

PUBLIC & NONPROFIT MARKETING



Second Edition

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Public & Nonprofit Marketing

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▲ *The Scientific Press Series*

Text Design: Gene Smith
Cover Design: Rogondino & Associates
Cover Photo: Robert Wagner ©1988

Public & Nonprofit Marketing, second Edition
(Formerly titled *Marketing for Public and Nonprofit Managers*)
by Christopher H. Lovelock and Charles B. Weinberg

Originally published by the Scientific Press ©1984, 1989, by Christopher H. Lovelock and Charles B. Weinberg



boyd & fraser publishing company
One Corporate Place • Ferncroft Village
Danvers, Massachusetts 01923



The Scientific Press Series

International Thomson Publishing
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Manufactured in the United States of America

ISBN 0-89426-134-7

2 3 4 5 6 7 8 9 10 GP 8 7 6 5 4

About the Authors

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PREFACE

Five years have passed since the first edition of this book, titled *Marketing for Public and Nonprofit Managers*, was published. In the preface to that edition, we wrote:

A decade ago, the formal use of marketing was at an embryonic stage of development. . . . Today public and nonprofit marketing can be said to have come of age. Although much room remains for improvement, as in the private sector, many examples now exist of a high level of skill and professionalism in developing and executing nonbusiness marketing programs.

The trend continues toward greater professionalism in public and nonprofit management. Many public agencies and nonprofit organizations are more skilled and more successful in their marketing efforts than numerous for-profit companies. And yet we constantly encounter organizations lacking any real orientation to customer needs or competitive dynamics, where marketing (if the term is used at all) is equated with advertising and publicity, and is viewed tactically rather than strategically. Many of these organizations will undoubtedly fail within the next few years unless senior managers and board members take steps promptly to develop a strong marketing orientation.

Marketing is essentially a proactive function: planning for a future environment that will quite certainly be different from today's; working to make sure that things go right; anticipating those things that might go wrong and either finessing them or making contingency plans for how to deal with potential problems.

This book takes a broader perspective of marketing than many managers or board members are accustomed to considering. Anything that impacts the customer falls within the province of marketing, regardless of whether that activity is the nominal responsibility of the board, the executive director, or of managers in such departments as operations, human resources, and accounting, or in marketing, advertising, sales, public relations, and development.

Although we recognize the importance of advertising, sales, and other communication activities—indeed we devote three full chapters to these topics—they are simply elements of the broader marketing mix. Developing a service or program is a marketing task; pricing it is a marketing task; selecting or creating delivery systems is a marketing task. Marketing must begin at the top, with the board and the chief executive, when they develop or restate the organization's mission and work to create strategies to achieve that mission. We have yet to encounter a successful organization whose chief executive lacked all sensitivity to the marketplace.

Good marketing programs take time to develop: they cannot be built around reactive "fire-fighting" activities nor around opportunistic, short-term tactics. Strategy should drive tactics, not the other way around. Similarly, an organization's strategy should flow

from its mission statement. Our goal for this book is to provide a framework for looking at marketing issues and to help public and nonprofit organizations to develop strategies to achieve their objectives.

As authors writing on marketing management we have one major advantage over our colleagues in such fields as finance, accounting, or human resource management. For every one of our readers is also an expert consumer. Each person reading this book knows what it is like to be a customer and has had years of experience in selecting and purchasing goods, using a wide array of services, and being exposed to numerous fund-raising and advocacy campaigns.

This experience provides an excellent starting point for developing an understanding of the customer's perspective. However, one word of caution is necessary: don't assume that your individual needs and your approach to purchasing and using a service (or deciding whether to adopt or reject an advocated behavior) can be generalized to everyone else in the marketplace.

In its second edition, this book continues to be directed at managers of public and nonprofit organizations, board members or trustees of such organizations, and students interested in learning more about improving marketing management practice in the public and nonprofit sectors. Recognizing the differing levels of marketing expertise among readers, we've sought to make this volume relevant and interesting both to newcomers to the field and to experienced managers.

Acknowledgements

We're delighted that this new edition is being published simultaneously in both English and Japanese. For the English language edition, we return to The Scientific Press, with which we have been publishing books on public and nonprofit marketing since 1977; we appreciate the hard work of Paul Kelly and Gene Smith at the Press. Translation of the book into Japanese has been directed by Professor Yoshiaki Watanabe of Josai University, and our Japanese publishers are Hakuto Shobo, Ltd. of Tokyo.

