

Marketing Insights from **A** to **Z**

80 Concepts Every Manager Needs To Know

Philip Kotler



John Wiley & Sons, Inc.

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“The bagwan of Marketing strikes again. Leave it to Phil Kotler to revisit all of our blocking and tackling at just the right time . . . and as all great marketers know: ‘timing is everything.’”

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Author, *Discovering the Soul of Service*

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*To all those who have worked in
business and marketing
with a passion to satisfy customer needs
and enhance customer and societal well-being.*

Preface

My 40-year career in marketing has produced some knowledge and even a little wisdom. Reflecting on the state of the discipline, it occurred to me that it is time to revisit the basic concepts of marketing.

First, I listed the 80 concepts in marketing critical today and spent time mulling over their meanings and implications for sound business practice. My primary aim was to ascertain the best principles and practices for effective and innovative marketing. I found this journey to be filled with many surprises, yielding new insights and perspectives.

I didn't want to write another 800-page textbook on marketing. And I didn't want to repeat thoughts and passages that I have written in previous books. I wanted to present fresh and stimulating ideas and perspectives in a format that could be picked up, sampled, digested, and put down anytime. This short book is the result, and it was written with the following audiences in mind:

- Managers who have just learned that they need to know something about marketing; you could be a financial vice president, an executive director of a not-for-profit organization, or an entrepreneur about to launch a new product. You

x Preface

may not even have time to read *Marketing for Dummies* with its 300 pages. Instead you want to understand some key concepts and marketing principles presented by an authoritative voice, in a convenient way.

- Managers who may have taken a course on marketing some years ago and have realized things have changed. You may want to refresh your understanding of marketing's essential concepts and need to know the latest thinking about high-performance marketing.
- Professional marketers who might feel unanchored in the daily chaos of marketing events and want to regain some clarity and recharge their understanding by reading this book.

My approach is influenced by Zen. Zen emphasizes learning by means of meditation and direct, intuitive insights. The thoughts in this book are a result of my meditations on these fundamental marketing concepts and principles.

Whether I call these meditations, ruminations, or cogitations, I make no claim that all the thoughts in this book are my own. Some great thinkers in business and marketing are directly quoted, or they directly influenced the thoughts here. I have absorbed their ideas through reading, conversations, teaching, and consulting.



Introduction

Today's central problem facing business is not a shortage of goods but a shortage of customers. Most of the world's industries can produce far more goods than the world's consumers can buy. Overcapacity results from individual competitors projecting a greater market share growth than is possible. If each company projects a 10 percent growth in its sales and the total market is growing by only 3 percent, the result is excess capacity.

This in turn leads to hypercompetition. Competitors, desperate to attract customers, lower their prices and add giveaways. These strategies ultimately mean lower margins, lower profits, some failing companies, and more mergers and acquisitions.

Marketing is the answer to how to compete on bases other than price. Because of overcapacity, marketing has become more important than ever. Marketing is the company's *customer manufacturing department*.

But marketing is still a terribly misunderstood subject in business circles and in the public's mind. Companies think that marketing exists to help manufacturing get rid of the company's products. The truth is the reverse, that manufacturing exists to support marketing. A company can always outsource its manufacturing. What makes a company

xii Introduction

prosper is its marketing ideas and offerings. Manufacturing, purchasing, research and development (R&D), finance, and other company functions exist to support the company's work in the customer marketplace.

Marketing is too often confused with selling. Marketing and selling are almost opposites. "Hard-sell marketing" is a contradiction. Long ago I said: **"Marketing is not the art of finding clever ways to dispose of what you make. Marketing is the art of creating genuine customer value. It is the art of helping your customers become better off. The marketer's watchwords are quality, service, and value."**

Selling starts only when you have a product. Marketing starts before a product exists. Marketing is the homework your company does to figure out what people need and what your company should offer. Marketing determines how to launch, price, distribute, and promote your product/service offerings to the marketplace. Marketing then monitors the results and improves the offering over time. Marketing also decides if and when to end an offering.

All said, marketing is not a short-term selling effort but a long-term investment effort. When marketing is done well, it occurs before the company makes any product or enters any market; and it continues long after the sale.

Lester Wunderman, of direct marketing fame, contrasted selling to marketing in the following way: **"The chant of the Industrial Revolution was that of the manufacturer who said, 'This is what I make, won't you please buy it?' The call of the Information Age is the consumer asking, 'This is what I want, won't you please make it?'"**¹

Marketing hopes to understand the target customer so well that selling isn't necessary. Peter Drucker held that **"the aim of marketing is to make selling superfluous."**² Marketing is the ability to hit the mark.

Yet there are business leaders who say, "We can't waste time on marketing. We haven't designed the product yet." Or "We are too suc-

cessful to need marketing, and if we were unsuccessful, we couldn't afford it." I remember being phoned by a CEO: "Come and teach us some of your marketing stuff—my sales just dropped by 30 percent."

