We are in a system of 'fouling our own nest', so long as we behave as independent, rational, free-enterprises.

GARRETT HARDING

CHAPTER five

Marketing and society:

social responsibility and marketing ethics

Chapter objectives

After reading this chapter, you should be able to:

- Identify the major social criticisms of marketing.
- Define *consumerism* and *environmentalism* and explain how they affect marketing strategies.
- Describe the principles of socially responsible marketing.
- Explain the role of ethics in marketing.

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◀ SOURCE: STIVORO-Dutch Foundation on Smoking and Health. *Agency*: BVH Communicatie-adviesbureau, Netherlands. *Photographer*: © Gerdjan van der Lugt.

Prelude case NSPCC: misunderstood

When the National Society for the Prevention of Cruelty to Children (NSPCC) released its year-end annual accounts in December 2000, it promptly received condemnation. The revelation that the charity spent more on fundraising, publicity, campaigning and administration than on direct services to children (£43 m or €70.5 m compared with £32 m) was a sign of complete incompetence, according to Gerald Howarth, Conservative MP for Aldershot. He vowed to stop backing the NSPCC's high-profile Full Stop campaign.

The NSPCC would be foolish not to exploit celebrities willing to donate their time free of charge.

According to Quentin Anderson, chief executive of Addison, the corporate marketing arm of WPP Group, such swift dismissal of the NSPCC strategy is unwise and fails to recognise the professional makeover many charities have undertaken in recent years. Charities are now highly organised operations. In line with environmental and social pressure groups they have adopted a more businesslike approach, which is essential if they are to survive in a crowded sector. When arguing how big the various components of the NSPCC's budget should be, detractors must remember that there is a total of £75 m to disburse. Charities need highly skilled staff to manage such funds.

The NSPCC's campaign makes sense. The charity has stated that its long-term objectives are to raise social awareness of child cruelty and to raise £250 m through the 'Full Stop' initiative. If people do not understand what the charity's directors are trying to achieve in the long term, they will judge them on short-term results. With the NSPCC, these include a £13.5 m overspend for the last financial year. The NSPCC needs to ensure that people understand what it is trying to achieve because it needs their help. It needs to show that it is awake, reacting to change and anticipating it. Despite the furor, the NSPCC stuck to their guns and kept campaigning. The advertising is central to NSPCC's mission: '**to end cruelty to children for ever**'. With help from the campaign, 650,000 people had pledged their support for their campaign to achieve a better future for all children.

Marketing is ideally suited to the task the charity has set itself. In crude terms, its route to market is not so obvious as those of other charities. For example, it is comparatively easy for 'Meals on Wheels' to identify where its services are needed and to dedicate the majority of its expenditure to staff and the resources they require. By contrast, the NSPCC has defined its audience as the whole population. By communicating clearly with all communities, it hopes, no doubt, to enlist many more foot soldiers than direct action ever would.

And the campaign has got a lot right. To achieve its aim the NSPCC decided to use celebrities to back its central message that to reduce cruelty to children you need to raise awareness of child cruelty and challenge social attitudes. To reach those at risk it has focused on teenage media. This translates to television, radio, magazines and the Internet.

As a result, visitors to its website will find messages from Kylie Minogue and Ms Dynamite. Other male and female icons, such as Diana Ross, David Beckham and Pelé, have also been highly visible in their support for the 'Full Stop' campaign.

Matching your brand to a superstar is a successful marketing technique and need not be a cause for controversy. Nike pays Tiger Woods handsomely but obviously believes it gets value for money. The NSPCC would be foolish not to exploit celebrities willing to donate their time free of charge. Without Kylie, would the Full Stop campaign receive front-page exposure in the magazines teenagers read?

Because the charity has advertised its brand effectively, victims are more likely to know they can go direct to the 'Kidszone' at its website and obtain professional advice.

So, why should the NSPCC be criticised for spending money and talking about it? The charity understands that dissemination of better information creates confidence in the community. This leads to many benefits, including greater loyalty from donors and a more secure position in the sector. It also avoids the accusation of hoarding funds that has been levelled at many charities.

The negative reaction to the publication of the NSPCC accounts is a sign not that its marketing strategy is failing but that its communications policy is. A first principle for all good communicators is to evolve messages defining what the organisation does and what its aims are. The NSPCC, it appears, has simply released its annual figures and allowed the public to draw its own conclusions.

The annual report, like every communication, should have a specific goal and add value to what has already been done. The NSPCC should have explained better the rationale behind its spending on marketing. It should have made clear that a high level of set-up costs in terms of administration and training is inevitably associated with a campaign such as Full Stop.

It should have demonstrated to donors and opinion-formers that it understands its campaign is expensive. But it should also have left them in no doubt that it thinks raising awareness is the only way to lobby for legislative change and – what really counts – to reach more victims of abuse.[1]

Questions

You should attempt these questions only after completing your reading of this chapter.

1. Who are the charity's target market and what are the main aspects of the service offered by a charity organisation such as the NSPCC?
2. Assess the role of marketing in assisting the charity to achieve its goals. Should the charity spend more on fundraising, publicity, campaigning and administration than on direct services to children?
3. Evaluate the NSPCC's current marketing strategy. Has the charity got its current marketing strategy wrong? Or are the problems due to its communication policy?

Introduction

Responsible marketers discover what consumers want and respond with marketing offers that give satisfaction and value to buyers and profit to the producer. The *marketing concept* is a philosophy of customer service and mutual gain. Its practice leads the economy by an invisible hand to satisfy the many and changing needs of millions of consumers.

Not all marketers follow the marketing concept, however. In fact, some companies use questionable marketing practices, and some marketing actions that seem innocent in themselves strongly affect the larger society. Consider the sale of cigarettes. On the face of it, companies should be free to sell cigarettes and smokers should be free to buy them. But this transaction affects the public interest. First, the smokers are harming their health and may be shortening their own lives. Second, smoking places a financial burden on the smoker's family and on society at large. Third, other people around smokers may suffer discomfort and harm from secondhand smoke. Finally, marketing cigarettes to adults might also influence young people to begin smoking. Not surprising, the marketing of tobacco products has sparked substantial debate and negotiation in recent years.[2] This example shows that private transactions may involve larger questions of public policy.

Marketers face difficult decisions when choosing to serve customers profitably, on the one hand, and seeking to maintain a close fit between consumers' wants or desires and societal welfare, on the other. This chapter examines the social effects of private marketing practices. We focus on marketing as a social institution. We examine several questions: What are the most frequent social criticisms of marketing? What steps have private citizens taken to curb marketing ills? What steps have legislators and government agencies taken to curb marketing

The NSPCC's 'Full Stop' campaign. To reach its various target audiences, the charity organisation has to spend huge sums on fundraising and marketing campaigns. Critics, however, question whether the organisation should spend more on marketing campaigns and administration than on direct services to children.
SOURCE: NSPCC. *Photographer*: Matt. Harris.

ills? What steps have enlightened companies taken to carry out socially responsible and ethical marketing? We examine how marketing affects and is affected by each of these issues. You will see that social responsibility and ethical actions are more than just the right thing to do; they are also good for business. In addition, as the prelude case suggests, the issues of public accountability, social responsibility and ethical behaviour are also relevant for not-for-profit organisations.

Social criticisms of marketing

Marketing receives much criticism. Some of this criticism is justified; much is not. Social critics claim that certain marketing practices hurt individual consumers, society as a whole and other business firms.

Marketing's impact on individual consumers

Consumers have many concerns about how well marketing and businesses, as a whole, serve their interests. Consumers, consumer advocates, government agencies and other critics have accused marketing of harming consumers through high prices, deceptive practices, high-pressure selling, shoddy or unsafe products, planned obsolescence and poor service to disadvantaged consumers.

High prices

Many critics charge that marketing practices raise the cost of goods and cause prices to be higher than they would be under more 'sensible' systems. They point to three factors: *high costs of distribution*, *high advertising and promotion costs* and *excessive mark-ups*.

High costs of distribution

A long-standing charge is that greedy intermediaries mark up prices beyond the value of their services. Critics charge either that there are too many intermediaries, or that intermediaries are inefficient and poorly run, or that they provide unnecessary or duplicated services. As a result, distribution costs too much and consumers pay for these excessive costs in the form of higher prices.

How do resellers answer these charges? They argue that intermediaries do work which would otherwise have to be done by manufacturers or consumers. Mark-ups reflect services that consumers themselves want – more convenience, larger stores and assortment, longer store opening hours, return privileges and others. Moreover, the costs of operating stores keep rising, forcing retailers to raise their prices. In fact, they argue, retail competition is so intense that margins are actually quite low: for example, after taxes, supermarket chains are typically left with barely 1 per cent profit on their sales. If some resellers try to charge too much relative to the value they add, other resellers will step in with lower prices. Low-price stores and other discounters pressure their competitors to operate efficiently and keep their prices down.

High advertising and promotion costs

Modern marketing is also accused of pushing up prices because of heavy advertising and sales promotion. For example, a dozen tablets of a heavily promoted brand of aspirin sell for the same price as 100 tablets of less promoted (often termed 'generic') brands. Differentiated products – cosmetics, detergents, toiletries – include promotion and packaging costs that can amount to 40 per cent or more of the manufacturer's price to the retailer. Critics charge that much of the packaging and promotion adds only psychological value to the product rather than real functional value. Retailers use additional promotion – advertising, displays and sweepstakes – that add even more to retail prices.

Marketers respond by saying that consumers can usually buy functional versions of products at lower prices. However, they *want* and are willing to pay more for products that also provide psychological benefits – that make them feel wealthy, attractive or special. Brand-name products may cost more, but branding gives buyers assurances of consistent quality. Heavy advertising adds to product costs but is needed to inform millions of potential buyers of the availability and merits of a brand. If consumers want to know what is available on the market, they must expect manufacturers to spend large sums of money on advertising. Also, heavy advertising and promotion may be necessary for a firm to match competitors' efforts. The business would lose 'share of mind' if it did not match competitive spending. At the same time, companies are cost conscious about promotion and try to spend their money wisely.

Excessive mark-ups

Critics also charge that some companies mark up goods excessively. They point to the drug industry, where a pill costing 10 cents to make may cost the consumer €4 to buy. They point to the pricing tactics of perfume manufacturers, who take advantage of customers' ignorance of the true worth of a 50 g bottle of Chanel perfume, while preying on their desire to fulfil emotional needs.

Marketers respond that most businesses try to deal fairly with consumers because they want repeat business. Most consumer abuses are unintentional. When shady marketers do take advantage of consumers, they should be reported to industry watchdogs and to other consumer-interest or consumer-protection groups. Marketers also stress that consumers often don't understand the reason for high mark-ups. For example, pharmaceutical mark-ups must cover the costs of purchasing, promoting and distributing existing medicines, plus the high research and development costs of formulating and testing new medicines.

Deceptive practices

Marketers are sometimes accused of deceptive practices that lead consumers to believe they will get more value than they actually do. Deceptive marketing practices fall into three groups: *deceptive pricing*, *promotion* and *packaging*. Deceptive pricing includes practices such as falsely advertising 'factory' or 'wholesale' prices or a large price reduction from a phoney high retail list price. Deceptive promotion includes practices such as overstating the product's features or performance, luring the customer to the store for a bargain that is out of stock, or running

The ASA advertises its services to those it seeks to protect – the consumers, offering them the opportunity to terminate advertising campaigns if they are in conflict with views of acceptability as perceived by the general public.
SOURCE: ASA, London.

rigged contests. Deceptive packaging includes exaggerating package contents through subtle design, not filling the package to the top, using misleading labelling, or describing size in misleading terms.

Deceptive practices have led to legislation and other consumer-protection actions. For example, European directives such as the Council Directive 93/35/EEC paved the way for far-reaching changes to cosmetics laws. The legislation controls the constituents of cosmetic products and accompanying instructions and warnings about use. It also specifies requirements for marketing of cosmetic products, including product claims, labelling, information on packaging and details about the product's intended function. Where a product claims to remove 'unsightly cellulite' or make the user look '20 years younger', proofs must be documented and made available to the enforcement authorities. These laws also require clear details specifying where animal testing has been carried out on both the finished product and/or its ingredients. In recognition of the increased public resistance to animal testing, a limited EU ban on animal testing for cosmetic ingredients has been in force since 1 January 1998.

Similar directives are found to regulate industry practices in the United States. The Federal Trade Commission (FTC), which has the power to regulate 'unfair or deceptive acts or practices', has published several guidelines listing deceptive practices. The toughest problem is defining what is 'deceptive'. For example, some years ago, Shell Oil advertised that Super Shell petrol with platformate gave more mileage than did the same fuel without platformate. Now this was true, but what Shell did not say is that almost *all* petrol includes platformate. Its defence was that it had never claimed that platformate was found only in Shell petroleum fuel. But even though the message was literally true, the FTC felt that the ad's *intent* was to deceive.