Many individuals and organizations have contributed significantly to both the first edition and this new second edition titled *Public and Nonprofit Marketing*. Over a period of more than 15 years, students and colleagues at Stanford, Harvard, the University of British Columbia, and other institutions have shaped our thinking and given us many important insights. Another key input has been our experience in working with individual public and nonprofit organizations as consultants, teachers in executive programs, and board members.

We are particularly grateful to Katherine Botman for her influential suggestions in preparing this edition of the book. Special acknowledgements are also due to Gerald J. Gorn of the University of British Columbia, Mel E. Moyer of York University, and Molly Lovelock of the Cambridge YWCA for their assistance and insights. We thank Rosalie Dennie for her expert secretarial assistance. We appreciate, too, the feedback provided by instructors and individual readers of the first edition. Their comments helped us to develop a significant restructuring of the book, resulting in addition of new topics and updating of information within the context of a more concise volume.

January 1989

CHRISTOPHER H. LOVELOCK
CHARLES B. WEINBERG

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PART 1

An Overview of Public & Nonprofit Marketing

Chapter 1

The Role of Marketing

During the Second World War, it is said, the workers who packed parachutes were occasionally chosen to take a test drop with their own products. What better motivation could there be, after all, for keeping the customer's needs in mind than letting workers know that they might have to play the role of customer themselves? Not every public or nonprofit organization deals with life and death issues, of course. But no organization can hope to succeed if it takes a cavalier attitude towards those it seeks to serve.

This book is addressed, of course, to managers rather than workers or customers. Managers may not get involved directly in parachute packing—or whatever the organization's business may be. Yet managers, right up to the chief executive, must take responsibility for the quality of services and programs that their organization provides. One manager we know likes to describe the marketing department as “the conscience of the organization,” since its work includes determining the needs and concerns of the various constituencies served by the organization, and ensuring that those concerns are addressed in the design and delivery of programs.

Public and nonprofit organizations play a vital role in maintaining and enhancing the quality of life in modern society. Their activities are extraordinarily diverse, including the arts, conservation, education, health care, human services, postal service, public transportation, and social causes, as well as such basic local services as fire departments, public libraries, and trash removal. The organizations themselves range from struggling volunteer-run groups to major public corporations. But few among them, in our view, could not benefit from better planning and execution of marketing activities.

Managing such organizations is difficult and complex in today's world. Few can support themselves entirely from revenues based on the sale of services. And those institutions that can are being urged to transform themselves into for-profit corporations. Two management experts recently generated a storm of controversy when they concluded, on the basis of research into the U.S. hospital industry, that nonprofit hospitals could perform more efficiently and productively if they operated on a for-profit basis.¹

Our primary focus in this book will be on organizations that require tax-based financial support or donations of volunteer funds and time. There are challenges on several fronts. Government funding for a broad range of public agencies continues to be inadequate to support human services and other important programs. Managers of nonprofits worry that future donations will be insufficient to cover operating deficits or to finance

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needed capital improvements; they are also concerned about their ability to recruit volunteers to help with fund raising, administrative tasks, and service delivery. And finally they worry that successful efforts to generate income from gift shops, catalog sales, and other ventures will result in taxation of that income, on the grounds that it is unrelated to the organization's main activity.²

Both taxpayers and donors want to see their monies wisely used. The latter, of course, have more discretion over which organizations receive their funds. One large donor, businessman Ross Perot, has given more than \$100 million to charity over the past 20 years. He has learned that while good causes are easy to find, good management is not. Says Perot:

The whole trick is to figure out which [organizations] deliver results, which have leadership, and which are using the money for the people who need it. . . .³

Marketing Challenges

Some sense of the scope of nonbusiness marketing—an umbrella term that we'll use to include the marketing activities of both public and nonprofit organizations—is provided by the following real-world examples.

- Challenged to create a more relevant curriculum for high school students who are not interested in going on to college, a major school district has developed a pilot vocational education program that has been very successful in placing graduates in jobs and apprenticeships with good career prospects. The program is offered at a refurbished school which is easy to reach from many parts of the city. But enrollment figures have proved disappointing. Research shows that although eligible students and their parents are aware of the program, the latter worry that the neighborhood around the school is unsafe. School district officials have evidence that the school itself is quite safe and that the neighborhood is becoming more secure as a result of redevelopment. Pressured to improve "voc ed" enrollment, they wonder whether to wait another year and hope that enrollments will rise, to develop a new and more persuasive informational campaign—perhaps accompanied by additional security measures, or to move the program to a new location.
- The newly appointed executive director of a YWCA inherits an organization that is running a substantial deficit. One of her first actions is to improve financial record-keeping so that she can determine which programs are costing more than they attract in revenues and grants. Meanwhile, she works with board and staff members to clarify the organization's mission, so that each program can be evaluated in terms of its contribution to that mission as well as its financial performance. Staff members also look at the prices charged by each program and at how YWCA prices and service features compare with those of similar programs offered by other local institutions. The findings from these analyses are threefold. First, over half of the YWCA programs are losing money and several have the capacity to serve more customers than they presently attract. Second, there is room to raise prices on several programs which are cheaper than competing alternatives. And last, although all programs are viewed as socially worthwhile, several are only tangentially related to advancing the

