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MKTG¹³

PRINCIPLES OF MARKETING

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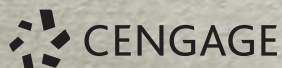
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LEARNING OUTCOMES

After studying this chapter, you will be able to . . .

1-1 Define the term *marketing*

1-2 Describe four marketing management philosophies

1-3 Discuss the differences between sales and market orientations

1-4 Describe several reasons for studying marketing

1-1 WHAT IS MARKETING?

What does the term *marketing* mean to you? Many people think *marketing* means personal selling. Others think it means advertising. Still others believe that marketing has to do with making products available in stores, arranging displays, and maintaining inventories of products for future sales. Actually, marketing includes all of these activities and more.

Marketing has two facets. First, it is a philosophy, an attitude, a perspective, or a management orientation that stresses customer satisfaction. Second, marketing is an organizational function and a set of processes used to implement this philosophy.

The American Marketing Association's (AMA) definition of marketing focuses on the second facet. According to the AMA, **marketing** is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.[1]

Marketing involves more than just activities performed by a group of people in a defined area or department. In the often-quoted words of David Packard, cofounder of Hewlett-Packard, "Marketing is too important to be left only to the marketing department." Marketing entails processes that focus on delivering value and benefits to customers, not just selling goods, services, and/or ideas. It uses communication, distribution, and pricing strategies to provide customers and other stakeholders with the goods, services, ideas, values, and benefits they desire when and where they want them. It involves building long-term, mutually rewarding relationships when these benefit all parties concerned. Marketing also entails an understanding that organizations have many connected stakeholder "partners," including employees, suppliers, stockholders, distributors, and others.

Research shows that U.S. companies chosen as the top places to work by employees outperformed the stock market by 2.8 to 3.8 points per year, no matter what the broader economic conditions.[2] In 2018, Salesforce, a cloud-computing company in San Francisco, captured the number-one position in *Fortune*'s "100 Best Companies to Work For." The company has fostered an unusual company culture based on trust, growth, innovation, and equality. It offers rich monetary and psychological rewards, and has developed software that looks for strong performers who have gone 18 months without a promotion to help them look for new challenges. Employees also get paid 56 hours a year to do volunteer work in their community.[3]

> ## "Marketing is too important to be left only to the marketing department."
>
> —DAVID PACKARD, COFOUNDER OF HEWLETT-PACKARD

One desired outcome of marketing is an **exchange**—people giving up something in order to receive something else they would rather have. Normally, we think of money as the medium of exchange. We "give up" money to "get" the goods and services we want. Exchange does not require money, however. Two (or more) people may barter or trade such items as baseball cards or oil paintings.

An exchange can take place only if the following five conditions exist:

1. There must be at least two parties.
2. Each party has something that might be of value to the other party.
3. Each party is capable of communication and delivery.
4. Each party is free to accept or reject the exchange offer.
5. Each party believes it is appropriate or desirable to deal with the other party.[4]

Exchange will not necessarily take place even if all these conditions exist, but they must exist for exchange to be possible. For example, suppose you place an advertisement in your local newspaper stating that your used automobile is for sale at a certain price. Several people may

marketing the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large

exchange people giving up something in order to receive something else they would rather have

Salesforce was selected number 1 in Fortune's "100 Best Companies to Work\For" in 2018, partly based on it's unique company culture.

call you to ask about the car; some may test-drive it; and one or more may even make you an offer. All five conditions that are necessary for an exchange to occur exist in this scenario. But unless you reach an agreement with a buyer and actually sell the car, an exchange will not take place.

Notice that marketing can occur even if an exchange does not occur. In the example just discussed, you would have engaged in marketing by advertising in the local newspaper, even if no one bought your used automobile.

1-2 MARKETING MANAGEMENT PHILOSOPHIES

Four competing philosophies strongly influence an organization's marketing processes. These philosophies are commonly referred to as production, sales, market, and societal marketing orientations.

1-2a Production Orientation

A **production orientation** is a philosophy that focuses on the internal capabilities of the firm rather than on the desires and needs of the marketplace. A production orientation means that management assesses its resources and asks these questions: "What can we do best?" "What can our engineers design?" "What is easy to produce, given our equipment?" In the case of

production orientation a philosophy that focuses on the internal capabilities of the firm rather than on the desires and needs of the marketplace

sales orientation the belief that people will buy more goods and services if aggressive sales techniques are used and that high sales result in high profits

a service organization, managers ask, "What services are most convenient for the firm to offer?" and "Where do our talents lie?" The furniture industry is infamous for its disregard of customers and for its slow cycle times. For example, most traditional furniture stores (think Ashley or Haverty's) carry the same styles and varieties of furniture that they have carried for many years. They always produce and stock sofas, coffee tables, arm chairs, and end tables for the living room. Master bedroom suites always include at least a queen- or king-sized bed, two dressers, and two side tables. Regardless of what customers may actually be looking for, this is what they will find at these stores—and they have been so long-lived because what they produce has matched up with customer expectations. This has always been a production-oriented industry.

There is nothing wrong with assessing a firm's capabilities; in fact, such assessments are major considerations in strategic marketing planning (see Chapter 2). A production orientation can fall short if it does not consider whether the goods and services that the firm produces most efficiently also meet the needs of the marketplace. On the other hand, sometimes what a firm can best produce is exactly what the market wants. Apple has a history of production orientation, creating computers, operating systems, and other gadgetry because it can and hoping to sell the result. Some items have found a waiting market (early computers, iPod, iPhone). Other products, like the Newton, one of the first versions of a personal digital assistant (PDA), were simply flops.

In some situations, as when competition is weak or demand exceeds supply, a production-oriented firm can survive and even prosper. More often, however, firms that succeed in competitive markets have a clear understanding that they must first determine what customers want and then produce it, rather than focus on what company management thinks should be produced and hope that the product is something customers want.

1-2b Sales Orientation

A **sales orientation** is based on the belief that people will buy more goods and services if aggressive sales techniques are used and that high sales result in high profits. Not only are sales to the final buyer emphasized, but intermediaries are also encouraged to push manufacturers' products more aggressively. To sales-oriented firms, marketing means selling things and collecting money.

The fundamental problem with a sales orientation, as with a production orientation, is a lack of

Examples of a Sales-Oriented Business

A sales orientation is common for businesses selling products or services in highly competitive markets. This orientation is also used when the consumer is not actively pursuing a company's product. Several examples of industries that tend to use a sales orientation follow.

1. **The insurance industry**
   In the insurance industry, companies create the products and then sell them through representatives, advertising, and other sales techniques. Insurance policies are not influenced by consumer input or demand. Insurance is a product that most consumers feel is necessary, and it requires a sales orientation to educate and drive purchases from consumers. While consumers do shop rates, the business of auto, home, health, and other policies are driven by a sales orientation.

2. **The Automotive Industry**
   While the vehicle itself is often built according to market orientation, vehicle parts and mechanical services are sales oriented. Consumers require sales people to provide information and to understand their needs. Ultimately, the knowledge on the parts and mechanical side primarily drives the sales of parts and services.

3. **Business-to-Business Sales**
   Business-to-business sales also provide an example of a sales-oriented business approach. Companies develop products that may benefit a business and then rely heavily upon aggressive marketing tactics to sell them. Examples of products sold in this type of market can include advertising sales or technologies such as point-of-sale software and machinery that will allow the business to run more efficiently and profitably. Chances are the business owner was not initially looking for the product, but bought it because the salesperson showed him some benefit to buying it.

Zach Lazzari, "Examples of a Sales-Oriented Business, " https://yourbusiness.azcentral.com/examples-salesoriented-business-11277.html, May 7, 2018.5; Jared Lewis, "Examples of a Sales-Oriented Business," https://smallbusiness.chron.com/examples-salesoriented-business-25083.html, accessed August 8, 2019.

understanding of the needs and wants of the marketplace. Sales-oriented companies often find that, despite the quality of their sales force, they cannot convince people to buy goods or services that are neither wanted nor needed.

1-2c Market Orientation

The **marketing concept** is a simple and intuitively appealing philosophy that articulates a market orientation. It states that the social and economic justification for an organization's existence is the satisfaction of customer wants and needs while meeting organizational objectives. What a business thinks it produces is not of primary importance to its success. Instead, what customers think they are buying—the perceived value—defines a business. The marketing concept includes the following:

- Focusing on customer wants and needs so that the organization can

> **marketing concept** the idea that the social and economic justification for an organization's existence is the satisfaction of customer wants and needs while meeting organizational objectives

distinguish its product(s) from competitors' offerings

- Integrating all the organization's activities, including production, to satisfy customer wants
- Achieving long-term goals for the organization by satisfying customer wants and needs legally and responsibly

The recipe for success is to develop a thorough understanding of your customers and your competition, your distinctive capabilities that enable your company to execute plans on the basis of this customer understanding, and how to deliver the desired experience using and integrating all of the resources of the firm. For example, Harley-Davidson's current and prospective riders told the company's Customer Insights and Analytics division that they wanted the bikes to be lighter and more powerful and to handle and corner better. The company responded by creating the Softail line of bikes, which offer bigger engines and new frames that are stronger, stiffer, and lighter than on the 2017 models. Some bikes are as much as 35 pounds lighter than previous models. Many of the new bikes also have improved lean angles, which allow for better cornering.[6]

Firms that adopt and implement the marketing concept are said to be **market oriented**, meaning that they assume that a sale does not depend on an aggressive sales force but rather on a customer's decision to purchase a product. Achieving a market orientation involves obtaining information about customers, competitors, and markets; examining the information from a total business perspective; determining how to deliver superior customer value; and implementing actions to provide value to customers.

Some firms are known for delivering superior customer value and satisfaction. For example, in 2018, J.D. Power and Associates ranked Infiniti highest in customer satisfaction with dealer service among luxury automotive brands, while Buick ranked highest among mass-market brands.[7] Rankings such as these, as well as word-of-mouth from satisfied customers, drive additional sales for these automotive companies.

Understanding your competitive arena and

market orientation a philosophy that assumes that a sale does not depend on an aggressive sales force but rather on a customer's decision to purchase a product; it is synonymous with the marketing concept

societal marketing orientation the idea that an organization exists not only to satisfy customer wants and needs and to meet organizational objectives but also to preserve or enhance individuals' and society's long-term best interests

competitors' strengths and weaknesses is a critical component of a market orientation. This includes assessing what existing or potential competitors intend to do tomorrow and what they are doing today. For example, specialty-clothing stores such as American Apparel have failed to recognize or successfully respond to their fast-fashion competitors. These competitors—particularly Zara and H&M—offer consumers up-to-date fashions more quickly and at more affordable prices than traditional retailers can. American Apparel has experienced increased debt and decreased sales, resulting in numerous store closings and a bankruptcy filing.[8]

1-2d Societal Marketing Orientation

The **societal marketing orientation** extends the marketing concept by acknowledging that some products that customers want may not really be in their best interests or the best interests of society as a whole. This philosophy states that an organization exists not only to satisfy customer wants and needs and to meet organizational objectives but also to preserve or enhance individuals' and society's long-term best interests. Marketing products and containers that are less toxic than normal, are more durable, contain reusable materials, or are made of recyclable materials is consistent with a societal marketing orientation. The AMA's definition of *marketing* recognizes the importance of a societal marketing orientation by including "society at large" as one of the constituencies for which marketing seeks to provide value.

Although the societal marketing concept has been discussed for more than 30 years, it did not receive widespread support until the early 2000s. Concerns such as climate change, the depleting of the ozone layer, fuel shortages, pollution, and health issues have caused consumers and legislators to become more aware of the need for companies and consumers to adopt measures that conserve resources and cause less damage to the environment.[9]

In the past 10 years, corporate responsibility has evolved from a nice-to-have silo to a fundamental strategic priority. Today, companies of all sorts are spurring change across a broad range of issues, including climate change, education, and poverty. Many have also made a commitment to eliminate waste and reuse valuable materials within their own walls.

For example, CVS has taken several steps to address the health of communities across the United States. To help solve the nation's opioid crisis, it has enhanced opioid utilization management protocols, installed 750 new drug disposal collection units in its pharmacies, and is
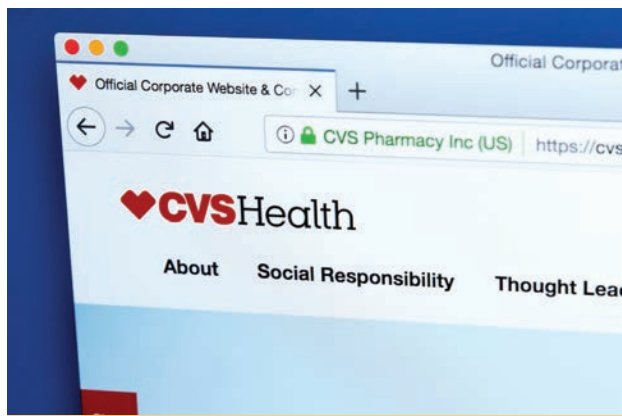
CVS Health Corporation proudly provides a link to its social responsibility page on its homepage.

educating its pharmacists on the dangers of prescription drugs. The company is also a strong corporate citizen. During national disasters such hurricanes, floods, and wildfires it has gone above and beyond to make sure patients received the medications they need, and it gave $10 million in relief and recovery support funds to the affected communities. These and other community initiatives have put CVS at the top of Fortune's 2018 "List of World's Most Admired Companies."[10]

1-2e Who Is in Charge?

The Internet and the widespread use of social media have accelerated the shift in power from manufacturers and retailers to consumers and business users. This shift began when customers started using books, electronics, and the Internet to access information, goods, and services. Customers use their widespread knowledge to shop smarter; leading executives such as former Procter & Gamble CEO A. G. Laffey to conclude that "the customer is boss."[11] Founder of Walmart and Sam's Club, Sam Walton, echoed this sentiment when he reportedly once said, "There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else."[12] The following quotation, attributed to everyone, from L.L.Bean founder, Leon Leonwood Bean, to Mahatma Gandhi, has been a guiding business principle for more than 70 years: "A customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose of it. He is not an outsider in our business. He is part of it. We are not doing him a favor by serving him. He is doing us a favor by giving us an opportunity to do so."[13] And as the use of the Internet

and mobile devices becomes increasingly pervasive, that control will continue to grow. This means that companies must create strategy from the outside in by offering distinct and compelling customer value.[14] This can be accomplished only by carefully studying customers and using deep market insights to inform and guide companies' outside-in view.[15]

1-3 DIFFERENCES BETWEEN SALES AND MARKET ORIENTATIONS

The differences between sales and market orientations are substantial. The two orientations can be compared in terms of five characteristics: the organization's focus, the firm's business, those to whom the product is directed, the firm's primary goal, and the tools used to achieve the organization's goals.

1-3a The Organization's Focus

Personnel in sales-oriented firms tend to be inward looking, focusing on selling what the organization makes rather than making what the market wants. Many of the historic sources of competitive advantage—technology, innovation, and economies of scale—allowed companies to focus their efforts internally and prosper. Today, many successful firms derive their competitive advantage from an external, market-oriented focus. A market orientation

Shake Shack appeals to higher-income customers, with high-quality products and superior customer service.

has helped companies such as Zappos.com and Bob's Red Mill Natural Foods to outperform their competitors. These companies put customers at the center of their business in ways most companies do poorly or not at all.

CUSTOMER VALUE The relationship between benefits and the sacrifice necessary to obtain those benefits is known as **customer value**. Customer value is not simply a matter of high quality. A high-quality product that is available only at a high price will not be perceived as a good value, nor will bare-bones service or low-quality goods selling for a low price. Price is a component of value (a $4,000 handbag is perceived as being more luxurious and of higher quality than one selling for $100), but low price is not the same as good value. Instead, customers value goods and services that are of the quality they expect and that are sold at prices they are willing to pay.