Marketers argue that most companies avoid deceptive practices because such practices harm their business in the long run. If consumers do not get what they expect, they will switch to more reliable products. In addition, consumers usually protect themselves from deception. Most consumers recognise a marketer's selling intent and are careful when they buy, sometimes to the point of not believing completely true product claims. One noted marketing thinker, Theodore Levitt, claims that some advertising puffery is bound to occur – and that it may even be desirable:

> There is hardly a company that would not go down in ruin if it refused to provide fluff, because nobody will buy pure functionality. . . . Worse, it denies . . . people's honest needs and values. Without distortion, embellishment and elaboration, life would be drab, dull, anguished and at its existential worst . . .[3]

High-pressure selling

Salespeople are sometimes accused of high-pressure selling that persuades people to buy goods they had no thought of buying. It is often said that cars, insurance, property and home improvement plans are *sold*, not *bought*. Salespeople are trained to deliver smooth, canned talks to entice purchase. They sell hard because commissions and sales contests promise big prizes to those who sell the most.

Marketers know that buyers can often be talked into buying unwanted or unneeded things. A key question is whether industry self-regulatory or trading standards bodies, consumer-protection laws and consumer-interest groups are sufficiently effective in checking and curbing unsavoury sales practices. In this modern era, it is encouraging to note that one or more of these can work to the advantage of consumers. Or, where deceptive practices are carried out, regulators will catch out wrongdoers, who will invariably pay the penalties for irresponsible marketing. In most cases, marketers have little to gain from high-pressure selling. Such tactics may work in one-time selling situations for short-term gain.

As a result of the Financial Services Authority (FSA) investigations into sales practices at life assurance companies in the late 1980s and during the 1990s, hosts of life assurance firms are facing penalties for mis-selling products ranging from endowment mortgages to personal pension funds. Oral persuasion was used by sales forces to entice clients to buy unsuitable products. Amongst the headline-grabbing penalties imposed by the FSA is Abbey Life's £1m (€1.5m) fine. Up to 46,000 people were mis-sold Abbey Life endowment mortgages, while a further 4,000 customers mis-sold other financial products are expected to receive compensation. Lloyds TSB, which owns Abbey Life, is known to have set aside £165m to cover these compensation costs. At least a dozen other life assurance companies have been fined a total of nearly £1 million for failing to ensure that potential customers were fully informed about different policies. Those singled out, including Scottish Widows, Guardian Royal Exchange, General Accident, Commercial Union and Norwich Union, were severely reprimanded for mis-selling, offering poor value to customers who surrender their policies early and exploiting customers' ignorance. One industry source states that endowment mortgage mis-selling has prompted 50,000 complaints up until 2003, and could cost the industry more than the £14bn cost of personal pensions mis-selling. The Consumers' Association, however, believes that up to 5 million people have been sold endowments and has been encouraging policyholders to make complaints.[4] ”

However, most selling involves building long-term relationships with valued customers. High-pressure or deceptive selling can do serious damage to such relationships. For example, imagine a Lever account manager trying to pressure a Tesco buyer, or an IBM salesperson trying to browbeat a Siemens information technology manager. It simply wouldn't work.

Shoddy or unsafe products

Another criticism is that products lack the quality they should have. One complaint is that products are not made well and services not performed well. A second complaint is that some products deliver little benefit. For example, some consumers are surprised to learn that many of the 'healthy' foods being marketed today, such as cholesterol-free salad dressings, low-fat frozen dinners and high-fibre bran cereals, may have little nutritional value.[5]

In order to persuade customers to buy their brand rather than any other, manufacturers sometimes make claims that are not fully substantiated.

The recent spate of food scares, the rise in obesity and the increasing popularity of functional food products that claim to have beneficial effects on consumer health have spurred the European Commission into action. Planned legislation would ban companies from using claims 'that make reference to general, non-specific benefits to overall good health, well-being and normal functioning of the body'. So, slogans such as '90 per cent fat-free' and 'strengthens your body natural defences' would be prohibited. According to David Byrne, EU Commissioner for health and consumer safety, there is a need to ensure that consumers are not fooled by information provided on the products. A fundamental requirement is that consumers are protected. The Commission's proposals for new legislation have been welcomed by consumers' associations across EU countries. These proposals would ban food companies from making 'misleading' claims about the effects of their products. Jim Murray, director of BEUC, the European consumer association, adds 'We are strongly in favour of regulation. With all these claims there is the danger that people see food products as magic bullets, and move away from a balanced diet – which is the best guarantee of good health and good nutrition.'

The food industry, however, is less enthusiastic. They welcome regulations that would allow companies to use the same labelling across the EU, but fear that the Commission may be overstepping the mark. It may be easy to see why. The new regulations would mean that Nestlé LCI yoghurts, Danone Actimel drinkable yoghurt range and Unilever's Latta margarine would not be able to claim to stimulate, help or strengthen your body's natural defences. Neither would Kellogg's, the breakfast cereal giant, be allowed to use the little symbols to indicate the health benefits that it puts on cereals in its range.[6] ”

A third complaint concerns product safety. Product safety has been a problem for several reasons, including manufacturer indifference, increased production complexity, poorly trained labour and poor quality control. Consider the following cases of costly and image-damaging crises brought upon several car manufacturers:

In the late 1990s, Chrysler issued one of the largest product recall notices in the history of the motoring industry, calling back 900,000 vehicles, ranging from pick-ups to a selection of 'people carriers' including the Voyager, Wrangler and Jeep Cherokee models, for a variety of reasons in seven different recalls. Another example is provided by VW which recalled 350,000 of its models worldwide because of a potentially faulty electric cable, as well as some 950,000 Golfs, Jettas, Passats and Corrados because of problems, including a cooling system fault, which could potentially damage engines and injure passengers. Even Rolls-Royce was forced to check some of its Bentley Continental T sports coupés (at €360,000 apiece) because of concerns that airbags were firing unexpectedly.[7] ”

For years, consumer protection groups or associations in many countries have regularly tested products for safety, and have reported hazards found in tested products, such as electrical dangers in appliances, and injury risks from lawnmowers and faulty car design. The testing and reporting activities of these organisations have helped consumers make better buying decisions and have encouraged businesses to eliminate product flaws. Marketers may sometimes face dilemmas when seeking to balance consumer needs and social responsibility. For example, no amount of test results can guarantee product safety in cars if consumers value speed and power more than safety features. Buyers might choose a less expensive chainsaw without a safety guard, although society or a government regulatory agency might deem it irresponsible and unethical for the manufacturer to sell it.

However, most responsible manufacturers *want* to produce quality goods. The way a company deals with product quality and safety problems can damage or help its reputation. Companies selling poor-quality or unsafe products risk damaging conflicts with consumer groups and regulators. Moreover, unsafe products can result in product liability suits and large awards for damages. Consumers who are unhappy with a firm's products may avoid future purchases and talk other consumers into doing the same. Consider what happened to Bridgestone/Firestone following its recent recall of 6.5 million flawed Firestone tyres. Product liability and safety concerns have driven the company to the edge of bankruptcy.[8]

Thus, quality missteps can have severe consequences. Today's marketers know that customer-driven quality results in customer satisfaction, which in turn creates profitable customer relationships.

Planned obsolescence

Critics have charged that some producers follow a programme of **planned obsolescence**, causing their products to become obsolete before they need replacement. For example, some critics charge that some producers continually change consumer concepts of acceptable styles in order to encourage more and earlier buying. An obvious example is constantly changing clothing fashions.

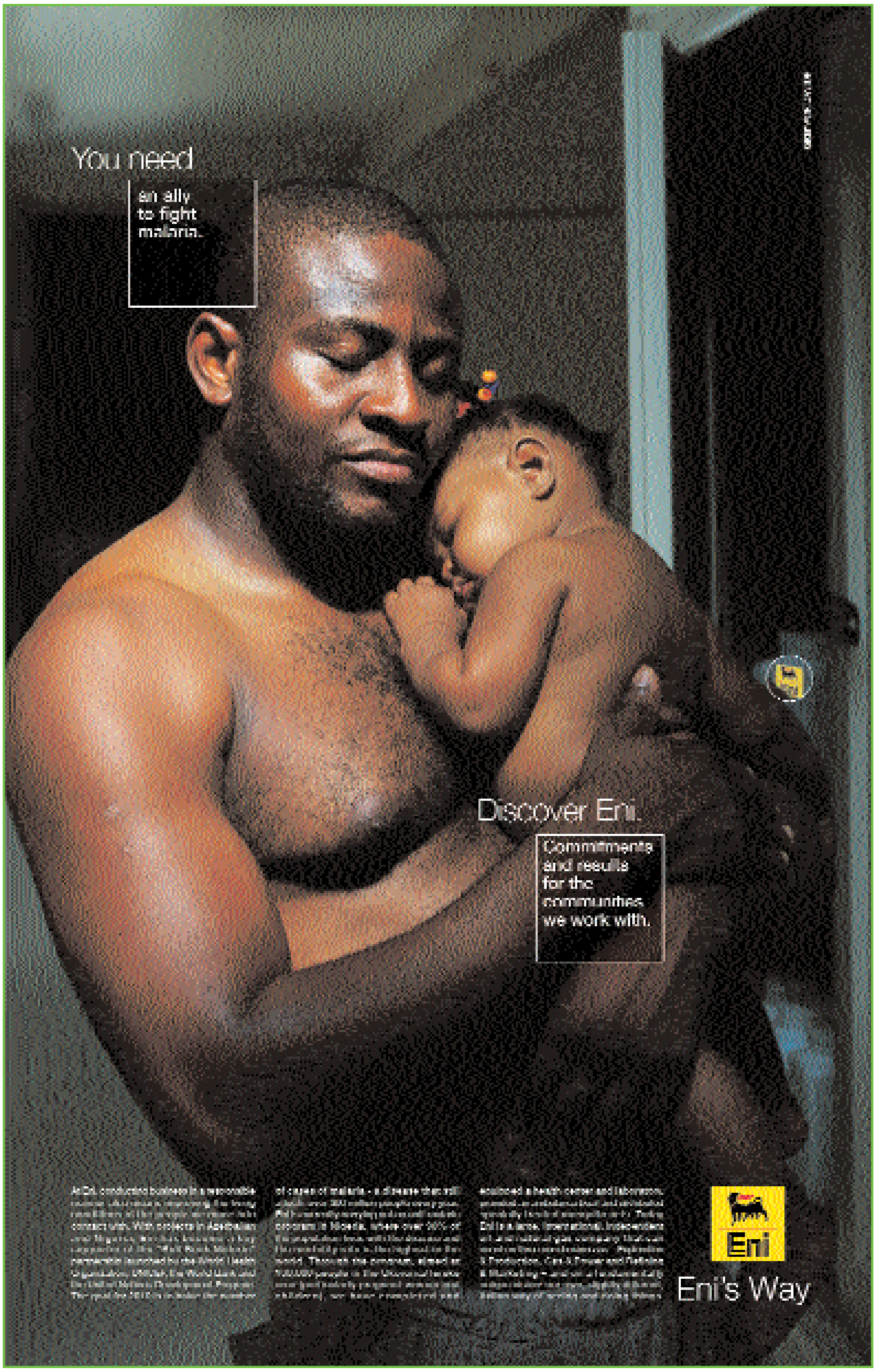
Planned obsolescence—A strategy of causing products to become obsolete before they actually need replacement.

Other producers are accused of holding back attractive functional features, then introducing them later to make older models obsolete. Critics claim that this practice is frequently found in the consumer electronics and computer industry. For example, Intel and Microsoft have been accused in recent years of holding back their next-generation computer chips or software until demand is exhausted for the current generation. Consumers have also expressed annoyance with Japanese camera, watch and consumer electronics companies' policy of rapid and frequent model replacement. Rapid obsolescence has created difficulties in obtaining spare parts for old models. Moreover, dealers refuse to repair outdated models and planned obsolescence rapidly erodes basic product values. Still other producers are accused of using materials and components that will break, wear, rust, or rot sooner than they should.

