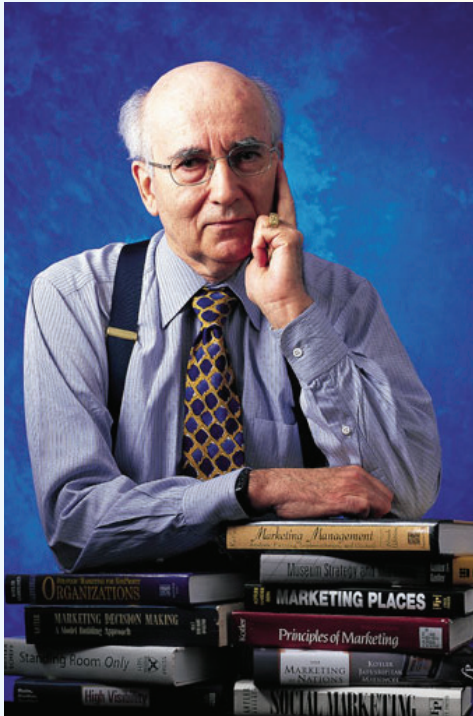


REFLECTIONS AND REACTIONS II. Virtual Interview – After More than Decade Reconceptualizing Marketing: An Interview with Philip Kotler

Elaborated by prof. Štefan Kassay, scientific editor of the journal Acta Mechanica Slovaca, with the kind agreement of prof. Philip Kotler.



BIBLIOGRAPHICAL NOTES

Philip Kotler (born 27 May 1931 in Chicago) is the S.G. Johnson & Son Distinguished Professor of International Marketing at the Kellogg School of Management at Northwestern University. He received his master's degree at the University of Chicago and his PhD at Massachusetts Institute of Technology, both in economics. He did post-doctoral work in mathematics at Harvard University and in behavioral science at the University of Chicago. He was selected in 2001 as the #4 major management guru by the Financial Times (behind Jack Welch, Bill Gates, and Peter Drucker,) and has been hailed by the Management Centre Europe as "the world's foremost expert on the strategic practice of marketing." In 2008, the Wall Street Journal listed him as the 6th most influential person on business thinking. Kotler has consulted many major U.S. and foreign companies, including IBM, Michelin, Bank of America, Merck, General Electric, Honeywell, and Motorola – in the areas of marketing strategy, planning and organization, and international marketing. He presents seminars in major international cities around the world on the latest marketing developments to companies and other organizations.

Philip Kotler is a name synonymous with the development of marketing as an academic discipline and operational practice over the last four decades. Philip Kotler is the authority on marketing for business grad students and top management around the world. He is the author of great marketing issues in many countries around the world, including Slovakia, that has been in transition from central planning to a more market-based economic system. Professor Philip Kotler ranks to the European's foremost guideline authority on marketing. However, the structure of society has dramatically changed while the generation of new technologies. It might be his reflection of mentioned

before when he said: "since now forget my words about marketing ..." Marketing as a development process is envisioning new configuration – related to the process of globalization and formed according to the intellectualization of new consumer market. Apparently, Philip Kotler's marketing principles are the reflection of the social transformation process. Development of the marketing has been changed, it has new society contours, in globalization, is changed as it is changed and grew up a new generation of consumers. He has published not only the classical texts on the subject, like Marketing Management, but in recent times has added radical new interpretations, like social marketing. Almost

¹For example interview in London with EMJ's editor, Paul Stonham, European Management Journal, vol. 12, no. 4, 1994, p. 361.

one decade ago, the concept of social marketing has appeared in many marketing books and journals it is still frequently discussed for all that.¹ Kotler introduced to make the subject a more comprehensive and powerful business tool, reviews the current state of marketing, sometimes said to be in a "mid-life crisis", and makes some hard forecasts about the subject and the direction in which its practitioners are going. The performance of social marketing is reaching the simple mind thread of an interview just as well.

