

PART III

APPLICATION

CHAPTER SEVEN

Delivering Socio-Cultural Transformation

MARKETING TO THE POST-GROWTH MARKET

A maturing market always poses a challenge for marketers. There is little or no growth. Existing consumers are knowledgeable and begin to see products as commodities. Creative companies differentiate themselves in this market with great service and exciting experience. All of those may fuel market growth for a while but they will eventually be commodities as well. Marketers need to step up and deliver transformation.¹ Transformation lasts longer as it makes a stronger impact on human lives.

In mature markets such as the United States and the United Kingdom, an increasing number of consumers favor companies whose activities have a positive socio-cultural impact. Consider the following from recent surveys.

- For the past 15 years, surveys by Cone have consistently shown that 85 percent of American consumers have positive images of companies that support social challenges. Even in difficult times, more than half of

the consumers still expect companies to support social challenges.²

- Even during the recession, 38 percent of Americans were undertaking socially-conscious activities in 2009.³
- The majority of consumers in the United Kingdom (93 percent) want companies to improve the social impact of their products and services, according to a survey by Ipsos Mori.⁴

Companies need to address the challenges in society and participate in finding solutions. In the United States, profound social issues include wellness, privacy, and job losses due to offshoring. The challenges have been around for years. Everyone knows them and yet no one would expect any corporation to be able to solve them overnight. Being a marketer in the 3.0 era is not about single-handedly creating change but about collaborating with other companies to find creative ways to solve problems.

Two forces oblige companies in a mature market to support a transformation. These are the need for future growth and the call for strong differentiation. The following two examples show why transforming consumer lifestyles can stimulate growth and create strong differentiation.

Need for Future Growth: Disney on Children's Nutrition

The Walt Disney Company primarily focuses on entertainment. Besides its theme parks, Disney is the world's biggest character franchisor—Mickey Mouse, Donald Duck, Winnie the Pooh and many others—with a comfortable lead against other well-known character owners such as Warner Bros. and Nickelodeon. Recently, Disney acquired one of its competitors, Marvel Comics, for \$4 billion to strengthen its position in the character franchise market.⁵

Besides the focus on entertainment, the company also leverages its access to children by selling consumer products.

In this particular business area, it addresses consumer wellness challenges—obesity specifically—and builds the issue into its business model.⁶ Disney Consumer Products (DCP) is trying to transform the eating habits of children in collaboration with several partners.

In 2004, DCP learned from a UNICEF report that over 30 percent of U.S. children between 5 and 9 years old were overweight and 14 percent were obese. DCP itself was not seen as a major contributor to this problem but was spotlighted because one of its franchisees was McDonald's, which was perceived as a key contributor to child obesity in the United States. To help in the growing health awareness among children and their moms, DCP designed a set of nutrition guidelines called "better for you" which was adapted from the guidelines set by the U.S. Food and Drug Administration (FDA). The internal guidelines outline a basic formula for Disney's franchisees to produce healthy foods. DCP applied the guidelines to Imagination Farms, its franchisee for fresh produce. It also collaborated with Kroger, one of the largest supermarket chains in the United States, to develop Disney-branded private label products based on the guidelines. Today, DCP contributes around 6 percent of the entire Disney business conglomerate's revenues and is part of the global solution for obesity.⁷

The company's move is a strategy to anticipate the emerging trends of health conscious consumers. The best strategy is to engage the future consumers: the children. Connecting with them early in their lives will help Disney capture future growth in the mature market.

Call for Strong Differentiation: Wegmans on Healthy Living

As a category killer, Wal-Mart poses a great threat to supermarkets. The only differentiation that other grocers rely on is the spatial differentiation due to their more convenient store locations. That differentiation is now relatively weak after Wal-Mart's move into neighborhood markets. Without

stronger differentiation, grocers will have difficulty justifying their higher prices and competing against Wal-Mart's everyday lower prices.