mission of the YWCA. With this information in hand, the board votes to close several programs and to raise prices on most of those remaining. Two programs, the pool and daycare, are targeted for promotional campaigns to increase utilization. As a longer run strategy, fund-raising efforts will be beefed up to seek more grants and donations.

- A small, struggling chamber orchestra faces a dilemma. After reviewing ticket sales and trends, the general manager has concluded that audience size is stagnant and may even be declining. The artistic director suggests offering a new concert series in one of the outlying suburbs, hoping to attract people who can't or won't make the hour-long trip into the city. The general manager does not think that this strategy offers enough potential. In addition, it will be costly. She thinks that resources should be devoted to increasing the number of fully sponsored special events, such as the civic Christmas tree lighting, fund-raising galas for the Art Gallery, and large formal events such as medical and professional conventions. Such special events would raise awareness of the orchestra, and their costs would be fully covered by the sponsor. The general manager thinks that this type of exposure will eventually increase audience size at the orchestra's regular concerts. But the artistic director doesn't like special events. He resents the artistic restrictions imposed by programs tailored to specific audiences or occasions.
- An anti-smoking organization, dedicated to achievement of "clean indoor air," is trying to establish directions for the next several years. Progress has been achieved on several fronts but many challenges remain and the organization's financial resources are limited. Proposed legislation to restrict smoking and promotion of tobacco products has been blocked by key legislators, allegedly at the behest of the tobacco lobby. A variety of courses of action is available to the group to maintain its momentum. These include: programs to discourage school children from starting smoking; campaigns to pressure law enforcement officials to require retailers to obey laws forbidding sale of tobacco products to minors; offering support and advice to employees interested in curtailing or eliminating smoking in their workplaces; publicity stunts to get media coverage of colorfully dressed pickets protesting tobacco company sponsorship of sports activities; participation in lawsuits against tobacco firms to force them to produce self-extinguishing cigarettes in order to reduce risk of fires; and continued efforts to build coalitions powerful enough to bring about legislative action at city, regional, or national levels. Since almost all the group's funding comes from member pledges and donations, the board decides to present members with a list of possible actions and to ask them to vote their priorities to help the board in its decision making.
- A popular aquarium has expanded its offerings with the opening of a new indoor gallery devoted to the aquatic life of a large river basin. With increased capacity to serve visitors, the management would like to attract greater attendance during the winter months, traditionally the weakest season of the year. One suggestion is to schedule more time for school groups to visit. However, there's concern that such a strategy may alienate families and individuals who prefer to avoid

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large, noisy groups of schoolchildren and might choose to visit competing attractions instead. A possible compromise involves blocking time for school groups and then extending the afternoon schedule by an additional hour to allow more time for the public to visit. The anticipated opening of a new science museum in a year's time complicates the decision.

These examples illustrate some of the breadth of management issues covered by marketing. Essentially, any decision that affects an organization's users or other constituencies should involve marketing input. Deciding what services and programs to offer—as at the YWCA and the anti-smoking group—is a marketing issue. Decisions on pricing are central to marketing management. Considering the needs and concerns of different customer groups—as at the aquarium—is a marketing task. The schedule and location of service delivery should never be established without reference to their marketing implications. Using advertising and publicity is, of course, a very visible part of marketing. And finally, no organization can make marketing decisions without reference to the strategies pursued by competing organizations.

ORIENTING THE ORGANIZATION TO THE MARKETPLACE

In many public and nonprofit organizations, especially those offering services, management attention is focused on operational issues. Often, one finds a product-oriented culture in which managers develop and operate programs without much regard for how well they meet the needs of prospective customers. Marketing, if it exists at all in such organizations, is seen as an “add-on” activity, centered around advertising and promotions designed to increase revenues by pushing existing offerings. Yet the real problem may be that there needs to be a radical rethinking of those offerings and how they are delivered.

