Becoming a Market-Oriented Company

By Philip Kotler*)

Summary

Marketing, in contrast to selling, is a relatively new and revolutionary business perspective. An increasing number of companies are seeking to strengthen their marketing muscle but few are succeeding. Transforming a product-centered or engineering-centered company into a customer-oriented and market-driven company requires a master plan and a long term company-wide commitment. This article explains the nature of a thoroughgoing marketing orientation and the steps necessary to achieve it.

Critical Questions for the 1980s

I'm going to address the following questions:
"What is Marketing?"
"How does Marketing differ from Sales?"
"How can we tell whether a particular company or business unit is marketing-effective?"
"In what kinds of businesses will adding marketing resources have the most impact?"

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"How can a business, if convinced of the value added by marketing, proceed to acquire stronger marketing capabilities?"
And finally, "How can marketing and strategic planning be related more effectively?"
I'd like to offer six propositions that will address these questions.

Business Orientations in the Twentieth Century

My first proposition is that marketing is a relatively new orientation for business. It hasn't been around 100 or even 50 years. What's been around for thousands of years is sales, not marketing. Marketing is a relatively new business orientation.
Each decade in America has been dominated by a different business perspective. In the 1910s, engineers led their companies. Many companies were small and had been started by engineers – by people tinkering with the automobile, the radio, and so on. Many companies today are still dominated by engineers. This can be good or bad. France's top companies, for example, are run by engineers who got their degrees from L'Ecole Polytechnique. And I just have to point out that the French developed the Concorde to show you what the limitations of an engineering approach can be. The Concorde is the "better mousetrap;" it is an engineering tour de force. But marketing people would have stopped the idea before it was made into a plane of which only sixteen have been sold to date. Marketing people would have said to the engineers: this plane won't sell in the required volume. The engineers, however, wanted to produce it and the Concorde has piled up one of the largest loss records in history.
In the '20s, financial people rose to the top of many companies. They were needed to consolidate capital through mergers and acquisitions. Finance people understand the art of putting enterprises together.
In the '30s, there was so much red ink that accountants rose to the top. They were the only ones who could understand what was happening and make the situation look a little better than it actually was.
In the '40s, we needed a lot of production, and manufacturing genuises rose to the top. People like Henry J. Kaiser who could build destroyers in a couple of days became our heroes.

In the '50s, supply caught up with demand. We had a lot of unsold refrigerators and automobiles. Our super-sales types rose to the top of their companies because this was the skill needed at that time.

In the '60s, some business companies discovered marketing. They discovered that it is better to make things that people want than to make products and try to find customers for them. Companies turned to marketing research to identify needs and wants. Peter Drucker told us that marketing was different from sales when he said: "The aim of marketing is to make selling unnecessary." If you think marketing *is* sales, this statement makes no sense at all. Drucker was saying that if a company did its marketing homework and figured out what the market wants, what it would pay, and where it wants to buy it, selling is easy. Selling is hard when the marketing homework isn't done. Right now the Mazda RX7 has back orders for three months because that car is so well positioned and so desirable to the American sports car public that selling it is no problem. The marketing challenge was originally to figure out a Mazda RX7, and in that sense marketing precedes and guides sales. Marketing is a much larger concept that sales.

In the '70s, strategic planning became fashionable. Marketing and strategic planning need to be better integrated in organizations. We will look at this later.

The '80s may well be about strategic management. Companies are increasingly developing high level strategic managers who are free from the pressure of meeting today's bottom line goals. These managers are laying plans for tomorrow's profits. If an executive is given responsibility for today and tomorrow's profits, today will win out. The system demands that he make money today. I worked with the vice president of marketing of a large equipment company who spent most of his time looking at last week's sales figures. He is grooved into today and not thinking about the kinds of equipment the market will need tomorrow and the kinds of future positioning that the company will need. In contrast, companies like General Electric and Xerox are building strategic managers into the fabric of their firms.

I believe that strategy is more important to long run success than tactics. Admittedly, there are companies with good strategies that have failed because of poor implementation. On the other hand, the best implementation isn't going to produce strong profits without a good strategy.

I'm not going to guess what the business theme will be in the 1990s. Maybe it's international – that is, our companies will be internationalized and run by people who understand the world economy and opportunities.

