

In This Chapter, We
Will Address the
Following **Questions**

1. What are important trends in marketing practices?
2. What are the keys to effective internal marketing?
3. How can companies be responsible social marketers?
4. How can a company improve its marketing skills?
5. What tools are available to help companies monitor and improve their marketing activities?

Timberland's passion for the outdoors and the environment influences its choice of products to sell and the way it makes and sells those products.

Timberland 

Chapter 22



Managing a Holistic Marketing Organization for the Long Run

Healthy long-term growth for a brand requires that the marketing organization be managed properly. Holistic marketers must engage in a host of carefully planned, interconnected marketing activities and satisfy an increasingly broader set of constituents and objectives. They must also consider a wider range of effects of their actions. Corporate social responsibility and sustainability have become a priority as organizations grapple with the short-term and long-term effects of their marketing. Some firms have embraced this new vision of corporate enlightenment and made it the very core of what they do. Consider Timberland.¹



Timberland, the maker of rugged boots, shoes, clothing, and gear, has a passion for the great outdoors. The company targets individuals who live, work, and play outdoors, so it only makes sense that it wants to do whatever it takes to protect the environment. Over the past two decades, Timberland's commitment and actions have blazed trails for green companies around the world. Its revolutionary initiatives include giving its shoes a "nutrition label" that measures their "greenness"—how much energy was used in making them, what transportation and labor costs were incurred, and what portion is renewable. Timberland also introduced a new line of shoes called Earthkeepers, made of organic cotton, recycled PET, and recycled tires (for the soles). The shoes are designed to be taken apart and over 50 percent of the parts can be recycled. Timberland has attracted an online community for Earthkeepers by offering tips and information about events focused on preserving the environment. Its business accomplishments prove that socially and environmentally responsible companies can be successful. Sales topped \$1.2 billion in 2009, and Timberland has won numerous awards from a steady spot on Fortune's 100 Best Companies to Work For to the Ron Brown Award for Corporate Leadership, the only Presidential Award recognizing companies for outstanding employee and community relations.

Many other brands such as Ben & Jerry's, Odwalla, Patagonia, Stonyfield Farm, Whole Foods, and Seventh Generation have embraced similar philosophies and practices. Successful holistic marketing requires effective relationship marketing, integrated marketing, internal marketing, and performance marketing. Preceding chapters addressed the first two topics and the strategy and tactics of marketing. In this chapter, we consider the latter two topics and how to conduct marketing responsibly. We look at how firms organize, implement, evaluate, and control marketing activities in a context heightened by social responsibility. We begin by examining changes in the way companies conduct marketing today.

Trends in Marketing Practices

Chapters 1 and Chapter 3 described important changes in the marketing macroenvironment, such as globalization, deregulation, market fragmentation, consumer empowerment, and environmental concerns.² With these and all the remarkable developments in computers, software, the Internet, and cell phones, the world has unquestionably become a very different place for marketers. In earlier chapters, we detailed the many shifts in marketing that dominated the first decade of the 21st century.³

 Table 22.1 summarizes some important ones and we briefly review a few next.

TABLE 22.1 Important Shifts in Marketing and Business Practices

• Reengineering. Appointing teams to manage customer-value-building processes and break down walls between departments
• Outsourcing. Buying more goods and services from outside domestic or foreign vendors
• Benchmarking. Studying “best practice companies” to improve performance
• Supplier partnering. Partnering with fewer but better value-adding suppliers
• Customer partnering. Working more closely with customers to add value to their operations
• Merging. Acquiring or merging with firms in the same or complementary industries to gain economies of scale and scope
• Globalizing. Increasing efforts to “think global” and “act local”
• Flattening. Reducing the number of organizational levels to get closer to the customer
• Focusing. Determining the most profitable businesses and customers and focusing on them
• Justifying. Becoming more accountable by measuring, analyzing, and documenting the effects of marketing actions
• Accelerating. Designing the organization and setting up processes to respond more quickly to changes in the environment
• Empowering. Encouraging and empowering personnel to produce more ideas and take more initiative
• Broadening. Factoring the interests of customers, employees, shareholders, and other stakeholders into the activities of the enterprise
• Monitoring. Tracking what is said online and elsewhere and studying customers, competitors, and others to improve business practices

Recently, marketers have had to operate in a slow-growth economic environment characterized by discriminating consumers, aggressive competition, and a turbulent marketplace. An era of conspicuous consumption has come to an end as many consumers cope with reduced incomes and less wealth.⁴ A debt-laden consumer base penalizes companies still promoting a “buy now, pay later” sales philosophy, and consumers and companies alike are increasingly considering the environmental and social consequences of their actions.

As consumers become more disciplined in their spending and adopt a “less is more” attitude, it is incumbent on marketers to create and communicate the true value of their products and services.⁵ Marketing can and should play a key role in improving standards of living and quality of life, especially in tough times. Marketers must continually seek to improve what they do.⁶

Companies can’t win by standing still. Recent business problems and failures by firms such as Blockbuster, Barnes & Noble, and Kodak reflect an inability to adjust to a dramatically different marketing environment. Firms must invest instead in improving their offerings and finding big new ideas. Sometimes, like IBM, Microsoft, and Intel, they may have to fundamentally change their business models. Marketers must collaborate closely and early with product development and R&D, and later with the sales force, to develop and sell products and services that fully satisfy customer needs and wants. They must also work with finance, manufacturing, and logistics to establish a value-creation mind-set in the organization.

Emerging markets such as India and China offer enormous new sources of demand—but often only for certain types of products and at certain price points. Across all markets, marketing plans and programs will grow more localized and culturally sensitive, while strong brands that are well differentiated and continually improved will remain fundamental to marketing success. Businesses will continue to use social media more and traditional media less. The Web allows unprecedented depth and breadth in communications and distribution, and its transparency requires companies to be honest and authentic.

In today’s highly competitive, ever-changing marketing environment, firms such as Blockbuster that do not adapt fast enough may encounter financial setbacks or even failure.



Marketers also face ethical dilemmas and perplexing trade-offs. Consumers may value convenience, but how to justify disposable products or elaborate packaging in a world trying to minimize waste? Increasing material aspirations can defy the need for sustainability. Given increasing consumer sensitivity and government regulation, smart companies are creatively designing with energy efficiency, carbon footprints, toxicity, and disposability in mind. Some are choosing local suppliers over distant ones. Auto companies and airlines must be particularly conscious of releasing CO₂ in the atmosphere.

Toyota Prius

Toyota Prius Some auto experts scoffed when Toyota predicted sales of 300,000 cars within five years of launching its gas-and-electric Prius hybrid sedan in 2001. But by 2004, the Prius had a six-month waiting list. Toyota's winning formula consists of a powerful electric motor and the ability to quickly switch power sources—resulting in 55 miles per gallon for city and highway driving—with the roominess and power of a family sedan and an eco-friendly design and look, for a little over \$20,000. The lesson? Functionally successful products that consumers see as good for the environment can offer enticing options. Toyota is now rolling out hybrids throughout its auto lineup, and U.S. automakers have followed suit.⁷

Now more than ever, marketers must think holistically and use creative win-win solutions to balance conflicting demands. They must develop fully integrated marketing programs and meaningful relationships with a range of constituents.⁸ They must do all the right things inside their company and consider the broader consequences in the marketplace, topics we turn to next.

Internal Marketing

Traditionally, marketers played the role of middleman, charged with understanding customers' needs and transmitting their voice to various functional areas.⁹ But in a networked enterprise, *every* functional area can interact directly with customers. Marketing no longer has sole ownership of customer interactions; rather, it now must integrate all the customer-facing processes so customers see a single face and hear a single voice when they interact with the firm.¹⁰

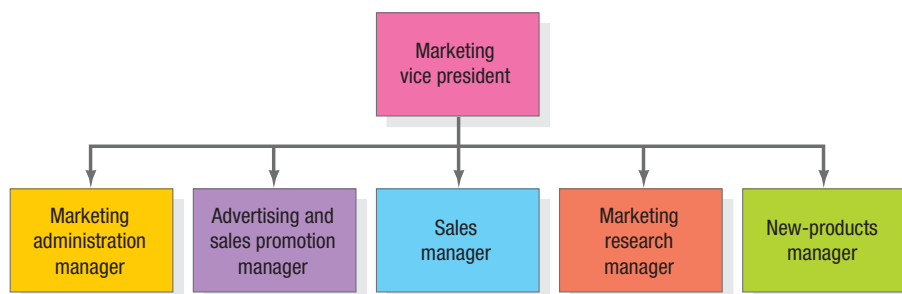
Internal marketing requires that everyone in the organization accept the concepts and goals of marketing and engage in choosing, providing, and communicating customer value. Only when *all* employees realize their job is to create, serve, and satisfy customers does the company become an effective marketer.¹¹ “Marketing Memo: Characteristics of Company Departments That Are Truly Customer Driven” presents a tool that evaluates which company departments are truly customer driven.

Let's look at how marketing departments are being organized, how they can work effectively with other departments, and how firms can foster a creative marketing culture across the organization.¹²

Organizing the Marketing Department

Modern marketing departments can be organized in a number of different, sometimes overlapping ways: functionally, geographically, by product or brand, by market, or in a matrix.

FUNCTIONAL ORGANIZATION In the most common form of marketing organization, functional specialists report to a marketing vice president who coordinates their activities. ▲ Figure 22.1 shows five specialists. Others might include a customer service manager,



[Fig. 22.1] ▲

Functional Organization

marketing Memo

Characteristics of Company Departments That Are Truly Customer Driven

R&D	<input type="checkbox"/> They spend time meeting customers and listening to their problems. <input type="checkbox"/> They welcome the involvement of marketing, manufacturing, and other departments on each new project. <input type="checkbox"/> They benchmark competitors' products and seek "best of class" solutions. <input type="checkbox"/> They solicit customer reactions and suggestions as the project progresses. <input type="checkbox"/> They continuously improve and refine the product on the basis of market feedback.
Purchasing	<input type="checkbox"/> They proactively search for the best suppliers rather than choose only from those who solicit their business. <input type="checkbox"/> They build long-term relationships with fewer but more reliable high-quality suppliers. <input type="checkbox"/> They do not compromise quality for price savings.
Manufacturing	<input type="checkbox"/> They invite customers to visit and tour their plants. <input type="checkbox"/> They visit customer factories to see how customers use the company's products. <input type="checkbox"/> They willingly work overtime when it is important to meet promised delivery schedules. <input type="checkbox"/> They continuously search for ways to produce goods faster and/or at lower costs. <input type="checkbox"/> They continuously improve product quality, aiming for zero defects. <input type="checkbox"/> They meet customer requirements for "customization" where this can be done profitably.
Marketing	<input type="checkbox"/> They study customer needs and wants in well-defined market segments. <input type="checkbox"/> They allocate marketing effort in relationship to the long-run profit potential of the targeted segments. <input type="checkbox"/> They develop winning offerings for each target segment. <input type="checkbox"/> They measure company image and customer satisfaction on a continuous basis. <input type="checkbox"/> They continuously gather and evaluate ideas for new products, product improvements, and services to meet customers' needs. <input type="checkbox"/> They influence all company departments and employees to be customer-centered in their thinking and practice.
Sales	<input type="checkbox"/> They acquire specialized knowledge of the customer's industry. <input type="checkbox"/> They strive to give the customer "the best solution" but make only promises they can keep. <input type="checkbox"/> They feed customers' needs and ideas back to those in charge of product development. <input type="checkbox"/> They serve the same customers for a long period of time.
Logistics	<input type="checkbox"/> They set a high standard for service delivery time and meet it consistently. <input type="checkbox"/> They operate a knowledgeable and friendly customer service department that can answer questions, handle complaints, and resolve problems in a satisfactory and timely manner.
Accounting	<input type="checkbox"/> They prepare periodic profitability reports by product, market segment, sales territory, order size, and individual customers. <input type="checkbox"/> They prepare invoices tailored to customer needs and answer customer queries courteously and quickly.
Finance	<input type="checkbox"/> They understand and support marketing investments (like image advertising) that produce long-term customer preference and loyalty. <input type="checkbox"/> They tailor the financial package to the customers' financial requirements. <input type="checkbox"/> They make quick decisions on customer creditworthiness.
Public Relations	<input type="checkbox"/> They disseminate favorable news about the company and they handle damage control for unfavorable news. <input type="checkbox"/> They act as an internal customer and public advocate for better company policies and practices.
Other Customer-Contact Personnel	<input type="checkbox"/> They are competent, courteous, cheerful, credible, reliable, and responsive.



Some companies employ market specialists who focus on very specific regions of the country, for example, Miami-Dade County in Florida.

a marketing planning manager, a market logistics manager, a direct marketing manager, and a digital marketing manager.

The main advantage of a functional marketing organization is its administrative simplicity. It can be quite a challenge for the department to develop smooth working relationships, however. This form also can result in inadequate planning as the number of products and markets increases and each functional group vies for budget and status. The marketing vice president constantly weighs competing claims and faces a difficult coordination problem.

GEOGRAPHIC ORGANIZATION A company selling in a national market often organizes its sales force (and sometimes marketing) along geographic lines.¹³ The national sales manager may supervise 4 regional sales managers, who each supervise 6 zone managers, who in turn supervise 8 district sales managers, who each supervise 10 salespeople.

Some companies are adding *area market specialists* (regional or local marketing managers) to support sales efforts in high-volume markets. One such market might be Miami-Dade County, Florida, where almost two-thirds of the households are Hispanic.¹⁴ The Miami specialist would know Miami's customer and trade makeup, help marketing managers at headquarters adjust their marketing mix for Miami, and prepare local annual and long-range plans for selling all the company's products there. Some companies must develop different marketing programs in different parts of the country because geography alters their brand development so much.

PRODUCT- OR BRAND-MANAGEMENT ORGANIZATION Companies producing a variety of products and brands often establish a product- (or brand-) management organization. This does not replace the functional organization but serves as another layer of management. A group product manager supervises product category managers, who in turn supervise specific product and brand managers.

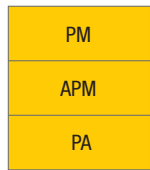
A product-management organization makes sense if the company's products are quite different or there are more than a functional organization can handle. This form is sometimes characterized as a **hub-and-spoke system**. The brand or product manager is figuratively at the center, with spokes leading to various departments representing working relationships (see ▲ Figure 22.2). The manager may:

- Develop a long-range and competitive strategy for the product.
- Prepare an annual marketing plan and sales forecast.
- Work with advertising and merchandising agencies to develop copy, programs, and campaigns.
- Increase support of the product among the sales force and distributors.
- Gather continuous intelligence about the product's performance, customer and dealer attitudes, and new problems and opportunities.
- Initiate product improvements to meet changing market needs.