Value can be used to sell a Mercedes-Benz as well as a Tyson frozen chicken dinner. In other words, value is something that shoppers of all markets and at all income levels look for. Lower-income consumers are price sensitive, so they may respond positively to special offers and generic brands. Low-income consumers who are both paid and shop by the day may respond to reduced packaging sizes that lower the cost per unit while still offering quality and value for the money. Conversely, higher-income customers may value—and be willing to pay for—high-quality products and superior customer service. Shake Shack is a fast-casual burger restaurant that targets people who care about how their food tastes and where it comes from. The company sells its burgers for higher-than-average prices, but it uses humanely raised, antibiotic- and hormone-free meat that is ground fresh from full muscle cuts instead of scraps. This meat is shipped fresh—not frozen—to all of Shake Shack's locations. Further, the company pledges not to use genetically modified organisms (GMOs) in its hamburger buns. Shake Shack's superior service, which founder Danny Meyer calls "enlightened hospitality," places a major emphasis on the happiness of its employees and customers. This service philosophy is based on the belief that white-tablecloth service is not just for expensive restaurants.[16]

CUSTOMER SATISFACTION The customers' evaluation of a good or service in terms of whether that good or service has met their needs and expectations is called **customer satisfaction**. Failure to meet needs and expectations results in dissatisfaction with the good or service. Some companies, in their passion to drive down costs, have damaged their relationships with customers. Bank of America, Comcast, Dish Network, and AT&T are examples of companies for which executives lost track of the delicate balance between efficiency and service.[17] Firms that have a reputation for delivering high levels of customer satisfaction do things differently from their competitors. Top management is obsessed with customer satisfaction, and employees throughout the organization understand the link between their job and satisfied customers. The culture of the organization is to focus on delighting customers rather than on selling products.

Coming back from customer dissatisfaction can be tough, but there are some key ways that companies begin to improve customer satisfaction. Forrester Research discovered that when companies experience gains in the firm's Customer Experience Index (CxPi), they have implemented one of two major changes. Aetna, a major health insurance provider, executed the first type of change—changing its decentralized, part-time customer service group into a full-time, centralized customer service team. Aetna's CxPi score rose six points in one year. The second type of change involves offering customers what they need. In 2016, the banking industry's American Customer Satisfaction Index scores increased more than 5 percent. Satisfying bank customers involves more personalized service and lower fees.[18]

BUILDING RELATIONSHIPS Attracting new customers to a business is only the beginning. The best companies view new-customer attraction as the launching point for developing and enhancing a long-term relationship. Companies can expand market share in three ways: attracting new customers, increasing business with existing customers, and retaining current customers. Building relationships with existing customers directly addresses two of the three possibilities and indirectly addresses the other.

Relationship marketing is a strategy that focuses on keeping and improving relationships with current customers. It assumes that many consumers and business customers prefer to have an ongoing relationship with one organization rather than switch continually among providers in their search for value. Activision, a leading publisher of the U.S. video game market, engages in relationship marketing by providing continued service to its gamers. For example, Activision monitors social media conversations that are relevant

customer value the relationship between benefits and the sacrifice necessary to obtain those benefits

customer satisfaction customers' evaluation of a good or service in terms of whether it has met their needs and expectations

relationship marketing a strategy that focuses on keeping and improving relationships with current customers

THE ELEMENTS OF VALUE

When customers evaluate the value of a product or service, they weigh its perceived quality against its price. While this process may sound simple, understanding what customers value can be difficult. Academic research can help. A group of scholars has discovered that there are four elements of value that each addresses a basic consumer need. Each element contains multiple attributes. These are:

1. The first, and most basic, need is functional. Consumers look for products that save time, reduce risk, reduce effort, or help them organize. The Container Store and TurboTax are examples of retailers that help consumers organize their things/assets.

2. Emotional. This includes attributes such as meeting needs, including reducing anxiety, good product design and aesthetics, fun and entertainment, and wellness. Apple is an example of good product design that is satisfying to consumers. Television service providers offer fun and entertainment.

3. Life-Changing. Providing hope, motivation, and a feeling of belonging and self-actualization. Fitbit's exercise-tracking programs address the motivation to get healthier. A $10,000 Leica camera offers not only the high quality of the brand, but also self-actualization that arises from the pride of owning a camera that famous photographers have used for a century.

4. Social Impact. Meeting the need for giving back and helping others, which translates into self-transcendence. Giving to nonprofit organizations like United Way or cancer research foundations are examples of social impact.

dennizn/Shutterstock.com

In practice, many companies offer combinations of these elements and attributes. For example, Amazon started by focusing on functional attributes, such as reducing cost and saving time. Then, with Amazon Prime offering services like streaming media and unlimited photo storage, it expanded its value to include fun and entertainment and reducing risk. Restaurants address the attributes of quality, sensory appeal, variety, and design/appeal.

The relevance of the elements varies according to industry. For example, nostalgia or wellness may not mean much to customers buying gas for their cars. Researchers have found that the right combination of elements and attributes results in stronger customer loyalty, greater consumer willingness to try a brand, and sustained revenue growth.[19]

to its products and follows up on those conversations.[20] This long-term focus on customer needs is a hallmark of relationship marketing.

Most successful relationship marketing strategies depend on customer-oriented personnel, effective training programs, employees with the authority to make decisions and solve problems, and teamwork.

Customer-Oriented Personnel For an organization to be focused on building relationships with customers, employees' attitudes and actions must be customer oriented. An employee may be the only contact a particular customer has with the firm. In that customer's eyes, the employee *is* the firm. Any person, department, or division that is not customer oriented weakens the positive image of the entire organization. For example, a potential customer who is greeted discourteously may well assume that the employee's attitude represents that of the whole firm.

Customer-oriented personnel come from an organizational culture that supports its people. Costco believes that treating employees well contributes to good customer service. The company not only pays its employees well at $22 per hour, it also provides them with generous benefits, including full health and dental coverage (even to its part-time employees); a 401(k) with stock options after a year; liberal vacation time; and family leave. Employees are also given a great deal of responsibility,

which translates into higher motivation. The company's retention rate for employees who have been there a year is 94 percent—significantly higher than that of its competitors.[21]

Some companies, such as Coca-Cola, Delta Air Lines, Hershey, Kellogg, Nautilus, and Sears, have appointed chief customer officers (CCOs). These customer advocates provide an executive voice for customers and report directly to the CEO. Their responsibilities include ensuring that the company maintains a customer-centric culture and that all company employees remain focused on delivering customer value.

The Role of Training Leading marketers recognize the role of employee training in customer service and relationship building. Atlantic Health System is a company that was voted one of America's Best Companies to Work For in 2017. Employees are offered free courses—many for college credit. There are classes in clinical and non-clinical care, technology, management, leadership, and customer experience, among others. These classes help spark innovation and engagement within the company.[22]

Empowerment In addition to training, many market-oriented firms are giving employees more authority to solve customer problems on the spot. The term used to describe this delegation of authority is **empowerment**. Employees develop ownership attitudes when they are treated like part owners of the business and are expected to act the part. These employees manage themselves, are more likely to work hard, account for their own performance and that of the company, and take prudent risks to build a stronger business and sustain the company's success. In order to empower its workers, the Ritz-Carlton chain of luxury hotels developed a set of 12 "Service Values" guidelines. These brief, easy-to-understand guidelines include statements such as "I am empowered to create unique, memorable and personal experiences for our guests" and "I own and immediately resolve guest problems." The 12 Service Values are printed on cards distributed to employees, and each day a particular value is discussed at length in Ritz-Carlton team meetings. Employees talk about what the value means to them and offer examples of how the value can be put into practice that day.[23]

Teamwork Many organizations that are frequently noted for delivering superior customer value and providing high levels of customer satisfaction, such as Southwest Airlines and

Thanks to Costco's high pay, generous benefits, and trust in its employees, the company's retention rate is 94 percent—significantly higher than that of its competitors.

Walt Disney World, assign employees to teams and teach them team-building skills. **Teamwork** entails collaborative efforts of people to accomplish common objectives. Job performance, company performance, product value, and customer satisfaction all improve when people in the same department or work group begin supporting and assisting each other and emphasize cooperation instead of competition. Performance is also enhanced when cross-functional teams align their jobs with customer needs. For example, if a team of telecommunications service representatives is working to improve interaction with customers, back-office people such as computer technicians or training personnel can become part of the team, with the ultimate goal of delivering superior customer value and satisfaction. A study of software engineers showed that those who connected with others and helped them with their projects both earned the trust of their peers and were more productive themselves.[24]

1-3b The Firm's Business

A sales-oriented firm defines its business (or mission) in terms of goods and services. A market-oriented firm defines its business in terms of the benefits its customers seek. People who spend their money, time, and energy expect to receive benefits, not just goods and services. This distinction has enormous implications. For example, Microsoft's original mission was "A computer on every desk and in every home," which is product centered. Its current, benefit-oriented mission is "To empower every person and every organization on the planet

to achieve more."[25] Answering the question "What is this firm's business?" in terms of the benefits customers seek, instead of goods and services, offers at least three important advantages:

- It ensures that the firm keeps focusing on customers and avoids becoming preoccupied with goods, services, or the organization's internal needs.

- It encourages innovation and creativity by reminding people that there are many ways to satisfy customer wants.

- It stimulates an awareness of changes in customer desires and preferences so that product offerings are more likely to remain relevant.

Market-oriented firms that successfully create a connection with their customers and employees tend to create loyal customers, which can increase overall profitability. These companies shape their mission statements around its core values and in terms of customer benefits. Some examples of good mission statements:

1. Patagonia: "Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis." Patagonia's mission statement combines both the values that bring them market success (building safe, high-quality products) *and* the values that contribute to a better world (philanthropic efforts to help the environment).

2. American Express: "We work hard every day to make American Express the world's most respected service brand." American Express has a list of core values, many of which emphasize teamwork and supporting employees, so that the people inside the organization can be in the best position to support their customers.

3. IKEA: "To create a better everyday life for the many people." The statement could have been one of beautiful, affordable furniture (product oriented), but instead it's to make *everyday life better* for its customers (market oriented).[26]

Having a market orientation and a focus on customer wants does not mean offering customers everything they want. It is not possible, for example, to profitably manufacture and market automobile tires that will last for 100,000 miles for $25. Furthermore, customers' preferences must be mediated by sound professional judgment as to how to deliver the benefits they seek. Consumers have a limited set of experiences. They are unlikely to request anything beyond those experiences because they are not aware of benefits they may gain from other potential offerings. For example, before the Internet, many people thought that shopping for some

Patagonia offers upscale and outdoor sports clothing for its target market.

products was boring and time-consuming but could not express their need for electronic shopping.

1-3c Those to Whom the Product Is Directed

A sales-oriented organization targets its products at "everybody" or "the average customer." A market-oriented organization aims at specific groups of people. The fallacy of developing products directed at the average user is that relatively few average users actually exist. Typically, populations are characterized by diversity. An average is simply a midpoint in some set of characteristics. Because most potential customers are not "average," they are not likely to be attracted to an average product marketed to the average customer. Consider the market for shampoo as one simple example. There are shampoos for oily hair, dry hair, and dandruff. Some shampoos remove the gray or color hair. Special shampoos are marketed for infants and elderly people. There are even shampoos for people with average or normal hair (whatever that is), but this is a fairly small portion of the total market for shampoo.

A market-oriented organization recognizes that different customer groups want different features or benefits. It may therefore need to develop different goods, services, and promotional appeals. A market-oriented organization carefully analyzes the market and divides it into groups of people who are fairly similar in terms of selected characteristics. Then the organization develops marketing programs that will bring about mutually satisfying exchanges with one or more of those groups. For example, the 116-year-old department store chain Nordstrom has introduced initiatives to attract millennial shoppers, who typically avoid department stores. These include themed pop-up shops, shop-in-shops featuring new fashion designers, and Nike concept shops.[27]

CUSTOMER RELATIONSHIP MANAGEMENT Beyond knowing to whom they are directing their products or services, companies must also develop a deeper understanding of their customers. One way of doing this is through *customer relationship management*. **Customer relationship management (CRM)** is a company-wide business strategy designed to optimize profitability, revenue, and customer satisfaction by focusing on highly defined and precise customer groups. This is accomplished by organizing the company around customer segments, establishing and tracking customer interactions with the company, fostering customer-satisfying behaviors, and linking all processes of the company from its customers through its suppliers. The difference between CRM and traditional mass marketing can be compared to shooting a rifle versus a shotgun. Instead of scattering messages far and wide across the spectrum of mass media (the shotgun approach), CRM marketers now are homing in on ways to effectively communicate with each customer (the rifle approach).

Companies that adopt CRM systems are almost always market oriented, customizing product and service offerings based on data generated through interactions between the customer and the company. This strategy transcends all functional areas of the business, producing an internal system in which all of the company's decisions and actions are a direct result of customer information.

As more customers are moving toward online and social media interactions with companies, the use of **Big Data** is increasingly becoming more important. Big Data is the discovery, interpretation, and communication of meaningful patterns in data. The amount of time that millions of people spend on Google, Facebook, Twitter, and other social media sites generates a large amount of data every day. All the actions people take create digital footprints that companies can tap to find valuable insights into customer behavior. For example, Sweetgreen Inc. is a California-based salad chain that uses a mobile app to gather data on their guests' allergies and tastes. When guests place mobile orders, they are asked to select from a list of dietary restrictions that includes soy, nuts, and gluten. Selections cause menu items containing those ingredients to be flagged with a red asterisk so the guests know to avoid them. These selections are saved for future orders and give the company detailed data on what their guests' like and why. These insights can then be used to shape future menus.[28] We will examine specific applications of CRM and Big Data in several chapters throughout this book. Also, see the Appendix to Chapter 9 for more information on Big Data.

The emergence of **on-demand marketing** is taking CRM to a new level. As technology evolves and becomes more sophisticated, consumer expectations of their decision- and buying-related experiences have risen. Consumers (1) want to interact anywhere, anytime; (2) want to do new things with varied kinds of information in ways that create value; (3) expect data stored about them to be targeted specifically to their needs or to personalize their experiences; and (4) expect all interactions with a company to be easy. In response to these expectations, companies are developing new ways to integrate and personalize each stage of a customer's decision journey, which in turn should increase relationship-related behaviors. On-demand marketing delivers relevant experiences throughout the consumer's decision and buying process that are integrated across both physical and virtual environments. Trends such as the growth of mobile connectivity, better-designed websites, inexpensive communication through technology, and advances in handling big data have allowed companies to start designing on-demand marketing programs that appeal to consumers. For on-demand marketing to be successful, companies must deliver high-quality experiences across all touch points with the customer, including sales, service, product use, and marketing.[29]

Sweetgreen's mission is to inspire healthier communities by connecting people to real food. The firm offers apps for ordering using IOS or Android.

customer relationship management (CRM) a company-wide business strategy designed to optimize profitability, revenue, and customer satisfaction by focusing on highly defined and precise customer groups

Big Data the discovery, interpretation, and communication of meaningful patterns in data

on-demand marketing delivering relevant experiences, integrated across both physical and virtual environments, throughout the consumer's decision and buying process

The marketing mix provides the tools for marketers to bring about mutually satisfying exchanges with target customers.

Many more companies are offering on-demand services. For example, Instacart will deliver groceries to a customer's door, typically within an hour of ordering. Many restaurant chains are now a part of online service GrubHub, which allows customers to type in their zip codes, pick a restaurant, and order items for delivery—all without leaving the GrubHub website. Uber and Lyft provide on-demand transportation by connecting customers to drivers using their own cars—a service that Uber has leveraged into a GrubHub competitor called UberEats.

1-3d The Firm's Primary Goal

A sales-oriented organization seeks to achieve profitability through sales volume and tries to convince potential customers to buy, even if the seller knows that the customer and product are mismatched. Sales-oriented organizations place a higher premium on making a sale than on developing a long-term relationship with a customer. In contrast, the ultimate goal of most market-oriented organizations is to make a profit by creating customer value, providing customer satisfaction, and building

long-term relationships with customers. The exception is so-called nonprofit organizations that exist to achieve goals other than profits. Nonprofit organizations can and should adopt a market orientation. Nonprofit organization marketing is explored further in Chapter 12.