Marketers respond that consumers *like* style changes; they get tired of the old goods and want a new look in fashion or a new design in cars. No one has to buy the new look, and if too few people like it, it will simply fail. For most technical products, customers *want* the latest innovations, even if older models still work. Companies that withhold new features do so when these features are not fully tested, when they add more cost to the product than consumers are willing to pay, and for other good reasons. But they do so at the risk that a competitor will introduce the new feature and steal the market. Moreover, companies often put in new materials to lower their costs and prices. Thus, companies do not design their products to break down earlier, because they do not want to lose their customers to other brands. Instead, they seek constant improvement to ensure that products will consistently meet or exceed customer expectations. Much of so-called planned obsolescence is the working of the competitive and technological forces in a free society – forces that lead to ever-improving goods and services.[9]

Poor service to disadvantaged consumers

Finally, marketing has been accused of poorly serving disadvantaged consumers. Critics claim that the urban poor often have to shop in smaller stores that carry inferior goods and charge higher prices. Marketing's eye on profits also means that disadvantaged consumers are not viable segments to target. The high-income consumer is the preferred target. Or, that



Eni demonstrates its commitment to improving the living conditions of local communities through its anti-malaria programme in Nigeria, where over 90 per cent of the population lives with the disease and the mortality rate is the highest in the world.

SOURCE: *Agency*: Eni/Grey Worldwide Italy. *Photographer*: Peter Lavery, www.peterlavery.com.

corporations, for all their might and power, are not doing enough to enhance the quality of life or living conditions of the local communities their businesses depend on.

Clearly, better marketing systems must be built in low-income areas – one measure is to get large retailers to open outlets in low-income areas. Moreover, low-income people often need consumer protection. Consumer-protection agencies should take action against suppliers who advertise false values, sell old merchandise as new, or charge too much for credit. Offenders who deliver poor value should be expected to compensate customers, as we have seen in the case of endowment and pension products mis-selling in the UK financial services industry.

We now turn to social critics' assessment of how marketing affects society as a whole.

Marketing's impact on society as a whole

The marketing system, as we – in Europe and other developed economies such as North America – are experiencing it, has been accused of adding to several 'evils' in our society at large. Advertising has been a special target. It has been blamed for creating false wants, fostering greedy aspirations and urging too much materialism in our society.

False wants and too much materialism

Critics have charged that the marketing system urges too much interest in material possessions. People are judged by what they *own* rather than by who they *are*. To be considered successful, people must own a large home or smart-looking apartment in a prime residential area, expensive cars, the latest (or best) designer clothing and high-tech gadgets. This drive for wealth and possessions hit new highs in the 1980s, when phrases such as 'greed is good' and 'shop till you drop' seemed to characterise the times. In the new millennium, even though many social scientists have noted a reaction against the opulence and waste of the previous decades and a return to more basic values and social commitment, our infatuation with material things continues.

The critics do not view this interest in material things as a natural state of mind, but rather as a matter of false wants created by marketing. Businesses spend huge sums of money to hire advertising agencies to stimulate people's desires for goods, and advertisers use the mass media to create materialistic models of the good life. People work harder to earn the necessary money. Their purchases increase the output of the nation's industry, and industry, in turn, uses the advertising industry to stimulate more desire for the industrial output. Thus marketing is seen as creating false wants that benefit industry more than they benefit consumers.

These criticisms overstate the power of business to create needs. People have strong defences against advertising and other marketing tools. Marketers are most effective when they appeal to existing wants rather than when they attempt to create new ones. Furthermore, people seek information when making important purchases and often do not rely on single sources. Even minor purchases that may be affected by advertising messages lead to repeat purchases only if the product performs as promised. Finally, the high failure rate of new products shows that companies are not able to control demand.

On a deeper level, our wants and values are influenced not only by marketers, but also by family, peer groups, religion, ethnic background and education. If modern societies, wherever they exist, are highly materialistic, these values arose out of basic socialisation processes that go much deeper than business and mass media could produce alone. The importance of wealth and material possessions to the overseas Chinese, for example, is explained more by cultural and socialisation factors than by sustained exposure to western advertising influences. Moreover, in affluent economies such as America, some social critics see materialism as a positive and rewarding force:

> When we purchase an object, what we really buy is meaning. Commercialism is the water we swim in, the air we breathe, our sunlight and our shade. . . . Materialism is a vital source of meaning and happiness in the modern world. . . . We have not just asked to go this way, we have demanded. Now most of the world is lining up, pushing and shoving, eager to elbow into the mall. Getting and spending has become the most passionate, and often the most imaginative, endeavor of modern life. While this is dreary and depressing to some, as doubtless it should be, it is liberating and democratic to many more.[10]

Too few social goods

Business has been accused of overselling private goods at the expense of public goods. As private goods increase, they require more public services that are usually not forthcoming. For example, an increase in car ownership (private good) requires more roads, traffic control, parking spaces and police services (public goods). The overselling of private goods results in 'social costs'. For cars, the social costs include excessive traffic congestion, air pollution, and deaths and injuries from car accidents.

A way must be found to restore a balance between private and public goods. One option is to make producers bear the full social costs of their operations. For example, the government could require car manufacturers to build cars with even more safety features and better pollution-control systems. Car makers would then raise their prices to cover extra costs. If buyers found the price of some cars too high, however, the producers of these cars would disappear, and demand would move to those producers that could support both the private and social costs.

A second option is to make consumers pay the social costs. For example, highway authorities around the world are starting to charge 'congestion tolls' in an effort to reduce traffic congestion.

> Countries such as Norway, the UK, France, Singapore and the US are managing traffic with varying tolls. For example, traffic congestion has been reported to have been reduced by some 40 per cent in inner city London, since the introduction of the £5-a-day congestion charge in 2003. In Singapore and southern California, drivers are being charged premiums to travel in underused car pool lanes. Peak surcharges are being studied for roads around New York, San Francisco, Los Angeles and other American cities. Economists point out that traffic jams are caused when drivers are not charged the costs they impose on others, such as delays. The solution: Make 'em pay![11]

More generally, if the costs of driving rise high enough, consumers will travel at non-peak times or find alternative transportation modes.

Cultural pollution

Critics charge the marketing system with creating *cultural pollution*. Our senses are being assaulted constantly by advertising. This devious practice is inflicted on our kids every day. Commercials interrupt serious programmes; pages of ads obscure printed matter; billboards mar beautiful scenery. These interruptions continuously pollute people's minds with messages of materialism, sex, power or status. Children's constant exposure to advertising, the protectionists argue, creates mercenary kids, experts in 'pester power', who force their downtrodden and beleaguered parents into spending enormous sums of money on branded goods and the latest crazes. Although most people do not find advertising overly annoying (some even think it is the best part of television programming), some critics call for sweeping changes.

Marketers answer the charges of 'commercial noise' with the following arguments. First, they hope that their ads reach primarily the target audience. But because of mass-communication channels, some ads are bound to reach people who have no interest in the product and are therefore bored or annoyed. As for TV advertising's influence on children, free marketers point to European research that shows that parents and peers influence children more than advertising. Trend products like yoyos, Beanie Babies and Furbies have reached the top without a penny spent on TV commercials. Children are not empty vessels helplessly vulnerable to marketers' wiles. They are capable of absorbing and assimilating advertising messages, approaching commercials with a critical mind and to draw their own verdict.[12] People who buy magazines slanted towards their interests – such as *Vogue*, *Bliss*, *Loaded*, *Heat* or *Fortune* – rarely complain about the ads because the magazines advertise products of interest. Second, ads make much of television and radio free, and keep down the costs of magazines and newspapers. Most people think commercials are a small price to pay for these benefits. Finally, consumers have alternatives: they can zip and zap TV commercials or avoid them altogether on many cable and satellite channels. Thus to hold consumer attention, advertisers are making their ads more entertaining and informative.

Too much political power

Another criticism is that business wields too much political power. 'Oil', 'tobacco', 'pharmaceuticals', 'financial services' and 'alcohol' have the support of important politicians and civil servants, who look after an industry's interests against the public interest. Advertisers are accused of holding too much power over the mass media, limiting their freedom to report independently and objectively.

The setting up of citizens' charters and greater concern for consumer rights and protection over the 1990s have put more pressure on business accountability in the twenty-first century. Fortunately, many powerful business interests once thought to be untouchable have been tamed in the public interest. For example, in western Europe and the United States, consumerism campaigns have resulted in legislation requiring the car industry to build more safety into its cars and cigarette companies to put health warnings on their packages. More recently, giants such as Coca-Cola, Microsoft and Intel have felt the impact of regulators seeking to balance the interests of big business against those of the public. Moreover, because the media receive advertising revenues from many different advertisers, it is easier to resist the influence of one or a few of them. Too much business power tends to result in counterforces that check and offset these powerful interests.

Let us now take a look at the criticisms that business critics have levelled at companies' marketing practices.

Marketing's impact on other businesses

Critics also charge that companies' marketing practices can harm other companies and reduce competition. Three problems are involved: acquisition of competitors, marketing practices that create barriers to entry, and unfair competitive marketing practices.

Critics claim that firms are harmed and competition reduced when companies expand by acquiring competitors rather than by developing their own new products. The large number of acquisitions and rapid pace of industry consolidation over the past two decades have caused concern that vigorous young competitors will be absorbed and that competition will be reduced. In virtually every major industry – retailing, financial services, utilities, transportation, motor vehicles, telecommunications, entertainment – the number of major competitors is shrinking. Consider the glut of acquisitions in the food industry during the past few years – Unilever's buying Bestfoods, Philip Morris's snatching Nabisco, General Mills' swallowing Pillsbury, Kellogg's taking over Keebler and PepsiCo's seizing of Quaker Oats.[13]

Acquisition is a complex subject. Acquisitions can sometimes be good for society. The acquiring company may gain economies of scale that lead to lower costs and lower prices. A well-managed company may take over a poorly managed company and improve its efficiency. An industry that was not very competitive might become more competitive after the acquisition. But acquisitions can also be harmful and are therefore closely regulated by some governments and competition (or mergers and monopolies) commissions.

Critics have also claimed that marketing practices bar new companies from entering an industry. The use of patents and heavy promotion spending can tie up suppliers or dealers to keep out or drive out competitors. Those concerned with antitrust regulation recognise that some barriers are the natural result of the economic advantages of doing business on a large scale. Other barriers could be challenged by existing and new laws. For example, some critics have proposed a progressive tax on advertising spending to reduce the role of selling costs as a substantial barrier to entry.

Finally, some firms have in fact used unfair competitive marketing practices with the intention of hurting or destroying other firms. They may set their prices below costs, threaten to cut off business with suppliers, or discourage the buying of a competitor's products. Various laws work to prevent such predatory competition. It is difficult, however, to prove that the intent or action was really predatory.

Take Microsoft, for example. Competitors and regulators have accused Microsoft of predatory 'bundling' practices – the term describes Microsoft's practice of continually adding new features to its Windows operating system that is installed in a majority of the world's desktop computers. Because customers are essentially locked in to Windows, it's easy for the company to get them to use its other software – even if competitors make better products. That dampens competition, reduces choice, and could retard innovation.[14] (See Marketing Insights 5.1.)

Another example which reminds us of the vulnerability of firms, particularly dominant, global companies, to competition authorities is Coca-Cola's recent experience. Spurred by its acquisition of Cadbury's soft-drinks brands outside America, competition authorities from Chile to Australia to Europe scrutinised Coke's market share and business practices. In Europe, the European Commission had launched an investigation into Coke's alleged anti-competitive practices in Germany, Denmark and Austria: one common anti-competitive practice is to give retailers and restaurants free fridges or soda fountains if they refuse to sell soft drinks from rival firms. Another is to offer them special prices if they stock the complete marketing insights

Microsoft: a giant against the world 5.1

Microsoft is no stranger to PC users. But the world's biggest software company has a reach that extends beyond the PC into everything from computerised toys, smart-phones and TV set-top boxes to selling cars and airline tickets over the Internet. In its zeal to become a leader not just in operating systems but on the Internet, the company bundled its Internet Explorer browser into its Windows software. This move sparked an antitrust suit by the US government, much to the delight of Microsoft's rivals. After all, Web-browsing innovator Netscape has seen its market share plummet as it tries to sell what Microsoft gives away for free. After a two-year trial, the antitrust authorities emerged victors, when the judge who heard the landmark case against the software giant ruled that Microsoft broke antitrust laws and behaved illegally by tying its Web browser to its best-selling Windows operating system. The antitrust officials demanded Microsoft to be broken up into two separate businesses – one to run its Windows operating system and the other to manage its application software products such as word processing and spreadsheets. The company was also required to implement a host of measures aimed at curbing any abuse of its dominant position. Microsoft protested its innocence. On appeal, the remedy to break up the giant corporation was rejected by the higher court, although the ruling that the company illegally maintained its monopoly was upheld. Nine US states that brought charges against Microsoft and the Justice Department settled with Microsoft before new remedy hearings took place. Nine other state regulators pressed for harder remedies, but their efforts were thwarted on 1 November 2002 by Judge Colleen Kollar-Kotelly who ruled that the company's settlement with the Department of Justice and the nine US states was an adequate remedy for the group's antitrust violations.

