

*An Evening
with*

*Professor
Philip Kotler*

*“The Future
of Marketing”*





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Introduction

The first Cambridge Marketing College Debate took place on 7th August 1997 to mark the College becoming the largest marketing college in the UK and the forming of the College Alumni. Over 100 delegates and their sponsoring companies attended a glorious evening at St. John's College. We were very privileged to have as our inaugural speakers Prof. Philip Kotler and Prof Robin Wensley, who gave a fascinating insight into their views on the future of marketing. What follows is the text of Prof. Kotler's address. (The text of the reply by Prof. Robin Wensley is available on request). We hope you will find it as enlightening as the audience did.

Thank you. It's nice to see such a large crowd because of my first experience as a presenter in a conference - it was the American Marketing Association many years ago - and only one person had shown up for my speech. Well, he was willing to sit and listen so I spoke for forty minutes and when I was finished he applauded and then I was about to leave and he said 'You can't leave'. I said, 'Why not?' and he said 'I'm the next speaker!'

Well, knowing that you're not here as the next speaker it's my pleasure to meet with you and to talk with you in this great hall which goes back for centuries, and coming to Cambridge is really a thrill, and knowing about the Cambridge College of Marketing is also very exciting.

I want to share with you some things about marketing and where I think it's heading, but it all comes from the fact that we have to rethink marketing strategy because a lot of things are happening. Let me just recite some of these things which you know about but I'll put them in perspective:

There is the growing power of what we call the 'mass retailers', these are, oh it's not just Sainsbury's and Tesco, in our country it's Walmart and so on, these are companies that are now putting out their own brands and they're high quality brands. Maybe you heard this story that in Canada the Loebblaws, which is their largest supermarket, has put out its own brand of cookies, its own brand of detergents, of cola and so on, it's called President's Choice, and it's so popular that it's become a world brand. It's the first time that a store's brand has become a global brand - in Australia it's called Australian Choice, etc, etc - but the power is moving from the manufacturers to a large extent to the retailers.

And we notice that club cards or loyalty cards are appearing everywhere today - if you read today's Financial Times it mentioned that Boots is putting out a loyalty card, W H Smith

has put out one and of course Sainsbury's I think finally came across and put out its loyalty card. It's another development and what does that mean? Does that mean that we will be more loyal to one vendor and therefore it will be harder for anyone else to pull us away from that vendor? Will it start freezing the market place in some way as companies increase their ability to build relationships, strong relationships? Does it freeze us into a set of preferences that we don't veer from and which really means we'd better keep the customers we have because we're not going to find it easy to get new ones?

And there's a fight for increased shelf space in these giant mass retailer systems. The interesting thing is that they're beginning to charge manufacturers for not only the use of the shelf space but even for an appointment where you will present a product of yours - for example, in Brazil, Carrefour will charge you as a manufacturer for the half hour of time you want to have of their time to present a product that you would like them to carry. So much for the growth in the power of the mass retailers.

There's a rapid growth of home-based shopping, which I believe is growing at the rate of 12 per cent a year now, and in contrast store-based shopping is very frozen, it's growing maybe at the population rate. What we mean by home-based shopping is catalogues - we receive at home at least five catalogues a day in our mail and they're very specialised catalogues, they're not only clothing catalogues, you could almost buy anything by catalogue, there's a lot of phone calls we receive, we receive direct mail, we can buy things over the TV set, by seeing a commercial, an infomercial, and getting excited and then picking up the phone and ordering it, and Internet shopping is on the increase and we're going to see that revolutionise the way in which things are bought. So home-based shopping is a big attack on store-based shopping. It will lead to some disintermediation of store retailers - we have to watch that.

There's a growth of new media and a need for more integrated marketing communications and of course we know the standard media but we have to add Internet, e-mail, fax-mail for the possibilities that they give us as marketers.

There's a lot of work on efficient consumer response, ECR as it's called, which is apparently saving Procter and Gamble and Walmart a lot of money. It's an attempt to get into what we call activity based costing, to really know what it costs to bring a product into a retailer and to sell it through the retailer, and to be efficient in all kinds of logistics ways when you deliver products finally to consumers.