1-3e Tools the Organization Uses to Achieve Its Goals

Sales-oriented organizations seek to generate sales volume through intensive promotional activities, mainly personal selling and advertising. In contrast, market-oriented organizations recognize that promotion decisions are only one of four basic marketing mix decisions that must be made: product decisions, place (or distribution) decisions, promotion decisions, and pricing decisions. A market-oriented organization recognizes that each of these four components is important. Furthermore, market-oriented organizations recognize that marketing is not just the responsibility of the marketing department. Interfunctional coordination means that skills and resources throughout the organization are needed to create, communicate, and deliver superior customer service and value.

1-3f A Word of Caution

This comparison of sales and market orientations is not meant to belittle the role of promotion, especially personal selling, in the marketing mix. Promotion is the means by which organizations communicate with present and prospective customers about the merits and characteristics of their organization and products. Effective promotion is an essential part of effective marketing. Salespeople who work for market-oriented organizations are generally perceived by their customers to be problem solvers and important links to supply sources and new products. Chapter 18 examines the nature of personal selling in more detail.

1-4 WHY STUDY MARKETING?

Now that you understand the meaning of the term *marketing*, why it is important to adopt a marketing orientation, and how organizations implement this philosophy, you may be asking, "What's in it for me?" or "Why should I study marketing?" These are important questions whether you are majoring in a business field other than marketing (such as accounting, finance, or management information systems) or a nonbusiness field (such as journalism, education,

or agriculture). There are several important reasons to study marketing: Marketing plays an important role in society, marketing is important to businesses, marketing offers outstanding career opportunities, and marketing affects your life every day.

1-4a Marketing Plays an Important Role in Society

The total population of the United States exceeds 328 million people. Think about how many transactions are needed each day to feed, clothe, and shelter a population of this size. The number is huge. And yet it all works quite well, partly because the well-developed U.S. economic system efficiently distributes the output of farms and factories. The average American eats almost 2,000 pounds of food a year.[30] Marketing makes food available when we want it, in desired quantities, at accessible locations, and in sanitary and convenient packages and forms (such as instant and frozen foods).

1-4b Marketing Is Important to Businesses

The fundamental objectives of most businesses are survival, profits, and growth. Marketing contributes directly to achieving these objectives. Marketing includes the following activities, which are vital to business organizations: assessing the wants and satisfactions of present and potential customers, designing and managing product offerings, determining prices and pricing policies, developing distribution strategies, and communicating with present and potential customers.

All businesspeople, regardless of specialization or area of responsibility, need to be familiar with the terminology and fundamentals of accounting, finance, management, and marketing. People in all business areas need to be able to communicate with specialists in other areas. Furthermore, marketing is not just a job done by people in a marketing department. Marketing is a part of the job of everyone in the organization. Therefore, a basic understanding of marketing is important to all businesspeople.

1-4c Marketing Offers Outstanding Career Opportunities

Between one-fourth and one-third of the entire civilian workforce in the United States performs marketing activities. Marketing offers great career opportunities in such areas as professional selling, marketing research, advertising, retail buying, distribution management, product management, product development, and wholesaling.

Marketing career opportunities also exist in a variety of nonbusiness organizations, including hospitals, museums, universities, the armed forces, and various government and social service agencies.

1-4d Marketing in Everyday Life

Marketing plays a major role in your everyday life. You participate in the marketing process as a consumer of goods and services. About half of every dollar you spend pays for marketing costs, such as marketing research, product development, packaging, transportation, storage, advertising, and sales expenses. By developing a better understanding of marketing, you will become a better-informed consumer. You will better understand the buying process and be able to negotiate more effectively with sellers. Moreover, you will be better prepared to demand satisfaction when the goods and services you buy do not meet the standards promised by the manufacturer or the marketer.

2 | Strategic Planning for Competitive Advantage

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LEARNING OUTCOMES

After studying this chapter, you will be able to . . .

2-1 Understand the importance of strategic planning

2-2 Define strategic business units (SBUs)

2-3 Identify strategic alternatives and know a basic outline for a marketing plan

2-4 Develop an appropriate business mission statement

2-5 Describe the components of a situation analysis

2-6 Identify sources of competitive advantage

2-7 Explain the criteria for stating good marketing objectives

2-8 Discuss target market strategies

2-9 Describe the elements of the marketing mix

2-10 Explain why implementation, evaluation, and control of the marketing plan are necessary

2-11 Identify several techniques that help make strategic planning effective

2-1 THE NATURE OF STRATEGIC PLANNING

Strategic planning is the managerial process of creating and maintaining a fit between the organization's objectives and resources and the evolving market opportunities. The goal of strategic planning is long-run profitability and growth. Thus, strategic decisions require long-term commitments of resources.

A strategic error can threaten a firm's survival. On the other hand, a good strategic plan can help protect and grow the firm's resources. For instance, if the March of Dimes had decided to focus only on fighting polio, the organization would no longer exist because polio is widely viewed as a conquered disease. The March of Dimes survived by making the strategic decision to switch to fighting birth defects.

Strategic marketing management addresses two questions: (1) What is the organization's main activity at a particular time? (2) How will it reach its goals? Here are some examples of strategic decisions:

- Furniture retailer West Elm wanted to sustain growth without opening too many new stores. Thinking outside the box, the company decided to launch a chain of boutique hotels that it would design, furnish, and market. Partner DDK, a management and development company, would operate the hotels, but the interiors would be all West Elm. Guests, of course, could purchase the room furniture and decor online.[1]

- Ford decided to transform its entire North American lineup of cars by going all-in on hybrids, adding more sports utility vehicles, and using more cutting-edge technology. The company is also scaling back its small cars, phasing out the Fiesta, Taurus, Fusion, and regular Focus passenger cars. Additionally, it will continue to invest in electric and autonomous vehicles and smart mobility solutions that address changes in urban living and transportation.[2]

- Starbucks recently decided to end its "Evenings" program, during which it offers beer and wine at more than 400 Starbucks locations. Launched in 2010, the Evenings program was designed to help increase traffic at night, when demand for coffee typically decreases. However, Starbucks determined that the program simply did not deliver the results it wanted. The company decided to add new menu items to increase sales during lunch instead.[3]

All these decisions have affected or will affect each organization's long-run course, its allocation of resources, and ultimately its financial success. In contrast, an operating decision, such as changing the package design

> **"There are a lot of great ideas that have come and gone in [the digital advertising] industry. Implementation many times is more important than the actual idea."**
>
> —DAVID MOORE, CEO OF 24/7 REAL MEDIA

for Post Grape-Nuts cereal or altering the sweetness of a Kraft salad dressing, probably will not have a big impact on the long-run profitability of the company.

2-2 STRATEGIC BUSINESS UNITS

Large companies may manage a number of very different businesses, called strategic business units (SBUs). Each SBU has its own rate of return on investment, growth potential, and associated risks and requires its own strategies and funding. When properly created, an SBU has the following characteristics:

- A distinct mission and a specific target market
- Control over its resources
- Its own competitors
- A single business or a collection of related businesses
- Plans independent of the other SBUs in the total organization.

In theory, an SBU should have its own resources for handling basic

strategic planning the managerial process of creating and maintaining a fit between the organization's objectives and resources and the evolving market opportunities

strategic business unit (SBU) a subgroup of a single business or collection of related businesses within the larger organization

business functions: accounting, engineering, manufacturing, and marketing. In practice, however, because of company tradition, management philosophy, and production and distribution economies, SBUs sometimes share manufacturing facilities, distribution channels, and even top managers.

2-3 STRATEGIC ALTERNATIVES

Several tools are available that a company, or SBU, can use to manage the strategic direction of its portfolio of businesses. Three of the most commonly used tools are Ansoff's strategic opportunity matrix, the Boston Consulting Group model, and the General Electric model. Selecting which strategic alternative to pursue depends on which of two philosophies a company maintains about when to expect profits—right away or after increasing market share. In the long run, market share and profitability are compatible goals. For example, Amazon lost hundreds of millions of dollars its first few years by offering deep discounts on books and movies. Today, Amazon has a strong and loyal customer base, particularly among its Prime members. The company's current strategy is to charge the lowest online prices for just a selection of products and to charge the same or more than other retailers for the rest. This practice has increased overall profitability for the company.[4]

2-3a Ansoff's Strategic Opportunity Matrix

One method for developing alternatives is Ansoff's strategic opportunity matrix (see Exhibit 2.1), which matches products with markets. Firms can explore these four options:

market penetration
a marketing strategy that tries to increase market share among existing customers

market development
a marketing strategy that entails attracting new customers to existing products

product development
a marketing strategy that entails the creation of new products for present markets

diversifi ation a strategy of increasing sales by introducing new products into new markets

- **Market penetration:** A firm using the **market penetration** alternative would try to increase market share among existing customers. Retailer JCPenney recently partnered with fashion magazine *InStyle* to offer their customers revamped, updated, and branded Salons by InStyle. The store remodeled their old salons, and expanded its selection

EXHIBIT 2.1 ANSOFF'S OPPORTUNITY MATRIX

	Present Product	New Product
Present Market	*Market Penetration* Starbucks sells more coffee to customers who register their reloadable Starbucks cards.	*Product Development* Starbucks develops powdered instant coffee called Via.
New Market	*Market Development* Starbucks opens stores in Brazil and Chile.	*Diversification* Starbucks launches Hear Music and buys Ethos Water.

of services and salon products. It is counting on the new salons to attract its customers to their stores more often.[5]

- **Market development: Market development** means attracting new customers to existing products. Ideally, new uses for old products stimulate additional sales among existing customers while also bringing in new buyers. McDonald's, for example, has opened restaurants in Russia, China, and Italy and is eagerly expanding into Eastern European countries. In the nonprofit arena, the growing emphasis on continuing education and executive development by colleges and universities is a market development strategy.

- **Product development:** A **product development** strategy entails the creation of new products for present markets. Yogurt maker Danone (formerly, Dannon) is adding milk-free products to its yogurt line, as well as boosting vegan brands such as Silk. The company has acquired the world's biggest plant-based "milk" producer, WhiteWave Foods, which positions it to better serve the rising interest in vegan products by consumers, especially millennials.[6]

- **Diversification: Diversification** is a strategy of increasing sales by introducing new products into new markets. For example, Lego is teaming up with one of China's biggest technology firms, Tencent, to create online games for Chinese children to take advantage of the technology shifts that are changing how children play. There has been increasing competition in the traditional toy market from growing digital options for children, including mobile games, online videos, and children-targeted social media.[7] A diversification strategy can be risky when a firm is entering unfamiliar markets. However, it can be very profitable when a firm is entering markets with little or no competition.

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Johnson: We are so excited to be rebranding an additional ~80 salons to The Salon by InStyle this year #jcpGMC
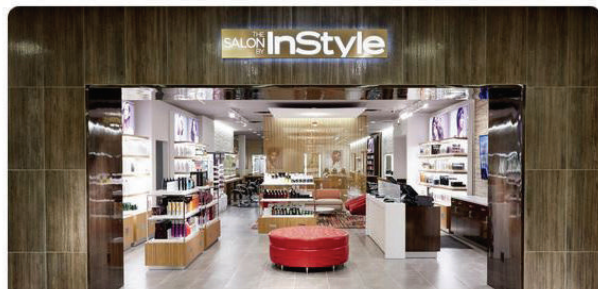
Struggling JCPenny continues to innovate by hiring 6,000 licensed hair stylists nationwide to staff its rebranded salons named The Salon by InStyle.

EXHIBIT 2.2 INNOVATION MATRIX

Where to Play

Create new markets

Enter adjacent markets

Serve existing markets

A   B   C

Use existing products | Add related products | Develop new products

How to Win

Based on Bansi Nagji and Geoff Tuff, "A Simple Tool You Need to Manage Innovation," *Harvard Business Review*, May 2012, http://hbr.org/2012/05/managing-your-innovation-portfolio/ar/1 (accessed June 1, 2012).

2-3b The Innovation Matrix

Critics of Ansoff's matrix mention that the matrix does not reflect the reality of how businesses grow—that modern businesses plan growth in a more fluid manner based on current capabilities rather than the clear-cut sectors outlined by the opportunity matrix. To reflect this, Bansi Nagji and Geoff Tuff, global innovation managers at Monitor Group, developed a system that enables a company to see exactly what types of assets need to be developed and what types of markets are possible to grow into (or create) based on the company's core capabilities, as shown in Exhibit 2.2.

The layout of the innovation matrix demonstrates that as a company moves away from its core capabilities (the lower left) it traverses a range of change and innovation rather than choosing one of the four sectors in Ansoff's matrix. These ranges are broken down into three levels:

1. **Core Innovation:** Represented by the yellow circle in Exhibit 2.2, these decisions implement changes that use existing assets to provide added convenience to existing customers and potentially entice customers from other brands. Blue Apron, the meal kit company, is starting to sell its kits in physical stores, in addition to its subscription online model. This strategy should help the company reach more customers as its growth slows.[8]

2. **Adjacent Innovation:** Represented by the orange arc in Exhibit 2.2, these decisions are designed to take company strengths into new markets. This space uses

existing abilities in new ways. For example, Botox, the popular cosmetic drug, was originally developed to treat intestinal problems and to treat crossed eyes. Leveraging the drug into cosmetic medicine has dramatically increased the market for Botox.

3. **Transformational Innovation:** Represented by the red arc in Exhibit 2.2, these decisions result in brand-new markets, products, and often new businesses. The company must rely on new, unfamiliar assets to develop the type of breakthrough decisions that fall in this category. Some notable examples are Apple in technology (including the iPhone, iPad, and Apple Watch), Uber in transportation, and Airbnb in hospitality.

2-3c The Boston Consulting Group Model

Management must find a balance among the SBUs that yields the overall organization's desired growth and profits with an acceptable level of risk. Some SBUs generate large amounts of cash, and others need cash to foster growth. The challenge is to balance the organization's portfolio of SBUs for the best long-term performance.

To determine the future cash contributions and cash requirements expected for each SBU, managers

can use the Boston Consulting Group's portfolio matrix. The **portfolio matrix** classifies each SBU by its present or forecast growth and market share. The underlying assumption is that market share and profitability are strongly linked. The measure of market share used in the portfolio approach is *relative market share*, the ratio between the company's share and the share of the largest competitor. For example, if a firm has a 50 percent share and the competitor has 5 percent, the ratio is 10 to 1. If a firm has a 10 percent market share and the largest competitor has 20 percent, the ratio is 0.5 to 1.

Exhibit 2.3 is a hypothetical portfolio matrix for a computer manufacturer. The size of the circle in each cell of the matrix represents dollar sales of the SBU relative to dollar sales of the company's other SBUs. The portfolio matrix breaks SBUs into four categories:

- **Stars:** A **star** is a fast-growing market leader. For example, the iPad is one of Apple's stars. Star SBUs usually have large profits but need lots of cash to finance rapid growth. The best marketing tactic is to protect existing market share by reinvesting earnings in product improvement, better distribution, more promotion, and production efficiency. Management must capture new users as they enter the market.