Meanwhile, in Brussels, the company was being investigated by the European Commission for anti-competitive behaviour. The Commission was looking into the implications of the US ruling on Microsoft for its own investigations into the company's dominant position in the EU. At the time of the appeal hearings in the US, the European Commission was investigating five enquiries into different aspects of Microsoft's behaviour. These range from its monopoly of the PC operating system market, following complaints from rival firms such as Sun Microsystems, and predatory behaviour associated with Windows 2000, to the company's pricing policy for French software, where the firm allegedly sold software more cheaply in Canada than in France. Meanwhile, problems brew further afield for the global firm, with lawyers seeking to expand the case against Microsoft by claiming damages for worldwide customers. They argue that international curbs against anti-competitive commercial activity have become so prevalent that they must be deemed to rise to the level of the law of nations. They also claim to have the support from a mixture of United Nations

...5.1

statements of principles on competition and recommendations from the Organisation for Economic Cooperation and Development (OECD). Not surprisingly, the European Commission had come under pressure from the US to drop its investigation following Judge Kollar-Kotelly's ruling.

Nonetheless, the Commissioner argues that while the US case was about Microsoft's abuse of monopoly power to drive out competitors like Netscape, the European Commission's investigations concern later events: the bundling of Media Player in the Windows operating system to squeeze out competitors and the design of Windows to favour its own server. Among others, RealNetworks, the streaming media group, have filed antitrust lawsuits against Microsoft, alleging the software giant had illegally used its market clout to monopolise the digital media field. The Commission has consistently emphasised its intention to find Microsoft guilty of abusing its dominant position. It is unlikely that the Commission will take a final decision before mid-2004. No doubt, the Commission's enquiries follow submissions of complaints made by Microsoft's rivals – with little evidence that consumers have been damaged by its practices. The Commission emphasises it has to substantiate these allegations. In March 2004, the Commission, however, scaled down its demands for Microsoft to change its business practices. Although the Commission had wanted both home users and corporate customers to be offered Windows without Media Player or, alternatively, force Microsoft to include rival programs in Windows, it jettisoned both these options. Instead, it proposes to give computer manufacturers the choice of whether to sell Windows with Media Player, with a rival product or without any such program. The pressure from Brussels is on Microsoft, but a final verdict by the EU court could take four or five years!

SOURCES: 15 + Daniel Dombey, 'Brussels back-pedals over Microsoft ruling', *Financial Times* (15 March 2004), p. 25; Scott Morrison and Daniel Dombey, 'Antitrust suit piles pressure on Microsoft', *Financial Times* (19 December 2003), p. 34; Daniel Dombey, 'Microsoft on antitrust attack', *Financial Times* (12 November 2003), p. 25; Daniel Dombey, 'Brussels puts pressure on Microsoft', *Financial Times* (30 October 2003), p. 30; Paul Abrahams and Richard Waters, 'Microsoft tries to play down antitrust court triumph', *Financial Times* (4 November 2002), p. 8; Francesco Guerrera, 'Microsoft to take tough line with EU', *Financial Times* (4 November 2002), p. 1; 'Breaking up Microsoft', *The Economist* (10 June 2000), p. 20.

range of Coke's products, including Sprite and Fanta. A third offers retailers rebates and volume discounts for sales growth.[15]

Although competitors and governments charge that the actions of companies such as Coca-Cola and Microsoft are predatory and illegal, the fundamental question remains: is this unfair competition or the healthy competition of a more efficient company against the less efficient?

Citizen and public actions to regulate marketing

Because some people view business as the cause of many economic and social ills, grassroots movements have arisen from time to time to keep business in line. The two main movements have been consumerism and environmentalism.

Consumerism

Western business firms have been the targets of organised consumer movements on three occasions. Consumerism has its origins in the United States. The first consumer movement took place in the early 1900s. It was fuelled by rising prices, Upton Sinclair's writings on conditions in the meat industry, and scandals in the drug industry. The second consumer movement, in the mid-1930s, was sparked by an upturn in consumer prices during the Great Depression and another drug scandal.

The third movement began in the 1960s. Consumers had become better educated, products had become more complex and potentially hazardous, and people were unhappy with western (usually meaning American) institutions. Ralph Nader appeared on the scene in the 1960s to force many issues, and other well-known writers accused big business of wasteful and unethical practices. President John F. Kennedy declared that consumers have the right to safety and to be informed, to choose and to be heard. The American Congress investigated certain industries and proposed consumer-protection legislation. Since then, many consumer groups have been organised and several consumer laws have been passed. The consumer movement has spread internationally and has become very strong in Europe.[16]

But what is the consumer movement? **Consumerism** is an organised movement of citizens and government agencies to improve the rights and power of buyers in relation to sellers. Traditional sellers' rights include the following:

Consumerism—An organised movement of citizens and government agencies to improve the rights and power of buyers in relation to sellers.

- The right to introduce any product in any size and style, provided it is not hazardous to personal health or safety; or, if it is, to include proper warnings and controls.
- The right to charge any price for the product, provided no discrimination exists among similar kinds of buyer.
- The right to spend any amount to promote the product, provided it is not defined as unfair competition.
- The right to use any product message, provided it is not misleading or dishonest in content or execution.
- The right to use any buying incentive schemes, provided they are not unfair or misleading.

Traditional buyers' rights include the following:

- The right not to buy a product that is offered for sale.
- The right to expect the product to be safe.
- The right to expect the product to perform as claimed.

Comparing these rights, many believe that the balance of power lies on the sellers' side. True, the buyer can refuse to buy. But critics feel that the buyer has too little information, education and protection to make wise decisions when facing sophisticated sellers. Consumer advocates call for the following additional consumer rights:

- The right to be well informed about important aspects of the product.
- The right to be protected against questionable products and marketing practices.
- The right to influence products and marketing practices in ways that will improve the 'quality of life'.

Each proposed right has led to more specific proposals by consumerists. The right to be informed includes the right to know the true interest on a loan (truth in lending), the true cost per unit of a brand (unit pricing), the ingredients in a product (ingredient labelling), the nutrition in foods (nutritional labelling), product freshness (open dating) and the true benefits of a product (truth in advertising). Proposals related to consumer protection include strengthening consumer rights in cases of business fraud, requiring greater product safety and giving more power to government agencies. Proposals relating to quality of life include controlling the ingredients that go into certain products and packaging, reducing the level of advertising 'noise' and putting consumer representatives on company boards to protect consumer interests.

Consumers have not only the *right* but also the *responsibility* to protect themselves instead of leaving this function to someone else. Consumers who believe that they got a bad deal have several remedies available, including contacting the company or the media, contacting government or private consumer-interest/protection bodies or agencies, and going to small-claims courts.

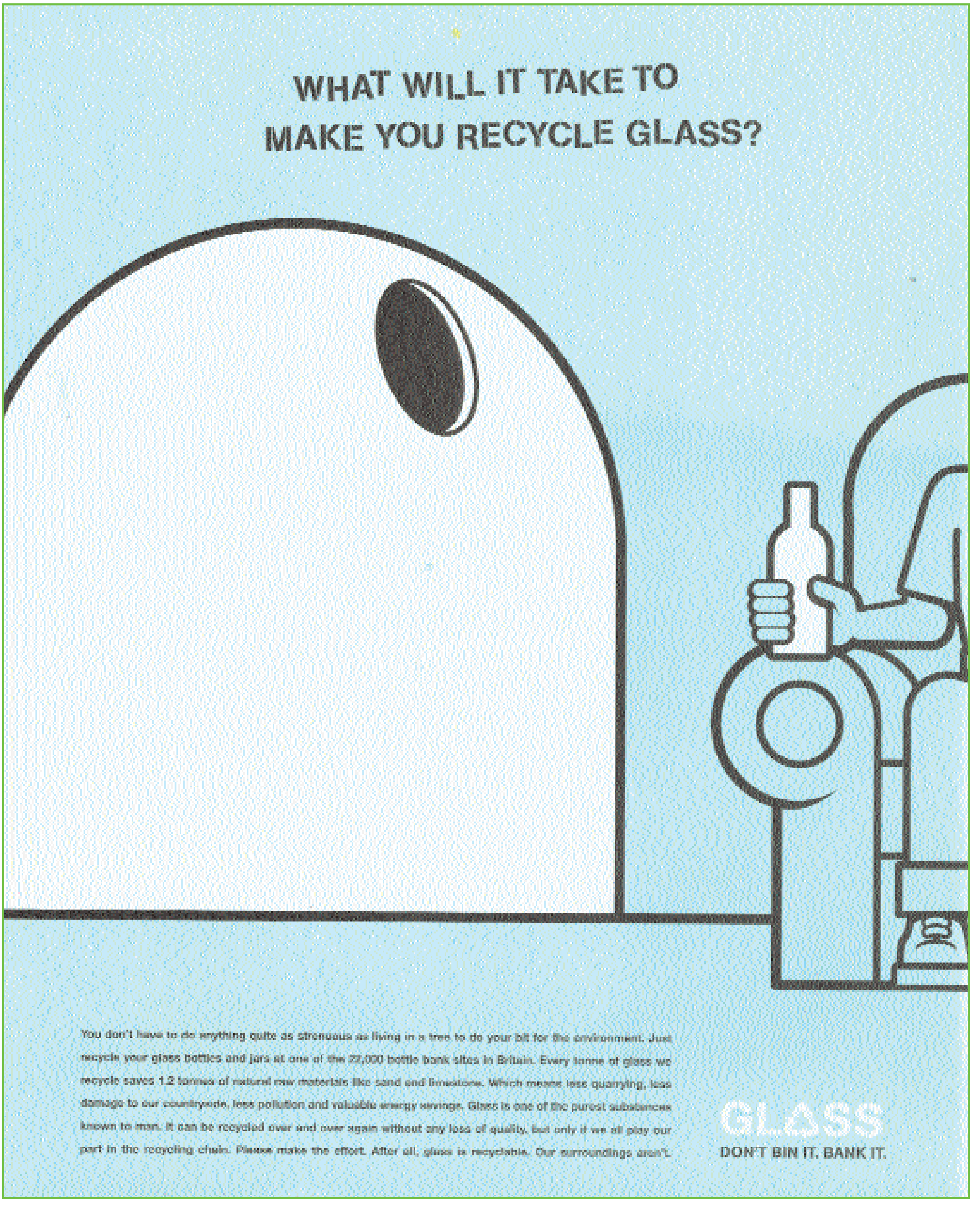
Environmentalism

Environmentalism—An organised movement of concerned citizens and government agencies to protect and improve people's living environment.

Whereas consumerists consider whether the marketing system is efficiently serving consumer wants, environmentalists are concerned with marketing's effects on the environment and the costs of serving consumer needs and wants. **Environmentalism** is an organised movement of concerned citizens and government agencies to protect and improve people's living environment. Environmentalists are not against marketing and consumption; they simply want people and organisations to operate with more care for the environment. They assert that the marketing system's goal is not to maximise consumption, consumer choice or consumer satisfaction, but rather to maximise life quality. 'Life quality' means not only the quantity and quality of consumer goods and services, but also the quality of the environment. Environmentalists want environmental costs to be included in both producer and consumer decision making.

The first wave of modern environmentalism was driven by environmental groups and concerned consumers in the 1960s and 1970s. They were concerned with damage to the ecosystem caused by strip mining, forest depletion, acid rain, loss of the atmosphere's ozone layer, toxic wastes and litter. They were also concerned with the loss of recreational areas and with the increase in health problems caused by bad air, polluted water and chemically treated food.

The second wave was driven by governments, which passed laws and regulations during the 1970s and 1980s governing industrial practices impacting the environment. This wave hit some industries hard. Heavy industry, public utilities, and chemical and steel companies had to spend heavily on clean-up technology, waste management and other pollution-control equipment. The car industry had to introduce expensive emission controls in cars. In some countries, governments have introduced tough regulations on car makers to deal with environmental problems, as in the case of Germany, which introduced laws to create a car recycling system.[17] The petroleum industry has had to create new low-lead and unleaded petrols. The packaging industry has had to find ways to reduce litter and energy consumption. In some sectors, innovative recycling schemes are being pioneered by private companies.



Environmental campaigns are gaining popularity. This campaign urges the British public to make the effort to recycle their glass bottles and jars by disposing them at bottle banks.
SOURCE: Advertising Archives.

