

FOURTH EDITION

# MARKETING MANAGEMENT

ANALYSIS,  
PLANNING,  
AND  
CONTROL



PHILIP KOTLER



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ANALYSIS, PLANNING, AND CONTROL

FOURTH EDITION

PHILIP KOTLER

*NORTHWESTERN UNIVERSITY*

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Philip Kotler

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# PREFACE

No one knows what the 1980s will have in store for companies, consumers, and society at large. The 1970s was truly a turbulent and trying decade marked by (1) high and persistent worldwide inflation, (2) material and energy shortages, (3) economic stagnation, (4) consumerism, (5) environmentalism, (6) increased government regulation, (7) changing consumer life styles, and (8) undermarketed public sector needs. Some of these developments will continue into the 1980s and indeed intensify. New and unsuspected shocks will emerge. The challenge facing marketers in the 1980s will be to find constructive ways to reconcile company profitability, customer satisfaction, and social responsibility.

Properly viewed, these problems are also opportunities. Marketing is the link between a society's needs and its industrial responses. It is the function through which organizations adjust their offerings to the ever-changing needs and wants of the marketplace. It is through external sensors that organizations adapt and grow.

This fourth edition has been written with three objectives:

1. To bring marketing management into closer alignment with the rapidly growing practice of corporate strategic planning;
2. To enlarge the discussion of several marketing topics of increased importance, particularly the strategic-planning process, competitive-marketing strategies for manufacturers and retailers, sales promotion and publicity decisions, new forces in the environment, buyer behavior theory, the marketing audit, exchange theory, organizational-buying behavior, marketing of services, product-line strategies, contents of marketing plans, marketing organization developments, and distribution-channel developments;
3. To update the text material so that it is as relevant as possible to the marketing problems of the 1980s.

The book remains true to its original principles. These principles are:

1. **A managerial orientation.** This book focuses on the major decisions facing marketing executives and top management in their attempt to harmonize the objectives and resources of the organization with the opportunities found in the marketplace.
2. **An analytical approach.** This book does not provide pat answers so much as ways of thinking about and analyzing recurrent marketing problems. Descriptive material is held to a minimum in order to permit the greatest latitude in developing the analytical content of marketing.
3. **A reliance on basic disciplines.** This book draws heavily on the basic disciplines of economics, behavioral science, and mathematics. *Economics* provides the fundamental tools and concepts for seeking optimal results in the use of scarce resources. *Behavioral science* provides fundamental concepts and findings for the interpretation of consumer and organizational buying behavior. *Mathematics* provides the means of developing explicit statements about the relationships among variables in a problem.
4. **A universal approach.** This book develops marketing thinking for the broadest of contexts. Marketing is treated as relevant to industrial as well as consumer markets, service industries as well as goods industries, small companies as well as large ones, nonprofit organizations as well as profit companies, and buyers as well as sellers.

Marketing remains one of the most difficult areas of analysis and decision making for the company. Marketing problems do not exhibit the neat quantitative properties of many of the problems in production, accounting, or finance. Psychological variables play a large role; marketing expenditures affect demand and costs simultaneously; marketing plans shape and interact with other corporate plans. Marketing decisions must be made in the face of insufficient information about processes that are dynamic, nonlinear, lagged, stochastic, interactive, and downright difficult. However, this is not taken as a case for intuitive decision making; rather it suggests the need for improved theoretical frameworks and sharper tools for analysis.

The book is organized into six parts. *Part I* develops the conceptual and strategic underpinnings of marketing. *Part II* presents concepts and tools for analyzing any market and marketing environment to discern opportunities. *Part III* presents principles for selecting target markets and planning effective marketing programs over the product's life cycle. *Part IV* deals with assembling the specific elements of the marketing mix based on their unique contributions. *Part V* develops the administrative side of marketing: organization, information handling, and control. *Part VI* broadens the discussion of marketing to cover international, nonbusiness, and contemporary issues.

## ACKNOWLEDGMENTS

This fourth edition bears the imprint of many persons. My colleagues in the marketing department at Northwestern University made an important contribution through their zest in blending marketing theory with managerial practice: Bobby J. Calder, Richard M. Clewett, John Hauser, Sidney J. Levy, Louis W. Stern, Brian Sternthal, Alice Tybout, and Andris A. Zoltners. Two doctoral stu-

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My overriding debt is to my wife, Nancy, who provided me the time, support, and inspiration needed to regenerate this book. It is truly our book.

