INSIDE MARKETIN

A SELECTION OF READINGS FROM Business Week

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Preface

As we approach the end of the 1980s, it is increasingly clear that marketing is the name of the game in both business and nonbusiness organizations. Moreover, as we prepare for the 1990s and look forward to the next century, marketing will continue to be where the action is.

Today companies want employees with marketing experience—who understand such concepts as target markets, product life cycles, and market segmentation. These companies are seeking a renewal of the risk-taking, dynamic, entrepreneurial spirit they need if they are to grow and be successful.

In a business firm, marketing generates the revenues that are managed by the financial people and used by the production people in creating products and services. The challenge of marketing is to generate those revenues by satisfying customers' wants at a profit and in a socially responsible manner.

But marketing is not limited to business. Whenever you try to persuade somebody to do something—donate to the Salvation Army, fasten a seat belt, lower a stereo's volume during study hours in the dorm, vote for your candidate, accept a date with you (or maybe even marry you)—you are engaging in a marketing activity. So-called nonbusiness organizations—they really are in business but don't think of themselves as business people—also engage in marketing. Their "product" may be a vacation place they want you to visit, a social cause or an idea they want you to support, a person they are thrusting into the spotlight, or a cultural institution they want you to attend. Whatever the product is, the organization is engaging in marketing.

As you may gather, and as you will read in your text, marketing is a very broad-based activity, and, consequently, it calls for a broad definition. The essence of marketing is a transaction—an exchange—intended to satisfy human needs and wants. That is, marketing occurs anytime one social unit (person or organization) strives to exchange something of value with another social unit. Thus, marketing consists of all activities designed to generate and facilitate any exchange intended to satisfy human needs or wants.

In order to provide you with current, up-to-date information and examples of the many businesses using marketing today, *Business Week* was asked to help. *Business Week* is an authoritative source, capable of providing articles that capture the essence of American marketing practices.

Over the years, *Business Week* articles have been invaluable in helping students to appreciate the reasons for obtaining a background in marketing. The articles help them to see the practical benefits they can derive from the course. What students read helps reinforce the course's material. Students quickly realize that their course is "real-world." It covers what is happening today.

To be selected, articles had to be timely, varied, interesting, thought-provoking, and challenging. And each article had to relate to one or more chapters contained in the various marketing textbooks that might be used by a student.

It is a privilege to have a small part in helping with your course.

Charles Futrell

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PART 1

MARKETING, ENVIRONMENT, STRATEGY, AND DECISION INFORMATION SYSTEMS

What better way to start a course than to talk about "money"? Annual compensation of America's executives in 1985 was led by Victor Posner ($12,739,000), Lee Iacocca ($11,426,000), and T. Boone Pickens, Jr. ($8,431,000). If you look at the most recent first May issue of *Business Week*, chances are salaries have continued to rise. In 1985 top executives' average salary was $679,000.

Not bad for executives who change their ideas concerning managing so often that their management philosophies have been referred to as "fads." Yet Peters and Waters reported on 43 "excellent" companies whose successes have been based upon eight attributes of "excellence," the second attribute being to learn the customers' preferences and cater to them. This is what marketing is all about.

But some of these 43 companies have fallen on hard times in recent years. Why? There is simply not enough space in this book to expain the reasons for these organizations' drop from stardom. However, all companies today agree that marketing must be a top priority.

More than any time in the history of America, the environment we do business in is influencing the way we produce and market our goods and services, both in the United States and in other countries around the world. Counterfeit products, federal regulations, computers, and our movement from a manufacturing to a service economy continue to emphasize the need for careful analysis of environmental changes and influences on our marketing program.

To compete in the 1980s and to prepare for the 1990s, companies did things in the mid-1980s never done before. Strategic thinking became the "buzz" word. Top executives, such as Lee Iacocca, became "business celebrities" by going directly to consumers and asking for their business via television and print advertisements. And consumers wondered if they got paid for it. Isn't $12 million a year enough for Lee? Only in America.

Even firms like AT&T, Coca-Cola, General Mills, IBM, and Johnson & Johnson, and little Fanny Farmer, have adapted their corporate and marketing strategies to the changing world of business. It appears that big and small firms are increasing their level of customer service in response to the growing intensity of competition. It's about time—don't you think?