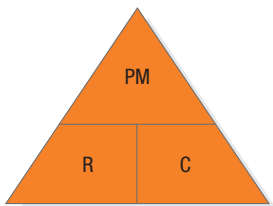
The product-management organization lets the product manager concentrate on developing a cost-effective marketing program and react more quickly to new products in the

|Fig. 22.2| ▲

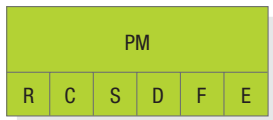
The Product Manager's Interactions



(a) Vertical Product Team



(b) Triangular Product Team



(c) Horizontal Product Team

PM = product manager
 APM = associate product manager
 PA = product assistant
 R = market researcher
 C = communication specialist
 S = sales manager
 D = distribution specialist
 F = finance/accounting specialist
 E = engineer

marketplace; it also gives the company's smaller brands a product advocate. However, it has disadvantages too:

- Product and brand managers may lack authority to carry out their responsibilities.
- They become experts in their product area but rarely achieve functional expertise.
- The system often proves costly. One person is appointed to manage each major product or brand, and soon more are appointed to manage even minor products and brands.
- Brand managers normally manage a brand for only a short time. Short-term involvement leads to short-term planning and fails to build long-term strengths.
- The fragmentation of markets makes it harder to develop a national strategy. Brand managers must please regional and local sales groups, transferring power from marketing to sales.
- Product and brand managers focus the company on building market share rather than customer relationships.

A second alternative in a product-management organization is *product teams*. There are three types: vertical, triangular, and horizontal (see ▲ Figure 22.3). The triangular and horizontal product-team approaches let each major brand be run by a **brand-asset management team (BAMT)** consisting of key representatives from functions that affect the brand's performance. The company consists of several BAMTs that periodically report to a BAMT directors committee, which itself reports to a chief branding officer. This is quite different from the way brands have traditionally been handled.

A third alternative is to eliminate product manager positions for minor products and assign two or more products to each remaining manager. This is feasible where two or more products appeal to a similar set of needs. A cosmetics company doesn't need product managers for each product because cosmetics serve one major need—beauty. A toiletries company needs different managers for headache remedies, toothpaste, soap, and shampoo because these products differ in use and appeal.

In a fourth alternative, *category management*, a company focuses on product categories to manage its brands. Procter & Gamble, a pioneer of the brand-management system, and other top packaged-goods firms have made a major shift to category management, as have firms outside the grocery channel.¹⁵ P&G cites a number of advantages. By fostering internal competition among brand managers, the traditional brand-management system created strong incentives to excel, but also internal competition for resources and a lack of coordination. The new scheme was designed to ensure adequate resources for all categories.

Another rationale is the increasing power of the retail trade, which has thought of profitability in terms of product categories. P&G felt it only made sense to deal along similar lines. Retailers and

|Fig. 22.3| ▲

Three Types of Product Teams

regional grocery chains such as Walmart and Dominick's embrace category management as a means to define a particular product category's strategic role within the store and address logistics, the role of private-label products, and the trade-offs between product variety and inefficient duplication.¹⁶

In fact, in some packaged-goods firms, category management has evolved into aisle management and encompasses multiple related categories typically found in the same sections of supermarkets and grocery stores. General Mills' Yoplait Yogurt has served as category advisor to the dairy aisle for 24 major retailers, boosting the yogurt base footprint four to eight feet at a time and increasing sales of yogurt by 9 percent and category sales in dairy by 13 percent nationwide.¹⁷

MARKET-MANAGEMENT ORGANIZATION Canon sells fax machines to consumer, business, and government markets. Nippon Steel sells to the railroad, construction, and public utility industries. When customers fall into different user groups with distinct buying preferences and practices, a **market-management organization** is desirable. Market managers supervise several market-development managers, market specialists, or industry specialists and draw on functional services as needed. Market managers of important markets might even have functional specialists reporting to them.

Market managers are staff (not line) people, with duties like those of product managers. They develop long-range and annual plans for their markets and are judged by their market's growth and profitability. Because this system organizes marketing activity to meet the needs of distinct customer groups, it shares many advantages and disadvantages of product-management systems. Many companies are reorganizing along market lines and becoming **market-centered organizations**. Xerox converted from geographic selling to selling by industry, as did IBM and Hewlett-Packard.

When a close relationship is advantageous, such as when customers have diverse and complex requirements and buy an integrated bundle of products and services, a **customer-management organization**, which deals with individual customers rather than the mass market or even market segments, should prevail.¹⁸ One study showed that companies organized by customer groups reported much higher accountability for the overall quality of relationships and employees' freedom to take actions to satisfy individual customers.¹⁹

MATRIX-MANAGEMENT ORGANIZATION Companies that produce many products for many markets may adopt a matrix organization employing both product and market managers. The rub is that it's costly and often creates conflicts. There's the cost of supporting all the managers, and questions about where authority and responsibility for marketing activities should reside—at headquarters or in the division?²⁰ Some corporate marketing groups assist top management with overall opportunity evaluation, provide divisions with consulting assistance on request, help divisions that have little or no marketing, and promote the marketing concept throughout the company.

Relationships with Other Departments

Under the marketing concept, all departments need to “think customer” and work together to satisfy customer needs and expectations. Yet departments define company problems and goals from their viewpoint, so conflicts of interest and communications problems are unavoidable. The marketing vice president, or the CMO, must usually work through persuasion rather than through authority to (1) coordinate the company's internal marketing activities and (2) coordinate marketing with finance, operations, and other company functions to serve the customer.²¹ To help marketing and other functions jointly determine what is in the company's best interests, firms can provide joint seminars, joint committees and liaison employees, employee exchange programs, and analytical methods to determine the most profitable course of action.²²

Many companies now focus on key processes rather than departments, because departmental organization can be a barrier to smooth performance. They appoint process leaders, who manage cross-disciplinary teams that include marketing and sales people. Marketers thus may have a solid-line responsibility to their teams and a dotted-line responsibility to the marketing department.



Marketers of General Mills' Yoplait Yogurt used category management to help major retailers gain more profit by reorganizing their yogurt shelves.

Building a Creative Marketing Organization

Many companies realize they're not yet really market and customer driven—they are product and sales driven. Transforming into a true market-driven company requires:

1. Developing a company-wide passion for customers
2. Organizing around customer segments instead of products
3. Understanding customers through qualitative and quantitative research

The task is not easy, but the payoffs can be considerable. It won't happen as a result of the CEO making speeches and urging every employee to "think customer." See "Marketing Insight: The Marketing CEO" for concrete actions a CEO can take to improve marketing capabilities.

Although it's *necessary* to be customer oriented, it's not *enough*. The organization must also be creative.²³ Companies today copy each others' advantages and strategies with increasing speed, making differentiation harder to achieve and lowering margins as firms become more alike. The only answer is to build a capability in strategic innovation and imagination. This capability comes from assembling tools, processes, skills, and measures that let the firm generate more and better new ideas than its competitors.²⁴

Companies must watch trends and be ready to capitalize on them. Motorola was 18 months late in moving from analog to digital cellular phones, giving Nokia and Ericsson a big lead. Nestlé was



The Marketing CEO

What steps can a CEO take to create a market- and customer-focused company?

1. **Convince senior management of the need to become customer focused.** The CEO personally exemplifies strong customer commitment and rewards those in the organization who do likewise. Former CEOs Jack Welch of GE and Lou Gerstner of IBM were said to have each spent 100 days a year visiting customers in spite of their many strategic, financial, and administrative burdens.
2. **Appoint a senior marketing officer and marketing task force.** The marketing task force should include the CEO, the vice presidents of sales, R&D, purchasing, manufacturing, finance, and human resources, and other key individuals.
3. **Get outside help and guidance.** Consulting firms have considerable experience helping companies adopt a marketing orientation.
4. **Change the company's reward measurement and system.** As long as purchasing and manufacturing are rewarded for keeping costs low, they will resist accepting some costs required to serve customers better. As long as finance focuses on short-term profit, it will oppose major investments designed to build satisfied, loyal customers.
5. **Hire strong marketing talent.** The company needs a strong marketing vice president who not only manages the marketing

department but also gains respect from and influence with the other vice presidents. A multidivisional company will benefit from establishing a strong corporate marketing department.

6. **Develop strong in-house marketing training programs.** The company should design well-crafted marketing training programs for corporate management, divisional general managers, marketing and sales personnel, manufacturing personnel, R&D personnel, and others. GE, Motorola, and Accenture run such programs.
7. **Install a modern marketing planning system.** The planning format will require managers to think about the marketing environment, opportunities, competitive trends, and other forces. These managers then prepare strategies and sales-and-profit forecasts for specific products and segments and are accountable for performance.
8. **Establish an annual marketing excellence recognition program.** Business units that believe they've developed exemplary marketing plans should submit a description of their plans and results. Winning teams should be rewarded at a special ceremony and the plans disseminated to the other business units as "models of marketing thinking." Becton, Dickinson and Company; Procter & Gamble; and SABMiller follow this strategy.
9. **Shift from a department focus to a process-outcome focus.** After defining the fundamental business processes that determine its success, the company should appoint process leaders and cross-disciplinary teams to reengineer and implement these processes.
10. **Empower the employees.** Progressive companies encourage and reward their employees for coming up with new ideas and empower them to settle customer complaints to save the customer's business. IBM lets frontline employees spend up to \$5,000 to solve a customer problem on the spot.

late seeing the trend toward coffeehouses such as Starbucks. Coca-Cola was slow to pick up beverage trends toward fruit-flavored drinks such as Snapple, energy drinks such as Gatorade, and designer water brands. Market leaders can miss trends when they are risk averse, obsessed about protecting their existing markets and physical resources, and more interested in efficiency than innovation.²⁵

Socially Responsible Marketing

Effective internal marketing must be matched by a strong sense of ethics, values, and social responsibility.²⁶ A number of forces are driving companies to practice a higher level of corporate social responsibility, such as rising customer expectations, evolving employee goals and ambitions, tighter government legislation and pressure, investor interest in social criteria, media scrutiny, and changing business procurement practices.²⁷

Virtually all firms have decided to take a more active, strategic role in corporate social responsibility, carefully scrutinizing what they believe in and how they should treat their customers, employees, competitors, community, and the environment. Taking this broader stakeholder view is believed to also benefit another important constituency—shareholders. Look at how Walmart is addressing corporate social responsibility.²⁸

Walmart

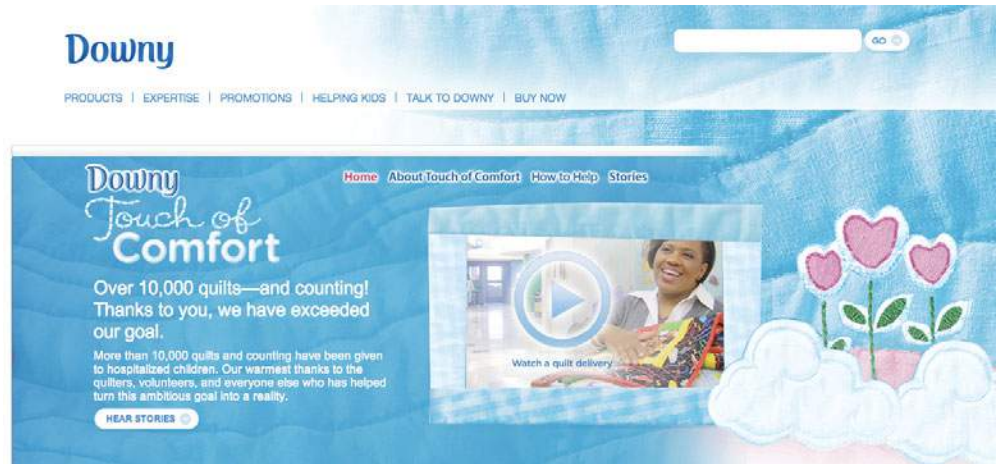
Walmart In 2005, Walmart ex-CEO Lee Scott said, “We thought we could sit in Bentonville [Arkansas], take care of customers, take care of associates—and the world would leave us alone. It doesn’t work that way anymore.” Determined to become more environmentally friendly, Scott vowed that the company would invest \$500 million in sustainability projects, such as doubling the efficiency of its vehicle fleet over the next ten years, eliminating 30 percent of the energy used in stores, and reducing solid waste from U.S. stores by 25 percent in three years. Little decisions can make big differences for the retail giant. By eliminating excess packaging on its Kid Connection private-label toys, the company saved 3,800 trees and 1 million barrels of oil, along with an estimated \$2.4 million a year in shipping costs. It redirected more than 57 percent of the waste generated by stores and Sam’s Club facilities to recycling centers instead of landfills, and it enlisted long-time environmentalist and Patagonia founder Yvon Chouinard to provide insight and advice. Major environmental groups have been pleased, but Walmart still faces criticism from union leaders and liberal activists about its wage rates, employee health care, gender discrimination, and treatment of local competition. The company has responded by citing progress in each area, such as the fact that it created approximately 63,000 jobs around the world in 2008, including more than 33,000 in the United States. ■

Businesses have not always believed in the value of social responsibility. In 1776, Adam Smith proclaimed, “I have never known much good done by those who profess to trade for the public good.” Legendary economist Milton Friedman famously declared social initiatives “fundamentally subversive” because he felt they undermined the profit-seeking purpose of public companies and wasted shareholders’ money. Some critics worry that important business investment in areas such as R&D could suffer as a result of a focus on social responsibility.²⁹

But these critics are in a tiny minority. Many now believe that satisfying customers, employees, and other stakeholders and achieving business success are closely tied to the adoption and implementation of high standards of business and marketing conduct. A further benefit of being seen as socially responsible is the ability to attract employees, especially younger people who want to work for companies they feel good about.