- **Cash cows:** A **cash cow** is an SBU that generates more cash than it needs to maintain its market share. It is in a low-growth market, but the product has a dominant market share. Personal computers and laptops are categorized as cash cows in Exhibit 2.3. The basic strategy for a cash cow is to maintain market dominance by being the price leader and making technological improvements in the product. Managers should resist pressure to extend the basic line unless they can dramatically increase demand. Instead, they should allocate excess cash to the product categories for which growth prospects are the greatest. For example, Apple's iPhone and Google's search engine are cash cows for their companies.[9]

EXHIBIT 2.3 — PORTFOLIO MATRIX FOR A LARGE COMPUTER MANUFACTURER
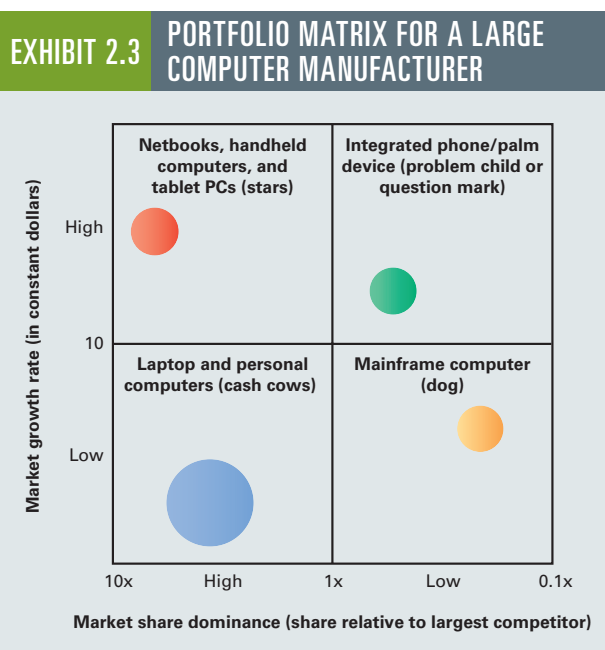
- **Problem children:** A **problem child**, also called a **question mark**, shows rapid growth but poor profit margins. It has a low market share in a high-growth industry. Problem children need a great deal of cash. Without cash support, they eventually become dogs. The strategy options are to invest heavily to gain better market share, acquire competitors to get the necessary market share, or drop the SBU. Sometimes a firm can reposition the products of the SBU to move them into the star category. Elixir guitar strings, made by W. L. Gore & Associates, maker of Gore-Tex and Glide floss, were originally tested and marketed to Walt Disney theme parks to control puppets. After trial and failure, Gore repositioned and marketed heavily to musicians, who have loved the strings ever since.

- **Dogs:** A **dog** has low growth potential and a small market share. Most dogs eventually leave the marketplace. In the computer manufacturer example, the mainframe computer has become a dog. Another example is BlackBerry's smartphone line, which started out as a star for its manufacturer in the United States. Over time, the BlackBerry moved into the cash cow category, and then more recently, to a question mark, as the iPhone and Android-based phones captured market share. Even if it never regains its star status in the United States, BlackBerry has moved into other geographic markets to sell its devices. In parts of Africa, Blackberry is seen as a revolutionary company that is connecting people

portfolio matrix a tool for allocating resources among products or strategic business units on the basis of relative market share and market growth rate

star in the portfolio matrix, a business unit that is a fast-growing market leader

cash cow in the portfolio matrix, a business unit that generates more cash than it needs to maintain its market share

problem child (question mark) in the portfolio matrix, a business unit that shows rapid growth but poor profit margins

dog in the portfolio matrix, a business unit that has low growth potential and a small market share

Grzegorz Czapski/Shutterstock.com

in a way that they have never been before. The company currently owns 48 percent of the mobile market and 70 percent of the smartphone market in South Africa.[10]

While typical strategies for dogs are to harvest or divest, sometimes companies—like BlackBerry—are successful with this class of product in other markets. Other companies may revive products that were abandoned as dogs. Surge, a citrus-flavored soft drink developed by Coca-Cola, was launched in the late 1990s to compete with Mountain Dew. After sales died out in 2003, the company took Surge off the market. However, loyal fans organized online and petitioned Coca-Cola to bring the drink back. In 2015, the company reintroduced Surge on Amazon, and eventually brought it back to U.S. convenience stores.[11]

After classifying the company's SBUs in the matrix, the next step is to allocate future resources for each. The four basic strategies are to:

- **Build:** If an organization has an SBU that it believes has the potential to be a star (probably a problem child at present), building would be an appropriate goal. The organization may decide to give up short-term profits and use its financial resources to achieve this goal. Apple postponed further work on the iPad to pursue the iPhone. The wait paid off when Apple was able to repurpose much of the iOS software and the iPhone's App Store for the iPad, making development less expensive and getting the product into the marketplace more quickly.[12]

- **Hold:** If an SBU is a successful cash cow, a key goal would typically be to hold or preserve market share so that the organization can take advantage of the very positive

cash flow. Samsung Home Appliances, such as refrigerators, washing machines, and cooking appliances, are the company's cash cows. Over time, Samsung Home Appliances have become a household name and stand for quality and trust. Samsung has been able to attain a good market share across different industry segments and still holds a good potential to grow in the coming future.[13]

- **Harvest:** This strategy is appropriate for all SBUs except those classified as stars. The basic goal is to increase the short-term cash return without too much concern for the long-run impact. It is especially worthwhile when more cash is needed from a cash cow with long-run prospects that are unfavorable because of a low market growth rate. For instance, Lever Brothers has been harvesting Lifebuoy soap for a number of years with little promotional backing.

- **Divest:** Getting rid of SBUs with low shares of low-growth markets is often appropriate. Problem children and dogs are most suitable for this strategy. Starbucks, for example, is in the process of closing the unprofitable Teavana Tea Bars it acquired in 2012.[14]

2-3d The General Electric Model

The third model for selecting strategic alternatives was originally developed by General Electric (GE). The dimensions used in this model—market attractiveness and company strength—are richer and more complex than those used in the Boston Consulting Group model but are harder to quantify.

Exhibit 2.4 presents the GE model. The horizontal axis, Business Position, refers to how well positioned the

EXHIBIT 2.4	GENERAL ELECTRIC MODEL		
High	CAUTIOUSLY INVEST	INVEST/GROW	INVEST/GROW
Medium	HARVEST/DIVEST	CAUTIOUSLY INVEST	INVEST/GROW
Low	HARVEST/DIVEST	HARVEST/DIVEST	CAUTIOUSLY INVEST
	Low	Medium	High

Market Attractiveness (vertical axis)

Business Position (horizontal axis)

organization is to take advantage of market opportunities. Business position answers questions such as: Does the firm have the technology it needs to effectively penetrate the market? Are its financial resources adequate? Can manufacturing costs be held down below those of the competition? Can the firm cope with change? The vertical axis measures the attractiveness of a market, which is expressed both quantitatively and qualitatively. Some attributes of an attractive market are high profitability, rapid growth, a lack of government regulation, consumer insensitivity to a price increase, a lack of competition, and availability of technology. The grid is divided into three overall attractiveness zones for each dimension: high, medium, and low.

Those SBUs (or markets) that have low overall attractiveness (indicated by the red cells in Exhibit 2.4) should be avoided if the organization is not already serving them. If the firm is in these markets, it should either harvest or divest those SBUs. The organization should selectively maintain markets with medium attractiveness (indicated by the yellow cells in Exhibit 2.4). If attractiveness begins to slip, then the organization should withdraw from the market.

Conditions that are highly attractive—a thriving market plus a strong business position (the green cells in Exhibit 2.4)—are the best candidates for investment. For example, Airbus Commercial Aircraft has a solid competitive position, producing the best-selling single-aisle jetliner in the industry. At the same time, there is strong, sustained growth in commercial air travel.[15]

2-3e The Marketing Plan

Based on the company's or SBU's overall strategy, marketing managers can create a marketing plan for individual products, brands, lines, or customer groups. **Planning** is the process of anticipating future events and determining strategies to achieve organizational objectives in the future. **Marketing planning** involves designing activities relating to marketing objectives and the changing marketing environment. Marketing planning is the basis for all marketing strategies and decisions. Issues such as product lines, distribution channels, marketing communications, and pricing are all delineated in the **marketing plan**. The

planning the process of anticipating future events and determining strategies to achieve organizational objectives in the future

marketing planning designing activities relating to marketing objectives and the changing marketing environment

marketing plan a written document that acts as a guidebook of marketing activities for the marketing manager

marketing plan is a written document that acts as a guidebook of marketing activities for the marketing manager. In this chapter, you will learn the importance of writing a marketing plan and the types of information contained in a marketing plan.

2-3f Why Write a Marketing Plan?

By specifying objectives and defining the actions required to attain them, you can provide in a marketing plan the basis by which actual and expected performance can be compared. Marketing can be one of the most expensive and complicated business activities, but it is also one of the most important. The written marketing plan provides clearly stated activities that help employees and managers understand and work toward common goals.

Writing a marketing plan allows you to examine the marketing environment in conjunction with the inner workings of the business. Once the marketing plan is written, it serves as a reference point for the success of future activities. Finally, the marketing plan allows the marketing manager to enter the marketplace with an awareness of possibilities and problems. Recent research with entrepreneurs over a six-year period has shown that those who had written marketing plans were 16% more likely to achieve visibility those who had no written plan.[16]

2-3g Marketing Plan Elements

Marketing plans can be presented in many different ways. Most businesses need a written marketing plan because a marketing plan is large and can be complex. The details about tasks and activity assignments may be lost if communicated orally. Regardless of the way a marketing plan is presented, some elements are common to all marketing plans. Exhibit 2.5 shows these elements, which include defining the business mission, performing a situation analysis, defining objectives, delineating a target market, and establishing components of the marketing mix. Other elements that may be included in a plan are budgets, implementation timetables, required marketing research efforts, or elements of advanced strategic planning.

2-3h Writing the Marketing Plan

The creation and implementation of a complete marketing plan will allow the organization to achieve marketing objectives and succeed. However, the marketing plan is only as good as the information it contains and the effort, creativity, and thought that went into its creation. Having a good marketing information system and a wealth of competitive intelligence (covered in Chapter 9) is critical

EXHIBIT 2.5 ELEMENTS OF A MARKETING PLAN

Business
Mission
Statement

Situation,
or SWOT,
Analysis

Objectives

Marketing Strategy

Target Market
Strategy

Marketing Mix

| Product | Place |
| Promotion | Price |

Implementation
Evaluation
Control

A marketing plan is only as good as the information it contains and the effort, creativity, and thought that went into its creation.

to a thorough and accurate situation analysis. The role of managerial intuition is also important in the creation and selection of marketing strategies. Managers must weigh any information against its accuracy and their own judgment when making a marketing decision.

Note that the overall structure of the marketing plan (Exhibit 2.5) should not be viewed as a series of sequential planning steps. Many of the marketing plan elements are decided simultaneously and in conjunction with one another. Further, every marketing plan has different content, depending on the organization and its mission, objectives, targets, and marketing mix components. There is not one single correct format for a marketing plan. Many organizations have their own distinctive format or terminology for creating a marketing plan. Every marketing plan should be unique to the firm for which it was created. Remember, however, that although the

format and order of presentation should be flexible, the same types of questions and topic areas should be covered in any marketing plan.

2-4 DEFINING THE BUSINESS MISSION

The foundation of any marketing plan is the firm's mission statement, which answers the question "What business are we in?" The way a firm defines its business mission profoundly affects the firm's long-run resource allocation, profitability, and survival. The mission statement is based on a careful analysis of benefits sought by present and potential customers and an analysis of existing and anticipated environmental conditions. The firm's mission statement establishes boundaries for all subsequent decisions, objectives, and strategies.

A mission statement should focus on the market or markets the organization is attempting to serve rather than on the good or service offered. Otherwise, a new technology may quickly make the good or service obsolete and the mission statement irrelevant to company functions. Business mission statements that are stated too narrowly suffer from **marketing myopia** —defining a business in terms of goods and services rather than in terms of the benefits customers seek. In this context, *myopia* means

mission statement a statement of the firm's business based on a careful analysis of benefits sought by present and potential customers and an analysis of existing and anticipated environmental conditions

marketing myopia defining a business in terms of goods and services rather than in terms of the benefits customers seek

narrow, short-term thinking. For example, Frito-Lay defines its mission as being in the snack-food business rather than in the corn chip business. The mission of sports teams is not just to play games but also to serve the interests of the fans.

Alternatively, business missions may be stated too broadly. "To provide products of superior quality and value that improve the lives of the world's consumers" is probably too broad a mission statement for any firm except Procter & Gamble. Care must be taken when stating what business a firm is in. For example, the mission of Ben & Jerry's centers on three important aspects of its ice cream business: (1) Product: "To make, distribute and sell the finest quality all natural ice cream and euphoric concoctions with a continued commitment to incorporating wholesome, natural ingredients and promoting business practices that respect the Earth and the Environment"; (2) Economic: "To operate the Company on a sustainable financial basis of profitable growth, increasing value for our stakeholders and expanding opportunities for development and career growth for our employees"; and (3) Social: "To operate the Company in a way that actively recognizes the central role that business plays in society by initiating innovative ways to improve the quality of life locally, nationally, and internationally."[17] By correctly stating the business mission in terms of the benefits that customers seek, the foundation for the marketing plan is set. Many companies are focusing on designing more appropriate mission statements because these statements are frequently displayed on the companies' websites.

<div style="border:1px solid; padding:2px; display:inline-block">2-5</div> ## CONDUCTING A SITUATION ANALYSIS

Marketers must understand the current and potential environment in which the product or service will be marketed. A situation analysis is sometimes referred to as a **SWOT analysis**—that is, the firm should identify its internal strengths (**S**) and weaknesses (**W**) and also examine external opportunities (**O**) and threats (**T**).

When examining internal strengths and weaknesses, the marketing manager should focus on

organizational resources such as production costs, marketing skills, financial resources, company or brand image, employee capabilities, and available technology. For example, IBM has a history of reinventing itself and adapting to new opportunities and threats. More than 100 years ago, the company started out by manufacturing and selling machinery such as commercial scales and meat and cheese slicers. In 1924, IBM narrowed its focus to business machines, and in the early 1960s, it designed a revolutionary system that made it possible for machines in a product line to work together. IBM introduced its first personal computer in 1981, following market opportunities forged by other computer companies. By the 1990s, however, IBM had lost billions of dollars because it focused on desktop and personal productivity rather than on pursuing opportunities in business applications. The company rallied and redirected its efforts on building a successful IT and consulting business. Today, IBM has evolved into a cognitive solutions and cloud computing company.[18]

When examining external opportunities and threats, marketing managers must analyze aspects of the marketing environment. This process is called **environmental scanning**—the collection and interpretation of information about forces, events, and relationships in the external environment that may affect the future of the organization or the implementation of the marketing plan. Environmental scanning helps identify market opportunities and threats

SWOT analysis identifying internal strengths (S) and weaknesses (W) and also examining external opportunities (O) and threats (T)

environmental scanning collection and interpretation of information about forces, events, and relationships in the external environment that may affect the future of the organization or the implementation of the marketing plan

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IBM Watson IoT General Manager Harriet Green delivers an address at the IBM Genius of Things Summit in Munich, Germany, on February 16, 2017. One of the most advanced artificial intelligences in the World, IBM's Watson is currently being used in health care, teaching, tax preparation, and weather forecasting applications.

and provides guidelines for the design of marketing strategy. Increasing competition from overseas firms and the fast growth of digital technology essentially ended Kodak's consumer film business. After emerging from bankruptcy, Kodak has repositioned the firm as a smaller, business-to-business company that offers commercial printing and digital imaging services.[19] The six most often studied macroenvironmental forces are social, demographic, economic, technological, political and legal, and competitive. These forces are examined in detail in Chapter 4.

2-6 COMPETITIVE ADVANTAGE

Performing a SWOT analysis allows firms to identify their competitive advantage. A competitive advantage is a set of unique features of a company and its products that are perceived by the target market as significant and superior to those of the competition. It is the factor or factors that cause customers to patronize a firm and not the competition. There are three types of competitive advantage: cost, product/service differentiation, and niche.

2-6a Cost Competitive Advantage

Cost leadership can result from obtaining inexpensive raw materials, creating an efficient scale of plant operations, designing products for ease of manufacture, controlling overhead costs, and avoiding marginal customers. Southwest Airlines has been successful at bringing down airfares through its short route point-to-point business model, no-frills service, single flight strategy, and highly productive employees.[20] Having a **cost competitive advantage** means being the low-cost competitor in an industry while maintaining satisfactory profit margins. Costs can be reduced in a variety of ways:

- **Experience curves:** Experience curves tell us that costs decline at a predictable rate as experience with a product increases. The experience curve effect encompasses a broad range of manufacturing, marketing, and administrative costs. Experience curves reflect learning by doing, technological advances, and economies of scale. Firms like Boeing use historical experience curves as a basis for predicting and setting prices. Experience curves allow management to forecast costs and set prices based on anticipated costs as opposed to current costs.