To compete in today's ultracompetitive marketplace requires the collection of huge amounts of information. Millions of dollars are now being spent by American corporations to develop state-of-the-art marketing information systems run by computers. Computers are changing the way we do business—whether it's in a supermarket or a bank. High-tech marketing methods are here to stay.

Articles in this section touch on all these things: money, environment, strategy, and information systems. All are necessary to manage an American business. The articles help introduce you to the wonderful world of marketing. Before reading the articles, you may wish to study the article synopses that follow. They provide a capsule overview of the major thrust of each article, plus clues to the underlying principles that can be explored.

PART 1 ARTICLE SYNOPSES

THE FIELD OF MARKETING

EXECUTIVE PAY: HOW THE BOSS DID IN '85

Business Week's 36th annual compensation survey, compiled with Sibson & Co., the Princeton (N.J.) consultants, provides the first comprehensive look at 1985 executive pay. There are several surprises. To begin with, top pay numbers aren't nearly as big as those in years past, when a few entrepreneurs were pulling in $40 million or more. In all, 258 companies listed in the Executive Compensation Scoreboard raised their top executives' salaries and bonuses an average of 9 percent, to $679,000, in 1985. This allowed executives to outstrip easily the year's inflation rate of 3.8 percent.

BUSINESS FADS: WHAT'S IN—AND OUT

American executives these days seem eager to latch onto almost any new concept that promises a quick fix for their problems. There's nothing inherently wrong with this idea. What's wrong is that too many companies use these business fads to evade their problems and/or challenges.

WHO'S EXCELLENT NOW?

According to studies by *Business Week*, management consultants McKinsey & Co., and Standard & Poor's Compustat Services, at least 14 of the 43 "excellent" companies highlighted by Peters and coauthor Robert A. Waterman, Jr., in their book just two years ago have lost their luster.

MARKETING: THE NEW PRIORITY

Vast economic and social changes have made better marketing an imperative. Realization of that fact has set off a near free-for-all in recruiting circles for successful marketers, now hotter prospects for high-level jobs than executives with financial experience. Everybody wants a president with marketing experience.

THE MARKETING ENVIRONMENT

THE COUNTERFEIT TRADE

Counterfeit trade is perhaps the world's fastest-growing and most profitable business; it involves big dollars and, all too often, the possibility of quiet death. Products now routinely counterfeited include chemicals, computers, drugs, fertilizers, pesticides, medical devices, military hardware, and food, as well as parts for airplanes and automobiles.

THE HOLLOW CORPORATION

The United States faces a serious loss of manufacturing productivity as the industrial economy increasingly becomes a service economy, and as more and more manufacturers become marketers for foreign producers. Supporters of the service economy development overlook the need for a continuously growing industrial base to buttress those very services, for example, in high-tech.

STRATEGIC MARKETING PLANNING

BUSINESS CELEBRITIES

Many executives are no longer content with making themselves known only on Wall Street and in Washington. The day may soon come when their popularity rivals that of athletes and entertainers. There is evidence of this trend already on television and in magazines.

WHY AT&T ISN'T CLICKING

Though AT&T's long-distance operation and equipment sales to phone companies are doing well, these traditional enterprises are not offsetting the operating losses caused by sales of computers and phone systems to businesses and consumers. Observers say that the new CEO, James Olson, will have to make hard decisions in areas of cost cutting, corporate self-understanding, and strategic planning.

GENERAL MILLS STILL NEEDS ITS WHEATIES

In an effort to add vitality to a sales growth well below industry average and a disheartening profit decline, General Mills adopted a strategy of shedding its fashion and toy lines and concentrating on a more traditional line: Big G cereals and the profitable chain of Red Lobster restaurants. Such moves might avert an otherwise tempting takeover deal.

THE NEW BREED OF STRATEGIC PLANNER

This article presents an argument favoring a shift of many strategic planning responsibilities from a formal planning staff to line managers. Perhaps best stated, the intent is to enable managers at all corporate levels who are responsible for the implementation of various parts of a strategic plan to have a heightened role in its development.