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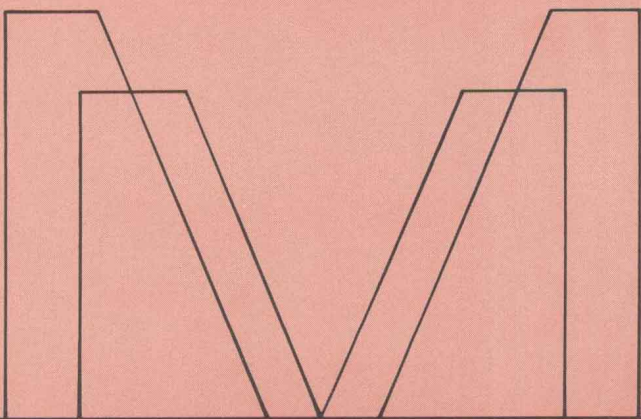
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# UNDERSTANDING MARKETING

# MANAGEMENT





# THE ROLE OF MARKETING IN TODAY'S ORGANIZATIONS

*Marketing is so basic that it cannot be considered a separate function. . . . It is the whole business seen from the point of view of its final result, that is, from the customer's point of view.*

PETER DRUCKER

As human history speeds toward the year 2000, with its awe-inspiring problems and opportunities, the subject of marketing is attracting increasing attention from companies, institutions, and nations. Marketing has evolved from its early origins in distribution and selling into a comprehensive philosophy for relating any organization dynamically to its markets. Marketing is a cornerstone of policy and practice in such giant concerns as General Electric, Procter & Gamble, Sears, and IBM. Large and small business firms everywhere are beginning to appreciate the difference between selling and marketing and are organizing to do the latter. Nonprofit organizations such as museums, universities, churches, and government agencies are seeing marketing as a new way of looking at their relations with their publics. Developing nations are examining marketing principles to see how their domestic distribution system can be improved and how they can compete more effectively in world markets. Socialist nations are beginning to study how they could use marketing research, advertising, and pricing to increase their effectiveness in planning and distributing their goods.

The intensifying interest in marketing is paradoxical because while marketing is one of man's newest action disciplines, it is also one of the world's oldest professions. From the time of *simple barter* through the stage of a *money economy* to today's modern *complex marketing system*, *exchanges* have been taking place. But marketing—the study of exchange processes and relationships—



made its formal appearance only in the early part of the twentieth century out of questions and issues neglected by its mother science, economics.

In this short time, marketing has achieved the image of society's savior in the minds of many, and society's corrupter in the minds of others. Marketing's good deeds have been described in various ways:

Aggressive marketing policies and practices have been largely responsible for the high material standard of living in America. Today through mass low-cost marketing we enjoy products which were once considered luxuries and which are still so classified in many foreign countries.<sup>1</sup>

Advertising nourishes the consuming power of men. It creates wants for a better standard of living. It sets up before a man the goal of a better home, better clothing, better food for himself and his family. It spurs individual exertion and greater production. It brings together in fertile union those things which otherwise would not have met.<sup>2</sup>

Others take a dimmer view of marketing's contribution to society:

For the past 6,000 years the field of marketing has been thought of as made up of fast-buck artists, con-men, wheeler-dealers, and shoddy-goods distributors. Too many of us have been "taken" by the tout or con-man; and all of us at times have been prodded into buying all sorts of "things" we really did not need, and which we found later on we did not even want.<sup>3</sup>

What does a man need—really need? A few pounds of food each day, heat and shelter, six feet to lie down in—and some form of working activity that will yield a sense of accomplishment. That's all—in a material sense. And we know it. But we are brainwashed by our economic system until we end up in a tomb beneath a pyramid of time payments, mortgages, preposterous gadgetry, playthings that divert our attention from the sheer idiocy of the charade.<sup>4</sup>

It is clear that various social commentators have vastly different views on the meaning and social worth of marketing. The position taken in this book is that marketing makes a vital contribution to the advancement and satisfaction of human needs and wants. It is the means by which organizations identify unfulfilled human needs, convert them into business opportunities, and create satisfaction for others and profit for themselves. The capacity of organizations to survive and prosper depends on their ability to continuously create value for target markets in an environment of ever-changing human needs and wants.

## THE AGE OF ORGANIZATIONS

To understand marketing, we must first understand organizations. Our society abounds in organizations, which stand ready to serve every need, whether large or small, good or bad, elevated or prosaic. With little effort, citizens of Chicago

<sup>1</sup> William J. Stanton, *Fundamentals of Marketing* (New York: McGraw-Hill Book Company, 1964), pp. 4-5.

