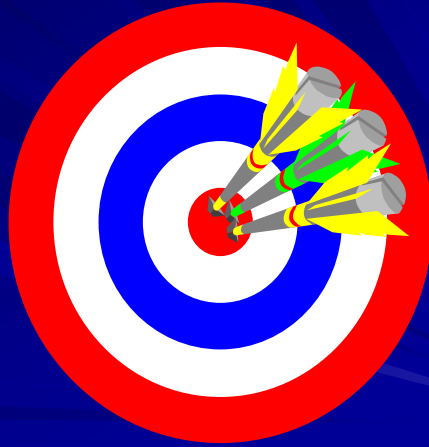


Marketing Must Change

- Philip Kotler, Ph.D
- Kellogg School of Management
- Northwestern University
- *World Marketing and Sales Forum*



Thesis

- **MARKETS ARE CHANGING.**
- **THEREFORE MARKETING MUST CHANGE!**

Consumers Are Changing



- Time shortage leading to increased need for convenience and simplicity.
- Decreased perceived product differences leading to decreased brand loyalty.
- Growing price and value consciousness and increased acceptance of reseller brands.
- High expectations regarding service and quality.
- Growing use of the Internet and digital tools.

Retailers Are Changing

- Retailers are getting more financially sophisticated.
- Retailers favor managing categories more than individual brands and favor category leaders.
- Retailers want proof before carrying new products.
- Retailers are increasingly introducing private brands.
- Mega-retailers are growing and pressing for lower prices.
- Each retail chain has its own requirements for delivery frequency, point-of-purchase promotion, and advertising support.
- Each store within a retail chain may require “tailoring.”

Manufacturers Have Five Choices

1. Become the category leader.
2. Prove that the retailer could make more money with your use of shelf space than a competitor's use of shelf space.
3. Work with the retailer to find logistic savings.
4. Marketers need to improve their in-store influence. Building the branded experience in-store is more important than just building the brand.
5. Manufacturers need to transfer funds from advertising to newer communication media and/or to improved customer service or improved products.

Marketing's Results Are Embarrassing

- TV advertising has lost much of its former efficiency.
- Sales promotions are mostly wasted.
- Direct marketing mailings have poor response.
- Too many sales calls done by the numbers.
- High rate of new product failure.



Marketing Must Change!!

1. Reform its communication mix.
2. Participate more actively in new product development.
3. Become more financially accountable.
4. Become more technology-enabled.
5. Become more holistic.
6. Add new marketing skills to the department.
7. Improve the working relation between marketing and sales.
8. Participate more actively with strategic planning.

1. Marketing Must Change Its Communication Mix!



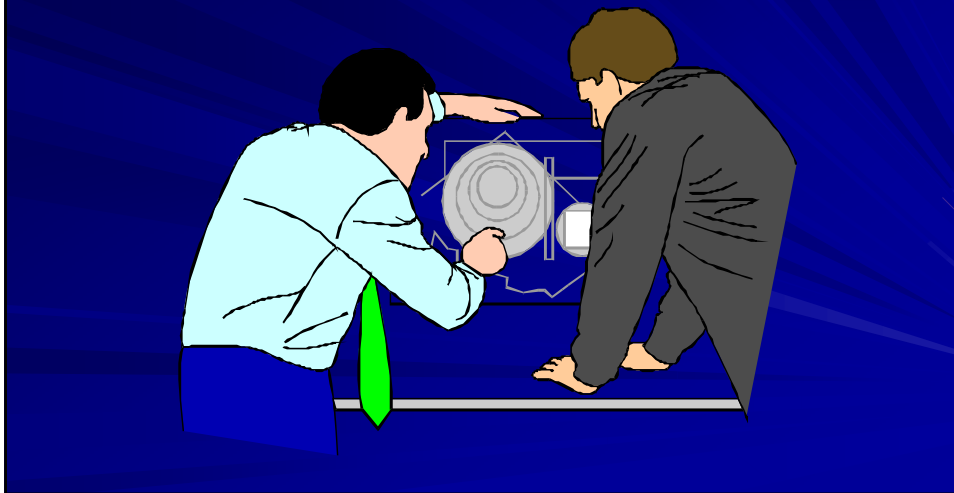
Evidence

1. According to *Ad Age*: "Most marketers accept the inevitable obsolescence of the old model. The question now is whether they're building a new one."
2. Advertising reliance is excessive given the new media consumption vehicles (iPod, Web, email, video games) and advertising avoidance (TiVo).
3. Sales promotion is overused as a short run tactic and it dilutes the brand's strength and future.
4. Reengineering the marketing model should be a top priority for CMOs.