THE FUTURE CATCHES UP WITH A STRATEGIC PLANNER

Boston Consulting Group, Inc., or BCG, built a powerhouse reputation as a strategic planning consultant, coining such concepts as "experience curve." But corporate managers, faced with ever more competitive conditions, demand not only brilliant strategies but also ways to implement such ideas through an integrated system of management processes. Strategic analysis has thus come of age, requiring that BCG and other consulting firms adopt a customer-oriented, back-to-basics approach to planning.

UP FROM $4.95 FUDGE: FANNY FARMER TRIES TO BE A *CHOCOLATIER*

Fanny Farmer is upscaling its chocolate to try to ease its chronic losses. Americans are eating chocolate again. However, the company will have a hard time changing its image when faced with big-name competitors.

MARKETING INFORMATION SYSTEMS

INFORMATION POWER

Computers are increasingly being used for more than number crunching. Computers and telecommunication equipment are collecting, interpreting, and distributing information. The personal com-

	puter has had a major impact. The role of the data processing manager has changed.
AT TODAY'S SUPERMARKETS, THE COMPUTER IS DOING IT ALL	Computers are changing the way supermarkets do business. Automation has reduced the workload of managers while increasing the information available.
BANK OF AMERICA RUSHES INTO THE INFORMATION AGE	Until recently, Bank of America had no way of correlating customer information between product lines. Now it is investing heavily in information systems to deal with the marketing and control problems caused by its previous lack of technology.

EXECUTIVE PAY: HOW THE BOSS DID IN '85

THE AVERAGE CORPORATE CHIEF TOOK HOME A HEFTY $1.2 MILLION

MAY 5, 1986, PP. 48-52, 56, 58

The reporter patiently sat through the Apr. 22 press conference in a packed room in the Washington Convention Center. She was waiting for the chance to pop *the* question to the man in the double-breasted, pinstripe suit. Finally, it came: "Mr. Iacocca," she said, "don't you think your compensation . . . is out of line?"

"I'm not a socialist," retorted Chrysler Corp. Chairman Lee A. Iacocca, who was among the highest-paid executives in 1985. "I believe in the American system." In the best theatric style, he waved at his Chrysler colleagues in the front row, many of whom he recruited when the company was on the brink of bankruptcy in 1980. "I had nothing to offer them but stock options," he says. "Our salaries were two-thirds the going rate. Their wives said you can paper a room with them. They lived through this for five to six years. Now they're cashing in. What the hell is wrong with that?"

LEAN YEAR. It's that time of year again—when corporate voyeurs and shareholders peek into densely written proxy statements to find out how much the boss made. The big winners in 1985 are decidedly a mixed lot, from corporate raiders such as Victor Posner and T. Boone Pickens to big business chieftains such as Exxon Corp.'s Clifton C. Garvin Jr. and Rockwell International Corp.'s Robert Anderson.

BUSINESS WEEK's 36th annual compensation survey, compiled with Sibson & Co., the Princeton (N. J.) consultants, provides the first comprehensive look at 1985 executive pay. There are several surprises. To begin with, top pay numbers aren't nearly as big as those in years past, when a few entrepreneurs were pulling in $40 million or more.

Victor Posner, the reclusive Miami Beach financier, leads the list on the basis of his pay from one of his many intertwined companies, *DWG* Corp. But Posner's total compensation of $12.7 million is a mere half of what the 1984 leader pulled down. The top money-maker in last year's survey was Mesa Petroleum Co.'s T. Boone Pickens Jr. He comes in third in the new rankings, right behind Iacocca, who received $11.4 million in total compensation.

In a sophisticated analysis linking recent pay with performance, *BUSINESS WEEK* and Sibson also found that Ethyl Corp. Chairman Floyd D. Gottwald Jr. gave his shareholders the biggest bang for the buck during the past three years. In contrast, Posner delivered the least as chairman of *DWG*, a holding company that includes Royal Crown Cos.

For corporate executives, 1985 was generally a bullish year. Rising stock prices made it a tempting time to exercise stock options, many of which had been accumulated over long careers. Last year, 146 executives entered the Million Dollar Club by earning total compensation of $1 million or more. Five years ago only four executives made that much.

A 37% rise in compensation from long-term incentive plans helped drive up many of these numbers. In fact, pay tied to stock market performance accounted for more than half of the total compensation of the 25 highest-paid executives. All this boosted the average chief executive's pay to $1.2 million.