The most admired—and most successful—companies in the world abide by a code of serving people’s interests, not only their own. Procter & Gamble’s new CEO Bob McDonald has made “brand purpose” a key component of the company’s marketing strategies, noting: “Consumers have a higher expectation of brands and want to know what they are doing for the world. But it has to be authentic with a genuine desire to do it.” Downy fabric softener’s “Touch of Comfort” cause program, for example, donates 5 cents from purchases to Quilts for Kids, an organization that works with volunteer quilters to make and distribute custom-sewn quilts to children in hospitals.³⁰ P&G is not alone, as the following demonstrates.

Downy fabric softener’s “Touch of Comfort” cause marketing program donated thousand of blankets to hospitalized children.



Firms of Endearment

Firms of Endearment Researchers Raj Sisodia, David Wolfe, and Jag Sheth believe humanistic companies make great companies. They see “Firms of Endearment” as those with a culture of caring that serve the interests of their stakeholders, defined by the acronym SPICE: Society, Partners, Investors, Customers, and Employees. Sisodia et al. believe Firms of Endearment create a love affair with stakeholders. Their senior managers run an open-door policy, are passionate about customers, and earn modest compensation. They pay more to their employees, relate more closely to a smaller group of excellent suppliers, and give back to the communities in which they work. The researchers assert that Firms of Endearment actually spend less on marketing as a percentage of sales yet earn greater profits, because customers who love the company do most of the marketing. The authors see the 21st-century marketing paradigm as creating value for all stakeholders and becoming a beloved firm. Table 22.2 lists firms receiving top marks as Firms of Endearment from a sample of thousands of customers, employees, and suppliers.³¹

Corporate Social Responsibility

Raising the level of socially responsible marketing calls for making a three-pronged attack that relies on proper legal, ethical, and social responsibility behavior. One company that puts social responsible marketing squarely at the center of all it does is Stonyfield Farm.³²

Stonyfield Farm

Stonyfield Farm As Chapter 1 described, social responsibility is at the foundation of Stonyfield Farm. The company was cofounded in 1983 by long-time “CE-Yo” Gary Hirshberg on the belief that there was a business opportunity in selling organic dairy products while “restoring the environment.” The global market leader in organic yogurt, Stonyfield works

TABLE 22.2 Top Firms of Endearment

Best Buy	BMW	CarMax	Caterpillar
Commerce Bank	Container Store	Costco	eBay
Google	Harley-Davidson	Honda	IDEO
IKEA	JetBlue	Johnson & Johnson	Jordan’s Furniture
L.L.Bean	New Balance	Patagonia	Progressive Insurance
REI	Southwest	Starbucks	Timberland
Toyota	Trader Joe’s	UPS	Wegmans
Whole Foods			

Source: Raj Sisodia, David B. Wolfe, and Jag Sheth, *Firms of Endearment: How World-Class Companies Profit from Passion and Purpose* (Upper Saddle River, NJ: Wharton School Publishing, 2007), p. 16, © 2007. Printed and electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, New Jersey.

with socially responsible suppliers, adopts environmentally friendly manufacturing practices, and uses packaging to promote its views on environmental and health issues. Stonyfield donates 10 percent of profits “to efforts that help protect and restore the Earth” and has launched a nonprofit foundation called “Climate Counts.” Progressive business practices have not hurt its financial performance. Stonyfield is the number three yogurt brand in the United States, and it now also sells smoothies, milk, frozen yogurt, and ice cream. ■

LEGAL BEHAVIOR Organizations must ensure every employee knows and observes relevant laws.³³ For example, it’s illegal for salespeople to lie to consumers or mislead them about the advantages of buying a product. Salespeople may not offer bribes to purchasing agents or others influencing a B2B sale. Their statements must match advertising claims, and they may not obtain or use competitors’ technical or trade secrets through bribery or industrial espionage. Finally, they must not disparage competitors or their products by suggesting things that are not true. Managers must make sure every sales representative knows the law and acts accordingly.

ETHICAL BEHAVIOR Business practices come under attack because business situations routinely pose ethical dilemmas: It’s not easy to draw a clear line between normal marketing practice and unethical behavior. Some issues sharply divide critics. Though Kraft chose to stop advertising some of its less healthy products such as Oreos and Chips Ahoy! on television programs targeted to children ages 6 to 11, some watch groups felt that was not enough.³⁴

Of course certain business practices are clearly unethical or illegal. These include bribery, theft of trade secrets, false and deceptive advertising, exclusive dealing and tying agreements, quality or safety defects, false warranties, inaccurate labeling, price-fixing or undue discrimination, and barriers to entry and predatory competition.

Companies must adopt and disseminate a written code of ethics, build a company tradition of ethical behavior, and hold their people fully responsible for observing ethical and legal guidelines.³⁵ In the past, a disgruntled customer might bad-mouth an unethical or poorly performing firm to 12 other people; today, via the Internet, he or she can reach thousands. Microsoft, for example, has attracted scores of anti-Microsoft sites, including www.msboycott.com and www.ihatemicrosoft.com. The general distrust of companies among U.S. consumers is evident in research showing the percentage who view corporations unfavorably has reached 26 percent.³⁶

SOCIAL RESPONSIBILITY BEHAVIOR Individual marketers must exercise their social conscience in specific dealings with customers and stakeholders. Some top-rated companies for corporate social responsibility are Microsoft, Johnson & Johnson, 3M, Google, Coca-Cola, General Mills, UPS, Sony, and Procter & Gamble.³⁷

Increasingly, people want information about a company’s record on social and environmental responsibility to help them decide which companies to buy from, invest in, and work for.³⁸ H. J. Heinz received awards for its 108-page 2009 Corporate Social Responsibility report, which reflects the company’s commitment to “achieving sustainable growth that benefits our shareholders, consumers, customers, employees and communities, guided by the principles of integrity, transparency and social responsibility.” ■ Table 22.3 contains the opening words of that report.

Communicating corporate social responsibility can be a challenge. Once a firm touts an environmental initiative, it can become a target for criticism. Many well-intentioned product or marketing initiatives can have unforeseen or unavoidable negative consequences.³⁹



Nestlé Palm oil was hailed as a renewable fuel for food companies looking to find a solution to a trans-fat ban, until its use was linked to the destruction of tropical rain forests and the extinction of the orangutan and the sun bear. When Greenpeace released a report criticizing Nestlé for purchasing palm oil for its KitKat candy bars from an Indonesian firm linked to rain forest destruction there, a social media war ensued. Protestors posted a negative video on YouTube, bombarded Twitter and Nestlé’s Facebook page, and took to the

TABLE 22.3 Excerpt from the H. J. Heinz 2009 Corporate Social Responsibility Report**Message from Chairman, President and CEO****Making a Difference for People and the Planet**

The H. J. Heinz Company has been a good corporate citizen for 140 years. Throughout the Company's history, it has made a positive social and economic impact in the community and pursuing sustainable business practices. . . .

In Fiscal Years 2008 and 2009, Heinz delivered record sales, higher earnings per share and dividend growth for our shareholders while staying true to the principles that have guided our Company since 1869—Quality, Integrity, Innovation and Food Safety.

At the same time, we expanded our strong commitment to environmental responsibility by launching a global initiative across six continents that aims to achieve a 20% reduction in our greenhouse gas emissions, water and energy consumption, and solid waste by 2015.

Our Company has been working to achieve transparency and sustainability ever since Henry John Heinz started selling horseradish, his first product, in clear glass bottles so consumers could see its wholesome purity. . . .

Heinz has a strong and independent Board of Directors and a Global Code of Conduct, Global Operating Principles and Supplier Guiding Principles that set high ethical standards for our employees and suppliers.

Most importantly, Heinz is a global company that values people, their dignity and their rights, in the workplace and in the community. We empower our diverse workforce of approximately 33,000 men and women to make a sustainable difference on the job and in their communities and we foster a workplace culture where competitive wages, safety, fairness and respect are the pillars of our success.

Finally, as one of the world's premier food companies, Heinz is dedicated to enhancing the health and wellness of men, women and children around the world. . . .

The Heinz Micronutrient Campaign is combating the global problem of iron-deficiency anemia and malnutrition among infants and children. The campaign has provided nutritional supplements to almost three million children in 15 developing nations and it is expanding to other countries to help many more children in the years to come.

Our Company has invested millions in the Heinz Micronutrient Campaign to ensure a sustainable future for people and our planet.

I invite you to learn more about Heinz, our performance and our progress by visiting the Social, Environment and Economic sections of this interactive Web-based report, where you will find comprehensive facts and data, videos and photos, and links to other informative Heinz documents.

Thank you for your interest in Heinz.

Sincerely,

William R. Johnson
Chairman, President and Chief Executive Officer

Source: Excerpt from the H. J. Heinz 2009 Corporate Social Responsibility Report.



In Indonesia, Greenpeace activists' dramatic protests drew attention to the environmental effects of Nestlé's manufacturing of products such as KitKat candy bars.

streets outside Nestlé's Jakarta offices. Nestlé cut ties with the firm and took other steps to address the controversy but continued to receive criticism. ■

Often, the more committed a company is to sustainability and environmental protection, the more dilemmas that can arise. Vermont-based Green Mountain Coffee Roasters prides itself on sustainability efforts that have, in part, helped the firm become one of the fastest-selling coffee brands around. Then its 2006 purchase of Kuerig and its popular single-cup brewing system posed a quandary: The K-Cups used with the Kuerig brewing system were made of totally nonrecyclable plastic and foil. Given its environmental heritage and beliefs, Green Mountain Coffee saw only one course of action, and it has been engaged in extensive R&D to find a more environmentally sound solution.⁴⁰

Corporate philanthropy also can pose dilemmas. Merck, DuPont, Walmart, and Bank of America have each donated \$100 million or more to charities in a year. Yet good deeds can be overlooked—even resented—if the company is seen as exploitive or fails to live up to a “good guys” image. Philip Morris Company's \$250 million ad campaign touting its charitable activities

was met with skepticism because of its negative image as a tobacco company. Some critics worry that cause marketing or “consumption philanthropy” may replace virtuous actions with less-thoughtful buying, reduce emphasis on real solutions, or deflect attention from the fact that markets may create many social problems to begin with.⁴¹

SUSTAINABILITY *Sustainability*—the ability to meet humanity’s needs without harming future generations—now tops many corporate agendas. Major corporations outline in great detail how they are trying to improve the long-term impact of their actions on communities and the environment. As one sustainability consultant put it, “There is a triple bottom line—people, planet, and profit—and the people part of the equation must come first. Sustainability means more than being eco-friendly, it also means you are in it for the long haul.”⁴²

Sustainability ratings exist, but there is no consistent agreement about what metrics are appropriate.⁴³ One comprehensive study used 11 factors to evaluate and assemble a list of the Top 100 Sustainable Corporations in the World: energy, water, CO₂, and waste productivity; leadership diversity; CEO-to-average-worker pay; taxes paid; sustainability leadership; sustainability pay link; innovation capacity; and transparency. The top 5 firms were GE, PG&E, TNT, H&M, and Nokia.⁴⁴

Some feel companies that score well on sustainability typically exhibit high-quality management in that “they tend to be more strategically nimble and better equipped to compete in the complex, high-velocity, global environment.”⁴⁵ Consumer interest is also creating market opportunities. Clorox’s line of naturally derived Green Works laundry and home cleaners—aided by restrained price premiums and a Sierra Club endorsement—has experienced early success.⁴⁶ Another good example is organic products (see “Marketing Insight: The Rise of Organic”).

Heightened interest in sustainability has also unfortunately resulted in *greenwashing*, which gives products the appearance of being environmentally friendly without living up to that promise. One study revealed that half the labels on allegedly green products focus on an eco-friendly benefit (such as recycled content) while omitting information about significant environmental drawbacks (such as manufacturing intensity or transportation costs).⁴⁷

Because of insincere firms jumping on the green bandwagon, consumers bring a healthy skepticism to environmental claims, but they are also unwilling to sacrifice product performance and quality.⁴⁸ Many firms are rising to the challenge and are using the need for sustainability to fuel



The Rise of Organic

Organic products have become a strong presence in many food and beverage categories. Caster & Pollux’s success with organic and natural pet foods led to its distribution in major specialty retail chains such as Petco. All-organic Honest Tea grew 50 percent a year after its founding in 1998; the firm sold 40 percent of the business to Coca-Cola in 2008.

Organic and natural are at the core of some brands’ positioning. Chipotle Mexican Grill’s mission statement, “Food with Integrity,” reflects its focus on good food with a socially responsible message. One

of the first fast-casual restaurant chains, Chipotle uses natural and organic ingredients and serves more naturally raised meat than any other restaurant. Making each burrito by hand takes time, but the quality of the food and the message behind it are a satisfying payoff for many customers.

Many companies beyond the food industry are embracing organic offerings that avoid chemicals and pesticides to stress ecological preservation. Apparel and other nonfood items make up the second-fastest growth category of the \$3.5 billion organic product industry. Organic non-food grew 9.1 percent in 2009 to \$1.8 billion—now 7 percent of the \$26.6 billion organic products industry. Organic cotton grown by farmers who fight boll weevils with ladybugs, weed crops by hand, and use manure for fertilizer has become a hot product at retail.

Sources: “Industry Statistics and Projected Growth,” Organic Trade Association, June 2010; Jessica Shambora, “The Honest Tea Guys Look Back,” *Fortune*, July 26, 2010; Arianne Cohen, “Ode to a Burrito,” *Fast Company*, April 2008, pp. 54–56; Kenneth Hein, “The World on a Platter,” *Brandweek*, April 23, 2007, pp. 27–28; Megan Johnston, “Hard Sell for a Soft Fabric,” *Forbes*, October 30, 2006, pp. 73–80.

innovation. Sales of products emphasizing sustainability remained strong through the recent economic recession.⁴⁹

Socially Responsible Business Models

The future holds a wealth of opportunities, yet forces in the socioeconomic, cultural, and natural environments will impose new limits on marketing and business practices. Companies that innovate solutions and values in a socially responsible way are most likely to succeed.⁵⁰

Companies such as The Body Shop, Working Assets, and Smith & Hawken are giving social responsibility a more prominent role. Late actor Paul Newman's homemade salad dressing has grown to a huge business. Newman's Own brand also includes pasta sauce, salsa, popcorn, and lemonade sold in 15 countries. The company has given away all its profits and royalties after tax—almost \$300 million so far—to educational and charitable programs such as the Hole in the Wall Gang camps Newman created for children with serious illnesses.⁵¹

Corporate philanthropy as a whole is on the rise: After years of steady growth, with \$14.1 billion in cash and in-kind support given in 2009, it held fairly steady even during a recession.⁵² In addition to these contributions, more firms are coming to believe corporate social responsibility in the form of cause marketing and employee volunteerism programs are not just the “right thing” but also the “smart thing to do.”⁵³

Cause-Related Marketing

Many firms blend corporate social responsibility initiatives with marketing activities.⁵⁴ **Cause-related marketing** links the firm's contributions to a designated cause to customers' engaging directly or indirectly in revenue-producing transactions with the firm.⁵⁵ Cause marketing is part of *corporate societal marketing (CSM)*, which Minette Drumwright and Patrick Murphy define as marketing efforts “that have at least one noneconomic objective related to social welfare and use the resources of the company and/or of its partners.”⁵⁶ Drumwright and Murphy also include traditional and strategic philanthropy and volunteerism in CSM.