Contrasting Marketing and Sales

Now I will draw some important contrasts between marketing and sales thinking. Sales executives have certain characteristics that contrast with those of marketing executives. The typical sales executive is volume-oriented. He is under pressure to meet a sales quota. The profit goal has already been figured out by his boss. The sales executive pays attention to each customer and knows each customer well. The sales executive is short run oriented; his thinking is very tactical, not strategic. He is very involved in L.G.D. thinking; that is, "lunch, golf, and dinner" thinking. "Do I take the prospect to a fancy restaurant or a plain restaurant?" I'm not putting down sales thinking. I'm just saying that a sales orientation often deals at the level of the immediate problems being faced. Finally, sales executives love field work. They like being in the customer's office. They dislike writing reports or analyzing research data.

The marketing executive, on the other hand, is profit-oriented. He thinks about market segments, not individual customers. The marketing executive is alert to long-run opportunities. He is strategically oriented. "Which segment do I go after? What synergies are there between segments, and what game plans will I use to penetrate segments?" And the marketing executive is more accustomed to office work. He's interested in analysis and planning.

The result is that you have two different cultures: sales and marketing. These two cultures often don't get along well. It's bad enough that marketing and manufacturing don't get along, or marketing and R&D. But marketing and sales are supposed to work together like a body works with an arm. What happens is that sales executives are more streetwise. They are more experienced in the ways of the world. And they often don't like the plans that the marketing executives create – those young MBA types who never sold anything. And the MBA's berate the sales people for not spending enough time selling the right products to the right customers.

Let's look at how marketing came into companies. Marketing came into companies as a staff function to sales. The sales operation needed one or two people who would analyze sales and market data, who would prepare advertising and sales promotion, and so on. A marketing director would be hired to handle these activities. Eventually the marketing director would argue for more budget and a different way of spending marketing funds. But he would not be heard by the general manager. The general manager would only hear that voice of sales.

To correct this, companies began to establish marketing as a separate and parallel function. Now the general manager, who was often an engineer or financially-oriented executive, would hear both the sales and marketing point of view. The sales manager would ask for more money to hire salespeople, the marketing manager would ask for more money to carry out marketing research, build up the company image, and so on.

In recent years, many companies have elevated marketing above sales. In these companies, sales works for marketing. Sales is a tool among several tools in the marketing mix. Everything is coordinated by marketing so that the company achieves a maximum impact on the marketplace.

Marketing is Underdeveloped in American Companies

My third proposition is that marketing is surprisingly underdeveloped in American companies. I don't think there are more than a few dozen American companies that are superstars in marketing. Yet this is the country that originally developed marketing. I recently applied my marketing effectiveness rating instrument to a large manufacturing firm with many divisions. Many divisions were doing poorly and the company president wanted to know how marketing oriented each division was. He felt that the lack of marketing skill might be the culprit. The instrument has five elements, as shown in Exhibit I.[2]

2) The instrument is completely described by Philip Kotler in »From Sales Obsession to Marketing Effectiveness,« *Harvard Business Review*, November-December, 1977, pp. 67–75.

EXHIBIT 1

MEASURING MARKETING ORIENTATION

Elements	*Maximum Score*
P = Philosophy	6
O = Organization	6
I = Information	6
S = Strategy	6
E = Efficiency	6
	30

The first question is, «Does the business practice a customer philosophy as opposed to a product or production philosophy?« I know a company whose chemists play around in the lab and invent new chemicals. Then the company figures out if any of them have any applications, and who the customers might be. If they think there are enough customers, they build a large plant. Their objective is to operate the plant at full capacity. Their approch is to create products and then find markets for them. This works, sometimes. However, I strongly feel that the company should also spend time listening to customer needs and bringing these needs to the attention of the lab people.

The second element: »Is the company well organized for marketing?« I would give zero points to a company that has no marketing staff. I would give 2 points to a company that has some marketing people in it, but who have a weak voice, one not equal to that of finance or production. I would give 6 points if marketing has a strong voice in the company.

The third element: »How good is the marketing information system?« Most managers complain about inadequate information. I often ask to see a company's latest study of customer buying behavior. The response is either that no study exists or one exists that is five years old. I ask for information about competition and distributor's behavior and find the data weak or nonexistent. I find that many companies don't know how much money they're making on individual products. They know the gross margins but haven't allocated their costs in a way that allows them to know which products are the most profitable. AT&T is spending millions to design a cost system so they can finally learn how much money they are making or losing on each service.