In all, the 258 companies listed in the Executive Compensation Scoreboard raised their top executives' salaries and bonuses an average of 9%, to $679,000, last year. Although that ended two consecutive years of double-digit raises, it allowed executives to outstrip easily 1985's inflation rate of 3.8%. Those pay increases also looked healthy compared with the meager gains of 5.1% for white-collar workers and 4% for union officials. "We're seeing more moderate increases in pay as a result of increasing sensitivity and criticism of executive pay," says Jude T. Rich, president of Sibson. "A lot of companies have moved toward long-term stock-based plans because they can stand up and more easily defend them. There's no better link between pay and performance than the stock option."

RIDING THE BOOM. Executives who work on Wall Street enjoyed some of the heftiest gains. Of the top 25 earners, in fact, one in five works at an investment banking firm. Among the well-paid financial titans: Phibro-Salomon Inc. Chairman John H. Gutfreund, whose salary and bonus rose by more than a third, to $3.1 million, and First Boston Corp. Chairman Alvin V. Shoemaker, whose pay jumped by 64%, to $2.3 million.

With the market continuing to break records, some of the biggest winnings in executive pay are still to come. Iacocca has been one of the biggest beneficiaries of the bull market. About $9.8 million of his total 1985 pay of $11.4 million was in long-term incentive income. And he is virtually assured of landing on 1986's best-paid list, too.

The man who once worked as Chrysler's chief for a token $1 for 12 months was also promised 300,000 shares of stock, worth some $12.4 million, just to stick around a little longer. Iacocca will collect 225,000 shares by staying until Nov. 2, and he will get the rest if he remains at Chrysler until Dec. 8, 1987. That's not all. He's holding options on an additional 522,000 shares—worth at least $10.9 million—that must be exercised within the next 60 days.

The booming stock market had another important side effect on executive compensation: It allowed companies to activate dozens of golden parachutes for top executives. The winner in that category is Michel C. Bergerac, who left Revlon Inc. last November. The former chairman had a $35 million severance package, making him the executive who collected the most money from a company in 1985 (page 14). If all executives with golden parachutes were included in the highest-paid list, they would dominate it, replacing 5 of the top 10 and 8 of the top 25.

Legislative efforts to rein in some of these big parachute numbers with penalty taxes have had little effect on their popularity. Bergerac's largesse escapes the legislated penalties because it was drawn up seven months before Congress acted in 1984. Some other companies, such as Borg-Warner Corp., have sidestepped the issue by agreeing to reimburse their executives for any additional taxes they end up paying.

So parachutes that provide for generous severance and benefits payouts to key executives whose companies have been acquired are continuing to spread. One recent study found that 21 of the top 100 industrial corporations now report such agreements in their proxy statements, up from a dozen two years ago.

Judging from the compensation figures, some executives are probably wishing that they could have taken the money and run. With corporate profits down last year by 17%, roughly one third of the scoreboard's executives suffered pay cuts. At Wang Laboratories Inc., where net income fell to its lowest level since 1978, Chairman An Wang saw his pay snipped by a third to $405,000. And Monsanto Co., suffering net losses of $98 million last year, cut Chairman Richard J. Mahoney's salary and bonus by 29%, to $500,000.

GOLDEN MISTAKES. Pay cuts, however, didn't always follow lackluster company results. At *AMP* Inc., where net income fell by 46%, Chairman Walter F. Raab more than doubled his salary and bonus last year, to $956,000. *UAL* Inc., racking up

Pay often doesn't make sense. Coke's officers got millions after the most publicized flop of the year

losses of $48.7 million, doubled Chairman Richard J. Ferris' pay, to $883,000.

A few fortunate executives were even rewarded for strategic mistakes. Coca-Cola Co. is a case in point. The company's compensation committee granted "performance units" to Chairman Ro-

ETHYL'S GOTTWALD DELIVERS THE MOST FOR HIS MONEY

Unlike his colleagues at other chemical companies, Floyd D. Gottwald Jr., chairman of Ethyl Corp., doesn't earn a gargantuan salary. Nor does he get huge stock option packages or large annual increases. The 63-year-old Southern gentleman doesn't even travel in a company limo.