Putting up some new wallpaper in your apartment? Perhaps, you'd never think to use some dirty nappies. The city of Santa Clarita in California recently piloted a nappy recycling scheme for collecting used nappies from families which will be turned into materials for shoe insoles, roof shingles and, you guessed right, wallpaper. Why start in Santa Clarita? Three out of four inhabitants in the city are under 44. More than 150 babies are born every month. Each of these new residents typically produce one tonne of dirty nappies before she or he is potty-trained. Most of these 'poopy' nappies end up in landfills. Coming to the rescue lately is Knowaste, a New-York based company specializing in recycling absorbent hygiene products and turning them into pulp and plastic. The state of California and Santa Clarita each contributed $250,000 to pilot a scheme for recycling Santa Claritans' nappies. The city's rubbish-collecting company is responsible for picking up piles of nappies from the kerb, delivering them to the recycling plant and selling the recycled products.

The business is not new to Knowaste. In 1999, the company opened a plant in the Netherlands, which now processes 35,000 or more tonnes of dirty nappies a year. But, the raw material comes from incontinent aged folks, not babies, consistent with the demographic trends in the country. The plant works with local retirement homes and is paid €100 for every tonne of soiled trash it takes from the delivery lorries and a payment – €200–300 – for each tonne of the plastic and pulp at the other end. The rewards are lucrative – it has presold all its 2003 production. Unlike in the US, with so much empty space, landfills are getting less popular and more expensive in Europe. So, the recycling market is a serious option. However, Knowaste argues that nappies are still one of the main bits of rubbish still landing in landfills, and, as tougher green laws are being imposed, so recycling's the way to go. Comforting thought or not? Let's face it – do you really want to stay dry under a nappy umbrella or ease into a nappy pair of slippers?[18]

These industries often resent environmental regulations, especially when they are imposed too rapidly to allow companies to make proper adjustments. Many of these companies claim they have had to absorb large costs that have made them less competitive.

The first two environmentalism waves are merging into a third and stronger wave in which companies are accepting responsibility for doing no harm to the environment. They are shifting from protest to prevention, and from regulation to responsibility. More and more companies are adopting **environmental sustainability** – developing strategies that both sustain the environment and produce profits for the company.

Environmental sustainability—A third environmentalism wave in which companies seek to produce profits for the company while sustaining the environment.

Sustainability is a crucial but difficult goal. John Browne, chairman of giant oil company BP, recently asked this question: 'Is genuine progress still possible? Is development sustainable? Or is one strand of progress – industrialisation – now doing such damage to the environment that the next generation won't have a world worth living in?'[19] Browne sees the situation as an opportunity. Five years ago, BP broke ranks with the oil industry on environmental issues. 'There are good commercial reasons to do right by the environment', says Browne. Under his leadership, BP has become active in public forums on global climate issues and has worked to reduce emissions in exploration and production. It has begun marketing cleaner fuels and invested significantly in exploring alternative energy sources, such as photovoltaic power and hydrogen. At the local level, BP recently opened 'the world's most environmentally friendly service station' near London:

> The new BP Connect service station features an array of innovative green initiatives that show BP's commitment to environmental responsibility. The station runs entirely on renewable energy and generates up to half of its own power, using solar panels installed on the roofs and three wind turbines. More than 60 per cent of the water needed for the restrooms comes from rainwater collected on the shop roof and water for hand washing is heated by solar panels. The site's vapour recovery systems collect and recycle even the fuel vapour released from customers' tanks as pump gas. BP has planted landscaping around the site with indigenous plant species. And, to promote biodiversity awareness, the company has undertaken several initiatives to attract local wildlife to the area, such as dragonflies and insect-feeding birds. The wild-flower turf under the wind farm will even provide a habitat for bumble bees.[20]

Figure 5.1 shows a grid that companies can use to gauge their progress towards environmental sustainability. At the most basic level, a company can practise *pollution prevention*. This involves more than pollution control – cleaning up waste after it has been created. Pollution prevention means eliminating or minimising waste *before* it is created. Companies emphasising prevention have responded with 'green marketing' programmes – developing ecologically safer products, recyclable and biodegradable packaging, better pollution controls and more energy-efficient operations. They are finding that they can be both green and competitive. Consider how the Dutch flower industry has responded to its environmental problems:

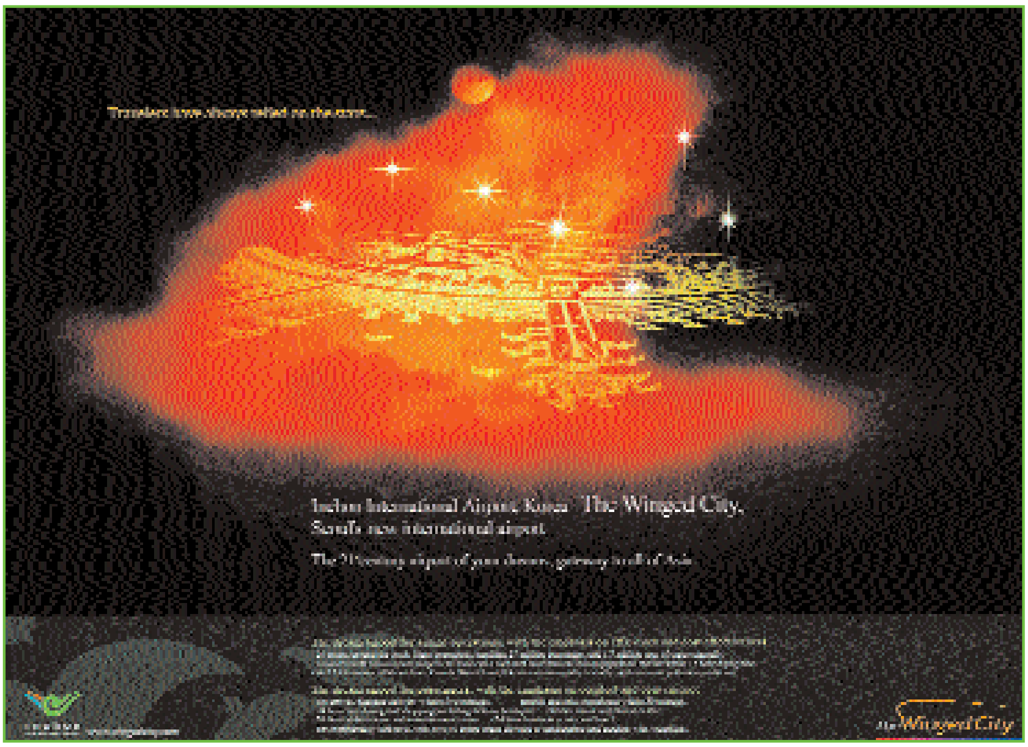
	Internal	External
Tomorrow	**New environmental technology** Is the environmental performance of our products limited by our existing technology base? Is there potential to realise major improvements through new technology?	**Sustainability vision** Does our corporate vision direct us towards the solution of social and environmental problems? Does our vision guide the development of new technologies, markets, products and processes?
Today	**Pollution prevention** Where are the most significant waste and emission streams from our current operations? Can we lower costs and risks by eliminating waste at the source or by using it as useful input?	**Product stewardship** What are the implications for product design and development if we assume responsibility for a product's entire life cycle? Can we add value or lower costs while simultaneously reducing the impact of our products?

Figure 5.1 The environmental sustainability grid
SOURCE: Harvard Business School Publishing. Reprinted by permission of *Harvard Business Review*, figure of The Sustainability Portfolio, from 'Beyond Greening: strategies for a sustainable world', by Stuart Hart, Jan–Feb 1997. Copyright © 1996 by the Harvard Business School Publishing Corporation; all rights reserved.

> Intense cultivation of flowers in small areas was contaminating the soil and groundwater with pesticides, herbicides and fertilizers. Facing increasingly strict regulation, the Dutch growers understood that the only effective way to address the problem would be to develop a closed-loop system. In advanced Dutch greenhouses, flowers now grow in water and rock wool, not soil. This lowers the risk of infestation, reducing the need for fertilizers and pesticides, which are delivered in water that circulates and is re-used. The closed-loop system also reduces variation in growing conditions, thus improving product quality. Handling costs have reduced because the flowers are cultivated on specially designed platforms. The net result is not only dramatically lower environmental impact but also lower costs, better quality and enhanced global competitiveness.[21] ”

At the next level, companies can practise *product stewardship* – minimising not just pollution from production but all environmental impacts throughout the full product life cycle. Many companies are adopting design for environment (DFE) practices, which involve thinking ahead in the design stage to create products that are easier to recover, reuse or recycle. DFE not only helps to sustain the environment; it can be highly profitable:

> Consider Xerox Corporation's Asset Recycle Management (ARM) programme, which uses leased Xerox copiers as sources of high-quality, low-cost parts and components for new machines. A well-developed [process] for taking back leased copiers combined with a sophisticated re-manufacturing process



The boom in environmentalism has reached such dimensions that even Seoul's International Airport claims to be environmentally friendly.
SOURCE: Inchon International Airport Corporation, Korea. *Agency*: Dentsu Young and Rubicam, Korea.

allows components to be reconditioned, tested and then reassembled into 'new' machines. Xerox estimates that ARM savings in raw materials, labour and waste disposal fall in the €300-million to €400-million range. By redefining product-in-use as part of the company's asset base, Xerox has discovered a way to add value and lower costs. It can continually provide lease customers with the latest product upgrades, giving them state-of-the-art functionality with minimum environmental impact.[22] ”

At the third level of environmental sustainability, companies look to the future and plan for *new environmental technologies*. Many organisations that have made good headway in pollution prevention and product stewardship are still limited by existing technologies. To develop fully sustainable strategies, they will need to develop new technologies. For example, detergent manufacturers have developed laundry products for low-temperature washing. Some have embarked on a 'wash right' campaign which promotes the virtues of low temperature washing by emphasising the benefits to the clothes as well as energy savings.

Finally, companies can develop a *sustainability vision*, which serves as a guide to the future. It shows how the company's products and services, processes and policies must evolve and what new technologies must be developed to get there. This vision of sustainability provides a framework for pollution control, product stewardship and environmental technology.

Most companies today focus on the lower-left quadrant of the grid in Figure 5.1, investing most heavily in pollution prevention. Some forward-looking companies practise product stewardship and are developing new environmental technologies. Few companies have well-defined sustainability visions. Emphasising only one or a few cells in the environmental sustainability grid in Figure 5.1 can be shortsighted. For example, investing only in the bottom half of the grid puts a company in a good position today but leaves it vulnerable in the future. In contrast, a heavy emphasis on the top half suggests that a company has good environmental vision but lacks the skills needed to implement it. Thus, companies should work at developing all four dimensions of environmental sustainability. Hewlett-Packard is doing just that:

Hewlett-Packard has evolved through three distinct phases of environmental sustainability over the past two decades. In the 1980s, the environmental concerns were primarily pollution control and prevention, with a focus on reducing emissions from existing manufacturing processes. . . . In the 1990s, the focus shifted to . . . a product stewardship function, which focused on developing global processes for tracking and managing regulatory compliance issues, customer inquiry response systems, information management, public policy shaping, product take-back programs, green packaging, and integrating 'design for the environment' and life cycle analysis into product development processes. Today, sustainability is about developing technologies that actually contribute a positive impact to environmental challenges. [However,] HP has recognized that pollution prevention and product stewardship have become baseline market expectations. To be an environmental leader in the 21st century, HP needs to integrate environmental sustainability into its fundamental business [vision and] strategy.[23] ”

Environmentalism creates special challenges for global marketers. As international trade barriers come down and global markets expand, environmental issues will continue to have an ever-greater impact on international trade. Global companies have to operate in accordance with stringent environment regulations that are being developed in countries across North America, Western Europe and other developed regions. For example, the European Union's Eco-Management and Audit Regulation has provided guidelines for environmental self-regulation. The EU has also recently passed 'end-of-life' regulations that require car makers to recycle or reuse at least 80 per cent of their old cars by 2006. Similarly, in the United States, for example, more than two dozen major pieces of environmental legislation have been enacted since 1970, and recent events suggest that more regulation is on the way. A side accord to the North American Free Trade Agreement (NAFTA) set up a commission for resolving environmental matters.[24]

Marketers' lives will become more complicated. They must raise prices to cover environmental costs, knowing that the product will be harder to sell. Yet environmental issues have become so important in our society that there is no turning back to the time when few managers worried about the effects of product and marketing decisions on environmental quality.[25]

However, environmental policies still vary widely from country to country, and uniform worldwide standards are not expected for many years. Although countries such as Denmark, Germany, Japan and the United States have fully developed environmental policies and high public expectations, major countries such as China, India, Brazil and Russia are in only the early stages of developing such policies. Moreover, environmental factors that motivate consumers in one country may have no impact on consumers in another. For example, PVC soft-drink bottles cannot be used in Switzerland or Germany. However, they are preferred in France, which has an extensive recycling process for them. Thus, international companies are finding it difficult to develop standard environmental practices that work around the world. Instead, they are creating general policies, and then translating these policies into tailored programmes that meet local regulations and expectations.