Table 22.4 summarizes three award-winning and highly successful cause marketing programs. We next review pros and cons of such programs and some important guidelines.

TABLE 22.4 Three Classic Cause Marketing Programs

Tesco

Tesco, a leading UK retailer, has created a “Tesco for Schools and Clubs” program that dovetails well with its overall corporate brand positioning of “Every Little Bit Helps.” Customers receive one voucher for every £10 spent, which they can donate to a school of their choice or any registered amateur club for children under 18. In 2009, the company gave away 540,000 items worth £13.4 million. It also offers vouchers for recycled inkjet cartridges and donated working phones.

Dawn

Procter & Gamble's Dawn, the top dishwashing liquid in the United States, has long highlighted its unusual side benefit—it can clean birds caught in oil spills. A report by the U.S. Fish and Wildlife Service called Dawn “the only bird-cleaning agent that is recommended because it removes oil from feathers; is non-toxic; and does not leave a residue.” A Web site launched in 2006, www.DawnSavesWildlife.com, drew 130,000 people who formed virtual groups to encourage friends and others to stop gas and oil leaks from their cars. After the catastrophic BP oil spill in 2010, P&G donated thousands of bottles as well as placing a code on bottles and donating \$1 to Gulf wildlife causes for each code customers activated, eventually totaling \$500,000. The brand also drew massive publicity and visits to its Facebook site, which outlined the environmental cleanup and relief effort.

British Airways

British Airways developed a cause-marketing campaign called “Change for Good” to encourage its passengers to help by donating the foreign currency left over from their travels to UNICEF. The airline advertised its program during an in-flight video, on the backs of seat cards, and with in-flight announcements. It also developed a television ad that featured a child thanking British Airways for its contribution to UNICEF. Because Change for Good directly targeted passengers, it did not require extensive advertising or promotion and was highly cost-efficient. It produced immediate results, and over a 15-year period from 1994 to 2009, it distributed almost \$45 million around the world.

CAUSE-MARKETING BENEFITS AND COSTS A successful cause-marketing program can improve social welfare, create differentiated brand positioning, build strong consumer bonds, enhance the company’s public image, create a reservoir of goodwill, boost internal morale and galvanize employees, drive sales, and increase the firm’s market value.⁵⁷ Consumers may develop a strong, unique bond with the firm that transcends normal marketplace transactions.

Specifically, from a branding point of view, cause marketing can (1) build brand awareness, (2) enhance brand image, (3) establish brand credibility, (4) evoke brand feelings, (5) create a sense of brand community, and (6) elicit brand engagement.⁵⁸ It has a particularly interested audience in civic-minded 18- to 24-year-old Millennial consumers (see Table 22.5).

Cause-related marketing could backfire, however, if consumers question the link between the product and the cause or see the firm as self-serving and exploitive.⁵⁹ Problems can also arise if consumers do not think a company is consistent and sufficiently responsible in all its behavior, as happened to KFC.⁶⁰



The double meaning in British Airways “Change for Good” cause marketing program cleverly highlighted how the program worked and the benefits it created.

KFC

KFC KFC’s “Buckets for the Cure” program was to donate 50 cents for every \$5 “pink” bucket of fried chicken purchased over a one-month period to the famed Susan G. Komen for the Cure Foundation. It was slotted to be the single biggest corporate donation ever to fund breast cancer research—over \$8.5 million. One problem: At virtually the same time, KFC also launched its Double Down sandwich with two pieces of fried chicken, bacon, and cheese. Critics immediately pointed out that KFC was selling a food item with excessively high calories, fat, and sodium that contributed to obesity, a significant risk factor for breast cancer. On the Susan G. Komen site itself, being overweight was flagged for increasing the risk of breast cancer by 30 percent to 60 percent in postmenopausal women, also leaving the foundation open to criticism over the partnership.

To avoid backlash, some firms take a soft-sell approach to their cause efforts. Nike’s alliance with the Lance Armstrong Foundation for cancer research sold over 80 million yellow LIVESTRONG bracelets for \$1 from 2004 to 2010, but intentionally the famed Nike swoosh was nowhere to be seen.⁶¹ One interesting recent cause program is the PRODUCT(RED) campaign.⁶²

TABLE 22.5 Millennial Data Points: 18- to 24-Year-Olds’ Attitudes about Causes	
85%	are likely to switch from one brand to another brand that is about the same in price and quality, if the other brand is associated with a good cause.
86%	consider a company’s social or environmental commitments when deciding which products and services to recommend to others.
84%	consider a company’s social or environmental commitments when deciding what to buy or where to shop.
87%	consider a company’s social or environmental commitments when deciding where to work.
86%	say when a product or company supports a cause (a social or environmental issue) they care about, they have a more positive image of that product or company.

Source: 2010 Cone Cause Evolution Study; for additional content, see www.coneinc.com/2010-cone-cause-evolution-study.



Nike deliberately downplays its role in cause marketing programs, such as Lance Armstrong Foundation's LIVESTRONG bracelets.

(RED)

PRODUCT(RED) The highly publicized launch of PRODUCT (RED) in 2006, championed by U2 singer and activist Bono and Bobby Shriver, chairman of DATA, raised awareness and money for The Global Fund by teaming with some of the world's most iconic branded products—American Express cards, Motorola phones, Converse sneakers, Gap T-shirts, Apple iPods, and Emporio Armani sunglasses—to produce (RED)-branded products. Up to 50 percent of the profits from sales of these products go to The Global Fund to help women and children affected by HIV/AIDS in Africa. Each company that becomes PRODUCT(RED) places its logo in the “embrace” signified by the parentheses and is “elevated to the power of red.” Although some critics felt the PRODUCT(RED) project was overmarketed, in its first 18 months its contribution to The Global Fund surpassed \$36 million, more than seven times what businesses had contributed since the fund's founding in 2002. Many well-known brands have joined the cause since then, such as Dell computers, Hallmark cards, and Starbucks coffee. ■

The knowledge, skills, and resources of a top firm may be even more important to a nonprofit or community group than funding. Nonprofits must be clear about what their goals are, communicate clearly what they hope to accomplish, and devise an organizational structure to work with different firms. Developing a long-term relationship with a firm can take time. As one consultant noted, “What's often a problem between corporations and nonprofits is different expectations and different understanding about the amount of time everything will take.”⁶³

Firms must make a number of decisions in designing and implementing a cause-marketing program, such as how many and which cause(s) to choose and how to brand the cause program.

DESIGNING A CAUSE PROGRAM Some experts believe the positive impact of cause-related marketing is reduced by sporadic involvement with numerous causes. Cathy Chizauskas, Gillette's director of civic affairs, states: “When you're spreading out your giving in fifty-dollar to one-thousand-dollar increments, no one knows what you are doing. . . . It doesn't make much of a splash.”⁶⁴

Many companies focus on one or a few main causes to simplify execution and maximize impact. McDonald's Ronald McDonald Houses in 30-plus countries offer more than 7,200 rooms each night to families needing support while their child is in the hospital, saving them a total of \$257 million annually in hotel costs. The program has provided a “home away from home” for nearly 10 million family members since 1974.⁶⁵

Limiting support to a single cause, however, may limit the pool of consumers or other stakeholders who can transfer positive feelings from the cause to the firm. Many popular causes also already have numerous corporate sponsors. Over 300 companies, including Avon, Ford, Estée Lauder, Revlon, Lee Jeans, Polo Ralph Lauren, Yoplait, Saks, BMW, and American Express, have associated themselves with breast cancer as a cause.⁶⁶ Thus a brand may find itself overlooked in a sea of symbolic pink ribbons.

Opportunities may be greater with “orphan causes”—diseases that afflict fewer than 200,000 people.⁶⁷ Another option is overlooked diseases; pancreatic cancer is the fourth-deadliest form of cancer behind skin, lung, and breast yet has received little or no corporate support. Even major killers such as prostate cancer for men and heart disease for women have been relatively neglected compared to breast cancer, but some firms have begun to fill the void. Gillette and Grolsch beer have joined longtime supporters Safeway and Major League Baseball in the fight against prostate cancer. The American Heart Association launched a “Go Red for Women” program with a red dress symbol to heighten awareness and attract interest from corporations and others to a disease that kills roughly 12 times more women than breast cancer each year.⁶⁸

Most firms choose causes that fit their corporate or brand image and matter to their employees and shareholders. LensCrafters' Give the Gift of Sight program—now rebranded as OneSight after the company was purchased by the Italian firm Luxottica—is a family of charitable vision-care programs providing free vision screenings, eye exams, and glasses to more than 6 million needy people

marketing Memo

Making a Difference: Top 10 Tips for Cause Branding

Cone, a Boston-based strategic communications agency specializing in cause branding and corporate responsibility, offers these tips for developing authentic and substantive programs:

1. *Select a focus area that aligns with your mission, goals and organization.*
2. *Evaluate your institutional “will” and resources.* If you, your employees and other allies don’t believe or invest in your organization’s cause, neither will your audience.
3. *Analyze your competitors’ cause positioning.* There are few remaining wide, open spaces, but this may help you locate a legitimate societal need or an untapped element within a more crowded space that you can own.
4. *Choose your partners carefully.* Look for alignment in values, mission and will. Carefully outline roles and responsibilities. Set your sights on a multi-year sustainable relationship, with annual measurement of accomplishments for both partners.
5. *Don’t underestimate the name of your program—it’s key to the identity of your campaign.* Develop a few words that say exactly what you do and create a visual identity that is simple, yet memorable. The Avon Breast Cancer Crusade, American Heart Association’s Go Red for Women and Target Take Charge of Education are good examples.
6. *To create a sustainable and effective program, start by developing a cross-functional strategy team.* Include representatives from the office of the CEO, public affairs, human resources, marketing, public and community relations, research/measurement, volunteer and program management, among others. If you’re in silos, you will spend too much valuable time building bridges to other departments to get the real work done.
7. *Leverage both your assets and those of your partner(s) to bring the program to life.* Assets may include volunteers, cash and in-kind donations, special events, in store presence, partner resources and marketing/advertising support. And remember, emotion is one of your greatest assets. It can help you to connect with your audience and differentiate your organization in a crowded marketplace.
8. *Communicate through every possible channel.* Craft compelling words and visuals because stirring images can penetrate the heart. Then, take your messages beyond traditional media outlets and become multi-dimensional! Think special events, Web sites, workshops, PSAs, expert spokespersons and even celebrity endorsements.
9. *Go local.* National programs reach the “grass tops,” but true transformation begins at the grassroots. Engage citizens/volunteers through hands-on activities at local events, cause promotions and fundraisers.
10. *Innovate.* True cause leaders constantly evolve their programs to add energy, new engagement opportunities and content to remain relevant and to build sustainability.

Sources: Cone, “Top 10 Tips for Cause Branding,” www.coneinc.com/10-tips-cause-branding; See also, Carol L. Cone, Mark A. Feldman, and Alison T. DaSilva, “Cause and Effects,” *Harvard Business Review* (July 2003): 95–101.

in North America and developing countries around the world. All stores are empowered to deliver free glasses in their communities, and two traveling Vision Vans target children in North America and make monthly two-week optical missions overseas. Luxottica pays most of the overhead, so 92 percent of all donations go directly to fund programming.⁶⁹

Another good cause fit is Barnum’s Animal Crackers, which launched a campaign to raise awareness of endangered species and help protect the Asian tiger. “Marketing Memo: Making a Difference” provides some tips from a top cause-marketing firm. Here is an example of a new firm using cause marketing to successfully build a new business.⁷⁰



TOMS Shoes Although Blake Mycoskie did not win the around-the-world reality show *Amazing Race* as a contestant, his return trip to Argentina in 2006 sparked a desire to start a business to help the scores of kids he saw who suffered for one simple reason—they lacked shoes. Shoeless children incur a health risk but are also disadvantaged in that they often are not permitted to go to school. Thus was born TOMS shoes, its name chosen to convey “a better tomorrow,” with a pledge to donate a pair of shoes to needy children for each pair of shoes sold. Picked up by stores like Whole Foods, Nordstrom, and Neiman Marcus and also sold online, TOMS shoes are based on the classic *alpargata* footwear of Argentina. As a result of the company’s One for One program, the lightweight shoes can also be found on the feet of more than 1 million kids in developing countries such as Argentina and Ethiopia. Using money that would have been used to fund promotional efforts to instead pay for donated shoes has been good marketing too: The firm has garnered heaps of



These two Argentinean children are wearing shoes donated by TOMS as the result of customer purchases of two pairs of its classic *alpargata* footwear.

publicity—AT&T even featured Mycoskie in a commercial—and sales revenue for the first five years of the firm's existence has been estimated at \$50 million. ■

Social Marketing

Cause-related marketing supports a cause. **Social marketing** by non-profit or government organizations *further*s a cause, such as “say no to drugs” or “exercise more and eat better.”⁷¹

Social marketing goes back many years. In the 1950s, India started family planning campaigns. In the 1970s, Sweden introduced social marketing campaigns to turn itself into a nation of nonsmokers and nondrinkers, the Australian government ran “Wear Your Seat Belt” campaigns, and the Canadian government launched campaigns to “Say No to Drugs,” “Stop Smoking,” and “Exercise for Health.” In the 1980s, the World Bank, World Health Organization, and Centers for Disease Control and Prevention started to use the term *social marketing* and promote interest in it. Some notable global social marketing successes are:

- Oral rehydration therapy in Honduras significantly decreased deaths from diarrhea in children under five.
- Social marketers created booths in marketplaces where Ugandan midwives sold contraceptives at affordable prices.
- Population Communication Services created and promoted two extremely popular songs in Latin America, “Stop” and “When We Are Together,” to help young women “say no.”
- The National Heart, Lung, and Blood Institute successfully raised awareness about cholesterol and high blood pressure, which helped significantly reduce deaths.