<sup>2</sup> Sir Winston Churchill.

<sup>3</sup> Richard N. Farmer, "Would You Want Your Daughter to Marry a Marketing Man?" *Journal of Marketing*, January 1967, p. 1.

<sup>4</sup> Sterling Hayden, *Wanderer* (New York: Alfred A. Knopf, 1963).

can walk down Clark Street and instantly satisfy their appetite for chicken, hamburger, or pizza, courtesy of Kentucky Fried Chicken, McDonald's, or Pizza Hut. If they want new clothes, they can drive to the Old Orchard Shopping Center and rummage through racks of suits and dresses at Marshall Field's, Baskin's, or Montgomery Ward's. Their desire for recreation or entertainment can be satisfied instantaneously through the courtesy of the Touhy Tennis Club or the Biograph Theater. If the weather is too cold, they can board a 747 at O'Hare Airport and reach the balmy shores of Miami three hours later, courtesy of Delta Airlines. All said, an incredibly large number of organizations stand ready to serve human needs by holding them as business opportunities. The twentieth century is the Age of Organizations.

Organizations are so omnipresent that it is hard to believe that life ever existed without them. Yet throughout most of human history, people had to satisfy their needs through their own exertions. There was not the fast-food outlet, the health club, or the local movie theater to serve their needs.

Today's organizations come in all shapes and sizes. They may be publicly or privately owned. They may be run for profit, service, or some other goal(s). They may be organized as single proprietorships, partnerships, corporations, or conglomerates. They may range from a small private law practice to an IBM with 270,000 employees scattered throughout the world. They may have a single product line, such as paper, or sell as many as 150,000 different items, as in the case of Sears. They may operate in one locality, in a region, or nationally or internationally.

Organizations begin as ideas in the head of one or more entrepreneurs. The motivation for starting an organization could be to perform a great deed, make a great fortune, or meet an important need. The organizers must raise funds, attract personnel, establish a production or service facility, and find a market for its output. Many organizations do not survive these hurdles.

An organization can survive only if it is able to acquire the resources necessary to its sustenance. Such survival can be achieved in one of three ways. The first is through possessing legitimate or illegitimate *power*, which it uses to command resources. Thus public agencies obtain their resources through the imposition of taxes; the Mafia obtains its resources through other means. The second way is through *solicitation*, which comes about by convincing one or more persons or groups to contribute financial support freely. Opera companies and private universities survive through generous gifts that cover the large annual deficits between their normal income and cost. The third mode of survival is *exchange*, whereby an organization creates and offers goods and services that are able to attract and satisfy purchasers. This is the marketing solution to survival. The organization identifies a set of buyers and needs in the marketplace, develops a set of products and services to satisfy these needs, communicates the benefits of these products, makes them available and accessible, prices them in a reasonable manner, and convinces buyers to exchange their resources for these products.

The marketing solution calls for more than the ability of the organization to produce the needed goods and services. The organization must know how to produce better offers to the target market than its competitors. Buyers normally can buy from several sources. Their needs, preferences, and interests keep changing. The organization must keep abreast of these changes and constantly revise and improve its offer to the market. Playboy, Inc., one of the most successful publishing companies in history, has watched sales of its major magazine

fall from a peak of 6.9 million copies in 1972 to 4.5 million. Kentucky Fried Chicken, one of the most successful fast-food franchisers in history, has experienced a declining market share for the past several years. Zenith, one of the most successful American manufacturers of television sets, has watched its market share erode in recent years in the face of increasing competition from Japanese television manufacturers.

The truth is that most organizations are not geared to maintain their marketing leadership in times of rapidly changing consumer wants and aggressive competition. They achieved their market positions in times when people spent more freely and when competitors were less sophisticated. They could survive by making and selling the same products year after year. These organizations can be said to lack a *marketing culture*. Only a handful of major companies—IBM, Procter & Gamble, Gillette, Eastman Kodak, Avon, McDonald's, Xerox, General Electric, and Caterpillar—are *master marketers*. The rest of them practice average marketing and are in a position of high marketing vulnerability as their markets shift and their competitors start to work harder or smarter.

The marketing function is not fully developed in most companies today for a number of reasons:

1. *Recent origins of marketing.* Marketing is a relatively new business discipline that is too often confused with one of its subfunctions, such as sales or advertising.
2. *Hostility toward marketing.* Marketing is normally resisted by vested interests in the company and must fight an uphill battle to establish its role, scope, and authority.
3. *Law of slow learning.* Marketing passes through several stages of misconception as it grows in the company.
4. *Law of fast forgetting.* Marketing principles tend to be forgotten with success, and executives have to be reminded of them periodically.