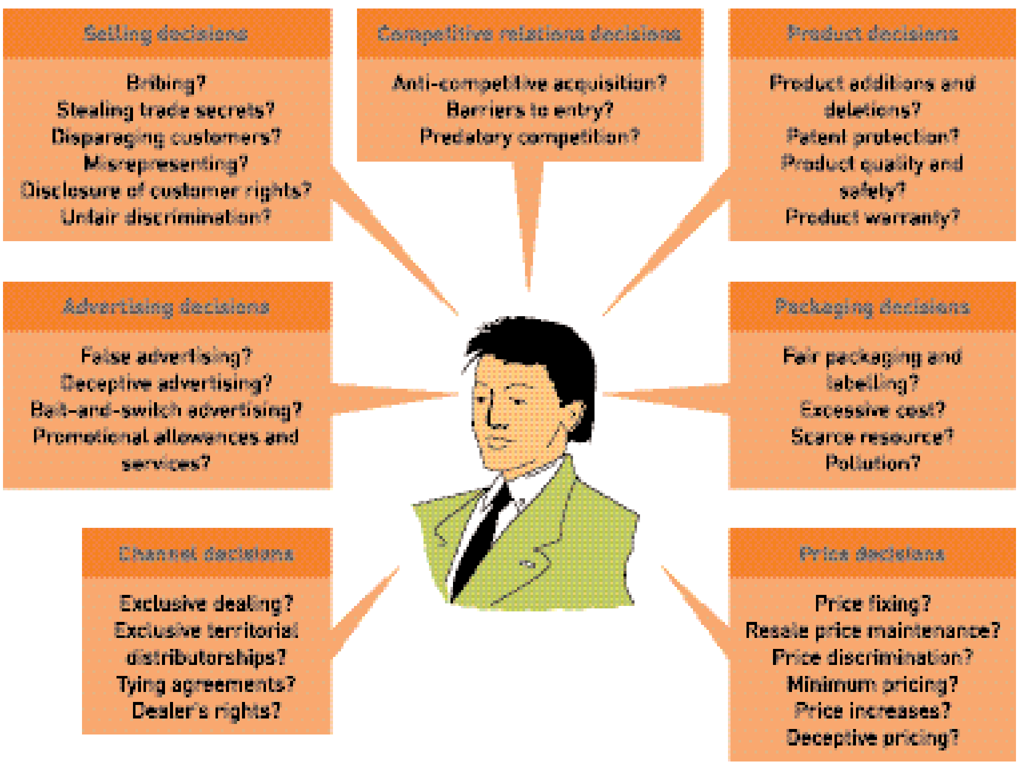


Figure 5.2 Legal issues facing marketing management

Public actions to regulate marketing

Citizen concerns about marketing practices will usually lead to public attention and legislative proposals. New bills will be debated – many will be defeated, others will be modified and a few will become workable laws.

Figure 5.2 illustrates the principal legal issues facing marketing management. Individual country laws exist which affect marketing. The task is to translate these laws into the language that marketing executives understand as they make decisions about competitive relations, products, price, promotion and channels of distribution.

Having discussed citizen and public actions to regulate marketing, consumerism, environmentalism and regulation – and the way they affect marketing – we will next examine the business actions towards socially responsible marketing that lead to different philosophies of enlightened marketing and the fostering of marketing ethics.

Business actions towards socially responsible marketing

Today, most companies have grown to accept the new consumer rights, at least in principle. They might oppose certain pieces of legislation as inappropriate ways to solve specific consumer problems, but they recognise the consumer's right to information and protection. Many of these companies have responded positively to consumerism and environmentalism in order to serve consumer needs better.

Enlightened marketing

The philosophy of **enlightened marketing** holds that a company's marketing should support the best long-run performance of the marketing system. Enlightened marketing consists of five principles: consumer-oriented marketing, innovative marketing, value marketing, sense-of-mission marketing and societal marketing.

Enlightened marketing—A marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system; its five principles are consumer-oriented marketing, innovative marketing, value marketing, sense-of-mission marketing and societal marketing.

Consumer-oriented marketing

Consumer-oriented marketing means that the company views and organises its marketing activities from the consumer's point of view. It works hard to sense, serve and satisfy the needs of a defined group of customers. Good marketing companies tend to have one thing in common – an all-consuming passion for delivering superior value to carefully chosen customers. Only by seeing the world through its customers' eyes can the company build lasting and profitable customer relationships.

Consumer-oriented marketing—A principle of enlightened marketing which holds that a company should view and organise its marketing activities from the consumers' point of view.

Innovative marketing

The principle of **innovative marketing** requires that the company continuously seek real product and marketing improvements. The company that overlooks new and better ways to do things will eventually lose customers to another company that has found a better way.

Innovative marketing—A principle of enlightened marketing which requires that a company seek real product and marketing improvements.

As the environmental director at Scandic Hotels, Ola Ivarsson's aim was to transform the chain into an eco-friendly business, a move that began to revolutionize Europe's leisure industry.

Under Ivarsson's direction, Scandic Hotels made design improvements that drastically improved the company's environmental impact. The hotel chain's annual consumption of plastic, metal usage, and the discharge of harmful chemicals has fallen dramatically in recent years; the quantity of unsorted waste produced by the chain has been reduced by a whopping 50 per cent. Ivarsson's programme served to boost the chain's popularity, helping to lift Scandic out of the difficulties it experienced in the early 1990s.

The centrepiece of this design revolution is the 'recyclable room' that Ivarsson created with the help of his team of in-house architects. They managed to make the room a remarkable 97 per cent recyclable, and since then Scandic has built 2,700 more worldwide.

Ivarsson explains, 'We identified our customers' most repetitive activities and found ways of making these less damaging to the environment.' Ivarsson found that many of the best solutions were the least complicated. 'The most creative ideas were deceptively simple', he says. 'For example, we used to provide soap in miniature bars and shampoo in 50 ml bottles. But most customers only use a tiny fraction of these quantities during their stay, so we decided to offer soap and shampoo using dispensers instead. It saves us more than 25 tonnes of soap and shampoo each year.'

Scandic's dispenser system and other innovations, such as the chain's use of natural, renewable materials (wood, wool and cotton), are catching on among European hoteliers, and the benefits of these materials have been both environmental and economic.

'But customers don't have to be less comfortable', Ivarsson says. 'Our recyclable rooms are at least as comfortable as the others, and they are always booked up first. It's not difficult to see why they're popular. If you look at all that wood, you get a lovely homey, hearty, welcoming feeling – it is beautiful.' On this front, Scandic's philosophy is in sync with the message of the United Nations Environment Programme's (UNEP) campaign of sustainable consumption: more environmentally friendly consumption does not result in taking away comfort and choice from consumers. Rather, sustainable consumption can be cool and fashionable – 'it's about consuming differently, consuming efficiently, and having an improved quality of life.'[26]

Value marketing—A principle of enlightened marketing which holds that a company should put most of its resources into value-building marketing investments.

Value marketing

According to the principle of **value marketing**, the company should put most of its resources into value-building marketing investments. Many things marketers do – one-shot sales promotions, minor packaging changes, advertising puffery – may raise sales in the short run, but add less *value* than would actual improvements in the product's quality, features or convenience. Enlightened marketing calls for building long-run consumer loyalty, by continually improving the value that consumers receive from the firm's marketing offer.

Sense-of-mission marketing—A principle of enlightened marketing which holds that a company should define its mission in broad social terms rather than narrow product terms.

Sense-of-mission marketing

Sense-of-mission marketing means that the company should define its mission in broad *social* terms rather than narrow *product* terms. When a company defines a social mission, employees feel better about their work and have a clearer sense of direction. For example,

Here, big corporations work with charity Corporate Angel Network to realise an important mission – to get cancer patients to critical cancer treatment centres using empty seats on corporate jets.
SOURCE: CAN, Corporate Angel Network.

defined in narrow product terms, the British Co-operative Bank's mission might be to sell banking services, but the company has taken a firm decision to promote a broader mission – to be an ethical bank, refraining from doing business with those companies that engage in so-called unsavoury business practices, from companies that are involved in the fur trade to tobacco product manufacturers. Organisations like Corporate Angel Network, a public charity, can realise their mission – to arrange air passage for cancer patients to treatment centres thousands of miles away using the empty seats on corporate jets. Some 500 major corporations, including 56 of the top 100 in the *Fortune 500*, have generously made empty seats on their aircraft available to the charity.

Societal marketing

Societal marketing—A principle of enlightened marketing which holds that a company should make marketing decisions by considering consumers' wants, the company's requirements, consumers' long-run interests and society's long-run interests.

Following the principle of **societal marketing**, an enlightened company makes marketing decisions by considering consumers' wants and long-run interests, the company's requirements and society's long-run interests. The company is aware that neglecting consumer and societal long-term interests is a disservice to consumers and society. In many cases customer needs, customer wants and customer long-run interests are the same things, and customers are the best judges of what is good for them. However, customers do not invariably choose to do what's good for them. People want to eat fatty food, which is bad for their health; some people want to smoke cigarettes knowing that smoking can kill them and damage the environment for others; many enjoy drinking alcohol despite its ill effects. To control some of the potential evils of marketing, there has to be access to the media for the counter-argument – against smoking, against fatty foods, against alcohol. There is also a need for regulation – self if not statutory – to check unsavoury demand.

A second problem is that what consumers want is sometimes at odds with societal welfare. If marketing's job is to fulfil customers' wants, unsavoury desires leave marketers with a dilemma. Consumers want the convenience and prestige of hardwood window frames, doors and furniture, but society would also like to keep the Amazon rainforest; consumers want the comfort of central heating and air-conditioning, yet we need to conserve energy; the growing number of cars on the road, not least a fast-rising source of carbon emissions, overwhelm the benefits of improved fuel efficiency, but few bother to reduce car ownership per household. Marketing has to be more alert to the inconsistencies between consumer wants and society's welfare. Where there is insufficient drive from within the consumer movement and consumers' own sense of responsibility, marketers would do better to control or regulate their own behaviour in providing undesirable goods or services for society at large. If not, legislation is likely to do that for them.

Desirable products—Products that give both high immediate satisfaction and high long-run benefits.

Pleasing products—Products that give high immediate satisfaction but may hurt consumers in the long run.

Salutary products—Products that have low appeal but may benefit consumers in the long run.

Deficient products—Products that have neither immediate appeal nor long-term benefits.

A societally oriented marketer wants to design products that are not only pleasing but also beneficial. The difference is shown in Figure 5.3. Products can be classified according to their degree of immediate consumer satisfaction and long-run consumer benefit. **Desirable products** such as a tasty and nutritious breakfast food give both high immediate satisfaction and high long-run benefits. **Pleasing products** give high immediate satisfaction, but may hurt consumers in the long run. Examples are indulgence goods like confectionery, alcohol and cigarettes. **Salutary products** have low appeal, but benefit consumers in the long run, for instance seat belts and airbags in cars. Finally, **deficient products**, such as bad-tasting and ineffective medicines, have neither immediate appeal nor long-run benefits.

Examples of desirable products abound. Philips Lighting's Earth Light compact fluorescent light bulb provides good lighting while giving long life and energy savings. Maytag's front-loading Neptune washer provides superior cleaning along with water savings and energy

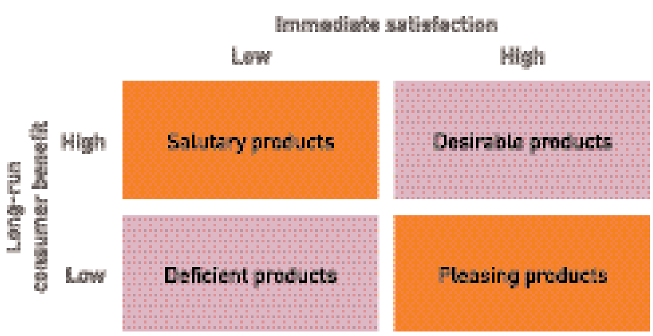


Figure 5.3 Societal classification of new products

efficiency. And the international office furniture maker Herman Miller has won numerous awards for its ecologically friendly products and business practices: its Avian office chair, for example, has the lowest possible environmental impact and is 100 per cent recyclable.

Companies should try to turn all of their products into desirable products. The challenge posed by pleasing products is that they sell very well, but may end up hurting the consumer. The product opportunity, therefore, is to add long-run benefits without reducing the product's pleasing qualities. The challenge posed by salutary products is to add some pleasing qualities so that they will become more desirable in the consumers' minds. For example, synthetic fats and fat substitutes, such as NutraSweet's Simplesse and P&G's Olese, improve the appeal of low-calorie and low-fat foods.