The fourth element: »How clear and effective is the company's marketing strategy?« The usual strategy statement is, »Our strategy is to produce a full product line of high quality, offer good service, and charge premium prices.« I will come back and say, »Well, it sounds to me like your competitors are doing the same thing. What is your critical leverage? What differential advantage are you bringing to the market place?« And often they don't have an answer.

Fifth element: »How efficiently is the company spending its marketing money?« Most companies do not take time to measure the results of their expenditures on advertising, sales force, sales promotion, marketing research, and so on, in spite of the existence of measurement tools.

The minimum rating on this instruments is 0, the maximum is 30. Let me show you the results when the instrument was applied to a large equipment manufacturer with 47 divisions. There were 2 divisions that had no marketing (0–5 points), 4 that had poor marketing (6–10 points), 11 that were fair (11–15 points), 18 good, (16–20 points), 9 very good, (21–25 points) and 3 superior (26–30 points).

Now the question arises: »What is the correlation between the marketing effectiveness of various divisions and their profitability?« The correlation was about .50. Now .50 is strong. It means there is a positive, fairly strong relationship between good marketing and good profit performance. The correlation is not perfect. One of the divisions scored 7 points and was very profitable. We looked at its competition and then understood why. It's competition stood at about 2 points. Now if you're at 7 and the competition is at 2, then no one in the industry is doing marketing right. You're making money because you're slightly better. But if Proctor & Gamble comes into your industry with its 30 points, then you're in trouble.

Marketing Has Advanced Unevenly in Different Industries

My fourth proposition is that marketing definitely makes a difference in sales and profit performance. We can't offer hard evidence but we can offer impressionistic information. We know that strong marketing companies such as P&G, IBM, McDonalds, and so on, enjoy good profits. And we know other companies with weak marketing that have been in serious trouble – International Harvester, A&P, etc. And we have seen other companies that went from no marketing to strong marketing – companies like Toro and Miller beer – increase their market position and profits substantially.

Marketing counts in certain business areas more strongly than in others. The impact of marketing varies with the type of product. Marketing is most needed in a final form business where one is shaping a product, providing it with different features such durability, quality, and so on. Marketing's impact is less in a commodity business. But I want to emphasize strongly that marketing does add value even to a commodity business. In fact, there's no such thing as a commodity. The customer does not simply buy sulphuric acid. He buys reliable delivery, applications consulting, financing, and so on. There could be a hundred dimensions to any offer as Levitt points out.[3]

We think that marketing counts greatly in service-oriented markets, next in quality-oriented markets, and somewhat less in price-oriented markets. But it can have an impact in all three areas.

We think that marketing matters at all stages of the product life cycle. Marketing counts heavily in the early stage to lead you to making the right product in the first place. Marketing counts heavily at the mature stage when the market gets crowded. We think that the companies with the strongest marketing will have the best chance of surviving and prospering. The marketing challenge is less severe in the declining stage of the product's life cycle when the company is harvesting or milking the product. But there is still some good , endgame marketing thinking needed in this stage.

3) T. Levitt, »Marketing success through differentation – of anything.« *Harvard Business Review*, January-February, 1980, pp. 83–91.

We think marketing is most important when the company faces strong competition. But even when the competition is weak, strong marketing will bring the company leadership in the market.
We think that marketing adds value in companies that are too short-run oriented. Marketing calls for looking beyond today at where the market is going. If the company is already long-run oriented, marketing adds a little less, but still is important.

A Genuine Marketing Orientation Takes Some Years to Install

Suppose you're convinced that your company needs stronger marketing. Some companies think this can be accomplished by hiring a marketing vice president. When I tell them it's going to take 3–6 years of work in becoming a marketing-effective company, they can't believe it. And I counter, »Suppose you had no R&D in the company, and you wanted to build an effective R&D function. Wouldn't that take 3–6 years to develop?«
If a company is going to acquire marketing depth, the president must be behind it. There are often a number of good marketers in a company, but they are not recognized. Their message never gets to the top, because the top is thinking in engineering, production, or financial terms. When the president finally gets interested and understands marketing, and becomes its promoter, then it has a chance of taking root in the organization.
The next step is to develop a marketing task force to assess the state of marketing and what is needed. Should marketing be installed at corporate headquarters and/or in each division? How should it look? Who should be hired to do it? The marketing task force work with a management consulting firm to get the benefit of their experience.
Then the company has to hire marketing talent. When AT&T started

its marketing function, they chose an ex-IBM wonderboy, Arch McGill, to head the function. They figured that IBM was an excellent model for what AT&T wanted to accomplish.[4]

Another step is to promote the company's natural marketers to positions of authority. This will give a signal to the rest of the company that marketing is important.