These propositions are examined in the following paragraphs.

## RECENT ORIGINS OF MARKETING

How old is marketing? This question always brings about interesting speculations. Some people date marketing as beginning with earliest man and call it the world's oldest profession. Some even say marketing predates man. Consider the following case for subspecies marketing:

I do not think it would be stretching the point too far to say that the reproductive cycle of plants is a natural exchange for profit system. After all, a flower, with its colour and perfume, is an advertisement for nectar. The exchange deal is quite straightforward—the bee has the nectar in return for pollen it has picked up elsewhere and for taking that flower's pollen onto the next one. At the next stage of the cycle the colour and perfume of the fruit is an advertisement for food. The bird eats the fruit and distributes the seeds in return.<sup>5</sup>

Others advance the argument that marketing began when mankind first engaged in exchange, that is, when two parties with surpluses resorted to barter as an alternative to employing force, stealing, or begging to obtain goods. Barter

<sup>5</sup> F.H. Elsby, in private correspondence.



evolved into the fine art of selling which received high expression in very early civilizations.

Peter Drucker thinks marketing first arose in the seventeenth century—and in Japan, not in the West.

Marketing was invented in Japan around 1650 by the first member of the Mitsui family to settle in Tokyo as a merchant and to open what might be called the first department store. He anticipated by a full 250 years basic Sears, Roebuck policies: to be the buyer for his customers; to design the right products for them, and to develop sources for their production; the principle of your money back and no questions asked; and the idea of offering a large assortment of products to his customers rather than focusing on a craft, a product category, or a process.<sup>6</sup>

Drucker then suggests that marketing did not appear in the West until the middle nineteenth century at the International Harvester Company.

The first man in the West to see marketing clearly as the unique and central function of the business enterprise, and the creation of a customer as the specific job of management, was Cyrus H. McCormick (1809–1884). The history books mention only that he invented a mechanical harvester. But he also invented the basic tools of modern marketing: market research and market analysis, the concept of market standing, pricing policies, the service salesman, parts and service supply to the customer, and installment credit.<sup>7</sup>

Yet another fifty years had to pass before marketing became very visible on the academic or business scene in America. The term *marketing* first appeared in college course titles in the early 1900s. In 1905, W. E. Kreusi taught a course at the University of Pennsylvania entitled “The Marketing of Products.”<sup>8</sup> In 1910, Ralph Starr Butler offered a course entitled “Marketing Methods” at the University of Wisconsin. Butler explained how he conceived marketing:

In considering the whole field of selling I developed the idea that personal salesmanship and advertising had to do simply with the final expression of the selling idea. My experience with the Procter & Gamble Company had convinced me that a manufacturer seeking to market a product had to *consider and solve a large number of problems* before he ever gave expression to the selling idea by sending a salesman on the road or inserting an advertisement in a publication. [italics added]<sup>9</sup>

Marketing departments within business firms had their roots in the development of marketing research in the early twentieth century. The Curtis Publishing Company in 1911 installed the first marketing research department (called commercial research at the time) under the direction of Charles C. Parlin. Marketing research departments were subsequently established at U.S.

<sup>6</sup> Peter F. Drucker, *Management: Tasks, Responsibilities, Practices* (New York: Harper & Row, 1973), p. 62.

<sup>7</sup> Ibid.

<sup>8</sup> Robert Bartels, *The History of Marketing Thought*, 2nd ed. (Columbus, Ohio: Grid, 1976), p. 24.

<sup>9</sup> Ibid.

Rubber (1916) and Swift and Company (1917).<sup>10</sup> These departments were viewed as adjuncts to the sales department. Their task was to develop information that would make it easier for sales departments to sell. Over time, marketing research departments accepted additional responsibilities, such as sales analysis and marketing administration. Some time later, companies began to combine marketing research, advertising, customer services, and other miscellaneous marketing functions into marketing departments.

Marketing entered into the consciousness of different industries at different times. A few companies, such as General Electric, General Motors, Sears, and Procter & Gamble, saw its potentialities early. Marketing spread most rapidly in consumer packaged goods companies, consumer durable companies, and industrial equipment companies—in that order. Industrial commodity companies—steel, chemical, paper—came later to marketing consciousness, and still have a long way to go. In the last decade, consumer service firms—especially airlines and banks—have opened themselves to marketing. Airlines began to study travelers' attitudes toward different features of their service—schedule frequency, baggage handling, in-flight service, friendliness, seat comfort. Soon afterwards they shed the notion they were in the air carrier business and began to operate on the idea that they were in the total travel business. Bankers initially showed great resistance to marketing but in the end embraced it enthusiastically. Marketing has begun to attract interest in the insurance industry and the stock brokerage industry, although marketing is still poorly understood in these industries.