Editor: *You mentioned subsegmentation. How small can a target market be and still remain profitable?*

Kotler: Today's marketers have moved considerably beyond segmentation. Segments are gross cuts of the market. The segment of high income buyers who want a fine car consists of many different buyers depending upon how they define a fine car, the level of their discretionary income, and other factors. Today's marketers are moving from segments to subsegments to niches to micromarkets to segments-of-one. A niche, for example, is a group of customers whose needs are very specific. Consider high income car buyers who want a car that will seat only two people, drive 150 miles an hour, have anti-lock brakes, a large fuel capacity, and two airbags. I don't know how many such buyers there are, but if there are enough, some car manufacturer could own this market. A micromarket is a geographically-based group of customers who have their own distinctive requirements. When we say that a supermarket chain is doing micromarketing, we mean that it is shipping different food items and brands to its neighbourhood stores to meet their varying income levels and preferences. A growing number of companies are even contemplating how to meet the needs of segments-of-one; they call it mass customization. The seller makes available a flexible market offering. Burger King, the fast food chain, declares to its customers 'Have It Your Way'! Some restaurants set up a salad bar, so that their guests can mix the ingredients of their choice. A women's bathing suit company today offers to customize a bathing suit for each woman. Can small markets be profitable? It all depends. Customers in a niche market often pay a good Premium over cost to get exactly what they want. So niching firms operate on a high margin. But their

volume is low. However, if the same company runs several niched businesses, it will enjoy high margins and a high total volume. This seems to be the secret of companies such as Johnson & Johnson and EG&G.

Editor: *I want to ask whether you think that the marketing discipline has advanced much toward being a science?*

Kotler: Marketers have made great strides in recent years in deepening their understanding of buyer behavior and in having better tools for decision making. For example, marketers no longer lump people into a few social classes. Using a special tool can classify households into 40 lifestyle groups bearing such picturesque names as 'money and brains', 'fur coats and station wagons', and 'shotguns and pickup trucks'. We know a lot about each group: what products they buy, brands they prefer, magazines they read, TV shows they watch, stores they shop at. We also know where to find them, in so far as each group's density in a census tract is known. Marketers can target much more accurately with this data. There is another promising tool. In designing a new product, such as a kitchen appliance, an insurance policy, or a new hotel, we can create many alternative concepts, ask target consumers to rank them on their respective desirability, and decompose their preferences to learn about the importance of each attribute to the target buyers. This tool can help companies put together a better set of features and benefits when they design new products. These are only two scientific advances. My book Marketing Models runs to 800 pages and describes additional models and tools that today's marketers can use to improve their marketing performance. Each year, Marketing News (published by the American Marketing Association) lists over 500 new and current marketing software packages to help companies get more value out of their sales force, marketing research, advertising expenditures, and the like.

Editor: *A recent article in the McKinsey Quarterly (no. 2, 1993) was entitled 'Marketing's Mid-Life Crisis'. It was argued that marketing is simply not picking up the right signals anymore from a dramatically-changed consumer environment - recession, private labels, and increasingly sophisticated supermarket retailers. Do you agree?*

Kotler: Yes, marketing is in a mid-life crisis. The good news is that mid-life implies that there is another half-life left. But today, every business function is in a midlife crisis. Look at how our ideas about manufacturing have changed. Who would have believed some years ago that we could talk seriously about changing the product for every customer and carrying zero inventories and taking zero-time to make a setup change. Look at finance. We used to talk about maximizing the firm's profits, then its return on investment, now its shareholder value. As for marketing, yes, CEO's have been telling me of their disappointment with the performance of their marketing group. They budget more money for marketing every year and seem to get less for it. In some cases, the CEO's have a faulty understanding of marketing and its role. Many CEO's still think of marketing as sales and advertising. Simply increasing promotion expenditures won't work if the product isn't right, if the price isn't right, if the competitors also increase their promotion expenditures, and so on. The question of whether marketing is doing a good job does not lie in marketing's short-run results, which are affected by many factors. The answer lies in whether marketing is laying a solid long-run foundation for company prosperity, by identifying the company's best opportunities, designing excellent products and services for these opportunity markets, targeting more carefully, and investing to strengthen brand and customer equity. Some CEO's have raised profound questions about how to use the company's marketing resources. They are questioning the value of advertising, the role of the sales force, the flow of work between departments, and so on. Consider the following: Tony O'Reilly, Heinz' CEO, is planning to drop commercial TV in the UK, and instead concentrate on direct marketing. His company will send discount vouchers directly to heavy user homes. This marks a radical departure from mass marketing thinking. Compaq's CEO, Eckhard Pfeiffer, cut Compaq's sales force from 359 to 224, thereby reducing sales and general and administrative expense from 22 to 12 per cent of revenues. All 224 salespeople now work out of their homes, thus saving Compaq considerable office rent, and saving the salespeople the commuting time they formerly spent going to and from their office. Compaq's salespeople are in continuous con-