Consider the New Media

- Public relations
- Product placement
- Sponsorship
- Event marketing
- Buzz marketing
- Street marketing
- Web marketing

2. Marketing Must Participate More Actively in New Product Development

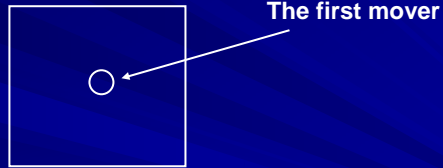


Case of Microsoft

- “Microsoft’s rapid-fire product cycles often happened without much front-end input from the folks in marketing...Engineers would toss it over to marketing for a press release and a launch event.”
 - “Microsoft was gaining a reputation for churning out bloated products with features that users didn’t want, didn’t need or couldn’t use because of their complexity.”
 - “The engineers were eager for a better understanding of customers and they acknowledged that a partnership with marketing was the best way to capture those insights.”
 - “Microsoft now puts a heavy emphasis on the type of market analysis and customer insights that drive decisions about products or positioning before products reach customers’ hands. Marketing’s task: Improve the customer value proposition.”
- Extracts from :Rob O’Regan, “The Ultimate Bug Fix,” CMO magazine, June 2005.

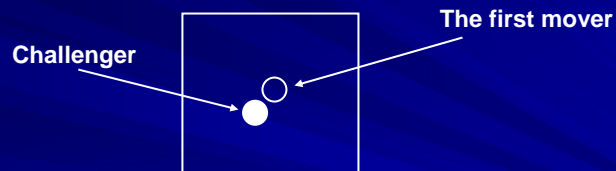
**A new market is small at the beginning.
There is a “first mover” who discovers the
market.**

YOGURTS MARKET



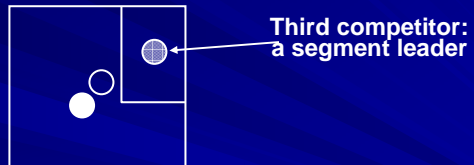
**If the market is attractive, a new competitor
will appear: the challenger.**

YOGURTS MARKET



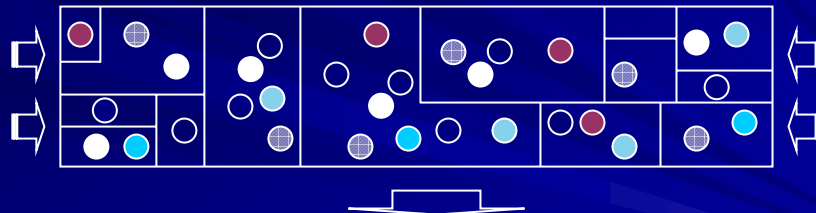
Another player will enter to exploit a segment.