- **Efficient labor:** Labor costs can be an important component of total costs in low-skill, labor-intensive industries such as product assembly and apparel manufacturing. Many U.S. publishers and software developers send data entry, design, and formatting tasks to India, where skilled engineers are available at lower overall cost.

- **No-frills goods and services:** Marketers can lower costs by removing frills and options from a product or service. Southwest Airlines, for example, offers low fares, but no seat assignments or meals. Low costs give Southwest a higher load factor and greater economies of scale, which, in turn, mean lower prices.

- **Government subsidies:** Governments can provide grants and interest-free loans to target industries. Such government assistance enabled Japanese semiconductor manufacturers to become global leaders.

- **Product design:** Cutting-edge design technology can help offset high labor costs. BMW is a world leader in designing cars for ease of manufacture and assembly. Reverse engineering—the process of disassembling a product piece by piece to learn its components and obtain clues as to the manufacturing process—can also mean savings. Reverse engineering a low-cost competitor's product can save research and design costs. The car industry often uses reverse engineering.

- **Reengineering:** Reengineering entails fundamental rethinking and redesign of business processes to achieve dramatic improvements in critical measures of performance. It often involves reorganizing functional departments such as sales, engineering, and production into cross-disciplinary teams.

- **Production innovations:** Production innovations such as new technology and simplified production techniques help lower the average cost of production. Technologies such as computer-aided design (CAD) and computer-aided manufacturing (CAM) and increasingly sophisticated robots help companies such as Boeing, Ford, and General Electric reduce their manufacturing costs.

- **New methods of service delivery:** Medical expenses have been substantially lowered by the use of outpatient surgery and walk-in clinics. Online-only magazines deliver great savings, and even some print magazines are exploring ways to go online to save material and shipping costs.

competitive advantage a set of unique features of a company and its products that are perceived by the target market as significant and superior to those of the competition

cost competitive advantage being the low-cost competitor in an industry while maintaining satisfactory profit margins

experience curves curves that show costs declining at a predictable rate as experience with a product increases

2-6b Product/Service Differentiation Competitive Advantage

Because cost competitive advantages are subject to continual erosion, product/service differentiation tends to provide a longer-lasting competitive advantage. The durability of this strategy tends to make it more attractive to many top managers. A **product/service differentiation competitive advantage** exists when a firm provides something that is unique and valuable to buyers beyond simply offering a lower price than that of the competition. Examples include brand names (Lexus), a strong dealer network (Caterpillar for construction work), product reliability (Maytag appliances), image (Neiman Marcus in retailing), or service (Zappos). Google has, from its beginnings, paired sophisticated industrial and software design with strange shapes, novel fabrics and pops of bright color (e.g., the bright power button on its Pixel 2 phone). Comparatively competing products, are angular, black and white, plastic and glass, and completely expressionless. The fun designs Google uses helps its products to stand out.[21]

2-6c Niche Competitive Advantage

A **niche competitive advantage** seeks to target and effectively serve a single segment of the market (see Chapter 8). For small companies with limited resources that potentially face giant competitors, niche targeting may be the only viable option. A market segment that has good growth potential but is not crucial to the success of major competitors is a good candidate for developing a niche strategy.

Many companies using a niche strategy serve only a limited geographic market. Stew Leonard's is an extremely successful but small grocery store chain found only in Connecticut and New York. Blue Bell Ice cream is available in only about 26 percent of the nation's supermarkets, but it ranks as one of the top three best-selling ice creams in the country.[22]

The Chef's Garden, a 225-acre Ohio farm, specializes in growing and shipping rare artisan vegetables directly to its customers. Chefs from all over the world call to order or request a unique item, which is grown and shipped by the Chef's Garden. The farm provides personal services and specialized premium vegetables that aren't available anywhere else and relies on its customers to supply it with ideas for what they would like to be able to offer in their restaurants. The excellent service and feeling of contribution keep chefs coming back.[23]

2-6d Building Sustainable Competitive Advantage

The key to having a competitive advantage is the ability to sustain that advantage. A **sustainable competitive advantage** is one that cannot be copied by the competition. For example, Amazon is the undisputed leader of online retailing. The company has achieved sustainable competitive advantage through its ability to offer the lowest prices, the widest variety of products, and a well-developed, efficient delivery network. In addition, Amazon has a massive number of users with credit cards on file, making the purchase process quick and easy for customers. In contrast, when Datril was introduced into the pain-reliever market, it was touted as being exactly like Tylenol, only cheaper. Tylenol responded by lowering its price, thus destroying Datril's competitive advantage and ability to remain on the market. In this case, low price was not a sustainable competitive advantage. Without a competitive advantage, target customers do not perceive any reason to patronize one organization rather than its competitors.

The notion of competitive advantage means that a successful firm will stake out a position unique in some manner from its rivals. Imitation by competitors indicates a lack of competitive advantage and almost ensures mediocre performance. Moreover, competitors rarely

product/service differentiation competitive advantage the provision of something that is unique and valuable to buyers beyond simply offering a lower price than that of the competition

niche competitive advantage the advantage achieved when a firm seeks to target and effectively serve a small segment of the market

sustainable competitive advantage an advantage that cannot be copied by the competition

Google tries to maintain a competitive advantage by continuous innovation.

stand still, so it is not surprising that imitation causes managers to feel trapped in a seemingly endless game of catchup. They are regularly surprised by the new accomplishments of their rivals.

Rather than copy competitors, companies need to build their own competitive advantages. The sources of tomorrow's competitive advantages are the skills and assets of the organization. Assets include patents, copyrights, locations, equipment, and technology that are superior to those of the competition. Skills are functions such as customer service and promotion that the firm performs better than its competitors. Marketing managers should continually focus the firm's skills and assets on sustaining and creating competitive advantages.

Remember, a sustainable competitive advantage is a function of the speed with which competitors can imitate a leading company's strategy and plans. Imitation requires a competitor to identify the leader's competitive advantage, determine how it is achieved, and then learn how to duplicate it.

2-7 SETTING MARKETING PLAN OBJECTIVES

Before the details of a marketing plan can be developed, objectives for the plan must be stated. Without objectives, there is no basis for measuring the success of marketing plan activities.

A **marketing objective** is a statement of what is to be accomplished through marketing activities.

A strong marketing objective for Purina might be "to increase sales of Purina brand cat food between January 1, 2020, and December 31, 2020, by 15 percent, compared to 2019 sales of $300 million."

Objectives must be consistent with and indicate the priorities of the organization. Specifically, objectives flow from the business mission statement to the rest of the marketing plan.

Carefully specified objectives serve several functions. First, they communicate marketing management philosophies and provide direction for lower-level marketing managers so that marketing efforts are integrated and pointed in a consistent direction. Objectives also serve as motivators by creating something for employees to strive for. When objectives are attainable and challenging, they motivate those charged with achieving the objectives. Additionally, the process of writing specific objectives forces executives to clarify their thinking. Finally, objectives form a basis for control: the effectiveness of a plan can be gauged in light of the stated objectives.

MARKETING OBJECTIVES SHOULD BE . . .

▸ **Realistic:** Managers should develop objectives that have a chance of being met. For example, it may be unrealistic for start-up firms or new products to command dominant market share, given other competitors in the marketplace.

▸ **Measurable:** Managers need to be able to quantitatively measure whether or not an objective has been met. For example, it would be difficult to determine success for an objective that states, "To increase sales of cat food." If the company sells 1 percent more cat food, does that mean the objective was met? Instead, a specific number should be stated, "To increase sales of Purina brand cat food from $300 million to $345 million."

▸ **Time specific:** By what time should the objective be met? "To increase sales of Purina brand cat food between January 1, 2020, and December 31, 2020."

▸ **Compared to a benchmark:** If the objective is to increase sales by 15 percent, it is important to know the baseline against which the objective will be measured. Will it be current sales? Last year's sales? For example, "To increase sales of Purina brand cat food by 15 percent over 2019 sales of $300 million."

2-8 DESCRIBING THE TARGET MARKET

Marketing strategy involves the activities of selecting and describing one or more target markets and developing and maintaining a marketing mix that will produce mutually satisfying exchanges with target markets.

2-8a Target Market Strategy

A market segment is a group of individuals or organizations who share one or more characteristics. They therefore may have relatively similar product needs. For example, parents of newborn babies need formula, diapers, and special foods.

The target market strategy identifies the market segment or segments on which to focus. This process begins

marketing objective
a statement of what is to be accomplished through marketing activities

marketing strategy the activities of selecting and describing one or more target markets and developing and maintaining a marketing mix that will produce mutually satisfying exchanges with target markets

with a **market opportunity analysis (MOA)**—the description and estimation of the size and sales potential of market segments that are of interest to the firm and the assessment of key competitors in these market segments. After the firm describes the market segments, it may target one or more of them. There are three general strategies for selecting target markets.

Target markets can be selected by appealing to the entire market with one marketing mix, concentrating on one segment, or appealing to multiple market segments using multiple marketing mixes. The characteristics, advantages, and disadvantages of each strategic option are examined in Chapter 8. Target markets could be 18- to 25-year-old females who are interested in fashion (*Vogue* magazine), people concerned about sugar and calories in their soft drinks (Diet Pepsi), or parents without the time to potty train their children (Booty Camp classes where kids are potty trained).

Any market segment that is targeted must be fully described. Demographics, psychographics, and buyer behavior should be assessed. Buyer behavior is covered in Chapters 6 and 7. If segments are differentiated by ethnicity, multicultural aspects of the marketing mix should be examined. If the target market is international, it is especially important to describe differences in culture, economic and technological development, and political structure that may affect the marketing plan. Global marketing is covered in more detail in Chapter 5.

2-9 THE MARKETING MIX

The term marketing mix refers to a unique blend of product, place (distribution), promotion, and pricing strategies (often referred to as the four Ps) designed to produce mutually satisfying exchanges with a target market. The marketing manager can control each component of the marketing mix, but the strategies for all four components must be blended to achieve optimal results. Any marketing mix is only as good as its weakest component. For example, the first

market opportunity analysis (MOA) the description and estimation of the size and sales potential of market segments that are of interest to the firm and the assessment of key competitors in these market segments

marketing mix (four Ps) a unique blend of product, place (distribution), promotion, and pricing strategies designed to produce mutually satisfying exchanges with a target market

pump toothpastes were distributed over cosmetics counters and failed. Not until pump toothpastes were distributed the same way as tube toothpastes did the products succeed. The best promotion and the lowest price cannot save a poor product. Similarly, excellent products with poor placing, pricing, or promotion will likely fail.

Successful marketing mixes have been carefully designed to satisfy target markets. At first glance, McDonald's and Wendy's may appear to have roughly identical marketing mixes because they are both in the fast-food hamburger business. However, McDonald's has been most successful at targeting parents with young children for lunchtime meals, whereas Wendy's targets the adult crowd for lunches and dinner. McDonald's has playgrounds, Ronald McDonald the clown, and children's Happy Meals. Wendy's has salad bars, carpeted restaurants, and no playgrounds.

Variations in marketing mixes do not occur by chance. Astute marketing managers devise marketing strategies to gain advantages over competitors and best serve the needs and wants of a particular target market segment. By manipulating elements of the marketing mix, marketing managers can fine-tune the customer offering and achieve competitive success.

2-9a Product Strategies

Of the four Ps, the marketing mix typically starts with the product. The heart of the marketing mix, the starting point, is the product offering and product strategy. It is hard to design a place strategy, decide on a promotion campaign, or set a price without knowing the product to be marketed.

The product includes not only the physical unit but also its package, warranty, after-sale service, brand name, company image, value, and many other factors. A Godiva chocolate has many product elements: the chocolate itself, a fancy gold wrapper, a customer satisfaction guarantee, and the prestige of the Godiva brand name. We buy things not only for what they do (benefits) but also for what they mean to us (status, quality, or reputation).

Products can be tangible goods such as computers, ideas like those offered by a consultant, or services such as medical care. Products should also offer customer value. Product decisions are covered in Chapters 10 and 11, and services marketing is detailed in Chapter 12.

2-9b Place (Distribution) Strategies

Place, or distribution, strategies are concerned with making products available when and where customers want

Tesla—a new paradigm for drivers

Few, if any companies have had as fast and profound an impact on the way consumers conceive of a product as common as a car as Tesla. The company is transforming the entire experience of buying and owning a car. Tesla has pushed toward automation and self-driving and has treated the car as software, with system updates beamed out over the air. It has made the electric vehicle cool. The cars are sleek and functional. Getting feedback early in the design process from customers was totally new and different from traditional car companies. And Tesla has transformed the car buying experience and made it pleasurable. Customers can go to a Tesla store in a mall and order their cars online. This experience is very different from the one customers have had with the traditional car dealership model.

Tesla is also designing solar panels and home battery storage units called the Powerwall. The focus of every Tesla product is creating a state-of-the-art, cleaner technology ecosystem. Tesla has a strong differential advantage across a number of markets.[24]

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Source: Erika Fry, "Business by Design," Fortune, January 1, 2018, pp. 56–71.

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them. Would you rather buy a kiwi fruit at the 24-hour grocery store within walking distance or fly to Australia to pick your own? A part of this P—place—is physical distribution, which involves all the business activities concerned with storing and transporting raw materials or finished products. The goal is to make sure products arrive in usable condition at designated places when needed. Place strategies are covered in Chapters 13 and 14.

2-9c Promotion Strategies

Promotion includes advertising, public relations, sales promotion, and personal selling. Promotion's role in the marketing mix is to bring about mutually satisfying exchanges with target markets by informing, educating, persuading, and reminding them of the benefits of an organization or a product. A good promotion strategy, like using a beloved cartoon character such as SpongeBob SquarePants to sell gummy snacks, can dramatically increase sales. Each element of this P—promotion—is coordinated and managed with the others to create a promotional blend or mix. These integrated marketing communications activities are described in Chapters 16, 17, and 18. Technology-driven and social media aspects of promotional marketing are covered in Chapter 19.

2-9d Pricing Strategies

Price is what a buyer must give up in order to obtain a product. It is often the most flexible of the four Ps—the element quickest to change. Marketers can raise or lower prices more frequently and easily than they can change other marketing mix variables. Price is an important competitive weapon and is very important to the organization because price multiplied by the number of units sold equals total revenue for the firm. Pricing decisions are covered in Chapter 19.

2-10 FOLLOWING UP ON THE MARKETING PLAN

One of the keys to success overlooked by many businesses is to actively follow up on the marketing plan. The time spent researching, developing, and writing a useful and accurate marketing plan goes to waste if the plan is not used by the organization. One of the best ways to get the most out of a marketing plan is to correctly implement it. Once the first steps to implementation are taken, evaluation and control will help guide the organization to success as laid out by the marketing plan.

Four characteristics of a marketing audit

- **Comprehensive:** The marketing audit covers all the major marketing issues facing an organization—not just trouble spots.

- **Systematic:** The marketing audit takes place in an orderly sequence and covers the organization's marketing environment, internal marketing system, and specific marketing activities. The diagnosis is followed by an action plan with both short-run and long-run proposals for improving overall marketing effectiveness.

- **Independent:** The marketing audit is normally conducted by an inside or outside party that is independent enough to have top management's confidence and has the ability to be objective.

- **Periodic:** The marketing audit should be carried out on a regular schedule instead of only in a crisis. Whether it seems successful or is in deep trouble, any organization can benefit greatly from such an audit.

2-10a Implementation

Implementation is the process that turns a marketing plan into action assignments and ensures that these assignments are executed in a way that accomplishes the plan's objectives. Implementation activities may involve detailed job assignments, activity descriptions, time lines, budgets, and lots of communication. Implementation requires delegating authority and responsibility, determining a time frame for completing tasks, and allocating resources. Sometimes a strategic plan also requires task force management. A *task force* is a tightly organized unit under the direction of a manager who, usually, has broad authority. A task force is established to accomplish a single goal or mission and thus works against a deadline.