tact with Compaq and their customers through laptop computers, pagers, E-mail, Voice-mail, fax machines and other equipment in their homes and cars. IBM is reorganizing its 40,000-person sales force from being based in geographical offices to being industry-organized. IBM sees industries changing so fast that it needs specialized salespersons who know each industry. IBM will focus on fourteen industry segments, including communications, finance, distribution, health, and manufacturing. Ed Artz, P&G's CEO, is reorganizing time-honored P&G marketing practices so that the company can introduce new products faster throughout the world. No longer can P&G afford to do time-consuming market testing before launching its new products. It is partly switching to 'Ready, Fire, Aim', rather than 'Ready, Aim, Fire'. Quaker Oats recently laid off some hundred employees in their package design and promotions area. The company has decentralized some of these services into the divisions and is outsourcing the rest. Dial Corporation is reducing its national sales force by 20 per cent, dropping most national TV advertising, and instead sponsoring more promotional events such as Beach Boys concert tours, etc. Unilever has merged its marketing and salespeople into business groups focusing on consumer research, product development, and customer development. Pillsbury has replaced its brand managers with multi-disciplinary teams each gathered around a product group, such as pizza snacks. Each team involves managers from production, sales and marketing. Wal-Mart is pressuring its consumer packaged goods suppliers to reorganize along category management lines. Wal-Mart doesn't want to waste time dealing with individual brand managers. It wants to negotiate deals involving suppliers' whole categories. My colleague Don Schultz recently wrote an article with the headline: 'Traditional Marketers Have Become Obsolete'. Don thinks that mass marketing is dying and integrated direct marketing is taking its place.

Editor: *Why are these changes taking place now? Why didn't they happen earlier?*

Kotler: Marketing practice has to change when the marketplace changes. And the changes in demographics, economics, technology, distribution, and global competition have been enormous. The population is ageing in many Western industrial countries, incomes are tight, and customers are more dis-

criminating. Today's customers are more demanding than ever. They are more educated and less influenced by hype. They want products of superior quality, customized to their needs, supplied with great convenience, at the lowest prices, with added free services. Jack Welch, GE's CEO, recently said: 'The value decade is upon us. If you can't sell a top-quality product at the world's lowest price, you're going to be out of the game'. Company's customer manufacturing department and relationship marketing is the key.

Editor: *We have all heard a lot about marketing databases. But can large global consumer goods companies expect to keep data on every customer and tailor specific offers to these customers?*

Kotler: Clearly large companies can keep data records on millions of customers. Heinz has built a database of 5,6 million homes in the UK that are heavy users of its products. Mars knows the names of most families in Germany that own a cat, along with the cat's name and birthday (they send a birthday card to the cat on the cat's birthday). Fingerhut has rich individual data on over 14 million customers. The question is only whether the companies will find it worth doing. Catalogue companies will find it worthwhile. In fact, they use search and sort routines to pull out of their database high prospects for any offer, then they can tell who bought what, and improve their targeting further. Whether large consumer packaged goods companies will find direct marketing to be more effective than mass advertising remains an open question. Technology is changing so rapidly that Kodak has had to transform from a film company to a magnetic tape company (from a chemically-based company to an electronics-based company). Henkel, Unilever, and P&G have to worry about whether ultrasonic washing machines will become effective enough to destroy the detergent market.

Editor: *There seems to be much rhetoric spoken about treating marketing as a process rather than as a department in a corporation. Instead of marketing, sales, and production, it is said that businesses should be organized by core processes. Do you think such an organizational reform would be beneficial?*

Kotler: Then there is global competition. We live in an age of hypercompetition safe. Companies in

low cost countries are invading the market sanctuaries of from which no company, large or small, is companies producing in high cost countries. Power is shifting from producers to mega-retailers who are issuing their own private brands at a lower price but not at a lower quality. Consumers are transferring their loyalty from the brand to the store. Underlying the hypercompetition is the revolutionary speedup of information processing and communication. Information travels instantly from one corner of the globe to the next. This means that strategic plans become obsolete very quickly. Companies are forced to move from strategic planning to strategic improvements. They accomplish this by empowering frontline people to make more of the decisions, subject, of course, to certain parameters. The recent recession started many companies down the road to rethinking their marketing strategy. Companies shifted their focus from customer attraction to customer retention. Customer retention requires knowing much more about a customer, as might be captured in a marketing database. The company's task is not to make a sale but to build loyal customers. Marketing is the Kotler: Yes. More companies are recognizing today that departments set up walls that slow down and often perversely affect company actions to meet customer needs. Departments make decisions in their own interest, not the company's interest. What's the answer? Some companies see the answer as lying in continuous quality improvement (CQI) and total quality management, namely 'everyone improving everything all the time'. Other companies favour a radical approach, namely reengineering the company's processes. They ask: how would the company's core business processes be conducted if they could be redesigned from scratch? These companies are looking not for a 10 per cent improvement but an improvement in productivity by a factor of ten; I believe that marketing and sales departments need radical revision. Not only does not marketing/sales always work smoothly with R&D, manufacturing, and other functions, but too often the marketing and sales departments are warring with each other. The key need is to recognize the core processes which make up marketing's responsibility. They are analysing the market, designing market strategies, developing new products, developing and managing brand equity, securing sales, mana-