YOGURTS MARKET



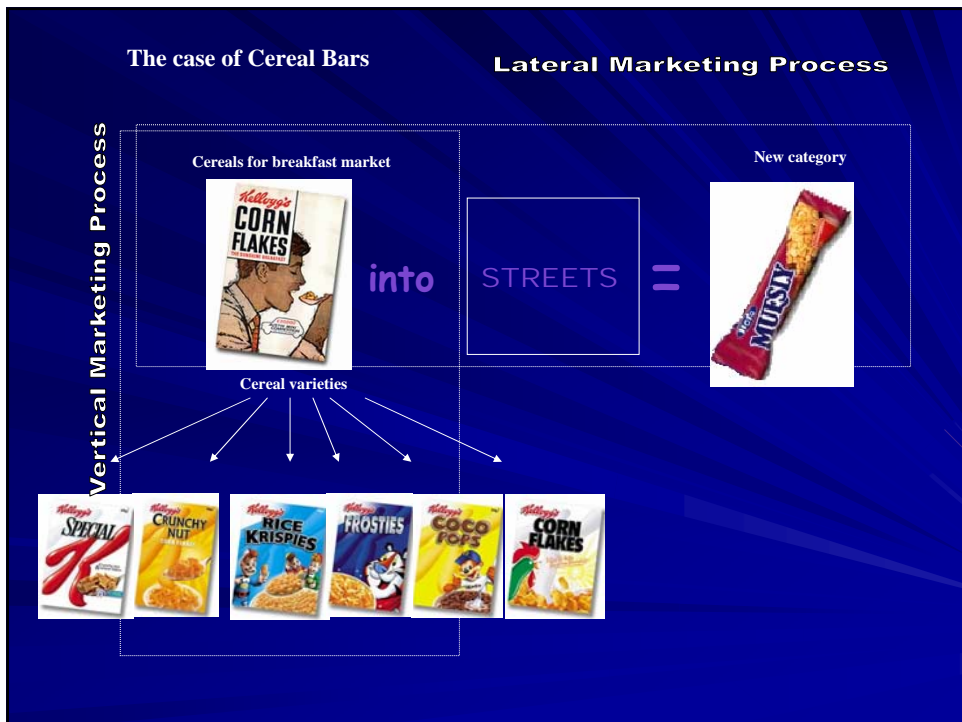
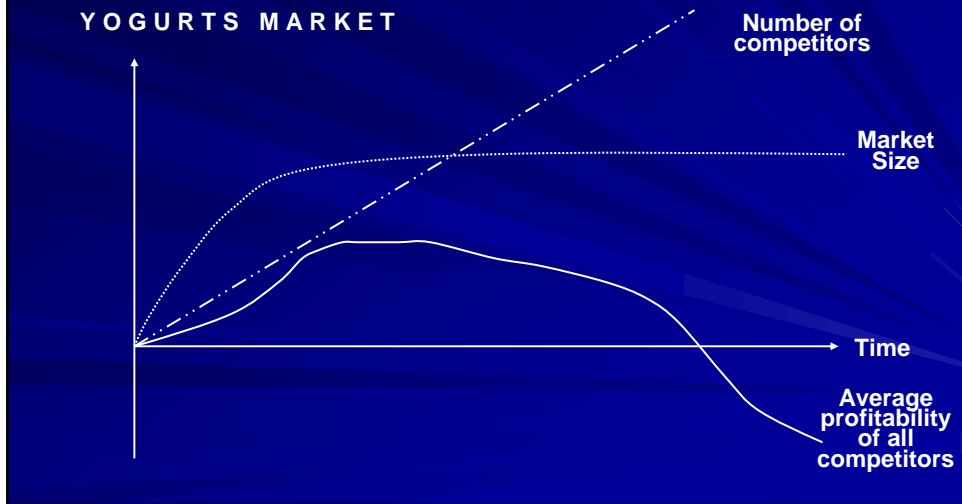
The market cannot grow anymore and hypercompetition has fragmented the market. The potential volume of each brand has been damaged.