To cope with this challenge, several grocers have worked to build up their differentiation and, in the process, transform the lifestyles of their consumers. Wegmans Food Markets is one example. A privately-owned supermarket chain that promotes a healthy lifestyle, Wegmans is rated one of the best companies in *Fortune* magazine's annual survey of best companies to work for.⁸ It supports its employees in developing healthy lifestyles. Wegmans is also considered one of the best in merchandising and creating comprehensive in-store experiences with its supplementary pharmacy, wine shop, video rentals, dry cleaner, bookstore, and child play area. The store's retail floor productivity is above average and its operating margin is better than that of Wal-Mart and even Whole Foods.

Wegmans has popularized the concept of "home meal replacement" by providing healthy and tasty prepared foods. It promotes the "eat well, live well" principle, which is a combination of eating fruits and vegetables, doing physical exercise, tracking calories, and measuring progress on a health index. Wegmans believes that health is highly correlated with nutrition and that promoting a healthy lifestyle contributes to the community and is good for its business. Along with other grocers such as Whole Foods, the company is creating game-changing rules for the industry. As consumer health awareness increases, other grocers are using the issue of health as a differentiator. Even Wal-Mart is forced to address the issue of health in its marketing activities. Stronger differentiation on the part of other grocers reduces Wal-Mart's ability to be a category killer in the grocery segment.⁹

FROM PHILANTHROPY TO TRANSFORMATION

More businesses are addressing social issues through philanthropy. Companies donate a portion of their revenues to charities or a specific social cause. Education is known to be the

favorite object for philanthropy in which 75 percent of companies are participating.¹⁰ Although the donations will help a good cause, many companies use philanthropy primarily to improve their reputation or get a tax deduction.

Philanthropy is not limited to the mature markets in the West. In emerging markets, philanthropy is even more popular. Merrill Lynch-Capgemini finds that Asia's millionaires committed 12 percent of their wealth for social causes, while millionaires in North America only contribute 8 percent and those in Europe 5 percent.¹¹

Although philanthropy helps society, we should never overestimate its socio-cultural impact. Recent growth in philanthropy is driven by the changes in the society. People are more concerned about other people around them and are more willing to give back to society. Even in a recession, 75 percent of Americans still donate to a social cause, according to a Gallup poll.¹² But philanthropy does not stimulate transformation in the society. Transformation in the society drives philanthropy. That is why addressing social issues with philanthropic activities will have a rather short-term impact.

A more advanced form of addressing social challenges is cause marketing—a practice where companies support a specific cause through their marketing activities. The American Express Company first used cause marketing when it wanted to help raise money for the repair of the Statue of Liberty. The company said that it would donate 1 percent of the charges to its credit card to the repair fund. Many Americans responded by charging their purchases to the American Express Card instead of Visa or MasterCard.

In cause marketing, companies direct their energy, not just their money, to address the cause. They start to link the cause to their products. For example, Quaker launched a campaign against hunger as an effort to promote the health benefit of oatmeal.¹³ A number of actions will be carried out including food drives, grants for social activities, and oatmeal donations. Haagen-Dazs' "Help the Honey Bee" program aims at preserving colonies of honey bees and positions honey bees as an important source of food supply, especially for making

ice cream.¹⁴ Through social media, consumers are encouraged to plant flowers and eat natural foods to help the bees. Two groceries, Waitrose in the United Kingdom and Whole Foods in the United States, are practicing cause marketing.¹⁵ Every time consumers shop, they will be handed a token, which they can insert into any local charity box they want. At the end of the campaign, the tokens in each box will be exchanged for cash and donated to the designated charity.

Many philanthropic companies have chosen to support a specific cause that appeals to their specific consumers or employees. The Avon Corporation has helped raised over one hundred million dollars to support breast cancer research.¹⁶ Clearly, its customers are primarily women and Avon wants to help in this cause that is primarily associated with women. Motorola is generous in supporting major engineering schools. Motorola profits from improved teaching and research in engineering schools in that they hire many engineers.¹⁷

Philanthropy and cause marketing have been gaining popularity in recent years. A global survey by Edelman suggests that 85 percent of consumers prefer socially responsible brands, 70 percent will pay more for the brands, and 55 percent will even recommend the brands to their family and friends.¹⁸ Companies are aware of this fact. They are increasingly recognizing that their employees, consumers, and the public at large develop a view of a company not only based on the quality of its products and services but also on its degree of social responsibility. A majority of business executives around the world (95 percent) acknowledged that business has to contribute to society.¹⁹ They predicted that demand from consumers and employees to support social causes will influence their strategy in the next five years.