The Non-Marketing Oriented Organization

Institution of a formal marketing function is a relatively recent event in most nonbusiness organizations (and also in many service firms in the private sector). Many organizations still lack such a function altogether.

What does a non-marketing oriented organization look like? Some never look like anything because they quickly fail. But being big and well-established is no guarantee that the organization has the sensitivity to its users and the general public that is needed for long-term survival.

Several clues provide warning signs that management's thinking is product-oriented rather than market-oriented. Consider each of the following indicators⁴:

1. Managers and board members are so enamored of their organization's programs and services that they believe these must be what the public needs.
2. Marketing activities tend to center on stimulating awareness through advertising and publicity, and on developing promotions that will give prospective users an incentive to act.
3. When prospective users fail to respond to the organization's offerings, this disinterest is ascribed to ignorance or inertia, rather than to shortcomings in these offerings and the way they are priced and distributed.

4. Little or no use is made of marketing research, and such research as is conducted fails to assess the needs and concerns of people whom the organization is trying to serve. Findings that conflict with management beliefs tend to be ignored.
5. Distinctions in market segments are ignored or played down in preference to development of “one best strategy” to serve everyone.
6. Marketing managers and staff members are chosen for their product knowledge or communication skills, rather than for their marketing expertise and sensitivity to the needs of the people the organization is trying to reach.
7. Management and board members assume that the only form of competition comes from organizations similar to their own: they ignore the presence of “generic” competitors that offer alternative solutions to similar consumer needs.

What creates the mindset underlying these attitudes and behaviors? Managers moving to a new organization are sometimes struck by the apparent insularity of the existing management, staff, and board. Current employees and volunteers may be so convinced that they are dealing with socially important issues and services that they assume that the public views these topics with equal concern. It's easy to forget that there are literally thousands of issues and services competing for public attention, and that the great majority of citizens may not consider any given activity relevant to their own situations—if, indeed, they are even aware of it.

This commitment to a cause is often what keeps public and nonprofit managers going. Many are underpaid and work extended hours under trying conditions. For those managing cause-related organizations and human service agencies, their work may be literally a labor of love. Managers in the public sector sometimes enjoy more job security than their counterparts in nonprofit organizations, but salaries, bonuses (if any), and office amenities usually fail to match those found in large companies. An added frustration for public employees is the seemingly constant carping of journalists and politicians.

The new manager may be frustrated to find that staff members have an uncritical view of the value of the organization's products, regardless of whether they cover their costs or not (even with the aid of donations). When every program has its own advocate, who may enjoy the status of a professional qualification or the “protection” of a board member, what's the end result? All too often, the collective offerings of that organization fail to represent a coherent whole with clear links to a well-defined institutional mission.

Additional problems resulting from a product-centered mindset include the assumption that potential customers will go to great lengths to obtain information about the organization's activities and to use its services. But just making a service available does not guarantee that it will be used. Neither does a minimal announcement of availability suffice to attract interest from a public bombarded all day long with sophisticated messages that are disseminated through every possible medium of communication.

There's also a real risk that customers may be seen as tolerant and forgiving. After all, if the service (or cause) is so important, won't the customers or audience forgive a few shortcomings in delivery, such as a delayed schedule, missing materials, substitute personnel, canceled exhibit, or changed location? Unfortunately, the answer is often “no.” Numerous nonprofit organizations have discovered to their dismay that consumer expectations are higher than management had anticipated, and that users demand quality service from public and nonprofit organizations just as they do from private firms.

Finally, an insular, product-centered organization may tend to dismiss or even ignore competition. When management wakes up to the fact that other institutions are “trespassing” on their turf and “stealing” their clients and donors, it is sometimes too late to recoup the situation.

THE RISE OF NONBUSINESS MARKETING

Until the mid-1970s, the distinctive problems of managing nonbusiness organizations went largely ignored. But then practitioners and scholars began turning their attention to the challenge of improving management practice in public agencies and nonprofit institutions. Marketing became a buzzword of some significance in government agencies, hospitals, universities, transit systems, arts organizations, and social action groups—to name just a few. Some administrators resisted the very notion of marketing. They regarded the concept as inappropriate for their type of organization, seeing the terminology as unseemly and arcane, and viewing marketing strategies as intrusive, manipulative, and unprofessional.