His austerity apparently has paid off. In the past three years, shareholders of the Richmond (Va.) company have seen their stock more than triple in value, while Gottwald himself has collected just \$1.7 million in salary and bonus. That makes him a bargain for shareholders, according to *BUSINESS WEEK*'s pay-performance analysis (page 11).

'CHICKEN FEED.' Gottwald is no pauper among corporate chiefs, however. As the holder of 5.6 million Ethyl shares, which broke the \$40 barrier for the first time Apr. 22, he is one of the richest men in America. His Ethyl stock alone is worth \$230 million, and last year he pocketed an extra \$3.2 million in Ethyl dividends.

When directors of the \$1.5 billion company determine Gottwald's pay, they consider his stock profits. Says Lawrence E. Blanchard Jr., an Ethyl director and former vice-chairman: "What the hell's wrong with a little chicken-feed salary if the stock is doing well? So many executives cry poverty and take a 400% pay increase if the company performed well one year. They should get the same percentage raises as the rest of the company."

Gottwald, a 6-ft. jogger and fisherman who rarely grants interviews, abides by that belief, a common one at family-run companies. His is a company dominated by family and longtime employees. In 1943, Gottwald joined his father at Ethyl's predecessor, Albemarle Paper Mfg. Co., a blotting paper maker. The elder Gottwald bought Ethyl in a leveraged buyout in 1962, and his son moved into his chair in 1968. Now two of Floyd Jr.'s three sons work for Ethyl. The Gottwald clan—including Floyd's brother Bruce C. Gottwald, Ethyl's president—controls 17.8% of the 62.9 million outstanding shares. Directors and employees control an additional 15% of the stock.

DEFT MOVES. Thanks to the family's involvement, management has pressed ahead at times when a dispassionate leadership might have given up. Since its inception, the company has deftly maneuvered into new products and out of antiquated ones. The elder Gottwald ditched the original blotting paper business in 1962 and moved into antiknock lead for gasoline. But long-standing regulatory battles over that product forced the company to diversify into plastics for garden hoses, chemicals for computer chips, insurance, and the pain reliever ibuprofen.

Family management—combined with Ethyl's ability to keep earnings growing through diversification—has attracted investors. "They treat the company like it's their own, and it is," says Louis E. Hannen, senior vice-president for research at Wheat, First Securities Inc. in Richmond. "So many hired guns run other companies, and they don't have the equity interest."

But Ethyl hasn't had all smooth sailing. Just last year earnings dipped by 11%, to \$117 million, largely because of the sale of the company's antiknock lead plant in Baton Rouge, La. Still, with a return on equity of 15.8%, Ethyl managed to outperform most of its competitors in the chemical industry. As long as Gottwald keeps turning in that kind of performance, he won't have to worry much about a little chicken-feed paycheck.

By Laurie Baum in New York

berto C. Goizueta and President Donald R. Keough potentially worth millions of dollars last year. The reason: their "courage, wisdom, and commitment" in introducing new Coke, the most publicized new-product flop of the year.

Goizueta, 54, won't be able to savor any of these benefits until at least 1991 and Keough, 59, not until he retires. On paper, however, they already are worth \$6.4 million and \$3.5 million, respectively. That's a considerable pop for a product that has fizzled so far. How could Coke's board justify such a generous new benefit?

"They had the courage to put their jobs on the line, and that's rarely done today at major American companies," says Herbert A. Allen, president of Allen & Co. and chairman of Coke's compensation committee. Allen, whose company received nearly $3 million in investment banking fees from Coke subsidiaries in 1985, proposed the award, which was unanimously approved by the board. "It's not controversial at all," adds James B. Williams, vice-chairman of SunTrust Banks Inc. and a Coke director. "It was a unanimous, happy decision. We've got more market share than we would've had with one [Coke]."