Marketing ethics

Ethics, in the broadest sense of the word, is rising to the top of the corporate agenda. Scarcely a week goes by without a leading company accused, rightly or wrongly, of unethical business practices, whether it is Ahold's fraudulent accounting practices, Schering-Plough's promotion of drugs for uses not approved by regulators, or Boeing, the NYSE and the US mutual fund industry defiance of trading rules to enable big investors to profit at the expense of small ones.[27]

However far from reality the accusations of manufacturers' unethical business practices are, companies under attack risk tarnishing their reputation. And those found guilty of wrongdoing face hefty legal penalties, as in the recent cases of Swiss and German companies that were sued for Holocaust compensation and the world's largest vitamin companies for price-fixing. High-publicity scandals, which made international news, such as the case of Union Carbide's plant in Bhopal, India, which negligently released toxic fumes, killing 25,000 people, serve to remind society of the pressing imperatives for corporations to act in an ethical manner.

Conscientious marketers, however, face many moral dilemmas. The best thing to do is often unclear. Because not all managers have fine moral sensitivity, companies need to develop *corporate marketing ethics policies* – broad guidelines that everyone in the organisation must follow. They cover distributor relations, advertising standards, customer service, pricing, product development and general ethical standards.

The finest guidelines cannot resolve all the difficult ethical situations the marketer faces. However, managers need a set of principles that will help them figure out the moral importance of each situation and decide how far they can go in good conscience.

But *what* principle should guide companies and marketing managers on issues of ethics and social responsibility? One philosophy is that such issues are decided by the free market and legal system. Under this principle, companies and their managers are not responsible for making moral judgements. Companies can in good conscience do whatever the system allows.

A second philosophy puts responsibility not in the system, but in the hands of individual companies and managers. This more *enlightened philosophy* suggests that a company should have a 'social conscience'. Companies and managers should apply high standards of ethics and morality when making corporate decisions, regardless of 'what the system allows'. They must work out a philosophy of socially responsible and ethical behaviour. Consistent with the societal marketing concept, each manager must look beyond what is legal and allowed, and develop standards based on personal integrity, corporate conscience and long-run consumer welfare. A clear and responsible philosophy will help the marketing manager deal with the many knotty questions posed by marketing and other human activities.

In searching for ethical standards for marketing, marketing managers may also draw upon postmodernist thinking and philosophies that date back well beyond marketing itself. Marketing Insights 5.2 introduces some of this.[28]

As with environmentalism, the issue of ethics provides special challenges for international marketers. Business standards and practices vary a great deal from one country to the next.

marketing insights

5.2 From Plato's *Republic* to supermarket slavery

There is good reason to search a long way back for the ethics to guide marketing. As the British philosopher Alfred North Whitehead (1861–1947) commented, 'all Western philosophy is really no more than a footnote to Plato's (428–354 BC) great work *The Republic*'. If that were true, our thinking on 'marketing ethics' is little more than a smudge on that footnote.

The ancients were also practical, as Plato's student explained:

> Ethics is a rough and ready business determined by ordinary practical men of common sense, not by inbred ascetic 'experts' with their heads in a remote and austere world.
>
> Aristotle (384–322 BC)

Thinking's the thing

A lot of thinking went on in ancient Athens, a city state of about 400,000 people. Socrates (469–399 BC) thought that the most important thing about human beings is that they ask questions. He also thought that real moral knowledge existed and was worth pursuing. He did not think morality could be taught, but said that it was more than just obeying the law. The newly democratic Athenians did not like this questioning of state morality, so they condemned him to death by poisoning.

Good for the state and good for you too

Plato thought that Athens' experiments with democracy were a shambles and left town. He believed in moral absolutes that were separate from the more sordid world. This led him to idealise regimes where right and wrong were well defined. He thought militaristic and disciplined Sparta was a much better place than freethinking Athens and that people should do what is good for the state. Lots of leaders have tried this and very nasty it is too.

Choosing the happy medium

Aristotle rejected his teachers' concern for absolute truths, suggesting that people take a middle road and learn how to behave from experience. People learn to become good citizens, and from that achieve contentment. Well, most people! And how about being a good citizen of a gang of hooligans?

It was a long time before Western philosophy recovered from these Greeks, but the Renaissance got things going again. Machiavelli was born in another city state: Florence.

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He may be dung, but at least he's our dung

Machiavelli (1469–1527) was an observer rather than a philosopher. After he saw what succeeded, he recognised that politics and morality mix badly. This is a convenient view for business leaders who think there should be two sets of moral standards: one for public life and one for private life. In political and business life it is necessary to be pragmatic and prudent – in other words, unethical – while retaining a different private ethic. As recent politicians have found, life does not always divide so easily.

Solitary, poor, nasty, brutish and short

The English Royalist Hobbes (1588–1678) is even more depressing than Machiavelli. People are awful and are prevented from degenerating into our natural brutish behaviour only by realising that everyone behaving that way would make life unbearable. People therefore establish a 'social contract' (which parents call 'bringing up') that has to be enforced by a neutral third party (government contract). Franco-Swiss Rousseau (1712–78) had the opposite view that humanity is essentially good, but is corrupted by society to want things like smart clothes, carriages and Nike trainers.

Sum happiness

English Utilitarians Bentham (1748–1832) and Mill (1806–73) invented a form of moral calculus. Bentham thought his country's laws were in a mess because they lacked a scientific foundation. He saw human beings as pleasure–pain machines, so he suggested that law makers should balance the sum of the pain and pleasure to achieve 'the greatest happiness of the greatest number'. This has two consequences: means justifying ends, and problems for minority groups. Mills worried about this 'tyranny of the majority'. He preferred talking about happiness rather than pleasure, tolerated individual lifestyles and thought that the 'happiness sums' varied and were for individuals as well as law makers.

Bah, happiness

Kant (1724–1804) had little time for happiness. The German idealist's ethics had categorical imperatives. He believed that a moral action was one done out of a sense

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of duty. Ethics was about finding out our duties and living by them. Kant deduced a 'universality test' to find the compulsory rules. He asked people to imagine what it would be like if everybody did what they themselves wanted to do. Using this mind model, we deduce that if people sold shoddy goods habitually, life would be chaotic and, therefore, people have a duty not to sell shoddy goods.

And justice for all

The American John Rawls (1921–2002) has greatly influenced modern liberal thinking. He has a mind model based on imagining a group of people brought together with no knowledge of what place they will have in society. They have to invent a series of rules that will make their community just and fair. Then they have to live in it.

Don't know; can't know

This rationalist claim to understanding 'truths' started being undermined by Scotsman David Hume (1711–76). His 'meta-ethics' does not offer any advice, but recognises an 'is–ought gap' between what we experience (is) and the conclusion we try to draw from that (ought). Even though we know that bull bars on cars kill children (is), we can only produce a false argument that they should not be sold (ought). Developing similar insights, it follows that any moral argument between people is 'utterly futile, unsolvable and irrational' (A.J. Ayers, 1910–89).

The age of unreason

Postmodernists have pursued this ethical scepticism to new levels. Reason fails because of its dependence on language. What passed as reason in the past has caused so much human suffering. This level of ethical uncertainty is not new; it is close to the Sophist views that Plato argued against. Postmodernists despair at the society they see coming: a kaleidoscope of consumerist images that hypnotise citizens into accepting the morality of capitalism; where individual morality ceases to exist, where all that remains is supermarket slavery and where the only choice is by consumers between products – marketing.

Meanwhile Alisdair MacIntyre looks back to the Aristotelian idea that we should concentrate less on the individual and more on people and what is good for the society.

SOURCES: J. Ackrill, *Aristotle and the Philosophers* (Oxford, 1981); G. Kerner, *Three Philosophical Moralists* (Oxford, 1990); A. MacIntyre, *A Short History of Ethics* (Routledge, 1987); D. Robinson and C. Garratt, *Ethics for Beginners* (Icon, 1996); B. Russell, *A History of Western Philosophy* (Oxford, 1945); P. Singer, *Practical Ethics* (Oxford, 1993); Lynn Sharp Paine, *Value Shift* (McGraw-Hill, 2003).

Imagine you are trying to win a big public contract in a developing country. The minister in charge makes unmistakable references to the disgracefully low pay of local civil officials and the benefits his own children would enjoy if they could study abroad. The cost of providing this (concealed as a 'scholarship' paid for by your company) is minute compared with the value of the contract. Your competitors, given the chance, would assuredly find the money. Do you pull out, or pay up?

Most businesspeople in such situations find that their scruples are soon swallowed. So do most governments. Germany is one of several European countries where bribes paid abroad are tax-deductible (although the tax office may want proof that the person paid is not liable for German income tax). The United States is harsher – under the Foreign Corrupt Practices Act, executives can face jail for paying bribes. But it is hard to prove; and many firms may get third-party consultancies to do their bribing for them. So, across the globe, national cultures naturally impose different standards of behaviour on individuals and organisations. In the European Union, each market sector in each country is still characterised by a mixture of accepted commercial practices, codes of practice and formalised legislation. What is considered an acceptable practice in one country may be illegal in another. True, the EU seeks to move towards a pan-European business ethics policy and codes of conduct, but that day is still some way off.[29]

One recent study found that companies from some nations were much more likely to use bribes when seeking contracts in emerging-market nations. The most flagrant bribe-paying firms were from Russia and China, with Taiwan and South Korea close behind. The least corrupt were companies from Australia, Sweden, Switzerland, Austria and Canada.[30] The question arises as to whether a company must lower its ethical standards to compete effectively in countries with lower standards. In a recent study, two researchers posed this question to chief executives of large international companies and got a unanimous response: no.[31]

For the sake of all the company's stakeholders – customers, suppliers, employees, shareholders and the public – it is important to make a commitment to a common set of standards worldwide. Some Western firms have already done so. For example, the ethical code of jeans manufacturer Levi Strauss forbids bribes, whether or not prevalent or legal in the foreign country involved.

Many industrial and professional associations have suggested codes of ethics. Efforts have also been made to develop 'global' standards. One example is the Social Accountability standard called SA8000, launched in 1998 by an independent US-based agency, the Council on Economic Priorities. SA8000 verifies the ethical stance of businesses in the production and sourcing of goods from the developing countries. Businesses applying for the standard are accredited by SGS-ICS, the Swiss company that is the world's largest certification agency. Many companies are now adopting their own codes of ethics.[32] Companies have set up ethics committees and are also developing programmes, workshops and seminars to teach managers about important ethics issues and help them find the proper responses.[33] Further, more and more international companies have appointed high-level ethics officers to champion ethics issues and to help resolve problems and concerns facing employees.

Still, compliance rules, written codes and ethics training programmes do not guarantee ethical behaviour. It is not uncommon to find corporate pledges to work for the good of the company's shareholders, customers and staff. For example, the code of the Prudential Corporation, a life-insurance-to-property group, notes that 'in providing its business, the Prudential aims are to abide by the spirit of laws as well as their letter and to be a significant contributor to the development and well-being of the wider community in which we operate'. The guidelines are well meaning but too abstract to direct action when the interests of the company diverge sharply from those of its employees, customers or the local community. There have to be precise statements that spell out what employees must do in specific dilemmas, such as bribes and gifts, whether being offered or asked for. There should also be sanctions to enforce the code, so that ethical pledges are more than mere PR 'puff'.

Ethics and social responsibility require a total corporate commitment. They must be components of the overall corporate culture. Ethics programmes or seminars for employees help to imbue corporate ethics and codes of conduct among staff, while ethical and social audits may be used to monitor and evaluate business conduct and to use the lessons to guide both policy and behaviour:

> In the final analysis, 'ethical behaviour' must be an integral part of the organization, a way of life that is deeply ingrained in the collective corporate body. . . . In any business enterprise, ethical behaviour must be a tradition, a way of conducting one's affairs that is passed from generation to generation of employees at all levels of the organization. It is the responsibility of management, starting at the very top, to both set the example by personal conduct and create an environment that not only encourages and rewards ethical behaviour, but which also makes anything less totally unacceptable.[34]

The future holds many challenges and opportunities for marketing managers as they move into the twenty-first century. Technological advances in every area, from telecommunications information technology and the Internet to healthcare and entertainment, provide abundant marketing opportunities. However, forces in the socioeconomic, cultural and natural environments increase the limits under which marketing can be carried out. Companies that are able to create new customer value in a socially responsible way will have a world to conquer.

Summary

In this chapter, we have examined many important concepts involving marketing's sweeping impact on individual consumers, other businesses and society as a whole. Responsible marketers discover what consumers want and respond with the right products, priced to give good value to buyers and profit to the company. A marketing system should sense, serve and satisfy consumer needs and improve the quality of consumers' lives. In working to meet consumer needs, marketers may take some actions that are not to everyone's liking or benefit. Marketing managers should be aware of the main *criticisms of marketing*.