Implementing a plan has another dimension: gaining acceptance. New plans mean change, and change creates resistance. One reason people resist change is that they fear they will lose something. For example, when new-product research is taken away from marketing research and given to a new-product department, the director of marketing research will naturally resist this loss of part of his or her domain. Misunderstanding and lack of trust also create opposition to change, but effective communication through open discussion and teamwork can be one way of overcoming resistance to change.

Although implementation is essentially "doing what you said you were going to do," many organizations repeatedly experience failures in strategy implementation. Brilliant marketing plans are doomed to fail if they are not properly implemented. These detailed communications may or may not be part of the written marketing plan. If they are not part of the plan, they should be specified elsewhere as soon as the plan has been communicated. Strong, forward-thinking leadership can overcome resistance to change, even in large, highly integrated companies where change seems very unlikely.

2-10b Evaluation and Control

After a marketing plan is implemented, it should be evaluated. **Evaluation** entails gauging the extent to which marketing objectives have been achieved during the specified time period. Four common reasons for failing to achieve a marketing objective are unrealistic marketing objectives, inappropriate marketing strategies in the plan, poor implementation, and changes in the environment after the objective was specified and the strategy was implemented.

Once a plan is chosen and implemented, its effectiveness must be monitored. **Control** provides the mechanisms for evaluating marketing results in light of the plan's objectives and for correcting actions that do not help the organization reach those objectives within

implementation the process that turns a marketing plan into action assignments and ensures that these assignments are executed in a way that accomplishes the plan's objectives

evaluation gauging the extent to which the marketing objectives have been achieved during the specified time period

control provides the mechanisms for evaluating marketing results in light of the plan's objectives and for correcting actions that do not help the organization reach those objectives within budget guidelines

budget guidelines. Firms need to establish formal and informal control programs to make the entire operation more efficient.

Perhaps the broadest control device available to marketing managers is the **marketing audit**—a thorough, systematic, periodic evaluation of the objectives, strategies, structure, and performance of the marketing organization. A marketing audit helps management allocate marketing resources efficiently.

Although the main purpose of the marketing audit is to develop a full profile of the organization's marketing effort and to provide a basis for developing and revising the marketing plan, it is also an excellent way to improve communication and raise the level of marketing consciousness within the organization. It is a useful vehicle for selling the philosophy and techniques of strategic marketing to other members of the organization.

2-10c Postaudit Tasks

After the audit has been completed, three tasks remain. First, the audit should profile existing weaknesses and inhibiting factors, as well as the firm's strengths and the new opportunities available to it. Recommendations have to be judged and prioritized so that those with the potential to contribute most to improved marketing performance can be implemented first. The usefulness of the data also depends on the auditor's skill in interpreting and presenting the data so decision makers can quickly grasp the major points.

The second task is to ensure that the role of the audit has been clearly communicated. It is unlikely that the suggestions will require a radical change in the way the firm operates. The audit's main role is to address the question "Where are we now?" and to suggest ways to improve what the firm already does.

The final postaudit task is to make someone accountable for implementing recommendations. All too often, reports are presented, applauded, and filed away to gather dust. The person made accountable should be someone who is committed to the project and who has the managerial power to make things happen.

2-11 EFFECTIVE STRATEGIC PLANNING

Effective strategic planning requires continual attention, creativity, and management commitment. Strategic planning should not be an annual exercise in which managers go through the motions and forget about strategic planning until the next year. It should be an ongoing process because the environment is continually changing and the firm's resources and capabilities are continually evolving.

Sound strategic planning is based on creativity. Managers should challenge assumptions about the firm and the environment and establish new strategies. For example, major oil companies developed the concept of the gasoline service station in an age when cars needed frequent and rather elaborate servicing. These major companies held on to the full-service approach, but independents were quick to respond to new realities and moved to lower-cost self-service and convenience store operations. Major companies took several decades to catch up.

Perhaps the most critical element in successful strategic planning is top management's support and participation. Google, for example, strongly supports educational and leadership programs for employees, as well as opportunities to address management with ideas and concerns.[25]

marketing audit a thorough, systematic, periodic evaluation of the objectives, strategies, structure, and performance of the marketing organization

3 | Ethics and Social Responsibility

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LEARNING OUTCOMES

After studying this chapter, you will be able to…

3-1 Explain the determinants of a civil society

3-2 Explain the concept of ethical behavior

3-3 Describe ethical behavior in business

3-4 Discuss corporate social responsibility

3-5 Describe the arguments for and against society responsibility

3-6 Explain cause-related marketing

DETERMINANTS OF A CIVIL SOCIETY

Have you ever stopped to think about the social glue that binds society together? That is, what factors keep people and organizations from running amok and doing harm, and what factors create order in a society like ours? The answer lies in **social control**, defined as any means used to maintain behavioral norms and regulate conflict.[1] **Behavioral norms** are standards of proper or acceptable behavior. Social control is part of your life at every level, from your family to your local community, to the nation, to the global civilization. Several modes of social control are important to marketing:

1. **Ethics:** **Ethics** are the moral principles or values that generally govern the conduct of an individual or a group. Ethical rules and guidelines, along with customs and traditions, provide principles of right action.

2. **Laws:** Often, ethical rules and guidelines are codified into law. Laws created by governments are then enforced by governmental authority. This is how the dictum "Thou shall not steal" has become part of formal law throughout the land. Law, however, is not a perfect mechanism for ensuring good corporate and employee behavior. This is because laws often address the lowest common denominator of socially acceptable behavior. In other words, just because something is legal does not mean that it is ethical. For example, Log Cabin All Natural Table Syrup has no artificial flavors or colors, nor does it contain preservatives or high-fructose corn syrup. It is sold in a traditional jug similar to those used by many Vermont maple sugar makers, complete with a picture of a snow-covered log cabin on the label, evoking the woods of the Green Mountain State. However, while Log Cabin All Natural Table Syrup may indeed be "natural" and "authentic," as the jug suggests, it isn't maple syrup. The top ingredients are brown rice syrup, water, and sugar.[2] Maple Syrup industry groups from Vermont to Michigan recently sent a letter to the Food and Drug Administration protesting food labeled as "maple" that doesn't contain the real thing. These groups say that products such as Quaker Oats Maple & Brown Sugar Instant Oatmeal and Hood's Maple Walnut ice cream are misbranded.[3] Log Cabin does not explicitly state that the product contains real maple syrup, but the packaging certainly suggests it. Is this ethical? What's your opinion? Here's another example: In every state,

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littering is a problem—and has been for many years. Threats of fines and even jail time are shrugged off as people toss food wrappers and everything else imaginable out the car window. Plastic bags are a major source of litter. Also, plastic drinking straws and cups are often tossed out the window far too often. If you want one in a full-service restaurant, you must ask for it. San Francisco previously had passed a law completely banning plastic straws.[4]

3. **Formal and Informal Groups:** Businesses, professional organizations (such as the American Marketing Association and the American Medical Association), and clubs (such as Shriners and

social control any means used to maintain behavioral norms and regulate conflict

behavioral norms standards of proper or acceptable behavior. Several modes of social control are important to marketing

ethics the moral principles or values that generally govern the conduct of an individual or a group

Ducks Unlimited) all have codes of conduct. These codes prescribe acceptable and desired behaviors of their members.

4. **Self-Regulation:** Self-regulation involves the voluntary acceptance of standards established by nongovernmental entities, such as the American Association of Advertising Agencies (AAAA) or the National Association of Manufacturers. The AAAA has a self-regulation arm that deals with deceptive advertising. Other associations have regulations relating to child labor, environmental issues, conservation, and a host of other issues.

5. **The Media:** In an open, democratic society, the media play a key role in informing the public about the actions of individuals and organizations—both good and bad. The Children's Online Privacy Protection Act (COPPA) requires website operators to obtain verifiable consent from parents before collecting personal information about children under age 13. Yelp paid a $450,000 fine for collecting information on children under 13. Also, Hershey Foods has paid an $85,000 fine and Mrs. Fields Cookies $100,000 for the same infraction.[5] It is expected that more than 110 million students will use Google Apps for Education by 2020. This suite of educational apps complies with the U.S. Family Educational Rights and Privacy Act (FERPA)—a fact that Google states explicitly in its contracts with schools. Google also requires that schools using Google Apps for Education obtain parental consent before students can use the apps. This conforms to COPPA requirements.[6]

6. **An Active Civil Society:** An informed and engaged society can help mold individual and corporate ethics as well as socially responsible behavior. Research reveals that 56 percent of U.S. consumers stop buying from companies they believe are unethical. What's more, over one-third (35 percent) of consumers stop buying from brands they perceive as unethical even if there is no substitute available, and 27 percent stop purchasing even if they think the competitor offers lower quality. Overall, 63 percent of consumers feel that ethical issues are becoming more important.[7]

Some 34 percent of consumers tell others when they perceive a brand to be making ethical actions or actions that are honest, fair, and responsible, and another 29 percent take to social media to share their support for ethical companies.[8]

3-2 THE CONCEPT OF ETHICAL BEHAVIOR

It has been said that ethics is something everyone likes to talk about but nobody can define. Others have suggested that defining ethics is like trying to nail Jell-O to a wall. You begin to think that you understand it, but that is when it starts squirting out between your fingers.

Simply put, ethics can be viewed as the standard of behavior by which conduct is judged. Standards that are legal may not always be ethical, and vice versa. Laws are the values and standards enforceable by the courts. Ethics, then, consists of personal moral principles. For example, there is no legal statute that makes it a crime for someone to "cut in line." Yet, if someone does not want to wait in line and cuts to the front, it often makes others very angry.

If you have ever resented a line-cutter, then you understand ethics and have applied ethical standards in life. Waiting your turn in line is a social expectation that exists because lines ensure order and allocate the space and time needed to complete transactions. Waiting your turn is an expected but unwritten behavior that plays a critical role in an orderly society.

So it is with ethics. Ethics consists of those unwritten rules we have developed for our interactions with one another. These unwritten rules govern us when we are sharing resources or honoring contracts. "Waiting your turn" is a higher standard than the laws that are passed to maintain order. Those laws apply when physical force or threats are used to push to the front of the line. Assault, battery, and threats are forms of criminal conduct for which the offender can be prosecuted. But the law does not apply to the stealthy line-cutter who simply sneaks to the front, perhaps using a friend and a conversation as a decoy. No laws are broken, but the notions of fairness and justice are offended by one individual putting himself or herself above others and taking advantage of others' time and position.

Ethical questions range from practical, narrowly defined issues, such as a businessperson's obligation to be honest with customers, to broader social and philosophical questions, such as whether a company is responsible for preserving the environment and protecting employee rights. Many ethical dilemmas develop from conflicts between the differing interests of company owners and their workers, customers, and the surrounding community. Managers must balance the ideal against the practical—that is, they must produce a reasonable profit for the company's shareholders while maintaining

honesty in business practices and concern for environmental and social issues.

3-2a Ethical Theories

People usually base their individual choice of ethical theory on their life experiences. The following are some of the ethical theories that apply to marketing.[9]

DEONTOLOGY The **deontological theory** states that people should adhere to their obligations and duties when analyzing an ethical dilemma. This means that a person will follow his or her obligations to another individual or society because upholding one's duty is what is considered ethically correct. For instance, a deontologist will always keep his promises to a friend and will follow the law. A person who follows this theory will produce very consistent decisions because they will be based on the individual's set duties.

Note that deontological theory is not necessarily concerned with the welfare of others. For example, suppose a salesperson has decided that it is her ethical duty (and very practical) to always be on time to meetings with clients. Today she is running late. How is she supposed to drive? Is the deontologist supposed to speed, breaking the law to uphold her duty to society, or is the deontologist supposed to arrive at her meeting late, breaking her duty to be on time? This scenario of conflicting obligations does not lead us to a clear, ethically correct resolution, nor does it protect the welfare of others from the deontologist's decision.

UTILITARIANISM The **utilitarian ethical theory** is founded on the ability to predict the consequences of an action. To a utilitarian, the choice that yields the greatest benefit to the most people is the choice that is ethically correct. One benefit of this ethical theory is that the utilitarian can compare similar predicted solutions and use a point system to determine which choice is more beneficial for more people. This point system provides a logical and rational argument for each decision and allows a person to use it on a case-by-case context.

There are two types of utilitarianism: act utilitarianism and rule utilitarianism. *Act utilitarianism* adheres exactly to the definition of utilitarianism as just described. In act utilitarianism, a person performs the acts that benefit the most people, regardless of personal feelings or societal constraints such as laws. *Rule utilitarianism*, however, takes into account the law and is concerned with fairness. A rule utilitarian seeks to benefit the most people but through the fairest and most just means available. Therefore, added benefits of rule utilitarianism are that it values justice and doing good at the same time.

As is true of all ethical theories, however, both act and rule utilitarianism contain numerous flaws. Inherent in both are the flaws associated with predicting the future. Does President Trump's American Health Care Act help the most people, or does it not? Although people can use their life experiences to attempt to predict outcomes, no human being can be certain that his predictions will come true. This uncertainty can lead to unexpected results, making the utilitarian look unethical as time passes because his choice did not benefit the most people as he predicted.

Another assumption that a utilitarian must make is that she has the ability to compare the various types of consequences against each other on a similar scale. However, comparing material gains such as money against intangible gains such as happiness is impossible because their qualities differ so greatly.

CASUIST The **casuist ethical theory** compares a current ethical dilemma with examples of similar ethical dilemmas and their outcomes. This allows one to determine the severity of the situation and to create the best possible solution according to others' experiences. Usually, one will find examples that represent the extremes of the situation so that a compromise can be reached that will include the wisdom gained from the previous situations.

One drawback to this ethical theory is that there may not be a set of similar examples for a given ethical dilemma. Perhaps that which is controversial and ethically questionable is new and unexpected. Along the same line of thinking, this theory assumes that the results of the current ethical dilemma will be similar to results in the examples. This may not be necessarily true and would greatly hinder the effectiveness of applying this ethical theory.

MORAL RELATIVISM **Moral relativism** is a belief in time-and-place ethics, that is, the truth of a moral judgment is relative to the judging person or group. According to

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deontological theory
ethical theory that states that people should adhere to their obligations and duties when analyzing an ethical dilemma

utilitarian ethical theory
ethical theory that is founded on the ability to predict the consequences of an action

casuist ethical theory
ethical theory that compares a current ethical dilemma with examples of similar ethical dilemmas and their outcomes

moral relativism a theory of time-and-place ethics; that is, the belief that ethical truths depend on the individuals and groups holding them

a moral relativist, for example, arson is not always wrong—if you live in a neighborhood where drug dealers are operating a crystal meth lab or crack house, committing arson by burning down the meth lab may be ethically justified. If you are a parent and your child is starving, stealing a loaf of bread is ethically correct. The proper resolution to ethical dilemmas is based on weighing the competing factors at the moment and then making a determination to take the lesser of the evils as the resolution. Moral relativists do not believe in absolute rules. Their beliefs center on the pressure of the moment and whether the pressure justifies the action taken.

VIRTUE ETHICS Aristotle and Plato taught that solving ethical dilemmas requires training—that individuals solve ethical dilemmas when they develop and nurture a set of virtues. A **virtue** is a character trait valued as being good. Aristotle taught the importance of cultivating virtue in his students and then having them solve ethical dilemmas using those virtues once they had become an integral part of his students' being through their virtue training.

Some modern philosophers have embraced this notion of virtue and have developed lists of what constitutes a virtuous businessperson. Some common virtues for businesspeople are self-discipline, friendliness, caring, courage, compassion, trust, responsibility, honesty, determination, enthusiasm, and humility. You may see other lists of virtues that are longer or shorter, but here is a good start for core business virtues.

3-3 ETHICAL BEHAVIOR IN BUSINESS

Depending on which, if any, ethical theory a businessperson has accepted and uses in his or her daily conduct, the action taken may vary. For example, faced with bribing a foreign official to get a critically needed contract or shutting down a factory and laying off a thousand workers, a person following a deontology strategy would not pay the bribe. Why? A deontologist always follows the law. However, a moral relativist would probably pay the bribe.