Different types of organizations conduct social marketing in the United States. Government agencies include the Centers for Disease Control and Prevention, Departments of Health, Social, and Human Services, Department of Transportation, and the U.S. Environmental Protection Agency. The literally hundreds of nonprofit organizations that conduct social marketing include the American Red Cross, the United Way, and the American Cancer Society.

Choosing the right goal or objective for a social marketing program is critical. Should a family-planning campaign focus on abstinence or birth control? Should a campaign to fight air pollution focus on ride-sharing or mass transit? Social marketing campaigns may try to change people's cognitions, values, actions, or behaviors. The following examples illustrate the range of possible objectives.

Cognitive campaigns

- Explain the nutritional values of different foods.
- Demonstrate the importance of conservation.

Action campaigns

- Attract people for mass immunization.
- Motivate people to vote “yes” on a certain issue.
- Inspire people to donate blood.
- Motivate women to take a pap test.

Behavioral campaigns

- Demotivate cigarette smoking.
- Demotivate use of hard drugs.
- Demotivate excessive alcohol consumption.

Value campaigns

- Alter ideas about abortion.
- Change attitudes of bigoted people.

TABLE 22.6 The Social Marketing Planning Process**Where Are We?**

- Determine program focus.
- Identify campaign purpose.
- Conduct an analysis of strengths, weaknesses, opportunities, and threats (SWOT).
- Review past and similar efforts.

Where Do We Want to Go?

- Select target audiences.
- Set objectives and goals.
- Analyze target audiences and the competition.

How Will We Get There?

- Product: Design the market offering.
- Price: Manage costs of behavior change.
- Distribution: Make the product available.
- Communications: Create messages and choose media.

How Will We Stay on Course?

- Develop a plan for evaluation and monitoring.
- Establish budgets and find funding sources.
- Complete an implementation plan.

While social marketing uses a number of different tactics to achieve its goals, the planning process follows many of the same steps as for traditional products and services (see Table 22.6).⁷² Some key success factors for changing behavior include:⁷³

- Choose target markets that are most ready to respond.
- Promote a single, doable behavior in clear, simple terms.
- Explain the benefits in compelling terms.
- Make it easy to adopt the behavior.
- Develop attention-grabbing messages and media.
- Consider an education-entertainment approach.

One organization that has accomplished most of these goals through the application of modern marketing practices is the World Wildlife Foundation.



World Wildlife Foundation

The World Wildlife Foundation (WWF) consists of 30 independent World Wildlife organizations around the globe that once operated separately. Its early achievements include helping to form the Forest Stewardship Council in 1993 and cofounding the Marine Stewardship Council with Unilever in 1996. In the United States, its annual budget does not allow for lavish marketing expenditures, so the WWF relies primarily on extensive, creative direct marketing campaigns to bring its message to the public and solicit contributions. One recent mailing offered recipients a chance to win one of several trips, including an African safari and an Alaskan cruise, in a sweepstakes. WWF has an award-winning Web site, and it also earns revenue through different types of corporate partnerships with top firms such as Goldman Sachs, Tiffany's, IKEA, Nike, Johnson & Johnson, Cargill, Dole, adidas, Walmart, IBM, and Tyco. Since 1985, the WWF Network has invested over \$1.165 billion in more than 11,000 projects in 130 countries.



The World Wildlife Fund uses modern marketing communications and programs to actively support its cause.

Social marketing programs are complex; they take time and may require phased programs or actions. You may recall the many steps in discouraging smoking: release of cancer reports, labeling of cigarettes as harmful, bans on cigarette advertising, education about secondary smoke effects, bans on smoking in restaurants and planes, increased taxes on cigarettes to pay for antismoking campaigns, and states' suits against tobacco companies.

Social marketing organizations should evaluate program success in terms of their objectives. Criteria might include incidence of adoption, speed of adoption, continuance of adoption, low cost per unit of adoption, and absence of counterproductive consequences.

Marketing Implementation and Control

Table 22.7 summarizes the characteristics of a great marketing company, great not for what it is but for what it does. Great marketing companies know the best marketers thoughtfully and creatively devise marketing plans and then bring them to life. Marketing implementation and control are critical to making sure marketing plans have their intended results year after year.

Marketing Implementation

Marketing implementation is the process that turns marketing plans into action assignments and ensures they accomplish the plan's stated objectives.⁷⁴ A brilliant strategic marketing plan counts for little if not implemented properly. Strategy addresses the *what* and *why* of marketing activities; implementation addresses the *who*, *where*, *when*, and *how*. They are closely related: One layer of strategy implies certain tactical implementation assignments at a lower level. For example, top management's strategic decision to "harvest" a product must be translated into specific actions and assignments.

Companies today are striving to make their marketing operations more efficient and their return on marketing investment more measurable (see Chapter 4). Marketing costs can amount to as much as a quarter of a company's total operating budget. Marketers need better templates for marketing processes, better management of marketing assets, and better allocation of marketing resources.

Marketing resource management (MRM) software provides a set of Web-based applications that automate and integrate project management, campaign management, budget management, asset management, brand management, customer relationship management, and knowledge

TABLE 22.7 Characteristics of a Great Marketing Company

- | |
|---|
| <ul style="list-style-type: none"> • The company selects target markets in which it enjoys superior advantages and exits or avoids markets where it is intrinsically weak. |
| <ul style="list-style-type: none"> • Virtually all the company's employees and departments are customer- and market-minded. |
| <ul style="list-style-type: none"> • There is a good working relationship between marketing, R&D, and manufacturing. |
| <ul style="list-style-type: none"> • There is a good working relationship between marketing, sales, and customer service. |
| <ul style="list-style-type: none"> • The company has installed incentives designed to lead to the right behaviors. |
| <ul style="list-style-type: none"> • The company continuously builds and tracks customer satisfaction and loyalty. |
| <ul style="list-style-type: none"> • The company manages a value delivery system in partnership with strong suppliers and distributors. |
| <ul style="list-style-type: none"> • The company is skilled in building its brand name(s) and image. |
| <ul style="list-style-type: none"> • The company is flexible in meeting customers' varying requirements. |

TABLE 22.8 Types of Marketing Control

Type of Control	Prime Responsibility	Purpose of Control	Approaches
I. Annual-plan control	Top management Middle management	To examine whether the planned results are being achieved	<ul style="list-style-type: none"> • Sales analysis • Market share analysis • Sales-to-expense ratios • Financial analysis • Market-based scorecard analysis
II. Profitability control	Marketing controller	To examine where the company is making and losing money	Profitability by: <ul style="list-style-type: none"> • product • territory • customer • segment • trade channel • order size
III. Efficiency control	Line and staff management Marketing controller	To evaluate and improve the spending efficiency and impact of marketing expenditures	Efficiency of: <ul style="list-style-type: none"> • sales force • advertising • sales promotion • distribution
IV. Strategic control	Top management Marketing auditor	To examine whether the company is pursuing its best opportunities with respect to markets, products, and channels	<ul style="list-style-type: none"> • Marketing effectiveness rating instrument • Marketing audit • Marketing excellence review • Company ethical and social responsibility review

management. The knowledge management component consists of process templates, how-to wizards, and best practices. Software packages can provide what some have called *desktop marketing*, giving marketers information and decision structures on computer dashboards. MRM software lets marketers improve spending and investment decisions, bring new products to market more quickly, and reduce decision time and costs.

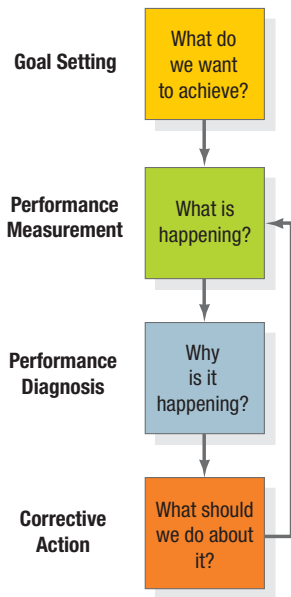
Marketing Control

Marketing control is the process by which firms assess the effects of their marketing activities and programs and make necessary changes and adjustments. Table 22.8 lists four types of needed marketing control: annual-plan control, profitability control, efficiency control, and strategic control.

Annual-Plan Control

Annual-plan control ensures the company achieves the sales, profits, and other goals established in its annual plan. At its heart is management by objectives (see Figure 22.4). First, management sets monthly or quarterly goals. Second, it monitors performance in the marketplace. Third, management determines the causes of serious performance deviations. Fourth, it takes corrective action to close gaps between goals and performance.

This control model applies to all levels of the organization. Top management sets annual sales and profit goals; each product manager, regional district manager, sales manager, and sales rep is committed to attaining specified levels of sales and costs. Each period, top management reviews and



|Fig. 22.4| ▲

The Control Process

interprets the results. Marketers today have better marketing metrics for measuring the performance of marketing plans (see Table 22.9 for some samples).⁷⁵ Four tools for the purpose are sales analysis, market share analysis, marketing expense-to-sales analysis, and financial analysis. The chapter appendix outlines them in detail.

Profitability Control

Companies should measure the profitability of their products, territories, customer groups, segments, trade channels, and order sizes to help determine whether to expand, reduce, or eliminate any products or marketing activities. The chapter appendix shows how to conduct and interpret a marketing profitability analysis.

Efficiency Control

Suppose a profitability analysis reveals the company is earning poor profits in certain products, territories, or markets. Are there more efficient ways to manage the sales force, advertising, sales promotion, and distribution?

Some companies have established a *marketing controller* position to work out of the controller's office but specialize in improving marketing efficiency. General Foods, DuPont, and Johnson & Johnson perform a sophisticated financial analysis of marketing expenditures and results. Their marketing controllers examine adherence to profit plans, help prepare brand managers' budgets, measure the efficiency of promotions, analyze media production costs, evaluate customer and geographic profitability, and educate marketing staff on the financial implications of marketing decisions.⁷⁶

TABLE 22.9 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
- Ratio 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

Distribution Metrics

- Number of outlets
- Share in shops handling
- Weighted distribution
- Distribution gains
- Average stock volume (value)
- Stock 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

Strategic Control

Each company should periodically reassess its strategic approach to the marketplace with a good marketing audit. Companies can also perform marketing excellence reviews and ethical/social responsibility reviews.

THE MARKETING AUDIT The average U.S. corporation loses half its customers in five years, half its employees in four years, and half its investors in less than one year. Clearly, this points to some weaknesses. Companies that discover weaknesses should undertake a thorough study known as a marketing audit.⁷⁷

A **marketing audit** is a comprehensive, systematic, independent, and periodic examination of a company's or business unit's marketing environment, objectives, strategies, and activities, with a view to determining problem areas and opportunities and recommending a plan of action to improve the company's marketing performance.

Let's examine the marketing audit's four characteristics:

1. **Comprehensive**—The marketing audit covers all the major marketing activities of a business, not just a few trouble spots as in a functional audit. Although functional audits are useful, they sometimes mislead management. Excessive sales force turnover, for example, could be a symptom not of poor sales-force training or compensation but of weak company products and promotion. A comprehensive marketing audit usually is more effective in locating the real source of problems.
2. **Systematic**—The marketing audit is an orderly examination of the organization's macro- and micromarketing environments, marketing objectives and strategies, marketing systems, and specific activities. It identifies the most-needed improvements and incorporates them into a corrective-action plan with short- and long-run steps.
3. **Independent**—Self-audits, in which managers rate their own operations, lack objectivity and independence.⁷⁸ The 3M Company has made good use of a corporate auditing office, which provides marketing audit services to divisions on request.⁷⁹ Usually, however, outside consultants bring the necessary objectivity, broad experience in a number of industries, familiarity with the industry being audited, and undivided time and attention.
4. **Periodic**—Firms typically initiate marketing audits only after failing to review their marketing operations during good times, with resulting problems. A periodic marketing audit can benefit companies in good health as well as those in trouble.

A marketing audit starts with agreement between the company officer(s) and the marketing auditor(s) on the audit's objectives and time frame, and a detailed plan of who is to be asked what questions. The cardinal rule for marketing auditors is: Don't rely solely on company managers for data and opinions. Ask customers, dealers, and other outside groups. Many companies don't really know how their customers and dealers see them, nor do they fully understand customer needs.

The marketing audit examines six major components of the company's marketing situation.

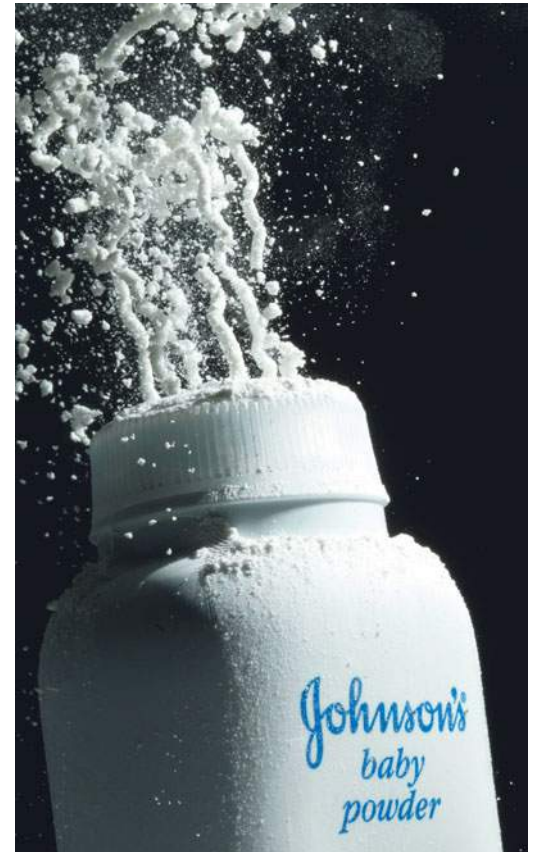
■ Table 22.10 lists the major questions.

THE MARKETING EXCELLENCE REVIEW The three columns in ■ Table 22.11 distinguish among poor, good, and excellent business and marketing practices. The profile management creates from indicating where it thinks the business stands on each line can highlight where changes could help the firm become a truly outstanding player in the marketplace.

The Future of Marketing

Top management recognizes that marketing requires more accountability than in the past. "Marketing Memo: Major Marketing Weaknesses" summarizes companies' major deficiencies in marketing, and how to find and correct them.