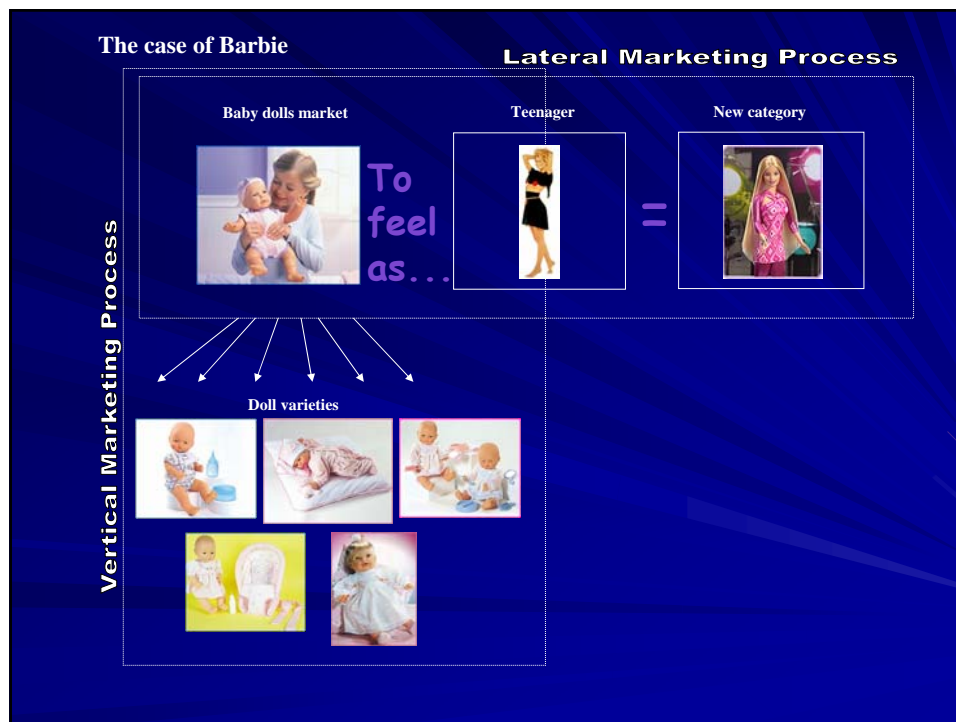
YOGURTS MARKET



FRAGMENTED AND SATURATED MARKET

In mature markets, the growing number of competitors leads companies to target niches of low profitability.





Examples of Lateral Marketing

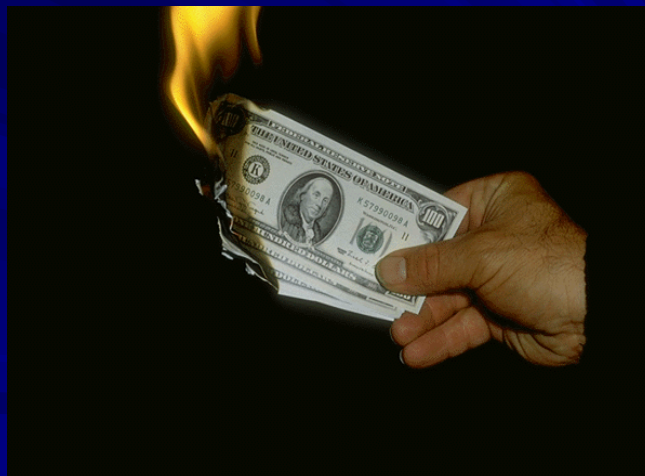
- Kinder Surprise = candy + toy.
- Seven Eleven = food + depot.
- Cereal bars = cereal + snacking.
- Actimel = yogurt + bacteria protection.
- Gas station stores = gas station + food.
- Cyber cafes = cafeteria + Internet.
- “Be the godfather of a kid” = Donation + adoption.
- Huggies Pull-ups = diapers + 3 year olds.
- Barbie dolls = dolls + teenager
- Walkman = audio + portable
- Train + school = classes on the train
- Segway = scooter + engine + balance

The “Secret” Door to Creativity

- Substitute
- Eliminate
- Combine
- Reorder
- Exaggerate
- Turnover

- Source: Philip Kotler and Fernando Trias de Bes, *Lateral Marketing: A New Approach to Finding Product, Market, and Marketing Mix Ideas* (New York: Wiley, 2003).

3. Marketing must move toward more financial accountability.



Needed for Business Success: Finance + Marketing

■ Financial Competence

- Developing an optimal financial structure
- Managing working capital requirements
- Conducting excellent asset portfolio management
- Achieving good profitability

■ Marketing Competence

- Building strong brand equity
- Creating a loyal customer base
- Achieving excellent product quality
- Being innovative
- Building efficient economies of scale
- Developing effective business strategies

Four Company Situations

	<u>Low</u> <u>Competitivity</u>	<u>High</u> <u>Competitivity</u>
<u>High Financial</u> <u>Soundness</u>	Conservative Companies	Market Leaders
<u>Low Financial</u> <u>Soundness</u>	Laggards	Aggressive Companies

Estimating Financial Impact

1. Brand manager estimates ROI on a project. The estimate has to exceed the hurdle rate. After the investment, a post-estimate of ROI is made.
2. Projects are chosen according to estimated ROIs.
3. An effort is made to measure the long run financial return on expenditures that enhance brand awareness and preference.
4. An effort is made to integrate more metrics.
5. Use a balanced scorecard that includes the overall contribution of customer-building activities.