Marketing's most recent entry has been in the nonprofit sector of the economy. Such diverse organizations as colleges, hospitals, police departments, museums, and symphonies are currently taking a look at marketing. Marketing has attracted different degrees of interest and understanding in these various industries. American colleges and universities, troubled with declining enrollments, are eager to try out marketing ideas in their admissions operation. An increasing number of hospitals are beginning to look seriously into marketing as their bed counts go down. As a sign of the times, the Evanston Hospital of Evanston, Illinois, recently appointed the world's first vice president of marketing for a hospital.

What leads companies to suddenly discover marketing? An interest in marketing can be triggered by any of five circumstances:

1. **Sales decline.** This is the most common cause. For example, newspaper publishers are experiencing falling circulation as more people turn to television news. Some publishers are beginning to realize that they know very little about why people read newspapers and what they want out of newspapers. These publishers are commissioning consumer research and, on the basis of the findings, attempting to redesign newspapers to be contemporary, relevant, and interesting to readers.
2. **Slow growth.** Companies often reach the limits of their growth in their given industries and start to cast about for new markets. They recognize that they need marketing know-how if they are to successfully identify, evaluate, and select new opportunities. Dow Chemical, wanting new sources of profits, decided to enter consumer markets and invested heavily in acquiring marketing expertise to carry out the job.
3. **Changing buying patterns.** Many companies are experiencing increasingly turbulent markets marked by rapidly changing customer wants. These companies

<sup>10</sup> Ibid., pp. 124–25.

must adopt a marketing orientation in order to keep producing value for the buyers.

4. **Increasing competition.** A complacent company may suddenly be attacked by a master marketer and forced to learn marketing to meet the challenge. Consider the following:

In the late 1950s when P&G moved into paper products, Scott Paper didn't pay much attention. From a standing start P&G has built a \$1.3-billion business in toilet and facial tissues and diapers. Along the way it reduced Scott . . . to an also-ran, earning last year a paltry 4.3% on its total assets, versus P&G's 10.3%.<sup>11</sup>

5. **Increasing sales expenditures.** A company's expenditures for advertising, sales promotion, marketing research, and customer service, may increase without rhyme or reason. When management sees that happening, it often decides to improve its organization and control of these marketing functions.

## HOSTILITY TOWARD MARKETING

For all these reasons, companies sooner or later are forced to improve their marketing capacity. Yet marketing is rarely greeted with open arms. Many financial and manufacturing executives see marketing as glorified "hucksterism" and as a threat to their power and status. Some marketers contribute to this by their aggressiveness and overclaiming of the results that stem from marketing.

The nature of marketing's threatening quality is illustrated in Figure 1-1. Initially, the sales/marketing function is seen as one of several *equally* important business functions in a check-and-balance relationship (Fig. 1-1A). A dearth of demand then leads marketers to argue that their function is somewhat more important than the others (Fig. 1-1B). A few marketing enthusiasts go further and say marketing is the major function of the enterprise, for without customers, there would be no company. They put marketing at the center with other business functions serving as support functions (Fig. 1-1C). This view incenses the other managers, who do not want to think of themselves as working for marketing. Enlightened marketers clarify the issue by putting the customer rather than marketing at the center of the company (Fig. 1-1D). They argue for a *customer orientation* in which all functions work together to sense, serve, and satisfy the customer. Finally, some marketers say that marketing still needs to command a central position in the firm if customers' needs are to be correctly interpreted and efficiently satisfied (Fig. 1-1E).

The marketer's argument for the concept of the corporation shown in Fig. 1-1E is summarized as follows:

1. The assets of the firm have little value without the existence of customers.
2. The key task of the firm is therefore to create and hold customers.
3. Customers are attracted through promises and held through satisfaction.
4. Marketing's task is to define an appropriate promise to the customer and to insure the delivery of satisfaction.
5. The actual satisfaction delivered to the customer is affected by the performance of the other departments.
6. Marketing needs influence or control over these other departments if customers are to be satisfied.

<sup>11</sup> Paul Gibson, "Procter & Gamble: It's Got a Little List," *Forbes*, March 20, 1978, p. 34.