Today, both philanthropy and cause marketing are still working but they are not used strategically. They are often only part of a public relations or marketing communications strategy. Therefore, they are not shaping the view of top-level executives and how executives run their businesses.

Corporate executives still see social causes as a responsibility instead of an opportunity to create growth and differentiation.

Another issue is that company philanthropy may lead to some consumer involvement but doesn't tend to empower or transform them. Their lifestyles stay the same. Empowerment means self-actualization. It is about allowing your consumers to move up the Maslow pyramid and fulfill their higher needs. Creating transformation is the ultimate form of marketing to the mature market.

In Marketing 3.0, addressing social challenges should not be viewed only as a tool of public relations or as a way to diffuse criticism of some negative fallout from the company's practices. On the contrary, companies should act as good corporate citizens and address social problems deeply within their business models. Some companies can strengthen their impact by moving from philanthropy and cause marketing campaigns into socio-cultural transformation (see Figure 7.1).

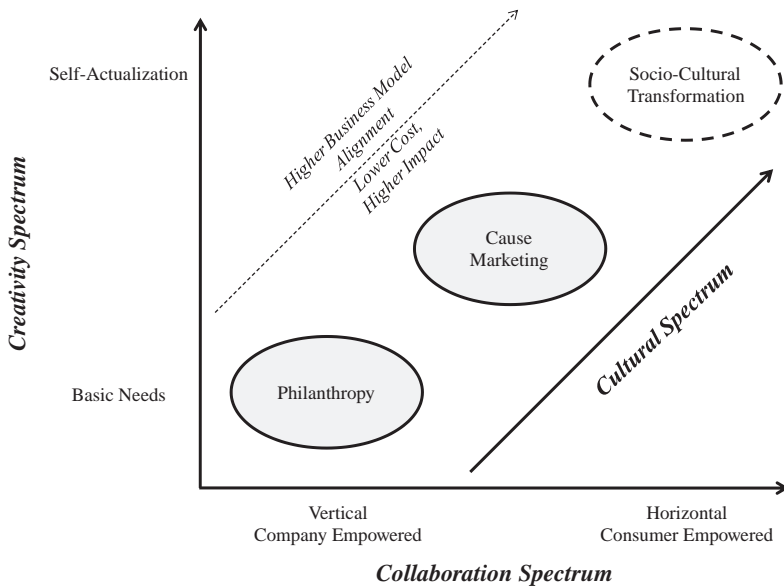


Figure 7.1 Three Stages of Addressing Social Issues in Marketing

Socio-cultural transformation sees consumers as human beings who should be empowered to move up the Maslow pyramid. It is more relevant to companies not only at the product level but also at the business model level. By utilizing the power of collaboration, it can lower cost and create higher impact.

THREE STEPS TO TRANSFORMATION

Delivering socio-cultural transformation involves a three-step process that begins with defining which challenges to address (see Figure 7.2). Once specific challenges are chosen, a company should define its key constituents who mainly include its target market and the surrounding stakeholders and community where it does business. The final step is to offer transformational solutions.

Identify Socio-Cultural Challenges

A company should choose to promote issues based on three criteria: the relevance with its vision-mission-values, the business impact, and the social impact.