Marketing Metrics

Sales Metrics

- Sales growth
- Market share
- Sales from new products

Customer Readiness to Buy Metrics

- Awareness
- Preference
- Purchase intention
- Trial rate
- Repurchase rate

Customer Metrics

- Customer complaints
- Customer satisfaction
- Customer sacrifice
- Number of promoters to detractors
- Customer acquisition costs
- New customer gains
- Customer losses
- Customer churn
- Retention rate
- Customer lifetime value
- Customer equity
- Customer profitability
- Return on customer

Brand Metrics

- Brand strength (perceived relative brand value)
- Brand equity

Distribution Metrics

- Number of outlets
- Share in shops handling
- Weighted distribution
- Distribution gains
- Average stocks volume (value)
- Stocks cover in days
- Out of stock frequency
- Share of shelf
- Average sales per point of sale

Communication Metrics

- Spontaneous (unaided) brand awareness Top of mind brand awareness
- Prompted (aided) brand awareness
- Spontaneous (unaided) advertising awareness
- Prompted (aided) advertising awareness
- Effective reach
- Effective frequency
- Gross rating points (GRP)
- Response rate

Sales force metrics

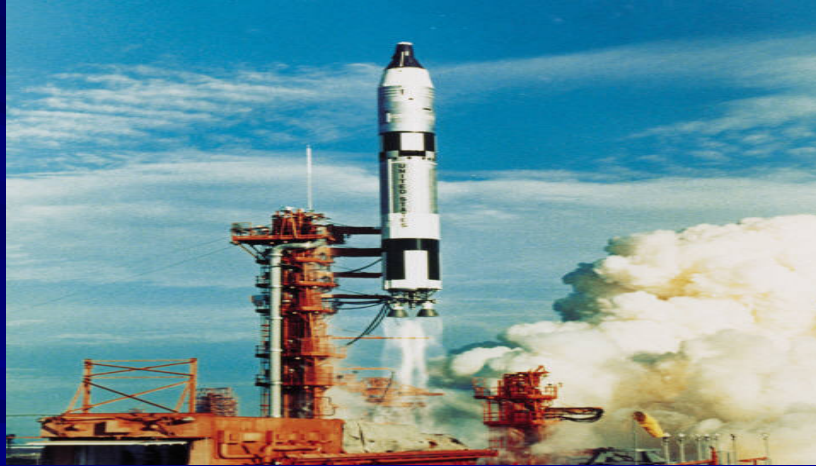
- Quality of lead stream
- Average lead to proposal
- Average close ratio
- Cost per inquiry
- Cost per lead
- Cost per sale
- Cost per sales dollar