To succeed in the future, marketing must be more holistic and less departmental. Marketers must achieve larger influence in the company, continuously create new ideas, and strive for customer insight by treating customers differently but appropriately. They must build their brands more through



Johnson & Johnson, maker of a famous baby powder, conducts careful analysis of its marketing expenditures and results.

TABLE 22.10 Components of a Marketing Audit

Part I. Marketing Environment Audit	
Macroenvironment	
A. Demographic	What major demographic developments and trends pose opportunities or threats to this company? What actions have the company taken in response to these developments and trends?
B. Economic	What major developments in income, prices, savings, and credit will affect the company? What actions have the company been taking in response to these developments and trends?
C. Environmental	What is the outlook for the cost and availability of natural resources and energy needed by the company? What concerns have been expressed about the company's role in pollution and conservation, and what steps have the company taken?
D. Technological	What major changes are occurring in product and process technology? What is the company's position in these technologies? What major generic substitutes might replace this product?
E. Political	What changes in laws and regulations might affect marketing strategy and tactics? What is happening in the areas of pollution control, equal employment opportunity, product safety, advertising, price control, and so forth that affects marketing strategy?
F. Cultural	What is the public's attitude toward business and toward the company's products? What changes in customer lifestyles and values might affect the company?
Task Environment	
A. Markets	What is happening to market size, growth, geographical distribution, and profits? What are the major market segments?
B. Customers	What are the customers' needs and buying processes? How do customers and prospects rate the company and its competitors on reputation, product quality, service, sales force, and price? How do different customer segments make their buying decisions?
C. Competitors	Who are the major competitors? What are their objectives, strategies, strengths, weaknesses, sizes, and market shares? What trends will affect future competition and substitutes for the company's products?
D. Distribution and Dealers	What are the main trade channels for bringing products to customers? What are the efficiency levels and growth potentials of the different trade channels?
E. Suppliers	What is the outlook for the availability of key resources used in production? What trends are occurring among suppliers?
F. Facilitators and Marketing Firms	What is the cost and availability outlook for transportation services, warehousing facilities, and financial resources? How effective are the company's advertising agencies and marketing research firms?
G. Publics	Which publics represent particular opportunities or problems for the company? What steps has the company taken to deal effectively with each public?
Part II. Marketing Strategy Audit	
A. Business Mission	Is the business mission clearly stated in market-oriented terms? Is it feasible?
B. Marketing Objectives and Goals	Are the company and marketing objectives and goals stated clearly enough to guide marketing planning and performance measurement? Are the marketing objectives appropriate, given the company's competitive position, resources, and opportunities?
C. Strategy	Has the management articulated a clear marketing strategy for achieving its marketing objectives? Is the strategy convincing? Is the strategy appropriate to the stage of the product life cycle, competitors' strategies, and the state of the economy? Is the company using the best basis for market segmentation? Does it have clear criteria for rating the segments and choosing the best ones? Has it developed accurate profiles of each target segment? Has the company developed an effective positioning and marketing mix for each target segment? Are marketing resources allocated optimally to the major elements of the marketing mix? Are enough resources or too many resources budgeted to accomplish the marketing objectives?
Part III. Marketing Organization Audit	
A. Formal Structure	Does the marketing vice president or CMO have adequate authority and responsibility for company activities that affect customers' satisfaction? Are the marketing activities optimally structured along functional, product, segment, end user, and geographical lines?

TABLE 22.10 (Continued)	
B. Functional Efficiency	Are there good communication and working relations between marketing and sales? Is the product-management system working effectively? Are product managers able to plan profits or only sales volume? Are there any groups in marketing that need more training, motivation, supervision, or evaluation?
C. Interface Efficiency	Are there any problems between marketing and manufacturing, R&D, purchasing, finance, accounting, and/or legal that need attention?
Part IV. Marketing Systems Audit	
A. Marketing Information System	Is the marketing information system producing accurate, sufficient, and timely information about marketplace developments with respect to customers, prospects, distributors and dealers, competitors, suppliers, and various publics? Are company decision makers asking for enough marketing research, and are they using the results? Is the company employing the best methods for market measurement and sales forecasting?
B. Marketing Planning System	Is the marketing planning system well conceived and effectively used? Do marketers have decision support systems available? Does the planning system result in acceptable sales targets and quotas?
C. Marketing Control System	Are the control procedures adequate to ensure that the annual-plan objectives are being achieved? Does management periodically analyze the profitability of products, markets, territories, and channels of distribution? Are marketing costs and productivity periodically examined?
D. New-Product Development System	Is the company well organized to gather, generate, and screen new-product ideas? Does the company do adequate concept research and business analysis before investing in new ideas? Does the company carry out adequate product and market testing before launching new products?
Part V. Marketing Productivity Audit	
A. Profitability Analysis	What is the profitability of the company's different products, markets, territories, and channels of distribution? Should the company enter, expand, contract, or withdraw from any business segments?
B. Cost-Effectiveness Analysis	Do any marketing activities seem to have excessive costs? Can cost-reducing steps be taken?
Part VI. Marketing Function Audits	
A. Products	What are the company's product line objectives? Are they sound? Is the current product line meeting the objectives? Should the product line be stretched or contracted upward, downward, or both ways? Which products should be phased out? Which products should be added? What are the buyers' knowledge and attitudes toward the company's and competitors' product quality, features, styling, brand names, and so on? What areas of product and brand strategy need improvement?
B. Price	What are the company's pricing objectives, policies, strategies, and procedures? To what extent are prices set on cost, demand, and competitive criteria? Do the customers see the company's prices as being in line with the value of its offer? What does management know about the price elasticity of demand, experience-curve effects, and competitors' prices and pricing policies? To what extent are price policies compatible with the needs of distributors and dealers, suppliers, and government regulation?
C. Distribution	What are the company's distribution objectives and strategies? Is there adequate market coverage and service? How effective are distributors, dealers, manufacturers' representatives, brokers, agents, and others? Should the company consider changing its distribution channels?
D. Marketing Communications	What are the organization's advertising objectives? Are they sound? Is the right amount being spent on advertising? Are the ad themes and copy effective? What do customers and the public think about the advertising? Are the advertising media well chosen? Is the internal advertising staff adequate? Is the sales promotion budget adequate? Is there effective and sufficient use of sales promotion tools such as samples, coupons, displays, and sales contests? Is the public relations staff competent and creative? Is the company making enough use of direct, online, and database marketing?
E. Sales Force	What are the sales force's objectives? Is the sales force large enough to accomplish the company's objectives? Is the sales force organized along the proper principles of specialization (territory, market, product)? Are there enough (or too many) sales managers to guide the field sales representatives? Do the sales compensation level and structure provide adequate incentive and reward? Does the sales force show high morale, ability, and effort? Are the procedures adequate for setting quotas and evaluating performance? How does the company's sales force compare to competitors' sales forces?

TABLE 22.11  The Marketing Excellence Review: Best Practices

Poor	Good	Excellent
Product driven	Market driven	Market driving
Mass-market oriented	Segment-oriented	Niche-oriented and customer-oriented
Product offer	Augmented product offer	Customer solutions offer
Average product quality	Better than average	Legendary
Average service quality	Better than average	Legendary
End-product oriented	Core-product oriented	Core-competency oriented
Function oriented	Process oriented	Outcome oriented
Reacting to competitors	Benchmarking competitors	Leapfrogging competitors
Supplier exploitation	Supplier preference	Supplier partnership
Dealer exploitation	Dealer support	Dealer partnership
Price driven	Quality driven	Value driven
Average speed	Better than average	Legendary
Hierarchy	Network	Teamwork
Vertically integrated	Flattened organization	Strategic alliances
Stockholder driven	Stakeholder driven	Societally driven

performance than promotion. They must go electronic and win through building superior information and communication systems.

The coming years will see:

- The demise of the marketing department and the rise of holistic marketing
- The demise of free-spending marketing and the rise of ROI marketing
- The demise of marketing intuition and the rise of marketing science
- The demise of manual marketing and the rise of both automated *and* creative marketing
- The demise of mass marketing and the rise of precision marketing

To accomplish these changes and become truly holistic, marketers need a new set of skills and competencies in:

- Customer relationship management (CRM)
- Partner relationship management (PRM)
- Database marketing and data mining
- Contact center management and 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, and channel

The benefits of successful 21st-century marketing are many, but they will come only with hard work, insight, and inspiration. New rules and practices are emerging, and it is an exciting time. The words of 19th-century U.S. author Ralph Waldo Emerson may never have been more true: “This time like all times is a good one, if we but know what to do with it.”

marketing Memo

Major Marketing Weaknesses

A number of “deadly sins” signal that the marketing program is in trouble. Here are 10 deadly sins, the signs, and some solutions.

Deadly Sin: The company is not sufficiently market focused and customer driven.

Signs: There is evidence of poor identification of market segments, poor prioritization of market segments, no market segment managers, employees who think it is the job of marketing and sales to serve customers, no training program to create a customer culture, and no incentives to treat the customer especially well.

Solutions: Use more advanced segmentation techniques, prioritize segments, specialize the sales force, develop a clear hierarchy of company values, foster more “customer consciousness” in employees and company agents, and make it easy for customers to reach the company and respond quickly to any communication.

Deadly Sin: The company does not fully understand its target customers.

Signs: The latest study of customers is three years old; customers are not buying your product like they once did; competitors’ products are selling better; and there is a high level of customer returns and complaints.

Solutions: Do more sophisticated consumer research, use more analytical techniques, establish customer and dealer panels, use customer relationship software, and do data mining.

Deadly Sin: The company needs to better define and monitor its competitors.

Signs: The company focuses on near competitors, misses distant competitors and disruptive technologies, and has no system for gathering and distributing competitive intelligence.

Solutions: Establish an office for competitive intelligence, hire competitors’ people, watch for technology that might affect the company, and prepare offerings like those of competitors.

Deadly Sin: The company does not properly manage relationships with stakeholders.

Signs: Employees, dealers, and investors are not happy; and good suppliers do not come.

Solutions: Move from zero-sum thinking to positive-sum thinking; and do a better job of managing employees, supplier relations, distributors, dealers, and investors.

Deadly Sin: The company is not good at finding new opportunities.

Signs: The company has not identified any exciting new opportunities for years, and the new ideas the company has launched have largely failed.

Solutions: Set up a system for stimulating the flow of new ideas.

Deadly Sin: The company’s marketing planning process is deficient.

Signs: The marketing plan format does not have the right components, there is no way to estimate the financial implications of different strategies, and there is no contingency planning.

Solutions: Establish a standard format including situational analysis, SWOT, major issues, objectives, strategy, tactics, budgets, and controls; ask marketers what changes they would make if they were given 20 percent more or less budget; and run an annual marketing awards program with prizes for best plans and performance.

Deadly Sin: Product and service policies need tightening.

Signs: There are too many products and many are losing money; the company is giving away too many services; and the company is poor at cross-selling products and services.

Solutions: Establish a system to track weak products and fix or drop them; offer and price services at different levels; and improve processes for cross-selling and up-selling.

Deadly Sin: The company’s brand-building and communications skills are weak.

Signs: The target market does not know much about the company; the brand is not seen as distinctive; the company allocates its budget to the same marketing tools in about the same proportion each year; and there is little evaluation of the ROI impact of promotions.

Solutions: Improve brand-building strategies and measurement of results; shift money into effective marketing instruments; and require marketers to estimate the ROI impact in advance of funding requests.

Deadly Sin: The company is not organized for effective and efficient marketing.

Signs: Staff lacks 21st-century marketing skills, and there are bad vibes between marketing/sales and other departments.

Solutions: Appoint a strong leader and build new skills in the marketing department, and improve relationships between marketing and other departments.

Deadly Sin: The company has not made maximum use of technology.

Signs: There is evidence of minimal use of the Internet, an outdated sales automation system, no market automation, no decision-support models, and no marketing dashboards.

Solutions: Use the Internet more, improve the sales automation system, apply market automation to routine decisions, and develop formal marketing decision models and marketing dashboards.

Summary

1. The modern marketing department has evolved through the years from a simple sales department to an organizational structure where marketers work mainly on cross-disciplinary teams.
2. Some companies are organized by functional specialization; others focus on geography and regionalization, product and brand management, or market-segment management. Some companies establish a matrix organization consisting of both product and market managers.
3. Effective modern marketing organizations are marked by customer focus within and strong cooperation among marketing, R&D, engineering, purchasing, manufacturing, operations, finance, accounting, and credit.
4. Companies must practice social responsibility through their legal, ethical, and social words and actions. Cause marketing can be a means for companies to productively link social responsibility to consumer marketing programs. Social marketing is done by a nonprofit or government organization to directly address a social problem or cause.
5. A brilliant strategic marketing plan counts for little unless implemented properly, including recognizing and diagnosing a problem, assessing where the problem exists, and evaluating results.
6. The marketing department must monitor and control marketing activities continuously. Marketing plan control ensures the company achieves the sales, profits, and other goals in its annual plan. The main tools are sales analysis, market share analysis, marketing expense-to-sales analysis, and financial analysis of the marketing plan. Profitability control measures and controls the profitability of products, territories, customer groups, trade channels, and order sizes. Efficiency control finds ways to increase the efficiency of the sales force, advertising, sales promotion, and distribution. Strategic control periodically reassesses the company's strategic approach to the marketplace using marketing effectiveness and marketing excellence reviews, as well as marketing audits.
7. Achieving marketing excellence in the future will require a new set of skills and competencies.

Applications

Marketing Debate

Is Marketing Management an Art or a Science?

Some observers maintain that good marketing is mostly an art and does not lend itself to rigorous analysis and deliberation. Others contend it is a highly disciplined enterprise that shares much with other business disciplines.

Take a position: Marketing management is largely an artistic exercise and therefore highly subjective *versus* Marketing management is largely a scientific exercise with well-established guidelines and criteria.

Marketing Discussion

Cause Marketing

How does cause or corporate societal marketing affect your personal consumer behavior? Do you ever buy or not buy any products or services from a company because of its environmental policies or programs? Why or why not?

Marketing Excellence

>> Starbucks

Starbucks opened in Seattle in 1971 at a time when coffee consumption in the United States had been declining for a decade and rival brands used cheaper coffee beans to compete on price. Starbucks's founders decided to experiment with a new concept: a store that would sell only the finest imported coffee beans and coffee-brewing equipment. (The original store didn't sell coffee by the cup, only beans.)