ging order delivery, and retaining customers.

Each process should be handled by a multi-discipline team. For example, new product development requires a skill mix from R&D, marketing, sales, manufacturing, purchasing, and pricing. Each process that I listed requires teamwork with nonmarketing personnel. This begs the question of what happens to the marketing department if people are reorganized into multidiscipline teams. If marketers work more outside of the marketing department than in it, does the company still need a marketing department? I think yes. Marketing works only if there is a clear market objective, a sound market strategy, and excellent marketing coordination. Some unit in the company must provide this leadership.

Editor: *You said in one of your writings that a company can have the greatest marketing department and still fail at marketing? How is this possible?*

Kotler: Perhaps David Packard of Hewlett-Packard said it better: 'Marketing is far too important to leave to the marketing department'! Today's companies are beginning to understand that the whole company must be a sales department. The personnel in all departments must be customer-focused and customer-caring. When I was consulting with IBM, John Akers asked me what would be the signs of how much each IBM department is customer-focused. I answered the question by creating an instrument. I developed about five indicators for each department that would clue management as to whether that department thought much about customers. For example, for R&D, the positive indicators are: 'They spend time meeting customers and listening to their problems. They welcome the involvement of marketing, manufacturing, and other departments on each new product. They benchmark competitors' products and seek "best-of-class" solutions. They solicit customer reactions and suggestions as the project progresses. They continuously improve and refine the product on the basis of market feedback'. If the company's R&D department meets all five indicators, it is in good shape from the marketing point of view.

Editor: *Will a stronger market orientation help consumer goods companies do any better against the growing power of the mega-retailers?*

Kotler: They will perform better but it won't provide any full answer. It won't stop the shift of power to the mega-retailers. The mega-retailers are the one who will have to become marketing strategists, not just retailers. For they, too, face a number of challenges. First, the mega-retailers must worry about each other - Sainsbury has to worry about Tesco and both have to worry about Aldi. Small retailers have to worry about 'category killers', companies such as Toys 'R Us (toys and games), Ikea (furniture), Home Depot (home improvement), and Staples (office supplies). These category killers offer the largest assortment, the lowest prices, and in some cases, the most knowledgeable salespeople. Today's retailing picture also shows an explosive growth of deep-price discounters, warehouse membership clubs, and factory outlet malls. Second, the store-based mega-retailers have to worry about the rapid growth of non-store based retailing, such as direct mail, catalogues, home TV shopping, computer retailing, party selling, door-to-door, office-to-office, and multi-level marketing. Eventually, people may even buy their automobiles by phone instead of going to a showroom, especially if car buyers continue to say they would rather go to the dentist than do business with a car dealer.

Editor: *Can I pick out 'private labels' as an aspect of the dynamism of retailing? Do you think they are a strongly growing force in the future of retailing?*

Kotler: Absolutely. Private labels are a tidal wave. In the beginning, stores used to carry only national brands plus a few low-price store brands to appeal to more economical buyers. The price was less and the quality was less. Smaller manufacturers supplied these retailers while top national brands refused to supply products for a store brand. Then a shift occurred. Giant retailers began to represent the interests of the consumers rather than acting as the agents of the suppliers. Competition forced the retailers to outperform each other in trying to attract and satisfy customers. Sainsbury and other stores started to introduce a second private brand that was commensurate in quality, but still lower in cost, than the top national brands. Loblaw's, one of Canada's major supermarket chains, introduced a few years ago its store brand called President's Choice'. They offered President's Choice cola, President's Choice chocolate cookies, etc. Their

store brand included a guarantee that if the consumer was not completely satisfied, the store would replace the store brand with the consumer's choice of a national brand. Hardly any customer has asked for a replacement! Today, even the top manufacturers are setting aside some production for private brands. In doing so, they try to supply a little less quality than is found in their national brand. But mega-retailers won't hear of this and insist on the same quality that is present in the national brand. This sounds like the retailers are inviting the manufacturers to commit suicide.