Here is my definition of marketing: **Marketing management is the art and science of choosing target markets and getting, keeping, and growing customers through creating, communicating, and delivering superior customer value.**

Or if you like a more detailed definition: **"Marketing is the business function that identifies unfulfilled needs and wants, defines and measures their magnitude and potential profitability, determines which target markets the organization can best serve, decides on appropriate products, services, and programs to serve these chosen markets, and calls upon everyone in the organization to think and serve the customer."**

In short, marketing's job is to convert people's changing needs into profitable opportunities. Marketing's aim is to create value by offering superior solutions, saving buyer search and transaction time and effort, and delivering to the whole society a higher standard of living.

Marketing practice today must go beyond a fixation on transactions that often leads to a sale today and a lost customer tomorrow. The marketer's goal is to build a mutually profitable long-term relationship with its customers, not just sell a product. A business is worth no more than the lifetime value of its customers. This calls for knowing your customers well enough to deliver relevant and timely offers, services, and messages that meet their individual needs.

The function of marketing is typically organized as a department within a business. This is good and bad. It's good because it brings together a number of skilled people with specific abilities for understanding, serving, and satisfying customers. It's bad because other departments believe that all marketing is done in one department. As the late David Packard of Hewlett-Packard observed, **"Marketing is much too important to leave to the marketing department. . . . In a truly great marketing organization, you can't**

xiv Introduction

tell who's in the marketing department. Everyone in the organization has to make decisions based on the impact on the customer."

The same thought was well-stated by Professor Philippe Naert: **"You will not obtain the real marketing culture by hastily creating a marketing department or team, even if you appoint extremely capable people to the job. Marketing begins with top management. If top management is not convinced of the need to be customer minded, how can the marketing idea be accepted and implemented by the rest of the company?"**

Marketing is not restricted to a department that creates ads, selects media, sends out direct mail, and answers customer questions. Marketing is a larger process of systematically figuring out what to make, how to bring it to the customer's attention and easy access, and how to keep the customer wanting to buy more from you.

Furthermore, marketing strategy and actions are not only played out in customer markets. For example, your company also has to raise money from investors. As a result you need to know how to market to investors. You also want to attract talent to your company. So you need to develop a value proposition that will attract the most able people to join your company. Whether marketing to customers, investors, or talent, you need to understand their needs and wants and present a competitively superior value proposition to win their favor.

Is marketing hard to learn? The good news is that marketing takes a day to learn. The bad news is that it takes a lifetime to master! But even the bad news can be looked at in a positive way. I take inspiration from Warren Bennis' remark: "Nothing gives me a greater joy than learning something new." (Mr. Bennis is Distinguished Professor at the University of California and prominent writer on leadership.)

The good news is that marketing will be around forever. The bad news: It won't be the way you learned it. In the coming decade, marketing will be reengineered from A to Z. I have chosen to highlight 80 of the most critical concepts and ideas that businesspeople need in waging their battles in this hypercompetitive and rapidly changing marketplace.

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| | |
|--|----|
| Advertising | 1 |
| Brands | 8 |
| Business-to-Business Marketing | 15 |
| Change | 16 |
| Communication and Promotion | 18 |
| Companies | 20 |
| Competitive Advantage | 22 |
| Competitors | 23 |
| Consultants | 25 |
| Corporate Branding | 26 |
| Creativity | 27 |
| Customer Needs | 30 |
| Customer Orientation | 32 |
| Customer Relationship Management (CRM) | 34 |
| Customers | 36 |
| Customer Satisfaction | 41 |
| Database Marketing | 43 |
| Design | 46 |

xvi Contents

| | |
|---------------------------------|-----|
| Differentiation | 49 |
| Direct Mail | 52 |
| Distribution and Channels | 53 |
| Employees | 57 |
| Entrepreneurship | 60 |
| Experiential Marketing | 61 |
| Financial Marketing | 62 |
| Focusing and Niching | 64 |
| Forecasting and the Future | 66 |
| Goals and Objectives | 68 |
| Growth Strategies | 70 |
| Guarantees | 74 |
| Image and Emotional Marketing | 76 |
| Implementation and Control | 77 |
| Information and Analytics | 80 |
| Innovation | 83 |
| Intangible Assets | 86 |
| International Marketing | 87 |
| Internet and E-Business | 91 |
| Leadership | 94 |
| Loyalty | 97 |
| Management | 99 |
| Marketing Assets and Resources | 101 |
| Marketing Department Interfaces | 102 |
| Marketing Ethics | 106 |
| Marketing Mix | 108 |
| Marketing Plans | 112 |
| Marketing Research | 115 |
| Marketing Roles and Skills | 119 |

| | |
|--------------------------------|-----|
| Markets | 121 |
| Media | 123 |
| Mission | 124 |
| New Product Development | 126 |
| Opportunity | 128 |
| Organization | 130 |
| Outsourcing | 131 |
| Performance Measurement | 133 |
| Positioning | 135 |
| Price | 138 |
| Products | 140 |
| Profits | 142 |
| Public Relations | 145 |
| Quality | 147 |
| Recession Marketing | 149 |
| Relationship Marketing | 151 |
| Retailers and Vendors | 154 |
| Sales Force | 157 |
| Sales Promotion | 160 |
| Segmentation | 162 |
| Selling | 164 |
| Service | 167 |
| Sponsorship | 169 |
| Strategy | 171 |
| Success and Failure | 175 |
| Suppliers | 176 |
| Target Markets | 177 |
| Technology | 178 |
| Telemarketing and Call Centers | 179 |

xviii Contents

| | |
|---|------------|
| Trends in Marketing Thinking and Practice | 181 |
| Value | 183 |
| Word of Mouth | 185 |
| Zest | 187 |
| Notes | 189 |
| Index | 195 |