Howard Schultz came to Starbucks in 1982. While in Milan on business, he had walked into an Italian coffee bar

and had an epiphany: "There was nothing like this in America. It was an extension of people's front porch. It was an emotional experience." To bring this concept to the United States, Schultz set about creating an environment for Starbucks coffeehouses that would reflect Italian elegance melded with U.S. informality. He envisioned Starbucks as a "personal treat" for its customers, a "Third Place"—a comfortable, sociable gathering spot bridging the workplace and home.

Starbucks's expansion throughout the United States was carefully planned. All stores were company-owned and operated, ensuring complete control over an unparalleled image of quality. In a "hub" strategy, coffeehouses entered a



new market in a clustered group. Although this deliberate saturation often cannibalized 30 percent of one store's sales by introducing a store nearby, any drop in revenue was offset by efficiencies in marketing and distribution costs, and the enhanced image of convenience. A typical customer would stop by Starbucks 18 times a month. No U.S. retailer has had a higher frequency of customer visits.

Part of Starbucks's success undoubtedly lies in its products and services, and its relentless commitment to providing the richest possible sensory experiences. But another key is its enlightened sense of responsibility, manifested in a number of different ways. Schultz believed that to exceed customers' expectations it is first necessary to exceed employees'. Since 1990, Starbucks has provided comprehensive health care to all employees, including part-timers. Health insurance now costs the company more each year than coffee. A stock option plan called Bean Stock allows employees also to participate in its financial success.

Schultz also believed Starbucks's operations should run in a respectful, ethical manner, making decisions with a positive impact on communities and the planet.

Community: The Starbucks Foundation, created in 1997 with proceeds from the sale of Schultz's book, aims to "create hope, discovery, and opportunity in communities where Starbucks partners [employees] live and work." Its primary focus is supporting literacy programs for children and families in the United States and Canada; expanded, it has now donated millions of dollars to charities and communities worldwide.

Starbucks's employees volunteer community service hours for causes big and small—such as rebuilding New Orleans after Hurricane Katrina—and wants to have employees and customers volunteering over 1 million community service hours each year by the end of 2015. As described in the chapter, Starbucks is also a partner in PRODUCT(RED), an initiative to help fight and stop the spread of HIV in Africa, and so far has donated enough money to purchase 14 million days of medicine. It has also

donated 5 cents from every sale of its Ethos bottled water to improving the quality of water in poor countries, part of a five-year, \$10 million pledge.

Ethical Sourcing: Starbucks has partnered with Conservation International to ensure that coffee it purchases is not only of the highest quality but also "responsibly grown and ethically traded." Starbucks is the world's biggest buyer of fair-trade coffee and pays an average of 23 percent above market price for 40 million pounds a year. It works continuously with farmers on responsible methods such as planting trees along rivers and using shade-growing techniques to help preserve forests.

The Environment: It took Starbucks 10 years of development to create the world's first recycled beverage cup made of 10 percent postconsumer fiber, conserving 5 million pounds of paper or approximately 78,000 trees a year. Now the team is working to ensure that customers recycle. Jim Hanna, Starbucks's director of environmental impact, explained, "[Starbucks] defines a recyclable cup not by what the cup is made out of but by our customers actually having access to recycling services." Starbucks's goal: make 100 percent of its cups recycled or reused by 2015. The firm also emphasizes energy and water conservation and building green, LEED-certified buildings around the world.

Howard Schultz stepped down as CEO in 2000 but returned as CEO, president, and chairman in 2008 to help restore growth and excitement to the powerhouse chain. Today, Starbucks has over 16,700 stores worldwide, approximately 142,000 employees, \$9.8 billion in revenue, and plans to expand worldwide. To achieve its international growth goals, Schultz believes Starbucks must retain a passion for coffee and a sense of humanity, to remain small even as it gets big, and to be a responsible company.

Questions

1. Starbucks has worked hard to act ethically and responsibly. Has it done a good job communicating its efforts to consumers? Do consumers believe Starbucks is a responsible company? Why or why not?
2. Where does a company like Starbucks draw the line on supporting socially responsible programs? For example, how much of its annual budget should go toward these programs? How much time should employees focus on them? Which programs should it support?
3. How do you measure the results of Starbucks's socially responsible programs?

Sources: Howard Schultz, "Dare to Be a Social Entrepreneur," *Business 2.0*, December 2006, p. 87; Edward Iwata, "Owner of Small Coffee Shop Takes on Java Titan Starbucks," *USA Today*, December 20, 2006; "Staying Pure: Howard Schultz's Formula for Starbucks," *Economist*, February 25, 2006, p. 72; Diane Anderson, "Evolution of the Eco Cup," *Business 2.0*, June 2006, p. 50; Bruce Horowitz, "Starbucks Nation," *USA Today*, May 19, 2006; Theresa Howard, "Starbucks Takes Up Cause for Safe Drinking Water," *USA Today*, August 2, 2005; Howard Schultz and Dori Jones Yang, *Pour Your Heart into It: How Starbucks Built a Company One Cup at a Time* (New York: Hyperion, 1997); "At MIT-Starbucks Symposium, Focus on Holistic Approach to Recycling," *MIT*, www.mit.edu, May 12, 2010; Starbucks.

Marketing Excellence

>> Virgin Group



Virgin roared onto the British stage in the 1970s with the innovative Virgin Records, brainchild of Richard Branson, who signed unknown artists and began a marathon of publicity that continues to this day. The flamboyant Branson sold Virgin Records (to Thorn-EMI for nearly \$1 billion in 1992) but went on to create over 200 companies worldwide whose combined revenues exceeded €11.5 billion (about

\$16.2 billion) in 2009.

The Virgin name—the third most respected brand in Britain—and the Branson personality help to sell such diverse products and services as planes, trains, finance, soft drinks, music, mobile phones, cars, wine, publishing, and even bridal wear. Branson can create interest in almost any business he wants by simply attaching the “Virgin” name to it. He supplies the brand and a small initial investment and takes a majority control, and big-name partners come up with the cash.

The Virgin Group looks for new opportunities in markets with underserved, overcharged customers and complacent competition. Branson explained, “Wherever we find them, there is a clear opportunity area for Virgin to do a much better job than the competition. We introduce trust, innovation, and customer friendliness where they don’t exist.”

Some marketing and financial critics point out that Branson is diluting the brand, that it covers too many businesses. There have been some fumbles: Virgin Cola, Virgin Cosmetics, and Virgin Vodka have all but disappeared. But despite the diversity, all the lines connote value for money, quality, innovation, fun, and a sense of competitive challenge. And then Virgin’s vaunted marketing expertise kicks in.

A master of the strategic publicity stunt, Branson knew photographers have a job to do and they’d turn up at his events if he gave them a good reason. He took on stodgy, overpriced British Airways by wearing World War I-era flying gear to announce the formation of Virgin Atlantic in 1984. The first Virgin flight took off laden with celebrities and media and equipped with a brass band, waiters from Maxim’s in white tie and tails, and free-flowing champagne. The airborne party enjoyed international press coverage and millions of dollars’ worth of free publicity.

When Branson launched Virgin Cola in the United States in 1998, he steered an army tank down Fifth Avenue in New York, garnering interviews on each of the network morning TV shows. In 2002, he plunged into Times Square from a crane to announce his mobile phone business. In 2004, introducing a line of hip techie gadgets called Virgin Pulse, Branson again took center stage, appearing at a New York City nightclub wearing a pair of flesh-colored tights and a strategically placed portable CD player.

Although he eschews traditional market research for a “screw it, let’s do it” attitude, Branson stays in touch through constant customer contact. When he first set up Virgin Atlantic, he called 50 customers every month to chat and get their feedback. He appeared in airports to rub elbows with customers, and if a plane was delayed, he handed out gift certificates to a Virgin Megastore or discounts on future travel.

A nonprofit foundation called Virgin Unite has started to tackle global, social, and environmental problems with an entrepreneurial approach. A team of scientists, entrepreneurs, and environmental enthusiasts consult with Virgin about what it needs to do on a grassroots and global level. The goal is to change the way “businesses and the social sector work together—driving business as a force for good.”

Clearly, Branson cares about Virgin’s customers and the impact his companies have on people and the planet. That’s why he recently made corporate responsibility and sustainable development (CR/SD) a key priority for every one of his companies. Each must act socially responsible and lower its carbon footprint. Branson stated, “I believe that in the future, we will be able to enjoy healthy and fulfilling lifestyles whilst minimizing the negative impact we have on the world.”

Virgin categorizes its businesses into eight socially responsible and sustainable groups: Flying high, We’re all going on a summer holiday, Staying in touch, Watching the pennies, Getting from A to B, My body is a temple, Out of this world, and Just get out and relax. Each is to do exceptionally good things in its industry as well as help to alleviate the bad things that come with the category. Virgin Wines strives to purchase only from small farms and pay fair prices while promoting responsible drinking. Virgin

Games, an online gambling Web site, promotes responsible gambling and helps identify and alleviate gambling addiction. Virgin Money focuses on fair lending, and the list goes on.

Virgin Aviation is perhaps the toughest challenge; it represents 7 million of the 8 million tons of CO₂ Virgin emits each year. Branson, however, has turned the problem into an opportunity. In 2006, he announced that all dividends from Virgin's rail and airline businesses "will be invested into renewable energy initiatives . . . to tackle emissions related to global warming." That effort has evolved into the Virgin Green Fund, which invests in renewable energy opportunities from solar energy to water purification and is estimated to reach \$3 billion in value by 2016.

But Branson hasn't stopped there. In 2007, he established the Earth Challenge to award \$25 million to any person or group who develops a safe, long-term, commercially viable way to remove greenhouse gases from the atmosphere. Submitted inventions are now being reviewed by a team of scientists, professors, and environment professionals.

Once known as the "hippie capitalist" and now knighted by the Queen of England, Sir Richard never does

anything small and quiet. Whether looking for a new business, generating publicity in his characteristic style, or encouraging research to help the planet, Branson does it with a bang.

Questions

1. How is Virgin unique in its quest to be a socially responsible and sustainable company?
2. Discuss the pros and cons of Virgin's "green" message. How do you feel about the company's having such a negative environmental impact on the world (via air and rail) and the message it communicates through efforts like the Earth Challenge?
3. If you were Richard Branson, what would you do with Virgin's holistic marketing strategy?

Sources: Peter Elkind, "Branson Gets Grounded," *Fortune*, February 5, 2007, pp. 13–14; Alan Deutschman, "The Enlightenment of Richard Branson," *Fast Company*, September 2006, p. 49; Andy Serwer, "Do Branson's Profits Equal His *Jolie de Vivre?*" *Fortune*, October 17, 2005, p. 57; Kerry Capell with Wendy Zellner, "Richard Branson's Next Big Adventure," *BusinessWeek*, March 8, 2004, pp. 44–45; Melanie Wells, "Red Baron," *Forbes*, July 3, 2000, pp. 151–60; Sam Hill and Glenn Rifkin, *Radical Marketing* (New York: HarperBusiness, 1999); "Branson Pledges Three Billion Dollars to Develop Cleaner Energy," *Terra Daily*, September 21, 2006; Virgin, www.virgin.com.

APPENDIX

Tools for Marketing Control

In this appendix, we provided detailed guidelines and insights about how to best conduct several marketing control procedures.

Annual Plan Control

Four sets of analyses can be useful for annual plan control.

Sales Analysis **Sales analysis** measures and evaluates actual sales in relationship to goals. Two specific tools make it work.

Sales-variance analysis measures the relative contribution of different factors to a gap in sales performance. Suppose the annual plan called for selling 4,000 widgets in the first quarter at \$1 per widget, for total revenue of \$4,000. At quarter's end, only 3,000 widgets were sold at \$.80 per widget, for total revenue of \$2,400. How much of the sales performance gap is due to the price decline, and how much to the volume decline? This calculation answers the question:

Variance due to price decline: $(\$1.00 - \$.80) (3,000)$	= \$ 600	37.5%
Variance due to volume decline: $(\$1.00) (4,000 - 3,000)$	= \$1,000	62.5%
	<u>\$1,600</u>	100.0%

Almost two-thirds of the variance is due to failure to achieve the volume target. The company should look closely at why it failed to achieve expected sales volume.

Microsales analysis looks at specific products, territories, and so forth that failed to produce expected sales. Suppose the company sells in three territories, and expected sales were 1,500 units, 500 units, and 2,000 units, respectively. Actual volumes were 1,400 units, 525 units, and 1,075 units, respectively. Thus territory 1 showed a 7 percent shortfall in terms of expected sales; territory 2, a 5 percent improvement over expectations; and territory 3, a 46 percent shortfall! Territory 3 is causing most of the trouble. Maybe the sales rep in territory 3 is underperforming, a major competitor has entered this territory, or business is in a recession there.

Market Share Analysis Company sales don't reveal how well the company is performing relative to competitors. For this, management needs to track its market share in one of three ways.

Overall market share expresses the company's sales as a percentage of total market sales. **Served market share** is sales as a percentage of the total sales to the market. The **served market** is all the buyers able and willing to buy the product, and served market share is always larger than overall market share. A company could capture 100 percent of its served market and yet have a relatively small share of the total market. **Relative market share** is market share in relationship to the largest competitor. A relative market share of exactly 100 percent means the company is tied for the lead; over 100 percent indicates a market leader. A rise in relative market share means a company is gaining on its leading competitor.

Conclusions from market share analysis, however, are subject to qualifications:

- **The assumption that outside forces affect all companies in the same way is often not true.** The U.S. Surgeon General's report on the harmful consequences of smoking depressed total cigarette sales, but not equally for all companies.
- **The assumption that a company's performance should be judged against the average performance of all companies is not always valid.** A company's performance is best judged against that of its closest competitors.
- **If a new firm enters the industry, every existing firm's market share might fall.** A decline in market share might not mean the company is performing any worse than other companies. Share loss depends on the degree to which the new firm hits the company's specific markets.
- **Sometimes a market share decline is deliberately engineered to improve profits.** For example, management might drop unprofitable customers or products.