True, Coke increased its U. S. market share by two full percentage points, to 39%, the company's net income was up 15%, and its return on equity, at 23.5%, was the highest in 15 years. Yet the performance units are a totally new benefit on top of existing incentive plans that with salary and bonus allowed Goizueta and Keough to earn $2.2

THE 25 HIGHEST-PAID EXECUTIVES

	Company	1985 salary and bonus	Long-term compensation	Total pay
		Thousands of Dollars		
1. **VICTOR POSNER,** Chmn.	DWG	$12,739		**$12,739**
2. **LEE A. IACOCCA,** Chmn.	Chrysler	1,617	$9,809	**11,426**
3. **T. BOONE PICKENS JR.,** Chmn.	Mesa Petroleum	4,203	4,228	**8,431**
4. **DREW LEWIS,** Chmn.†	Warner Amex	1,000	5,000	**6,000**
5. **ROBERT L. MITCHELL,** Vice-chmn.†	Celanese	700	4,056	**4,756**
6. **SIDNEY J. SHEINBERG,** Pres.	MCA	509	3,975	**4,484**
7. **ROBERT ANDERSON,** Chmn.	Rockwell	1,326	2,310	**3,636**
8. **CLIFTON C. GARVIN JR.,** Chmn.	Exxon	1,454	2,107	**3,561**
9. **DAVID S. LEWIS,** Chmn.	General Dynamics	1,062	2,289	**3,351**
10. **JOHN H. GUTFREUND,** Chmn.	Phibro-Salomon	3,066	140	**3,206**
11. **GEORGE B. BEITZEL,** Sr. v-p†	IBM	608	2,409	**3,017**
12. **ROY A. ANDERSON,** Chmn.	Lockheed	916	2,060	**2,976**
13. **JOSEPH B. FLAVIN,** Chmn.	Singer	660	2,312	**2,972**
14. **PETER A. COHEN,** Chmn.†	Shearson Lehman Brothers	1,704	1,207	**2,911**
15. **MICHAEL D. ROSE,** Chmn.	Holiday	549	2,360	**2,909**
16. **FRANK PRICE,** V-p†	MCA	509	2,385	**2,894**
17. **RICHARD J. SCHMEELK,** Exec. v-p†	Phibro-Salomon	2,640	199	**2,839**
18. **STEVEN J. ROSS,** Chmn.†	Warner Communications	2,800		**2,800**
19. **GERALD GREENWALD,** Vice-chmn.	Chrysler	1,167	1,613	**2,780**
20. **DAVID R. BANKS,** Pres.†	Beverly Enterprises	423	2,355	**2,778**
21. **RICHARD M. FURLAUD,** Chmn.	Squibb	1,050	1,710	**2,760**
22. **HENRY KAUFMAN,** Vice-chmn.	Phibro-Salomon	2,640	120	**2,760**
23. **HAROLD K. SPERLICH,** Pres.†	Chrysler	1,085	1,675	**2,760**
24. **SPENCER SCOTT,** Chmn.†	Citadel Holding	356	2,291	**2,647**
25. **PETER T. BUCHANAN,** Pres.	First Boston	2,300	233	**2,533**

THE 10 BIGGEST GOLDEN PARACHUTES

	Company	What led to payment	Total package* thousands of dollars
1. **MICHEL C. BERGERAC,** Chmn.	Revlon	Pantry Pride takeover	**$35,000**
2. **WILLIAM W. GRANGER JR.,** CEO	Beatrice	leveraged buyout	**6,400**
3. **DAVID E. LIPSON,** CFO	Beatrice	leveraged buyout	**4,270**
4. **LEONARD H. GOLDENSON,** Chmn.	ABC	Capital Cities takeover	**3,820****
5. **FREDERICK S. PIERCE,** Pres.	ABC	Capital Cities takeover	**3,820****
6. **JAMES L. DUTT,** CEO	Beatrice	termination	**3,800**
7. **JOHN E. MCCONNAUGHY JR.,** Chmn.	Peabody International	Pullman takeover	**3,700****
8. **FRANK E. GRZELECKI,** Exec. v-p	Beatrice	leveraged buyout	**2,570*****
9. **MICHAEL SAYRES,** Sr. v-p	Revlon	Pantry Pride takeover	**2,320****
10. **SAMUEL I. SIMMONS,** Sr. v-p	Revlon	Pantry Pride takeover	**2,320****

†Excluded from the Compensation Scoreboard because data were unavailable or because not one of company's two top officers

* Includes final salary, bonus, and long-term compensation collected—along with parachute payment

** Granted in 1985 but exercised this year

*** Partially paid in 1985

DATA: SIBSON & CO. AND BUSINESS WEEK