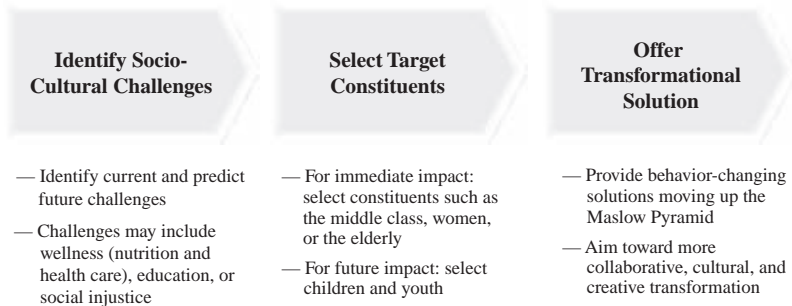


Figure 7.2 Three Steps of Creating Socio-Cultural Transformation

In mature markets, wellness is the one popular social cause that many companies are addressing. Health care costs in the United States have reached 16 percent of the total GDP, or \$2 billion per year since 2006.²⁰ But the interesting fact is that the majority of the health problems are caused by bad, yet preventable, lifestyle behaviors. Around 45 percent of premature deaths are caused by obesity, unfitnes, and smoking. A significant number of people in the United States are either overweight or obese. Instead of exercising regularly, they smoke. These lifestyles create serious burdens on the economy. Hence, changing the lifestyles of consumers could have a major impact not only on society's wellness but also on the economy.

Wellness itself is a broad theme that includes several sub-themes such as malnutrition, imbalanced diet, obesity, and unfitnes; various kinds of disease and epidemics; natural disaster and refugees; personal and work safety; and many others. Companies that choose nutrition themes include well-known companies such as organics advocate Whole Foods and slimming advocate Subway. Themes like disease prevention and medication are the province of pharmaceutical companies such as Merck, GlaxoSmithKline, and Novartis, which are improving access to specific medicines in certain communities.

Education is also one of the most popular themes. While wellness themes are generally selected by food and beverage, grocery retail, and pharmaceutical companies, education themes are often selected by services companies. One of the prominent cause marketing programs in education is IBM's Reinventing Education. The program leverages IBM's resources (researchers, consultants, and technology) to help schools around the world in executing their educational transformation. The program has strategic importance to IBM especially in developing talents to support its future business. Another education program by IBM is the KidSmart Early Learning Program. The software and web-based program is

utilized by 2.6 million children in 60 countries to enhance their learning experience.

Social justice is another popular theme and includes fair trade, employment diversity, and empowerment of women. One of the well-known companies that has chosen social justice as its key theme is The Body Shop. The values such as “support community trade” and “no animal testing” and programs such as “Stop Violence in the Home” are reflections of the company’s commitment to promoting social justice. Social justice also covers the issue of offshoring. The emergence of China and India poses significant challenges in developed nations. As companies pursue efficiency and move offshore, many people lose their jobs and the economy may potentially be hurt.²¹

Privacy is another issue. The rise of consumer-centricity, especially the one-to-one marketing in the last few years, spurs the use of data mining tools. Consumers are dynamically profiled every time they use their loyalty card or credit card. In pursuit of behavioral insights, consumers are ethnographically videotaped with surveillance cameras in retail stores. Social media and Google searches may reveal identities of consumers publicly. This is a dilemma in Marketing 3.0: as consumers are increasingly networked, they have no personal space. IBM, together with vendors from Eclipse Group, tries to solve this social challenge with the Higgins project.²² Higgins will allow consumers to browse the Internet without the fear of losing their privacy. It will mask consumers’ personal identities while active on their networks.

Select Target Constituents

The selection of target constituents also requires understanding a company’s key stakeholders—especially the consumers, employees, distributors, dealers, suppliers, and public at large. To make a significant impact, companies should choose constituents that have major influence in the overall society.

There are typically three types of constituents. Gender and age groups such as women, youth, and the elderly are the first. Women are often underestimated for their potential. In the book *Don't Think Pink*, the authors point out that a large number of women not only contribute half of the household income and own businesses but also act as purchasing agents in the home and in the office.²³ Silverstein and Sayre argue that women will drive the economy due to their purchasing power (\$13 trillion in annual income), which is more than twice the combined GDP forecast of China and India in 2009.²⁴ Women also hold the decision making power when it comes to important issues such as food and fitness. These two issues are the major roots of many social problems related to health care. Moreover, consumer empowerment will work better for women than for men. Some 44 percent of women do not feel empowered and therefore seek out empowering brands.

Targeting the oldest and the youngest members of the society—the baby boomers and Gen Y—will give companies an opportunity to make an impact as well. A survey by the Hidden Brain Drain Task Force as well as the complementary focus groups and interviews conducted by Hewlett, Sherbin, and Sumberg revealed this fact.²⁵ Both the top and bottom age segments love to contribute to society (86 percent of Gen Y and 85 percent of baby boomers) even more than the segments between them.