Finally, the company needs to install a first-class marketing planning system. It's absolutely essential that marketing be done within the discipline of a marketing planning system.

Marketing Philosophy is Continually Evolving

My next proposition is that marketing philosophy is continually evolving. Let me contrast 1960s marketing and 1980s marketing. In the 1960s, the marketing *buzz* words were »product differentiation« and »mass marketing.« Today they are »marketing segmentation,« »market targeting,« and »market positioning.« We address the needs of chosen segments and design appropriate offers. In the 1960s, companies were advised to carry a full product line because the customer demanded choice. Today, a lot of companies are pruning their product lines and are harder-nosed about which products make money. There's more interest in a profitable product line than a full product line. In the 1960s marketing meant building sales volume for every product. In the 1980s we know that some businesses are not growth businesses and should not be run for growth. They should be run for maintenance, or for harvesting. Marketing has to shape itself to the mission set for the business unit. In the 1960s we said pricing should be based on cost. In the 1980s we're saying pricing should be based more on perceived value. In the 1960s we thought a company should be in many markets, and not necessarily dominate any. Today we advise companies to choose carefully a few markets and dominate them. In the 1960s, we emphasized shaping the company to the customer's needs. Today we also take competition into account in shaping our strategy.

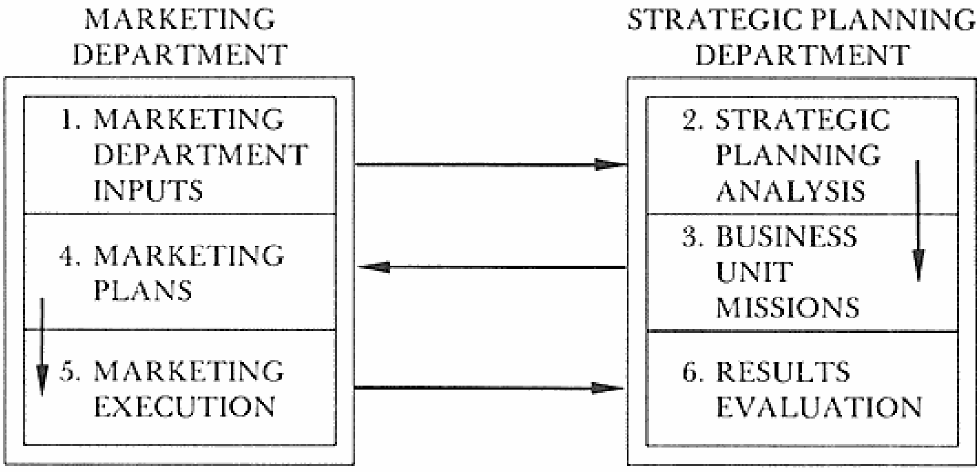
4) »Selling is No Longer Mickey Mouse at AT&T, *Fortune*, July 17, 1978, pp. 98–102.

Relating Marketing and Strategic Planning

Finally, we have to consider the relationship between marketing and strategic planning. Marketing is currently taking a back seat to strategic planning. Strategic planning is essential but it must be backed by strong marketing. Exhibit 2 shows how the two disciplines should be related.

Exhibit 2

MARKETING AND STRATEGIC PLANNING



The strategic planners ask the marketing people for marketing inputs on the size of the market, where it is going, what profit margins can be made, and so on. The strategic planners analyze the data (Steps 2). They decide on missions for the various business units (Step 3). The marketing people are asked to create marketing plans to carry out the missions (Step 4). The execution will have a certain quality (Step 5). Finally, the strategic planners evaluate the results (Step 6). In principle strategic planning can be only as good as the marketing people's input, planning, and execution. I worry sometimes because strategic planners are very financially-oriented and often don't appreciate the subtleties of evaluating markets. But when good strategic planners and good marketers work well together, the combination is powerful.

Conclusion

Companies still have a long way to go in marketing. They ought to keep their eyes on the master marketers, – IBM, P&G, and so on – and learn from them. The task is not so much to discover new principles about effective marketing as to start applying what we already know.