While the boundaries of what is legal and what is not are often fairly clear (e.g., do not run a red light, do not steal money from a bank, and do not kill anyone), the boundaries of

virtue a character trait valued as being good

morals the rules people develop as a result of cultural values and norms

After ethical issues investigated by both the Justice Department and the Securities and Exchange Commission, today Walmart has become an industry leader in the Foreign Corrupt Practices Act compliance best practices.

ethical decision making are predicated on which ethical theory one is following. The law typically relies on juries to determine if an act is legal or illegal. Society determines whether an action is ethical or unethical. Since 2012, the Justice Department and the Securities and Exchange Commission has been investigating allegations that Walmart violated the Foreign Corrupt Practices Act (FCPA) by paying bribes to foreign government officials as it expanded around the world. Walmart has tried and failed to settle the investigation, costing the company more than $877 million. Today, Walmart acknowledges the allegation and says that it is cooperating.

However, discussions surrounding the probe have stalled over several issues, including the size of the potential penalties that Walmart will have to pay if it is found guilty. People familiar with the probe have said that another major sticking point has been Walmart's eligibility to continue accepting food stamps in its 5,300 Walmart and Sam's Club stores across the United States after a settlement is reached. It is now claimed by many knowledgeable people that Walmart has become an industry-leader in FCPA compliance best practices.[10]

Morals are the rules people develop as a result of cultural values and norms. Culture is a socializing force that dictates what is right and wrong. Moral standards may also reflect the laws and regulations that affect social and economic behavior. Thus, morals can be considered a foundation of ethical behavior.

Morals are usually characterized as good or bad. "Good" and "bad" have many different connotations.

One such connotation is "effective" and "ineffective." A good salesperson makes or exceeds the assigned quota. If the salesperson sells a new computer system or HDTV to a disadvantaged consumer—knowing full well that the person cannot keep up the monthly payments—is that still a good salesperson? What if the sale enables the salesperson to exceed his or her quota?

"Good" and "bad" can also refer to "conforming" and "deviant" behaviors. A doctor who runs large ads offering discounts on open-heart surgery would be considered bad, or unprofessional, because he or she is not conforming to the norms of the medical profession. "Good" and "bad" also express the distinction between law-abiding and criminal behavior. And finally, different religions define "good" and "bad" in markedly different ways. A Muslim who eats pork would be considered bad by other Muslims, for example. Religion is just one of the many factors that affect a businessperson's ethics. Academic researchers have examined how consumers react to the trade-offs between highly competent but less moral service providers and less competent but highly moral service providers. In their study, it was found that consumers valued competence more than morality.[11] In other words, purchasers of services want someone who can do the job right . . . even if that person might be a bit shady. For example, a house painting company that does excellent work but has had some legal problems in the past would be preferred over a mediocre painting company that has never had complaints or legal problems.

3-3a Morality and Business Ethics

Today's business ethics actually consist of a subset of major life values learned since birth. The values businesspeople use to make decisions have been acquired through family, educational, and religious institutions.

Ethical values are situation specific and time oriented. Everyone must have an ethical base that applies to conduct in the business world and in personal life. One approach to developing a personal set of ethics is to examine the consequences of a particular act. Who is helped or hurt? How long do the consequences last? What actions produce the greatest good for the greatest number of people? A second approach stresses the importance of rules. Rules come in the form of customs, laws, professional standards, and common sense. "Always treat others as you would like to be treated" is an example of a rule.

3-3b Ethical Decision Making

Ethical questions rarely have cut-and-dried answers. Studies show that the following factors tend to influence ethical decision making and judgments:[12]

- **Extent of ethical problems within the organization:** Marketing professionals who perceive fewer ethical problems in their organizations tend to disapprove more strongly of "unethical" or questionable practices than those who perceive more ethical problems. Apparently, the healthier the ethical environment, the more likely it is that marketers will take a strong stand against questionable practices.

- **Top management's actions on ethics:** Top managers can influence the behavior of marketing professionals by encouraging ethical behavior and discouraging unethical behavior. Researchers found that when top managers develop a strong ethical culture, there is reduced pressure to perform unethical acts, fewer unethical acts are performed, and unethical behavior is reported more frequently.[13]

- **Potential magnitude of the consequences:** The greater the harm done to victims, the more likely that marketing professionals will recognize a problem as unethical.

- **Social consensus:** The greater the degree of agreement among managerial peers that an action is harmful, the more likely that marketers will recognize a problem as unethical. Research has found that a strong ethical culture among coworkers decreases observations of ethical misconduct. In companies with strong ethical cultures, 9 percent of employees observed misconduct, compared with 31 percent in companies with weaker cultures.[14]

- **Probability of a harmful outcome:** The greater the likelihood that an action will result in a harmful outcome, the more likely that marketers will recognize a problem as unethical.

- **Length of time between the decision and the onset of consequences:** The shorter the length of time between the action and the onset of negative consequences, the more likely that marketers will perceive a problem as unethical.

- **Number of people to be affected:** The greater the number of persons affected by a negative outcome, the more likely that marketers will recognize a problem as unethical.

As you can see, many factors determine the nature of an ethical decision. Drugstore chain CVS has ceased all

Former CEO of Turing Pharmaceuticals Martin Shkreli (right) testifies during a House Oversight and Government Reform Committee hearing on unethical practices in the prescription drug market.

sales of cigarettes and other tobacco products, becoming the first national pharmacy to do so.

CVS President and CEO Larry Merlo said that the decision better aligned the company with its purpose of improving customer health, and that it was simply the right thing to do.[15] On the other hand, consider Turing Pharmaceuticals founder Martin Shkreli. In 2015, Shkreli acquired the rights to the drug Daraprim, a decades-old lifesaving medication for parasitic infections, then hiked the price from $13.50 a pill to $750.00 a pill. He vowed to repeat this strategy with other so-called orphan drugs.[16] This is an extreme case, and pharmaceutical manufacturers claim, "He is not one of us."[17] It is true that brand-name drugs are far more expensive in the United States than they are in Canada, Europe, and most of the developed world. In many developed countries, drug prices are controlled by the government.[18] The net result is that American consumers of prescription medicines are paying the research and development costs for new drugs for the entire world. While Shkreli's actions were not illegal at the time, other actions he took were unethical and illegal. In a New York fraud trial, in 2017 Shkreli was found guilty of lying to investors in two failed hedge funds and cheating them out of millions of dollars. He was sentenced to seven years in prison. Fortunately for him, he is in a minimum-security facility with no bars or security towers. Rooms (not cells) have no locks and there are racquet ball courts and volleyball courts, large areas for team

code of ethics a guideline to help marketing managers and other employees make better decisions

sports, pool tables, a music room and facilities for arts and crafts.[19] It is sometimes referred to as "ClubFed."

3-3c Ethical Guidelines and Training

In recent years, many organizations have become more interested in ethical issues. Yet interest and action are not always the same thing. A new global study of 800 executives found that only 44 percent had a chief ethics officer.[20] However, the study *did* find that 82 percent of senior leadership communicates with employees on ethics points. The communication often takes place via email. In addition, many companies of various sizes have developed a **code of ethics** as a guideline to help marketing managers and other employees make better decisions. Creating ethics guidelines has several advantages:

- A code of ethics helps employees identify what their firm recognizes as acceptable business practices.

- A code of ethics can be an effective internal control of behavior, which is more desirable than external controls such as government regulation.

- A written code helps employees avoid confusion when determining whether their decisions are ethical.

- The process of formulating the code of ethics facilitates discussion among employees about what is right and wrong and ultimately leads to better decisions.

Ethics training is an effective way to help employees put good ethics into practice. The Ethics Resource Center's National Business Ethics Survey (NBES) found that 81 percent of companies provide ethics training. Only 33 percent of workers observed misconduct in large companies with effective ethics and compliance programs (E&C). Compare this to a misconduct rate of 51 percent among all large companies and 62 percent among large companies that do not have effective E&C programs. Pressure for workers to compromise standards was just 3 percent among big companies with effective E&C programs, versus 23 percent among those without an effective program.[21] Still, simply giving employees a long list of *dos* and *don'ts* does not really help employees navigate the gray areas or adapt to a changing world market. In Carson City, Nevada, all governmental lobbyists are required to attend a course on ethics and policy before they can meet with lawmakers. The training outlines exactly how and when lobbyists are allowed to interact with lawmakers and how to report any money they spend. A clear understanding of ethical expectations

is essential to an industry like lobbying, where illicit—often illegal—actions are taken to promote individual causes.

Because artificial intelligence (AI) is becoming so pervasive in marketing interactions with consumers, it must also be taught ethical decision making. Already Microsoft, Adobe, and IBM, along with smaller firms and start-ups, are developing ethical guidelines and best practices for their AI use.

Type *gymnast* into Google's image search, and the vast majority of the top results are female, as are the results for *nurse*. The term *parents* shows almost exclusively heterosexual couples. The results to these searches are driven by AI, which isn't explicitly taught to discriminate. Rather, these prejudices are the result of the data submitted to the AI algorithm.[22] "One of the things that's really endemic to AI and to machine-learning technology is that it has to learn from data, and the data we train it with comes from people," notes Susan Etlinger, an AI industry analyst for Altimer.[23]

THE MOST ETHICAL COMPANIES Each year, *Ethisphere* magazine (targeted toward top management and focused on ethical leadership) examines more than 5,000 companies in 30 separate industries, seeking the world's most ethical companies. It then lists the top 100.

The magazine uses a rigorous format to identify true ethical leadership. A few of the selected winners are shown in Exhibit 3.1.

3-3d Ethics in Other Countries

Ethical beliefs often vary between cultures. Certain practices, such as the use of illegal payments and bribes, are far more acceptable in some places than in others, though enforced laws are increasingly making the practice less accepted. One such law mentioned earlier, the **Foreign Corrupt Practices Act (FCPA)**, was enacted because Congress was concerned about U.S. corporations' use of illegal payments and bribes in international business dealings. This act prohibits U.S. corporations from making illegal payments to public officials of foreign governments to obtain business rights or to enhance their business dealings in those countries. The act has been criticized for putting U.S. businesses at a competitive disadvantage. Many contend that bribery is an unpleasant but necessary part of international business, especially

> **Foreign Corrupt Practices Act (FCPA)** a law that prohibits U.S. corporations from making illegal payments to public officials of foreign governments to obtain business rights or to enhance their business dealings in those countries

EXHIBIT 3.1	SELECTED WINNERS OF THE WORLD'S MOST ETHICAL COMPANIES	
Company	**Industry**	**Country**
3M	Industrial manufacturing	USA
Adobe	Application software	USA
Aflac	Accident and life insurance	USA
Baptist Health South Florida	Nonprofit health care providers	USA
Colgate-Palmolive	Consumer products	USA
Dell	Technology	USA
EDP	Energy and utilities	Portugal
Grupo Bimbo	Food, beverages, and agriculture	Mexico
Illy	Food, beverages, and agriculture	Italy
Kao	Health and beauty	Japan
L'Oreal	Health and beauty	France
Mars	Food, beverages, and agriculture	USA
Natura	Health and beauty	Brazil
Parsons	Engineering and design	USA
Salesforce	Application software	USA
USAA	Insurance	USA
Volvo	Automotive	Sweden

Source: "The 2018 World's Most Ethical Companies Honorees List," http://worldsmostethicalcompanies.ethisphere.com/honorees (accessed October 5, 2018).

in countries such as China, where business gift giving is widely accepted and expected. But, as prosecutions under the FCPA have increased worldwide, some countries are implementing their own antibribery laws. For example, even though China is among the three countries with the most international corruption cases prosecuted under the FCPA, the country is working to develop its own antibribery laws. President Xi Jinping has vigorously attacked corruption and bribery in the Communist party, and has swept tens of thousands out of office. Many have been sent to prison.[24]

corporate social responsibility (CSR) a business's concern for society's welfare

stakeholder theory ethical theory stating that social responsibility is paying attention to the interest of every affected stakeholder in every aspect of a firm's operation

3-4 CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility (CSR) is a business's concern for society's welfare. This concern is demonstrated by managers who consider both the long-range best interests of the company and the company's relationship to the society within which it operates.

3-4a Stakeholders and Social Responsibility

An important aspect of social responsibility is **stakeholder theory**. Stakeholder theory says that social responsibility is paying attention to the interest of every affected stakeholder in every aspect of a firm's operation. The stakeholders in a typical corporation are shown in Exhibit 3.2.

EXHIBIT 3.2   STAKEHOLDERS IN A TYPICAL CORPORATION

- **MANAGEMENT**
  - job and income at stake
  - must safeguard the welfare of the organization
  - must balance the multiple claims of conflicting stakeholders
- **EMPLOYEES**
  - jobs and incomes at stake
  - expect wages, benefits, and meaningful work
  - expect the company to carry them through difficult times
- **CUSTOMERS**
  - generate revenue for the organization
  - expect quality goods and services delivered in a timely manner
  - customer satisfaction leads to higher revenues and other satisfied stakeholders
- **OWNERS/STOCKHOLDERS**
  - have a financial stake in the company in the form of stock
  - expect a reasonable return based on inherent risk of their investment
- **SUPPLIERS**
  - materials determine the quality of the product and help determine the retail price
  - depend on firm's success for survival
- **LOCAL COMMUNITY**
  - grants the firm the rights to build facilities
  - benefits from taxes paid by corporations and workers
  - expects good citizenship

- *Employees* have their jobs and incomes at stake. If the firm moves or closes, employees often face a severe hardship. In return for their labor, employees expect wages, benefits, and meaningful work. In return for their loyalty, workers expect the company to carry them through difficult times.

- *Management* plays a special role, as they also have a stake in the corporation. Like employees, managers have their jobs and incomes at stake. On the other hand, management must safeguard the welfare of the organization. Sometimes this means balancing the multiple claims of conflicting stakeholders. For example, stockholders want a higher return on investment and perhaps lower costs by moving factories overseas. This naturally conflicts with the interests of employees, the local community, and perhaps suppliers.

- *Customers* generate the revenue for the organization. In exchange, they expect high-quality goods and services delivered in a timely manner. Customer satisfaction leads to higher revenues and the ability to enhance the satisfaction of other stakeholders.

- *The local community*, through its government, grants the firm the right to build facilities. In turn, the community benefits directly from local taxes paid by the corporation and indirectly by property and sales taxes paid by the workers. The firm is expected to be a good citizen by paying a fair wage, not polluting the environment, and so forth.

- *Suppliers* are vital to the success of the firm. For example, if a critical part is not available for an assembly line, then production grinds to a halt. The materials supplied determine the quality of the product produced and create a cost floor, which helps determine the retail price. In turn, the firm is the customer of the supplier and is therefore vital to the success and survival of the supplier. A supplier that fails to deliver quality products can create numerous problems for a firm. Takata is global supplier of vehicle airbags. The National Highway Traffic Safety Administration (NHTSA) has warned that tens of millions of cars with Takata airbags face an increased chance of exploding during a collision after prolonged exposure to hot and humid conditions. NHTSA says that there are 50 million defective Takata airbags in 37 million U.S. vehicles. When the bags explode, they send shrapnel into the passengers. The NHTSA planned to recall more bags bringing the total to 70 million by December 2019. The defective bags have injured 180 people and caused 20 deaths by 2018. Automakers

There may be up to 50 million defective Takata airbags in American vehicles according to the National Highway Traffic Safety Administration.

such as Ford, Nissan, Toyota, and Mazda have paid out hundreds of millions of dollars to settle consumer loss claims.[25]

- *Owners* have a financial stake in the form of stock in a corporation. They expect a reasonable return based on the amount of inherent risk on their investment. Sometimes managers and employees receive a portion of their compensation in company stock. When Facebook went public, it created more than 1,000 employee millionaires. Through stock options, the company has created more billionaires under the age of 40 than any other company.[26]

3-4b Pyramid of Corporate Social Responsibility

One theorist suggests that total corporate social responsibility (CSR) has four components: economic, legal, ethical, and philanthropic. The **pyramid of corporate social responsibility** portrays economic performance as the foundation for the other three responsibilities (see Exhibit 3.3). At the same time that it pursues profits (economic responsibility), however, a business is expected to obey the law (legal responsibility); to do what is right, just, and fair (ethical responsibilities); and to be a good corporate citizen (philanthropic responsibility). These four components are distinct but together constitute the whole. Still, if the company does not make a profit, then the other three responsibilities are moot.

pyramid of corporate social responsibility a model that suggests corporate social responsibility is composed of economic, legal, ethical, and philanthropic responsibilities and that a firm's economic performance supports the entire structure

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EXHIBIT 3.3 · THE PYRAMID OF CORPORATE SOCIAL RESPONSIBILITY

Philanthropic responsibilities
Be a good corporate citizen.
Contribute resources to the community; improve the quality of life.