Marketing's *impact on individual consumer welfare* has been criticised for its *high prices*, *deceptive practices*, *high-pressure selling*, *shoddy or unsafe products*, *planned obsolescence* and *poor service to disadvantaged consumers*. Marketing's *impact on society* has been criticised for *creating false wants* and *too much materialism*, *too few social goods*, *cultural pollution* and *too much political power*. Critics have also criticised marketing's *impact on other businesses* for *harming competitors* and *reducing competition* through acquisitions, practices that create barriers to entry, and unfair competitive marketing practices.

Concerns about the marketing system have led to *citizen action movements. Consumerism* is an organised social movement intended to strengthen the rights and power of consumers relative to sellers. Alert marketers view it as an opportunity to serve consumers better by providing more consumer information, education and protection.

Environmentalism is an organised social movement seeking to minimise the harm done to the environment and quality of life by marketing practices. The first wave of modern environmentalism was driven by environmental groups and concerned consumers, whereas the second was driven by government, which passed laws and regulations governing practices impacting the environment. Moving into the twenty-first century, the first two environmentalism waves are merging into a third and stronger wave in which companies are accepting responsibility for doing no environmental harm. Companies now are adopting policies of environmental sustainability – developing strategies that both sustain the environment and produce profits for the company.

Many companies originally opposed these social movements and laws, but most of them now recognise a need for positive consumer information, education and protection. Some companies have followed a policy of enlightened marketing based on the principles of *consumer orientation*, *innovation*, *value creation*, *social mission* and *societal marketing*.

Increasingly, companies are responding to the need to provide company policies and guidelines to help their employees deal with questions of *marketing ethics*. Of course, even the best guidelines cannot resolve all the difficult ethical decisions that individuals and firms must make. However, there are some principles that marketers can choose among. One principle states that such issues should be decided by the free market and legal system. A second, and more enlightened, principle puts responsibility not in the system but in the hands of individual companies and managers. Each firm and marketing manager must work out a philosophy of socially responsible and ethical behaviour. Under the societal marketing concept, managers must look beyond what is legal and allowable and develop standards based on personal integrity, corporate conscience and long-term consumer welfare.

Discussing the issues

1. Marketing receives much criticism, some justified and much not. Which of the major criticisms of marketing discussed in the chapter do you think are most justified? Which are least justified? Explain.
2. You have been invited to appear along with an economist on a panel assessing marketing practices in the soft-drink industry. You are surprised when the economist opens the discussion with a long list of criticisms (focusing especially on the unnecessarily high marketing costs and deceptive promotional practices). Abandoning your prepared comments, you set out to defend marketing in general and the beverage industry in particular. How would you respond to the economist's attack?
3. Comment on the state of consumers' rights on the Internet and in e-commerce. Design a 'Bill of Rights' that would protect consumers while they shop for products and services on the Internet. Consider such issues as government regulation, ease and convenience of use, solicitation, privacy and cost-efficient commerce.
4. You are the marketing manager for a small firm that makes kitchen appliances. While conducting field tests, you discover a design flaw in one of your best-selling ovens that could potentially cause harm to a small number of consumers. However, a product recall is likely to bankrupt your company, leaving all of the employees (including you) jobless. What would you do?

5. The issue of ethics provides special challenges for international marketers as business standards and practices vary a great deal from one country to the next. Should a company adapt its ethical standards to compete effectively in countries with different standards? (Bribes, use of child labour, low wages, positive discrimination against female workers and members from ethnic minorities might be examples of values/practices which vary across countries/cultures in different corners of the globe and can be used to focus your discussion.)

Applying the concepts

1. Changes in consumer attitudes, especially the growth of consumerism and environmentalism, have led to more societal marketing – and to more marketing that is *supposedly* good for society, but is actually close to deception.
   - List three examples of marketing campaigns that you feel are genuine societal marketing. If possible, find examples of firm communications, including advertising or packaging that support these campaigns. You may also visit relevant websites of companies of your choice to gather more specific information on these campaigns.
   - Find three examples of deceptive or borderline imitations of societal marketing. How are you able to tell which campaigns are genuine and which are not?
   - What remedies, if any, would you recommend for this problem?
2. As a small child you were probably taught that 'it is better to give than to receive'. This advice is one of the cornerstones of philanthropy, including corporate philanthropy. Given the new environmentalism and social responsibility in Western societies today, explain what should be an organisation's view towards charitable giving. What are the marketing ramifications of an organisation's philanthropic activities? Many corporations support worthy causes and contribute generously to their communities. Check out the websites of one of the following or some other company of your choice and report on its philanthropic and socially responsible activities: Nestlé (www.nestlé.com), Johnson & Johnson (www.jnj.com), Nike (www.nikebiz.com), Coca-Cola (www.cocacola.com) and Prudential Life Insurance (www.prudential.com). How does philanthropy by corporations relate to the social criticisms of marketing?

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Concluding concept 5

Nestlé: singled out again and again

> During the first few months, the mother's milk will always be the most natural nutriment, and every mother able to do so, should herself suckle her children.
>
> Henri Nestlé, 1869

The corporate affairs department at Nestlé UK's headquarters were bracing themselves for another burst of adverse publicity. At the forthcoming General Synod of the Church of England a motion would call for a continued ban on Nescafé by the Church. They also wanted the Church Commissioners to disinvest their £1.1m (€1.8m) in Nestlé. The Church's much publicised boycott of Nescafé first occurred, amid much ridicule, in 1991, as a protest against the use of breast milk substitutes in the Third World countries. In the aftermath of the 1991 vote, Nescafé claimed that its sales increased, although many churchgoers said they stopped using the brand-leading coffee. The new protest would be one of many the company had faced from Baby Food Action (BFA) protesters over decades although, according to Nestlé, the protesters' complaints had no foundation.

Nestlé SA, whose headquarters are in Vevey, Switzerland, is the world's largest food company, with annual sales of CHF89 billion (€59bn), 508 factories and 254,200 employees worldwide in 2002. Henri Nestlé invented manufactured baby food 'to save a child's life' and the company have been suppliers ever since. Then, in the late 1970s and early 1980s, Nestlé came under heavy fire from activists who charged the company with encouraging Third World mothers to give up breast feeding and use a company-prepared formula. In 1974 the British charity War on Want published a pamphlet, *The Baby Killer*, that criticised Unigate and Nestlé's ill-advised marketing efforts in Africa. While War on Want criticised the entire infant formula industry, the German-based Third World Action Group issued a 'translation' of the original pamphlet retitled *Nestlé Kills Babies*, which singled out the company for 'unethical and immoral behaviour'. The pamphlets generated much publicity. Enraged at the protest, Nestlé sued the activists for defamation. The two-year case kept media attention on the issue. 'We won the legal case, but it was a public-relations disaster', commented a Nestlé executive.

In 1977, two American social-interest groups, the Interfaith Center on Corporate Responsibility and the Infant Formula Action Coalition (INFACT), spearheaded a worldwide boycott against Nestlé. The campaign continued despite the fact that many organisations rejected the boycott. The US United Methodist Church concluded that the activists were guilty of 'substantial and sometimes gross misrepresentation', of 'inflammatory rhetoric', and of using 'wildly exaggerated figures'. The boycott was called off in 1984 when the activists accepted that the company was complying with an infant formula marketing code adopted by the World Health Organisation (WHO). Since then, church, university, local government and other action groups periodically rediscover the controversy and create publicity by calling for a boycott.

'Every day 4,000 babies die from unsafe bottle feeding', explain BMA.

The main accusation now is that Nestlé's use of promotions persuaded hundreds of thousands of poverty-stricken, poorly educated mothers that formula feeding was better for their children. 'Every day 4,000 babies die from unsafe bottle feeding', explain BMA. They continue, 'Donations of infant formula can do more harm than good.' Their concern is the donation of free or low-cost supplies of infant formula to maternity wards and hospitals in developing countries. Formula feeding is usually an unwise practice in such countries because of poor living conditions and habits; people cannot or do not clean bottles properly and often mix formula with impure water. Income level does not permit many families to buy sufficient quantities of formula. The protesters hit out at industry practices generally but keep Nestlé as their prime target:

- Promotional baby booklets ignoring or de-emphasising breast feeding.
- Misleading advertising encouraging mothers to bottle-feed their babies and showing breast feeding to be old-fashioned and inconvenient.
- Gifts and samples inducing mothers to bottle feed their infants.

- Posters and pamphlets in hospitals.
- Endorsements of bottle feeding by milk nurses.
- Formula so expensive that poor customers dilute to non-nutritious levels.

A WHO code eliminates all promotional efforts, requiring companies to serve primarily as passive 'order takers'. It prohibits advertising, samples and direct contact with consumers. Contacts with professionals (such as doctors) occur only if professionals seek such contact. Manufacturers can package products with some form of visual corporate identity, but they cannot picture babies. The WHO code effectively allows almost no marketing. However, the code contains only *recommended* guidelines. They become *mandatory* only if individual governments adopt national codes through their own regulatory mechanisms.

WHO allows the donation of free or low-cost supplies of infant formulas for infants who cannot be breast-fed. However, the International Association of Infant Food Manufacturers (IFM) is working with WHO and UNICEF to secure country-by-country agreements with countries to end free and low-cost supplies.

Nestlé itself has a policy on low-cost supplies in developing countries, as follows:

- Where there is government agreement, Nestlé will strictly apply the terms of that agreement.
- Where there is no agreement Nestlé, in cooperation with others, will be active in trying to secure early government action.
- Where other companies break an agreement, Nestlé will work with IFM and governments to stop the breach.
- Nestlé will take disciplinary measures against any Nestlé personnel or distributors who deliberately violate Nestlé policy.

Given the repeated public relations problems that Nestlé faces, why does it not take unilateral action in ending free supplies? Since the Third World infant formula market is so small compared with Nestlé's worldwide interests, why bother with it? Part of the answer is in Henri Nestlé's desire 'to save a child's life'. The European Commission's directive on baby food concludes that infant formula is 'the only processed foodstuff that wholly satisfies the nutritional requirements of infants' first four to six months of life'.

Few mothers in countries with very high infant mortality rates use anything other than breast milk. However, Kenya is probably typical of what happens when mothers do supplement breast milk with something else:

- 33 per cent use uji, a local food made from maize;
- 33 per cent use cow's milk;
- 28 per cent use water;
- 14 per cent use glucose;
- 11 per cent use milk powder, of which some is infant formula;
- 3 per cent use tea.

A study in the Ivory Coast shows the sort of problems that arise when Nestlé withdraws unilaterally. Other companies replaced the supplies to the affluent private nurseries, but supplies for mothers in need collapsed. As a result the main hospital was not able to 'afford to buy enough to feed abandoned babies or those whose mothers are ill'.

Questions

1. Was and is Nestlé's and the other IFM members' marketing of infant formula 'unethical and immoral'?
2. Is it the case that ethical standards should be the responsibility of organisations such as WHO and UNESCO, and that the sole responsibility of firms is to work within the bounds set?
3. Is Nestlé just unlucky or did its actions precipitate its being singled out by activists? Is the activists' focus on Nestlé unjust and itself dangerous? What accounts for Nestlé's continuing in the infant formula market despite the protests?
4. Did Nestlé benefit from confronting the activists directly in court and winning? Should firms ever confront activists directly? What other forms of action are available to the company? Should firms withdraw from legitimate markets because of the justified or unjustified actions of pressure groups?
5. The WHO code is a recommendation to government. Is it Nestlé's responsibility to operate according to the national legislation of any given country, or to follow WHO's recommendations to that country? Do international bodies setting international standards, such as WHO and UNICEF, have a moral responsibility to make those standards clearly understood by all parties and to demand action by national governments to enact them?
6. How should Nestlé respond to the threats from the General Synod? Since Nestlé claimed sales increased after the Nescafé boycott in 1991, should it just ignore the problem?

SOURCES: John Sparks, 'The Nestlé controversy – anatomy of a boycott', Public Policy Education Fund, Inc. (June 1981); European Commission, Commission Directive on Infant Formula and Follow-on Formula, 91/321/EEC; UNICEF, *The State of the World's Children* (1992); RBL, *Survey of Baby Feeding in Kenya* (1992); Nestlé, *Nestlé and Baby Milk* (1994); Andrew Brown, 'Synod votes to end Nestlé boycott after passionate debate', *The Times* (12 July 1994); World Health Assembly Resolution 54.2 'Infant and young child nutrition' (2001); Nestle.com (February 2004), competing websites babymilk.nestle.com (2003) and babymilkaction.org (February 2004).