A different group of nonbusiness managers felt immediately at home with the basic philosophy of marketing, since it was akin to their existing approach to management. Like Molière’s Monsieur Jourdain, who discovered to his amazement that he had been speaking prose for 40 years without being aware of it, managers of some of the better-run and more responsive nonbusiness institutions found that they had been practicing a form of marketing without being conscious of it. They recognized that it made sense to understand the needs and concerns of one’s users or clients. They sought to develop programs targeted at specific groups within the population, tailoring delivery systems, prices—if any—and communication efforts to the characteristics of these groups rather than trying to be all things to all people. These managers looked to see if other organizations were offering similar or substitute services to the same target group and, if so, considered what might be the most appropriate response to make. They sought to coordinate all programmatic activities to ensure consistency, to leverage efforts through third parties when this resulted in greater effectiveness or lower costs, to evaluate program performance on an ongoing basis, and to modify the program and its execution in the light of this evaluation.

Managers with this instinctive grasp of fundamental marketing principles had—and have—the most to gain from reviewing the tools, concepts, and strategies of marketing with a view to developing greater expertise in the field. They do not need to be convinced of the appropriateness of marketing as a management function within their organizations (although they may recognize the need to convince some of their colleagues of this). They are also likely to recognize that while the technology of marketing is neutral, it can be employed for both ethical and unethical ends depending on the values and goals of its user.

Marketing as a Management Function

The practice of management requires skills in several different functional specialties. The chief executive (or general manager of a division within a larger organization) needs to coordinate the planning and execution of these functions so as to ensure a balanced, smoothly operating organization.

Figure 1.1 highlights the eight key management functions typically found in larger public and nonprofit organizations; in smaller organizations, several of these may be

combined or incorporated in the responsibilities of the general manager. Only a few organizations maintain separate development and government-relations functions; typically, nonprofit institutions pursue voluntary donations through a development department, while public agencies maintain a government-relations function to ensure receipt of tax-based government financial assistance. In small and medium-size organizations, finance is often combined with control; similarly, operations may have responsibility for purchasing. In really small nonprofit organizations, the general manager may perform many of these management functions in person, relying on part-time employees, volunteers, or outside specialists to provide technical assistance in areas such as bookkeeping or fund raising on an as-needed basis.

Marketing is concerned with the process by which people adopt, maintain, or discard patterns of behavior—or accept ideas and beliefs that are often precursors of behavior. For private-sector firms, the behavior patterns of interest relate to how prospective customers purchase and use specific goods and services. Although many public and nonprofit organizations are also concerned with purchase and usage behavior, others focus on people's adoption of a wide array of different behavior patterns, ranging from voting in elections to acceptance of preventive health measures, and from conservation of resources to use of free public services. Still others see their role as facilitating organizations, seeking to promote awareness and acceptance of ideas and issues that range from energy conservation to employing the handicapped, or from promoting abortion rights to outlawing abortion.

As a management function, marketing is more than just a set of activities concerned with research, planning, program development, and implementation. It is a bridge linking

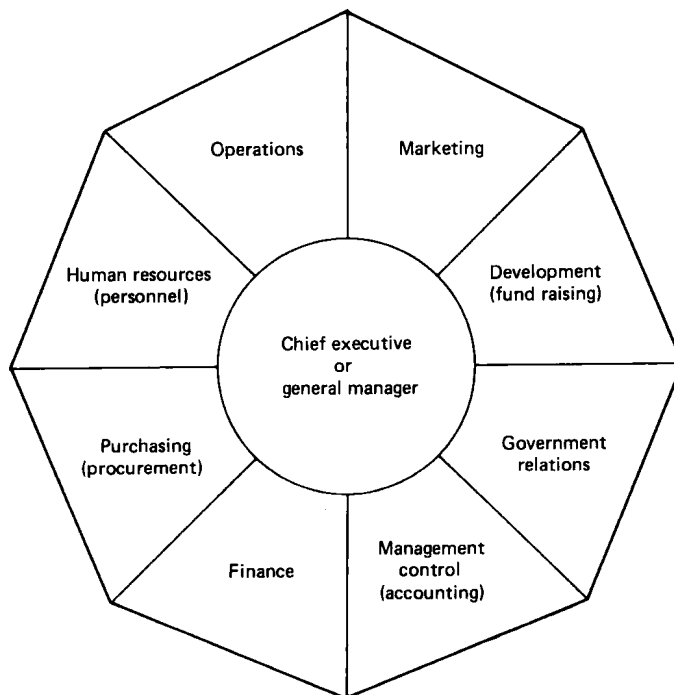


Figure 1.1 The key management function in public and nonprofit corporations.