Editor: *With the growth of store brands, is there not a danger of loss of consumer choice if more of us buy store brands?*

Kotler: There is a general tendency toward supermarkets carrying fewer national brands. The store may offer the top two national brands and two store brands. But whoever said that when consumers could choose among 10 brands, they were getting 10 authentic choices was mistaken. Many brands were virtually identical.

Editor: *What is great marketing? Is it giving the consumer what he wants or introducing the consumer to new possibilities that he never imagined?*

Kotler: There are three levels of marketing competence. The first is to respond to customer's expressed needs and wants. Let's call this 'responsive marketing', and it is the kind we most associate with the marketing concept. It is baseline marketing. The second is 'anticipatory marketing', and constitutes even better marketing thinking. An example would be when someone recognizes that more homes are acquiring information/communication products and proceeds to develop office furniture to accommodate computers, telephones, fax machines, and copier machines in the home. The third and highest level of marketing competence is 'creative marketing', where the company creates something that no one explicitly asked for, or even imagined. Akio Morita, Chairman of Sony, is very clear about his concept of marketing. He says in his book: 'I don't sell products. I create markets'. Clearly, he has created many products that no one ever asked for - Betamax, Walkman, Watchman, camcorder, VCR, hard discs - all

of which have changed our lives. Another example of a creative marketer is the Harley Davidson Company, which almost went broke a decade ago. Today, they are not only leading again in the motorcycle business, but also in the lifestyle business. They have opened up retail stores where one can buy appropriate clothing (black leather jackets and boots), fake tatoos, and various appliances. Harley fans can also drink Harley's beer, and dine in a New York City restaurant called Harleys.

Editor: *One phrase I have picked up from your recent writings is 'value marketing'. Can you be more explicit?*

Kotler: People buy value. They compare the benefits of an offer to the costs (the costs go beyond the price). Marketing's job is to enlarge the benefits and reduce the customers' costs. This is not to say that every customer perceives value in the same way. Swedish people like functional furniture while Italians value colour and style more. That's why marketers must research the determinants of value in the mind of each customer or customer group. Thus fleet truck buyers put different values on durability, driver comfort, fuel efficiency, and so on. Customer value assessment, i.e. value graphics, is the key to successful product development and marketing communication.

Editor: *You wrote an article on your views of the relationship between industrialized and Third World countries, indicating that it is in the interest of advanced industrial nations to help Third World nations get on their feet. Some would say that Third World nations, with their much lower costs, are a threat to advanced industrial nations.*

Kotler: Third World nations will inevitably take over labour-intensive manufacturing industries, such as textiles, shoes, etc. And they should. Industrial countries should not hold on to less efficient industries. The good news is that as Third World nations improve their economies, they become huge markets for more advanced goods from the West. For example, out of India's 900 million people, about 150 million are middle class. Where else can you find such a large middle class market? Consider what they would like to consume and own. The West can keep busy for generations supplying these needs. The same applies to Russia, Eastern

European countries, and China. Some way must be found to start a growth dynamic in these countries. The West will ultimately benefit.

Editor: *Finally, because marketing and the marketplace are undergoing the major changes that you mentioned, I should like to ask you what advice you would give business schools about teaching marketing and training a new generation of professional marketers.*

Kotler: First, our courses in the marketing area must introduce the new themes such as customer value analysis, relationship marketing, integrated marketing communications, database marketing, harmonized marketing channels, services marketing, and decision modelling. Second, our marketing must be taught not in isolation from the other functions but in conjunction with them. We need to emphasize how marketing relates to manufacturing, purchasing, finance, logistics, R&D, and human resources development. This can be accomplished by co-teaching courses with professors in the other disciplines and using cases that raise broad business questions. Third, marketing courses must stimulate creative thinking about ways to build superior value delivery systems. Students must think about the potential of cooperative moves with allies and not just competitive moves against rivals. Fourth, marketing must be taught in the context of global forces. Students normally think ethnocentrically. They must be exposed to how different cultures perceive and value goods, services and personal relationships. They must learn the subtle art of adapting marketing ideas and products to fit vastly different target markets.