Price and Profitability Metrics

- Price sensitivity
- Average price change
- Contribution margin
- ROI
- DCF

*Compiled by Philip Kotler from various sources

4. Marketing must become more technology-enabled.



Predictive Analytics

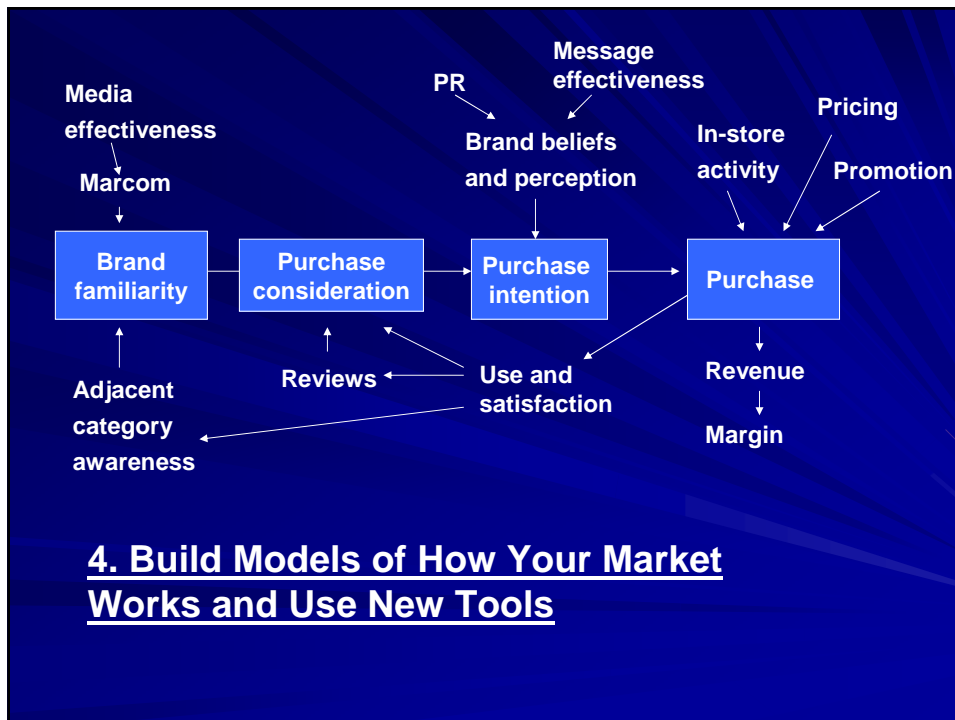
- Predictive analytics helps identify the right offers and right messages to beam through different channels to narrow customer segments or individuals, based on their predicted behavior and their propensity to respond. The expected profit of a campaign can be estimated.

SALES AUTOMATION

- The objective is to empower the salesperson to be an *informed salesperson* who virtually has the whole company's knowledge at his command and can provide *total sales quality*.
- HOW CAN YOU IMPROVED YOUR SALES AUTOMATION?

Marketing Automation

- IT reduces the cost of acquiring, analyzing, storing and mediating information for customers and company.
- Closed-loop marketing architecture must include ATM, phone, www, kiosk, call center, dealer, branch, agent, all supported by relational databases, transaction systems, and external data sources.
- More and more marketing activities will disappear into the network. Customer interaction and support will be increasingly automated.
- Areas Ripe for Marketing Automation:
 - Pricing airline seats and hotel reservations
 - Selecting names for a direct mail campaign
 - Deciding who should receive loans or credit extensions
 - Allocating product lines to shelf space
 - Targeting coupons and samples
- WHAT MARKETING PROCESSES CAN YOU AUTOMATE?



- ## Marketing Dashboards
- Tools dashboard
 - Processes dashboard
 - Performance dashboard

Marketing Work-Flow Process Tools

- Project management
- Product management
- New product development
- Campaign management

Obstacles to Wider Use of Technology-Enabled Marketing

- Many marketers are not aware of these technologies.
- Many applications were designed by software engineers who need a better understanding of marketing processes.
- Many marketing technologies are not integrated with other business and sales systems.
- Effective use of marketing technologies require a visionary and technology savvy manager.

Is New Technology Enough?