Youth are more aware of social issues according to a poll by Youthography. About 90 percent of American youth consider social responsibility important in their purchase decisions. Moreover, children and youth are considered the future consumers. For that reason, they are typically a key constituent for nutrition and education. In countries with aging populations such as Japan and most countries in Europe, the elderly are considered a primary target market for health products and services.²⁶ In many cases, they could become the key constituents for social justice and disease prevention.

The second type of constituent is the middle-class group. Persons in the middle class are not poor but have limited resources. Eduardo Giannetti da Fonseca, a distinguished Brazilian economist, defines the middle class as “people who are not resigned to a life of poverty, who are prepared to make sacrifices to create a better life for themselves but who have not started with life’s material problems solved because they have material assets to make their lives easy.”²⁷ The middle class is the biggest consumer market, but people in the group have major challenges with wellness, education, and social justice. Therefore, addressing such themes may attract the middle class as key constituents.

The third type of constituent are minority groups. This segment includes certain races, religious believers, and the disabled who lack empowerment in society. The group is most often a constituent for the diversity cause. *Fortune* magazine annually ranks 100 best companies to work in for minorities. The magazine’s 2009 list of the most diverse employers includes companies such as Four Seasons Hotel, Qualcomm, T-Mobile, and Cisco Systems which have more than 40 percent minority employees.

Offer Transformational Solution

The final step is to provide the transformational solutions. A survey by McKinsey revealed that companies are expected to solve social challenges by creating jobs (65 percent), developing breakthrough innovation (43 percent), and making products or services that provide solutions to the issues (41 percent).²⁸

Office Depot, for instance, tries to help society by creating jobs by doing business with small vendors from historically underutilized businesses or HUBs.²⁹ Office Depot is also inspired by the local hiring practices of one of its vendors, Master Manufacturing, a company that produces chair casters and cushions. The company creates jobs for minorities and it has become one of its key differentiations. Office Depot,

by collaborating with HUBs, gains competitive advantage and demand for their products is high. More importantly, it creates local jobs as a way to combat the issue of offshoring.

Breakthrough innovations aim at moving human beings up the Maslow Pyramid. IDEO, a design company, creates an innovative approach called the Human-Centered Design.³⁰ It views solutions through three lenses: desirability (how deep is the need for the solution), feasibility (how possible is it to execute technically and organizationally), and viability (how promising is it from a financial perspective).

Companies can adopt this open-source approach by conducting a three-phase process: hear, create, and deliver. In the hear phase, a team of multidisciplinary people will do the deep dive, ethnographic research done to reveal hidden challenges in detail. The team will immerse itself in select communities and capture stories and metaphors and try to understand the human needs of the target constituents. In the create phase, they will identify opportunities, design solutions, and develop prototypes through synthesis and brainstorming. The team will assess the desirability through feedback loops. Finally, in the deliver phase, they will do feasibility and viability assessment and develop the plans.

Remember that companies are not expected to do the transformation alone. They have to collaborate with one another and with the stakeholders. In fact, they must collaborate with their competitors. Whole Foods and Wegmans, for instance, are essentially competitors. But together they stimulate a giant competitor like Wal-Mart to advocate healthy living. All three of them are cocreating transformation in the society.

SUMMARY: BUILDING TRANSFORMATION INTO YOUR COMPANY'S CHARACTER

Companies are traditionally started for the purpose of making a profit through satisfying some set of market wants and

desires. If they succeed and grow, they will usually receive requests to make donations to worthwhile causes. They may handle this by giving miscellaneous small contributions or by establishing cause marketing campaigns.

Over time, then, the public begins to expect companies to operate as engines for socio-cultural development and not engines for profit making. An increasing number of consumers might begin to judge companies in part by their level of commitment to public and social issues. Some companies may rise to the occasion by building social challenge into the very fabric of their character. They transform the society. At that point, such companies have entered the Marketing 3.0 stage of being.

NOTES

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