wants. For wants to become purchases, prospects had to be carefully educated and guided in the product's uses.

IBM had to educate its own sales people about the businesses to which they were to sell. All this was not so different from the creation of a mass market for eye shadow and eye liners just a decade ago. The big cosmetics houses had to go on television and establish demonstration counters in stores to teach women how to use their products.

Once educated, however, either by the seller or, as the markets expanded, by the mushrooming number of independent schools and courses available elsewhere, IBM's and Revlon's customers became more able to make their own decisions about what they needed as well as how to use it. Thus the more successful the sellers became in teaching their prospects to want and use their products, the less dependent their users became. In the early days, the "product" being sold was a complex cluster of value satisfactions that included education, training, hands-on help, continuing advice and lots more.

Later, in maturity, as the customers became more sophisticated, the "product" became much simpler. It became, if not exactly a commodity, certainly not as big or as complex a cluster. It became, simply, a computer—simply an elegant little dish of eye shadow.

But there is more. As the computer was used for more things in the corporation (at first largely from the suggestions of its manufacturers, and later with the increasing help of internal specialists in the user organizations), it became a hard-to-manage monster. Different users within an organization made different and often conflicting demands for its use. Executives continually battled over how to charge different departments and individuals for time on the computer and for the accompanying software, which proved increasingly more costly.

This proliferation of computer uses finally created a market for the dedicated minicomputer. A corporate department, division, or even an individual could now have its or his own small computer, programmed to specification. The development of integrated circuits, and then microprocessors, turned a trickle into a flood.

With customers being about as sophisticated about computers and software as the sellers, with equipment costs low, and with strongly established competing sellers, the proper marketing-oriented thing for IBM to have done was precisely what it did: sell the simple hardware hard, without the attendant beneficiating clusters of the past. And it's worked, like magic.