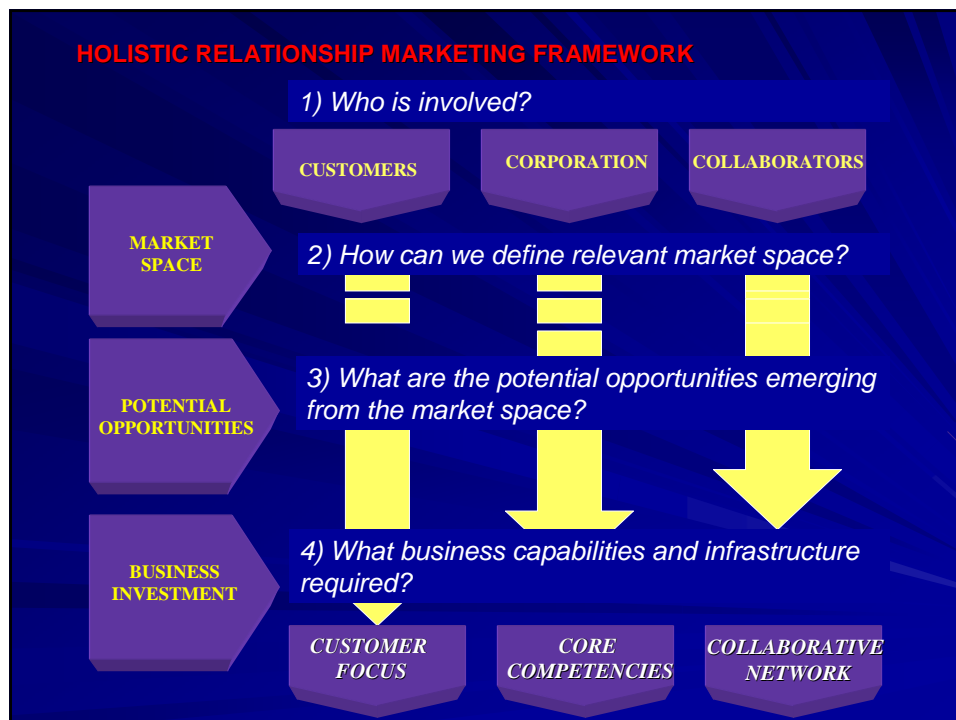
- $NT + OO = EOO$
- New Technology + Old Organization = Expensive Old Organization
- Finding: Companies that have great IT and great management practices do fine. Companies with lots of IT and bad management do the worst.

5. Marketing Must Become More Holistic

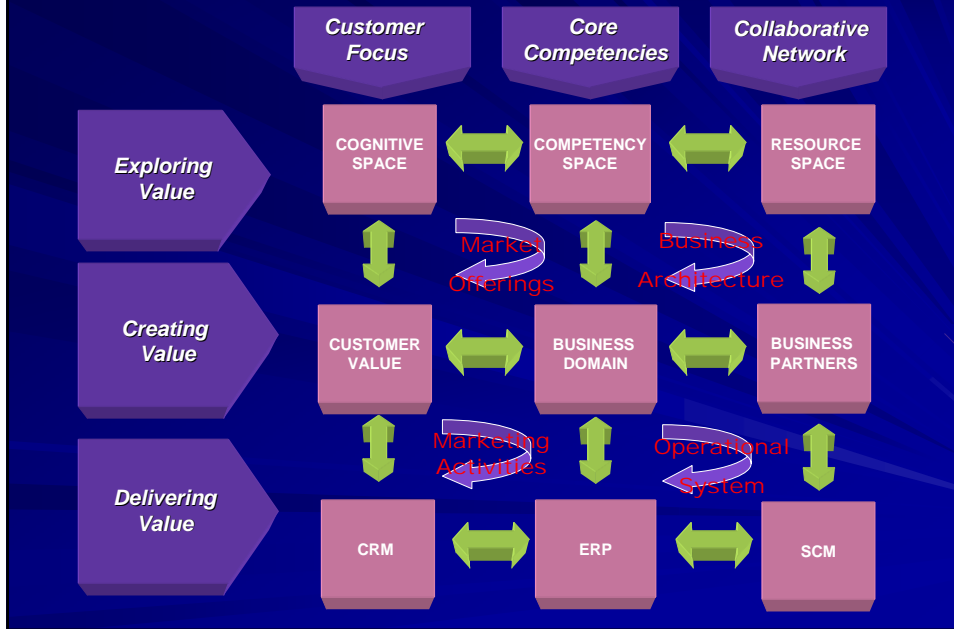


Needed: Holistic Marketing

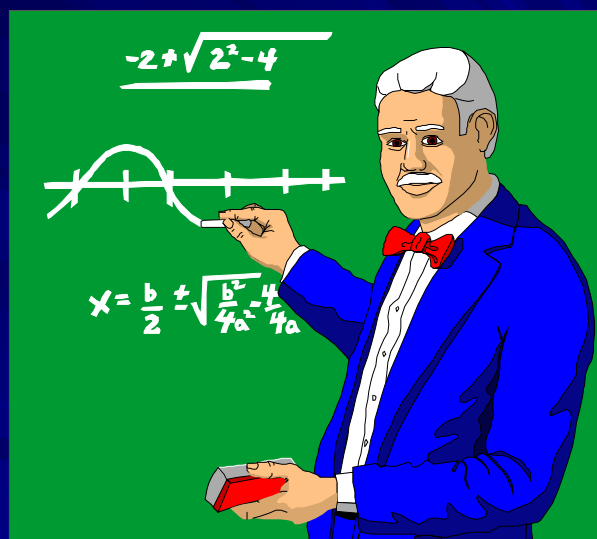
- Marketing must take a more holistic view of:
 - the target customers' activities, lifestyle, and social space.
 - the company's channels and supply chain.
 - the company's communications.
 - the company's stakeholders' interests.