- **Market share can fluctuate for many minor reasons.** For example, it can be affected by whether a large sale occurs on the last day of the month or at the beginning of the next month. Not all shifts in market share have marketing significance.⁸⁰

A useful way to analyze market share movements is in terms of four components:

$$\text{Overall market share} = \text{Customer penetration} \times \text{Customer loyalty} \times \text{Customer selectivity} \times \text{Price selectivity}$$

where:

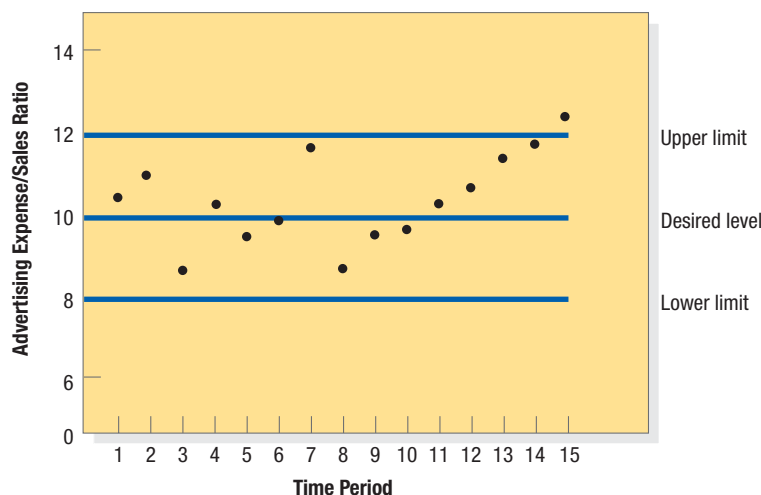
<i>Customer penetration</i>	Percentage of all customers who buy from the company
<i>Customer loyalty</i>	Purchases from the company by its customers as a percentage of their total purchases from all suppliers of the same products
<i>Customer selectivity</i>	Size of the average customer purchase from the company as a percentage of the size of the average customer purchase from an average company
<i>Price selectivity</i>	Average price charged by the company as a percentage of the average price charged by all companies

Now suppose the company's dollar market share falls during the period. The overall market share equation provides four possible explanations: The company lost some customers (lower customer penetration); existing customers are buying less from the company (lower customer loyalty); the company's remaining customers are smaller in size (lower customer selectivity); or the company's price has slipped relative to competition (lower price selectivity).

Marketing Expense-to-Sales Analysis Annual-plan control requires making sure the company isn't overspending to achieve sales goals. The key ratio to watch is *marketing expense-to-sales*. In one company, this ratio was 30 percent and consisted of five component expense-to-sales ratios: sales force-to-sales (15 percent), advertising-to-sales (5 percent), sales promotion-to-sales (6 percent), marketing research-to-sales (1 percent), and sales administration-to-sales (3 percent).

Fluctuations outside the normal range are cause for concern. Management needs to monitor period-to-period fluctuations in each ratio on a *control chart* (see ▲ Figure 22.5). This chart shows the advertising expense-to-sales ratio normally fluctuates between 8 percent and 12 percent, say 99 of 100 times. In the 15th period, however, the ratio exceeded the upper control limit. Either (1) the company still has good expense control and this situation represents a rare chance event, or (2) the company has lost control over this expense and should find the cause. If there is no investigation, the risk is that some real change might have occurred, and the company will fall behind.

Managers should make successive observations even within the upper and lower control limits. Note in Figure 22.5 that the level of the expense-to-sales ratio rose steadily from the 8th period onward. The probability of encountering six successive increases in what should be independent events is only 1 in 64.⁸¹ This unusual pattern should have led to an investigation sometime before the 15th observation.

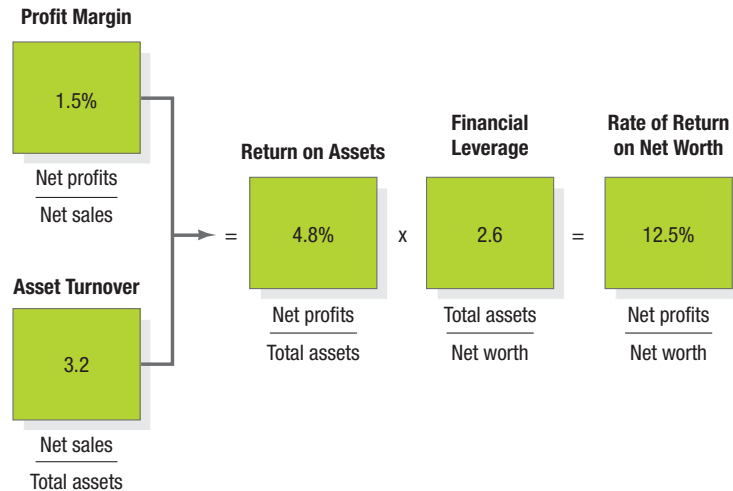


[Fig. 22.5] ▲

The Control-Chart Model

[Fig. 22.6] ▲

Financial Model of Return on Net Worth



Financial Analysis Marketers should analyze the expense-to-sales ratios in an overall financial framework to determine how and where the company is making its money. They can, and are increasingly, using financial analysis to find profitable strategies beyond building sales.

Management uses financial analysis to identify factors that affect the company's *rate of return on net worth*.⁸² The main factors are shown in ▲ Figure 22.6, along with illustrative numbers for a large chain-store retailer. The retailer is earning a 12.5 percent return on net worth. The return on net worth is the product of two ratios, the company's *return on assets* and its *financial leverage*. To improve its return on net worth, the company must increase its ratio of net profits to assets, or increase the ratio of assets to net worth. The company should analyze the composition of its assets (cash, accounts receivable, inventory, and plant and equipment) and see whether it can improve its asset management.

The return on assets is the product of two ratios, the *profit margin* and the *asset turnover*. The profit margin in Figure 22.6 seems low, whereas the asset turnover is more normal for retailing. The marketing executive can seek to improve performance in two ways: (1) Increase the profit margin by increasing sales or cutting costs, and (2) increase the asset turnover by increasing sales or reducing assets (inventory, receivables) held against a given level of sales.⁸³

Profitability Control

Marketing Profitability Analysis We will illustrate the steps in marketing profitability analysis with the following example: The marketing vice president of a lawn mower company wants to determine the profitability of selling through three types of retail channels: hardware stores, garden supply shops, and department stores. The company's profit-and-loss statement is shown in ■ Table 22.12.

TABLE 22.12 ■ A Simplified Profit-and-Loss Statement

Sales		\$60,000
Cost of goods sold		39,000
Gross margin		\$21,000
Expenses		
Salaries	\$9,300	
Rent	3,000	
Supplies	3,500	
		15,800
Net profit		\$ 5,200

Step 1: Identifying Functional Expenses Assume the expenses listed in Table 22.12 are incurred to sell the product, advertise it, pack and deliver it, and bill and collect for it. The first task is to measure how much of each expense was incurred in each activity.

Suppose most of the salary expense went to sales representatives and the rest to an advertising manager, packing and delivery help, and an office accountant. Let the breakdown of the \$9,300 be \$5,100, \$1,200, \$1,400, and \$1,600, respectively. Table 22.13 shows the allocation of the salary expense to these four activities.

Natural Accounts	Total	Selling	Advertising	Packing and Delivery	Billing and Collecting
Salaries	\$ 9,300	\$5,100	\$1,200	\$1,400	\$1,600
Rent	3,000	—	400	2,000	600
Supplies	3,500	400	1,500	1,400	200
	\$15,800	\$5,500	\$3,100	\$4,800	\$2,400

Table 22.13 also shows the rent account of \$3,000 allocated to the four activities. Because the sales reps work away from the office, none of the building's rent expense is assigned to selling. Most of the expenses for floor space and rented equipment are for packing and delivery. The supplies account covers promotional materials, packing materials, fuel purchases for delivery, and home office stationery. The \$3,500 in this account is reassigned to functional uses of the supplies.

Step 2: Assigning Functional Expenses to Marketing Entities The next task is to measure how much functional expense was associated with selling through each type of channel. Consider the selling effort, indicated by the number of sales in each channel. This number is in the selling column of Table 22.14. Altogether, 275 sales calls were made during the period. Because the total selling expense amounted to \$5,500 (see Table 22.14), the selling expense averaged \$20 per call.

Channel Type	Selling	Advertising	Packing and Delivery	Billing and Collecting
Hardware	200	50	50	50
Garden supply	65	20	21	21
Department stores	10	30	9	9
	275	100	80	80
Functional expense ÷ No. of Units	\$5,500	\$3,100	\$4,800	\$2,400
	275	100	80	80
Equals	\$ 20	\$ 31	\$ 60	\$ 30

We can allocate advertising expense according to the number of ads addressed to different channels. Because there were 100 ads altogether, the average ad cost \$31.

The packing and delivery expense is allocated according to the number of orders placed by each type of channel. This same basis was used for allocating billing and collection expense.

Step 3: Preparing a Profit-and-Loss Statement for Each Marketing Entity We can now prepare a profit-and-loss statement for each type of channel (see Table 22.15). Because hardware stores accounted for half of total sales (\$30,000 out of \$60,000), charge this channel

TABLE 22.15 Profit-and-Loss Statements for Channels

	Hardware	Garden Supply	Dept. Stores	Whole Company
Sales	\$30,000	\$10,000	\$20,000	\$60,000
Cost of goods sold	19,500	6,500	13,000	39,000
Gross margin	\$10,500	\$ 3,500	\$ 7,000	\$21,000
Expenses				
Selling (\$20 per call)	\$ 4,000	\$ 1,300	\$ 200	\$ 5,500
Advertising (\$31 per advertisement)	1,550	620	930	3,100
Packing and delivery (\$60 per order)	3,000	1,260	540	4,800
Billing (\$30 per order)	1,500	630	270	2,400
Total expenses	\$10,050	\$ 3,810	\$ 1,940	\$15,800
Net profit or loss	\$ 450	\$ (310)	\$ 5,060	\$ 5,200

with half the cost of goods sold (\$19,500 out of \$39,000). This leaves a gross margin from hardware stores of \$10,500. From this we deduct the proportions of functional expenses hardware stores consumed.

According to Table 22.14, hardware stores received 200 of 275 total sales calls. At an imputed value of \$20 a call, hardware stores must bear a \$4,000 selling expense. Table 22.14 also shows hardware stores were the target of 50 ads. At \$31 an ad, the hardware stores are charged with \$1,550 of advertising. The same reasoning applies in computing the share of the other functional expenses. The result is that hardware stores gave rise to \$10,050 of the total expenses. Subtracting this from gross margin, we find the profit of selling through hardware stores is only \$450.

Repeat this analysis for the other channels. The company is losing money in selling through garden supply shops and makes virtually all its profits through department stores. Notice that gross sales is not a reliable indicator of the net profits for each channel.

Determining Corrective Action It would be naive to conclude the company should drop garden supply and hardware stores to concentrate on department stores. We need to answer the following questions first:

- To what extent do buyers buy on the basis of type of retail outlet versus brand?
- What trends affect the relative importance of these three channels?
- How good are the company's marketing strategies for the three channels?

Using the answers, marketing management can evaluate five alternatives:

1. Establish a special charge for handling smaller orders.
2. Give more promotional aid to garden supply shops and hardware stores.
3. Reduce sales calls and advertising to garden supply shops and hardware stores.
4. Ignore the weakest retail units in each channel.
5. Do nothing.

Marketing profitability analysis indicates the relative profitability of different channels, products, territories, or other marketing entities. It does not prove the best course of action is to drop unprofitable marketing entities or capture the likely profit improvement of doing so.

Direct versus Full Costing Like all information tools, marketing profitability analysis can lead or mislead, depending on how well marketers understand its methods and limitations. The lawn mower company chose bases somewhat arbitrarily for allocating the functional expenses to its marketing entities. It used "number of sales calls" to allocate selling expenses, generating less record

keeping and computation, when in principle “number of sales working hours” is a more accurate indicator of cost.

A far more serious decision is whether to allocate full costs or only direct and traceable costs in evaluating a marketing entity’s performance. The lawn mower company sidestepped this problem by assuming only simple costs that fit with marketing activities, but we cannot avoid the question in real-world analyses of profitability. We distinguish three types of costs:

1. **Direct costs**—We can assign direct costs directly to the proper marketing entities. Sales commissions are a direct cost in a profitability analysis of sales territories, sales representatives, or customers. Advertising expenditures are a direct cost in a profitability analysis of products to the extent that each advertisement promotes only one product. Other direct costs for specific purposes are sales force salaries and traveling expenses.
2. **Traceable common costs**—We can assign traceable common costs only indirectly, but on a plausible basis, to the marketing entities. In the example, we analyzed rent this way.
3. **Nontraceable common costs**—Common costs whose allocation to the marketing entities is highly arbitrary are nontraceable common costs. To allocate “corporate image” expenditures equally to all products would be arbitrary, because all products don’t benefit equally. To allocate them proportionately to the sales of the various products would be arbitrary, because relative product sales reflect many factors besides corporate image making. Other examples are top management salaries, taxes, interest, and other overhead.

No one disputes the inclusion of direct costs in marketing cost analysis. There is some controversy about including traceable common costs, which lump together costs that would and would not change with the scale of marketing activity. If the lawn mower company drops garden supply shops, it would probably continue to pay the same rent. Its profits would not rise immediately by the amount of the present loss in selling to garden supply shops (\$310).

The major controversy is about whether to allocate the nontraceable common costs to the marketing entities. Such allocation is called the *full-cost approach*, and its advocates argue that all costs must ultimately be imputed in order to determine true profitability. However, this argument confuses the use of accounting for financial reporting with its use for managerial decision making. Full costing has three major weaknesses:

1. The relative profitability of different marketing entities can shift radically when we replace one arbitrary way to allocate nontraceable common costs by another.
2. The arbitrariness demoralizes managers, who feel their performance is judged adversely.
3. The inclusion of nontraceable common costs could weaken efforts at real cost control.

Operating management is most effective in controlling direct costs and traceable common costs. Arbitrary assignments of nontraceable common costs can lead managers to spend their time fighting cost allocations instead of managing controllable costs well.

Companies show growing interest in using marketing profitability analysis, or its broader version, activity-based cost accounting (ABC), to quantify the true profitability of different activities.⁸⁴ Managers can then reduce the resources required to perform various activities, make the resources more productive, acquire them at lower cost, or raise prices on products that consume heavy amounts of support resources. The contribution of ABC is to refocus management’s attention away from using only labor or material standard costs to allocate full cost, and toward capturing the actual costs of supporting individual products, customers, and other entities.

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