Ethical responsibilities
Be ethical.
Do what is right, just, and fair. Avoid harm.

Legal responsibilities
Obey the law.
Law is society's codification of right and wrong. Play by the rules of the game.

Economic responsibilities
Be profitable.
Profit is the foundation on which all other responsibilities rest.

3-5 ARGUMENTS FOR AND AGAINST SOCIAL RESPONSIBILITY

CSR can be a divisive issue. Some analysts believe that a business should focus on making a profit and leave social and environmental problems to nonprofit organizations and government. Economist Milton Friedman believed that the free market, not companies, should decide what is best for the world.[27] Friedman argued that when business executives spend more money than necessary—to purchase delivery vehicles with hybrid engines, pay higher wages in developing countries, or even donate company funds to charity—they are spending shareholders' money to further their own agendas. It would be better to pay dividends and let the shareholders give the money away if they choose.

On the other hand, CSR has an increasing number of supporters based on several compelling factors. One is that it is simply the right thing to do. Some people claim that societal problems, such as pollution and poverty-level wages, have been brought about by corporations' actions; it is the responsibility of business to right these wrongs. Businesses also have the resources, so businesses should be given the chance to solve social problems. For example, businesses can provide a fair work environment, safe products, and informative advertising.

A firm that is socially responsible tends to build trust in that organization. Even the smallest transactions in a free-enterprise society are based upon trust. Trust keeps society running. Just ordering a pizza requires faith that the dough will be well-made, that the pizzeria will not abuse the customer's credit card information, and that the delivery person will not eat the pizza. Trust makes the commitment of resources to an activity where its outcome depends upon the cooperative behavior of others[28]—in this case, the pizza maker, cashier, and delivery person.

Research has found that being socially responsible and training front line employees about social responsibility can have a positive impact on the firm. In a business-to-business environment, researchers found that social responsibility activities can raise customer trust and identification with the firm. These factors, in turn, build customer loyalty, which often leads to higher profits.[29]

Content employees tend to do their jobs better and offer improved customer service. A significant part of that contentment is respecting and admiring their firm, which adds meaning to their lives. Walmart has dozens of programs that target social responsibility. These include using renewable energy, influencing suppliers to make products and packaging more sustainable, and encouraging 2.6 million associates (employees) to directly help communities.[30]

If a customer has a bad experience with a firm, an active social responsibility program can dampen negative word of mouth and social media comments. Even corporations convicted of illegal acts can benefit from being socially responsible. The average fine levied against a firm convicted of bribery under the Foreign Corrupt Practices Act is 40 percent lower if the firm has a comprehensive social responsibility program.[31]

Another, more pragmatic, reason for being socially responsible is that if businesses do not act responsibly, then government will create new regulations and perhaps levy fines against them.

Finally, social responsibility can produce a direct profit. Smart companies can prosper and build value by tackling social problems. GlaxoSmithKline (GSK) is a 300-year-old pharmaceutical company. Its goal is not

PepsiCo's sustainable business philosophy, Performance with Purpose, is deeply engrained into the company's workplace culture. It is even included in PepsiCo's code of conduct, which every employee must sign and pledge to uphold. By 2025, PepsiCo will ask every supplier—down to the individual farm worker—to make that same pledge.

only to serve the wealthier nations of the West, but to serve developing nations around the world as well. The company spent some three decades developing a vaccine for malaria, which has devastated huge swaths of sub-Saharan Africa. (Pilot vaccination programs in the hardest-hit areas began in 2018.) GSK has also partnered with the government of Botswana on an ambitious HIV treatment program and is collaborating with the National Institutes of Health on a vaccine for the Zika virus.[32]

GSK is socially responsible but makes a profit at the same time—the company's operating profit in 2017 was over $10 billion.[33] Corporate leadership is confident that its strategy of slim profit margins on most products sold in the developing world and a huge, growing sales volume is a winning one.[34]

3-5a Growth of Social Responsibility

The social responsibility of businesses is growing around the world. Companies are coming under increasing pressure from governments, advocacy groups, investors, prospective employees, current employees, and consumers to make their organizations more socially responsible. In turn, firms are seeing social responsibility as an opportunity. A recent global study by Cone Communications found that 9 out of 10 consumers expect companies to do more than make a profit. The firms must also operate responsibly to address social and environmental issues. Global consumers echo this in their own shopping behavior: 84 percent say they seek out socially responsible products. Nearly three quarters (72 percent) believe that their purchases make a moderate to significant impact on social and environmental issues. Four in five global consumers are willing to consume and/or purchase fewer products to preserve natural resources or buy a product from an unknown brand if it has strong corporate social responsibility commitments.[35]

UNITED NATIONS GLOBAL COMPACT One way that U.S. firms can do more is by joining the United Nations Global Compact (UNGC). The UNGC, the world's largest global corporate citizenship initiative, has seen its ranks swell over the past few years. In 2001—the first full year after its launch—just 67 companies joined, agreeing to abide by 10 principles (see "The Ten Principles of the United Nations Global Compact"). Today there are more than 10,000 corporate and 5,000 noncorporate participants.[36]

3-5b Becoming a B Corp

Smaller companies that wish to join the social responsibility and sustainability movement are turning to the B Corp movement. B Corps are for-profit companies certified by the nonprofit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency. Today, there is a growing community of over 2,650 Certified B Corps from 60 countries representing 150 different industries.[37] To become a B Corp Certified company, a firm must pass a 200-point assessment. Criteria include things like fair compensation for workers, how much waste the company produces, and the company's work with local businesses. Firms such as Patagonia, Ben & Jerry's, online crafts marketplace Etsy, and Danone have qualified. New Seasons Market, a 13-store grocery chain in Oregon, stamps the B Corp logo on all of its grocery bags and gives employees B Corp badges to wear. The logo helps attract socially minded shoppers and helps in recruiting new workers.

Elissa Loughman, Environmental Analyst for Patagonia, says:

> The Assessment incentivized us to quantitatively measure the performance of our programs. We provide several opportunities for employees to participate in environmental or social activism. But we didn't know how many employees participated and to what degree. The Assessment gathers all the information in one place, it allows us to really recognize our strengths as well as see where we have room for improvement.[38]

Ben & Jerry's is a B Corp Certified company.

SUSTAINABILITY A significant part of the B Impact Assessment is measuring a firm's **sustainability**. Sustainability is the idea that socially responsible companies will outperform their peers by focusing on the world's social, economic, and environmental problems. Sustainable companies view these problems as opportunities to build profits and help the world at the same time. Environmental sustainability is concerned with the physical environment. Environmentally sustainable companies believe that threats to the environment should be minimized or eliminated. For example, developing long-term sources of clean water improves health and preserves local ecosystems while creating a competitive advantage. Social sustainability means developing processes and structures that not only meet the needs of a current community, but benefit future generations as well. Building schools and providing means for children to attend those schools is an example of creating social sustainability. In a business context, economic sustainability is the efficient use of assets so that a company can continue operating profitably over time. A company cannot be socially or environmentally responsible if it goes out of business.

sustainability the idea that socially responsible companies will outperform their peers by focusing on the world's social problems and viewing them as opportunities to build profits and help the world at the same time

green marketing the development and marketing of products designed to minimize negative effects on the physical environment or to improve the environment

greenwashing Adding a minimal number of green product attributes in order to promote it as green

3-5c Green Marketing

An outgrowth of the social responsibility and sustainability movements is green marketing. **Green marketing** is the development and marketing of products designed to minimize negative effects on the physical environment or to improve the environment. One approach that firms use to indicate that they are part of the green movement is to use third-party eco-logos. Examples include the chasing-arrows recycling logo (the product is either recyclable or contains recycled materials); the Energy Star logo (the product is energy efficient); and Certified Organic (the U.S. Department of Agriculture created standards relative to soil quality, animal raising practices, pest and weed control, and the use of additives). These logos can enhance a product's sales and profitability.

Movement toward green marketing by manufacturers has not always been self-motivated. Powerful retailers including Walmart, Whole Foods, Target, and others have mandated sustainability requirements for their suppliers. Typically, these mandates have not taken place in a collaborative spirit but are implemented on a formal "Here is what we need you to do basis."[39] Even large manufacturers, such as Proctor and Gamble, Heinz Foods, and Colgate Palmolive feel compelled to comply. They can't afford the huge loss of shelf space if they don't.

Proctor and Gamble, whose products include Mr. Clean and Comet, and Reckitt Benckiser Group, the maker of Easy-Off oven cleaner, have been pressured by retailers to disclose—and in some cases remove—ingredients that are harmful to the environment and consumers. Government is getting into the sustainability movement as well. California has passed the Cleaning Product Right to Know Act that takes effect in 2020. Manufacturers of detergents and disinfectants will be required to list online any substances linked to harmful health effects.[40]

Nearly 4 in 10 Americans (about 93 million people) say that they are dedicated to buying green products and services. Green purchasing is driven by young adults (ages 18–34) and Hispanics; about half of the respondents in these groups report that they regularly seek out green products. Young adults are also more likely to be interested in a company's green practices and to avoid companies with poor environmental records.[41]

A European Commission study found that 77 percent of the respondents were willing to pay more for green products.[42] To benefit from consumers' willingness to pay more, some companies are promoting conventional products as green by adding a few green attributes. This is called **greenwashing**. Aquafina sold water in an "ECO-FINA Bottle" which was a conventional plastic bottle made with 50 percent

less plastic. Dasani water was sold in a "Plant Bottle" but it was a plastic bottle made with 30 percent plant ingredients. Herbal Essences shampoo was promoted as "crafted with bio:renew" by adding an ingredient, histidine, that is derived from corn sugar but did not remove other chemicals found in conventional shampoos. Huggies "pure and natural" diapers were claimed to be made from organic cotton but only the outer shells were cotton. The inside was still similar to conventional diapers. Researchers have found that consumers have a negative attitude toward greenwashed products. Consumers also began to question the ethics of the firm's actions.[43]

For a product to be labeled "green," it must meet regulatory guidelines issued by the Federal Trade Commission (FTC).[44] Retailers Bed Bath and Beyond, Nordstrom, JCPenney, and Backcountry.com have been fined $1.3 million by the FTC for misleading environmental claims.[45] These and other companies are now barred from labeling and advertising rayon textiles as being made of bamboo. Jessica Rich, Director of the Bureau of Consumer Protection, says, "It's important for consumers to know that textiles marketed as environmentally friendly alternatives may not be a 'green' as they were led to believe."[46]

3-5d Leaders in Social Responsibility

Two names at the top of many social responsibility lists are Patagonia and Unilever. Patagonia, mentioned earlier in the chapter, is a private outdoor clothing manufacturer founded by Yvon Chouinard, but is now headed by Rose Marcario. Marcario worked in high tech and for a private equity company before landing at Patagonia. After arriving in 2008, one of her first acts was to switch the company's mailing packages to recyclable bags. On Black Friday of that year, the company ran one of its most famous ads, titled, "Don't Buy This Jacket." As part of its Worn Wear program, Patagonia employees 45 full-time repair technicians in Reno, Nevada. The company sends a biodiesel truck around the country to repair Patagonia clothing.

It's not always easy to think about profits and social responsibility at the same time, and Marcario is often tested. Activism is so ingrained in the company culture that it hosts an annual conference, called Tools for

Target is a leader in mandating sustainability requirements for its suppliers.

Unilever has sent employees to over 1,000 villages to encourage people to wash their hands.

Grassroots Activists, that brings together persons of all types, including many who work at Patagonia.[47] Though a noble effort, this initiative met some resistance in Japan, Patagonia's second-largest market after the United States. The problem, Marcario reported, was that what seemed like a gentle nudge in one culture was interpreted as mandatory in another. A number of Japanese stores had recently hosted civil-disobedience and nonviolence training before a protest at a nearby dam, and some employees felt like they were expected to get arrested to prove their loyalty to the company cause.[48]

Unilever is a $176 billion corporation, run by Paul Polman, who strongly believes in "doing well by doing good." That means making more money by acting virtuously. The firm sells environmentally friendly detergent, has installed thousands of water pumps in African villages, and removed gender stereotypes for Unilever's advertising. Since Polman took over in 2009, emissions, water usage, and trash have fallen by 43 percent, 38 percent, and 96 percent, respectively.[49] Unilever staffers have fanned out across India and Africa to install toilets, which will significantly reduce the incidence of infectious diseases. In Vietnam, Unilever employees have gone to over 1,000 villages to encourage people to wash their hands. For children, ages 8 to 10, they teach "the handwashing dance." It goes like this: "Rub your left palm with your right hand, then clap, now right, clap, up, down, thumbs, knuckles, clap. Then repeat, scrubbing vigorously." After the dance, the students are encouraged to pick up free Lifebuoy soap and P/S toothpaste at the school clinic. Naturally, it's all made by Unilever.[50]

cause-related marketing the cooperative marketing efforts between a for-profit firm and a nonprofit organization

A sometimes controversial subset of social responsibility is **cause-related marketing**. Often referred to as simply "cause marketing," it is the cooperative efforts of a for-profit firm and a nonprofit organization for mutual benefit. The for-profit firm hopes to generate extra sales, and the nonprofit in turn hopes to receive money, goods, and/or services. Any marketing effort that targets social or other charitable causes can be referred to as cause-related marketing. Cause marketing differs from corporate giving (philanthropy), as the latter generally involves a specific donation that is tax deductible, whereas cause marketing is a marketing relationship not based on a straight donation.

The popularity of cause-related marketing has grown to over $2.23 billion in 2019.[51] It's no wonder why: cause-related marketing creates good public relations and will often stimulate sales for the brand. One study found that 60 percent of consumers say brands should make it

Source: Twitter, Inc.

Walgreens News @WalgreensNews — Follow

Atlanta is still holding the top spot in Walgreens #EveryOneCounts Hometown Challenge! Chicago moves into 4th place as residents are encouraged to rally to help end child poverty & boost their city for next week #RedNoseDay bit.ly/2jLoqgW

8:33 AM - 9 May 2018

5 Retweets 13 Likes

3   5   13

Once a year Walgreens encourages customers to buy and wear red noses. The money raised goes to helping raise children out of poverty.

easier to see their values and positions on social issues at the point of sale.[52] Examples of cause-related marketing used by large companies are abundant. Ben & Jerry's ice cream created a "Scoop It Forward" campaign in partnership with Target and Volunteer Match. The program increased ice cream sales and raised funds for charity. For a number of years, it has raised money for the Global Fund to Fight AIDS on World AIDS Day. Starbucks donates 10 cents for every handcrafted beverage sold in their U.S. and Canadian stores. Walmart and Sam's Club have both supported the Children's Miracle Network Hospitals for almost 30 years. For six weeks each year, Walmart employees solicit donations for the cause at checkout. For a

dollar or more, customers can put their name on a Miracle Worker balloon or dedicate it to a loved one.

Red Nose Day, which originated in the United Kingdom, is now doing very well in the United States. The six-week campaign is sponsored by Walgreens each year. The idea is for customers to purchase red noses and wear them for group pictures and other Red Nose Day fundraising events to spread awareness. The campaign stands out because of its fun and playful nature. Proceeds from the red nose sales go toward helping lift children out of poverty in the United States. In 2017, the campaign raised $18 million through the sale of over 12 million red noses at Walgreens.[53]