4 COMPETITIVE PLATFORMS



6. Marketing Must Add New Skills



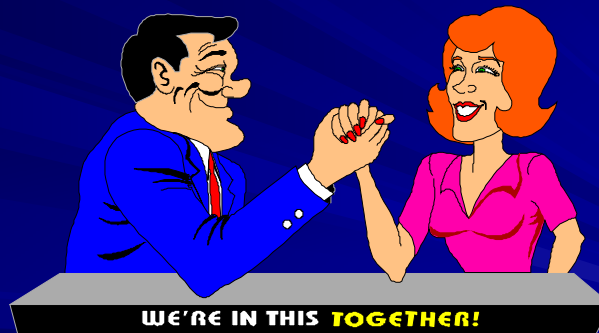
New Marketing Skills

- Customer relationship management (CRM)
- Partner relationship management (PRM)
- Database marketing and data-mining
- Telemarketing
- Public relations marketing (including event and sponsorship marketing)
- Brand building and brand asset management.
- Experiential marketing
- Integrated marketing communications
- Profitability analysis by segment, customer, channel

Examining the Marketing Talent Pool

<i>Skills required</i>	<i>Skills inventory</i>	<i>Action plan</i>
Product development	1	
Marketing strategy	2	Recruit talent
Market research	3	Executive education
Direct marketing	1	
Mass-media advertising	2	
Channel management	3	Executive education
Strategic pricing	2	
Customer relationship mgt	4	Outsource
Database management	4	Outsource
Ibid.		

7. Marketing Must Improve the Relation Between Marketing and Sales



Marketing and Sales

- What is marketing's role? What is sales' role?
- How well do marketing and sales work together in your company?
- What are some ways to improve the working relation between marketing and sales?
- To whom should marketing and sales report?
- How extensively should marketing involve sales in the marketing planning process?
- How can marketing be of more assistance to the sales force?
- Should marketing be split into upstream and downstream marketing?

8. Marketing must partner more actively with strategic planning in setting strategy.



Seven Winning Strategies

1. *Cost reduction:* (IKEA, Southwest Airlines, Wal-Mart, Enterprise Rent-a-Car).
2. *Improved customer experience* (Starbucks, Harley Davidson)
3. *Innovative business model* (Barnes & Noble, Charles Schwab, FedEx, Sony).
4. *Improved product quality* (P&G, Toyota).
5. *Niching:* (Progressive Insurance, Tetra)
6. *Innovation:* (Sony)
7. *Design:* (Apple, Bang & Olufsen)

Check Where You Stand

- Marketing does the marketing -> everyone thinks customer.
- Organizing by product units -> organizing by customer segments.
- Making everything -> outsourcing more goods and services.
- Building brands through advertising -> building brands through integrated marketing communications and customer experience.
- Selling to everyone -> selling to targeted segments.
- Focusing on profitable transactions -> focusing on customer lifetime value.
- Focusing on market share -> focusing on market growth and customer share..
- Focusing on the financial scorecard -> focusing on the marketing and stakeholder scorecard.

Some Conclusions

- The Old Marketing is broken. A New Marketing is needed.
- Marketers need to adopt a financial mindset and an IT mindset as well as some additional skills.
- Superior marketing performance will increasingly require integrated systems, processes, relationships, and information.
- Marketing must work closer with strategic planning in choosing markets and defining offerings.

CMO's Key Responsibilities

1. Strengthening the brands
2. Measuring marketing effectiveness
3. Driving new product development based on customer needs
4. Gathering meaningful customer insights
5. Utilizing new marketing technology
6. Improving the customer experience.

Source: McKinsey study