A large, stylized letter 'A' composed of three horizontal bars. The top bar is solid black. The middle bar is white with a black outline. The bottom bar is solid black. The bars are separated by thin white gaps.

dvertising

I (and most people) have a love/hate relationship with advertising. Yes, I enjoy each new Absolut vodka print ad: Where will they hide the famous bottle? And I enjoy the humor in British ads, and the risqué quality of French ads. Even some advertising jingles and melodies stick in my mind. But I don't enjoy most ads. In fact, I actively ignore them. They interrupt my thought processes. Some do worse: They irritate me.

The best ads not only are creative, they sell. Creativity alone is not enough. Advertising must be more than an art form. But the art helps. William Bernbach, former head of Doyle, Dane & Bernbach, observed: **"The facts are not enough. . . . Don't forget that Shakespeare used some pretty hackneyed plots, yet his message came through with great execution."**

Even a great ad execution must be renewed or it will become outdated. Coca-Cola cannot continue forever with a catchphrase like "The Real Thing," "Coke Is It," or "I'd Like to Teach the World to Sing." Advertising wear-out is a reality.

Advertising leaders differ on how to create an effective ad campaign. Rosser Reeves of the Ted Bates & Company advertising agency favored linking the brand directly to a single benefit, as in

2 Marketing Insights from A to Z

“R-O-L-A-I-D-S spells RELIEF.” Leo Burnett preferred to create a character that expressed the product’s benefits or personality: the Green Giant, the Pillsbury Doughboy, the Marlboro cowboy, and several other mythical personalities. The Doyle, Dane & Bernbach agency favored developing a narrative story with episodes centered on a problem and its outcome: thus a Federal Express ad shows a person worried about receiving something at the promised time who is then reassured by using FedEx’s tracking system.

The aim of advertising is not to state the facts about a product but to sell a solution or a dream. Address your advertising to the customers’ aspirations. This is what Ferrari, Tiffany, Gucci, and Ferragamo do. A Ferrari automobile delivers on three dreams: social recognition, freedom, and heroism. Remember Revlon founder Charles Revson’s remark: “In our factory, we make lipstick. In our advertising, we sell hope.”³

But the promise of dreams only makes people suspicious of advertising. They don’t believe that their selection of a particular car or perfume will make them any more attractive or interesting. Stephen Leacock, humorist and educator, took a cynical view of advertising: **“Advertising may be described as the science of arresting the human intelligence long enough to get money from it.”**

Ads primarily create product awareness, sometimes product knowledge, less often product preference, and more rarely, product purchase. That’s why advertising cannot do the job alone. Sales promotion may be needed to trigger purchase. A salesperson might be needed to elaborate on the benefits and close the sale.

What’s worse, many ads are not particularly creative. Most are not memorable. Take auto ads. The typical one shows a new car racing 100 miles an hour around mountain bends. But we don’t have mountains in Chicago. And 60 miles an hour is the speed limit. And furthermore I can’t remember which car the ad featured. Conclusion: Most ads are a waste of the companies’ money and my time.

Most ad agencies blame the lack of creativity on the client.

Clients wisely ask their agencies to come up with three ads, from mild to wild. But then the client typically settles for the mild and safe one. Thus the client plays a role in killing good advertising.

Companies should ask this question before using advertising: **Would advertising create more satisfied clients than if our company spent the same money on making a better product, improving company service, or creating stronger brand experiences?** I wish that companies would spend more money and time on designing an exceptional product, and less on trying to psychologically manipulate perceptions through expensive advertising campaigns. **The better the product, the less that has to be spent advertising it.** The best advertising is done by your satisfied customers.

The stronger your customer loyalty, the less you have to spend on advertising. First, most of your customers will come back without you doing any advertising. Second, most customers, because of their high satisfaction, are doing the advertising for you. In addition, advertising often attracts deal-prone customers who will flit in and out in search of a bargain.

There are legions of people who love advertising whether or not it works. And I don't mean those who need a commercial to provide a bathroom break from the soap opera. My late friend and mentor, Dr. Steuart Henderson Britt, passionately believed in advertising. **"Doing business without advertising is like winking at a girl in the dark. You know what you are doing, but nobody else does."**

The advertising agency's mantra is: "Early to bed, early to rise, work like hell, advertise."

But I still advise: Make good advertising, not bad advertising. David Ogilvy cautioned: **"Never write an advertisement which you wouldn't want your own family to read. You wouldn't tell lies to your own wife. Don't tell them to mine."**⁴

Ogilvy chided ad makers who seek awards, not sales: **"The advertising business . . . is being pulled down by the people who**