A few more things that are happening - there's a growth of more individualised preferences and ability to satisfy them - we're now advocating database marketing, we would like to build a database where we know a lot about customers as individuals, and I'll give you a story or two of what's happening there. It turns out that the company Mars, which is not only a manufacturer of candy bars but also of pet foods, in fact a world leader in pet food, has collected the name of every family owning a cat in Germany, and there's ways in which they collected the names and so on, but it turns out that they are now sending a birthday card to the cat! 'Dear Felix, you are now two years old, congratulations, your diet will have to change a little bit, here are some coupons', and so on and so forth. So that's one example of database marketing in a mass market in a sense but I think it is for this reason. Maybe Mars figured that if you put a print ad' in the newspaper about a cat food product and only two per cent of the market owns a cat, 98 per cent will pass the ad' by. Why not get the names of those who have cats and form a relationship with them? I believe Heinz is doing that in England. Heinz stunned people by saying that they were going to cut their ad' budget in half and then use the other half for direct marketing.

Another interesting use of the database marketing came up with a catalogue company called Land's End which has two million customers who buy clothing articles, and Land's End wasn't doing much with the database. They invited IBM to analyse the database and the language goes like this: 'You have a data warehouse, in other words you have so much information on what two million people bought, that you sold them, and yet you've got to analyse patterns in the database', and the question posed by Land's End to IBM was how many segments do we have in the market, in our customer base. And IBM's answer, after doing what we call data mining, data mining being acting as a miner, shovelling the data and

actually seeing patterns through statistical and analytical approaches, came up with an answer - you have 5,225 segments. Now that's a lot of segments - I don't think it's easy to give names to so many segments, well they're not really segments, they're something I would call market cells. What's a market cell? I asked IBM and IBM said 'Well for example, we found 850 people who all bought a blue shirt and a red tie,' - well that's not a segment, that's just a transactional history, it's a clipping of the history of some people. 'Why do you need to know that?' 'Well, people who bought a blue shirt and a red tie, it would be a pretty good prospect for a navy blue jacket.'

Now we don't have to advertise a navy blue jacket to two million people, we just send a letter to 850 people and there's a ten per cent response rate that we'll probably get by this kind of specificity'. So I believe database marketing is a very important development.

I think that we have to watch the fact that companies don't compete anymore, companies form networks of suppliers and distributors, partners, and it's the network that competes against other networks. In other words Levi Strauss is not competing against Lees in the jeans market, it's what Levi Strauss has built up as a partnership with the Sears company, with Milliken, with Du Pont, that is competing against what Lees has built up as a Jean company with its own partners. So there's the issue of making sure that you build a powerful, vertical marketing system, or supply chain as a company.

Much more outsourcing going on. Nike surprisingly is not a shoe manufacturer and this of course shocks people because we all have pairs of Nike shoes, but the manufacturing is done under contract with other people in the Far East. Nike's core competence is not manufacturing, it is two things, it is designing shoes and marketing shoes, and so the question always arises, what should you outsource? And this was a question posed to me by a company recently and I analysed the company and I suggested that they outsource everything, and they said what do you mean, and I said well, you're not good at anything! Because the theory of outsourcing is always let someone else do something for you which they can do better, and cheaper and if they can do it better and cheaper why should you be doing it. I said there's only one hope you have, and that is if you are going to be good at managing outsources. So if you're good at doing that, you can be saved. By the way, if you do it well you can be making an infinite rate of return.

I'll give you the example. There's a gentleman in New York who designs a sweater, shows the design to a big department store, let's say Sears, and says I can get sweaters like this for ten dollars, and you can end up selling them for 20 or 30 dollars, would you be interested. They look at the design and say that's great if you can get them for ten dollars. Now this man doesn't own a factory or anything but he has a connection in Hong Kong who will design the sweater he then calls the shipping company who will ship the sweater not to his warehouse, he has no warehouse, but ship it to the Sears department store, and so whatever income he makes is divided by zero, because he has no assets. If you're trying to calculate the rate of return, it's going to be the income divided by the

assets, but there's no assets basically, except a computer, a desk and a phone, so he's making an infinite rate of return with outsourcing.

We call these virtual companies. Virtual companies. In fact it's the wish of any company not to own anything.

Growth of loyalty building schemes, and I mentioned already that they are proliferating, and finally the growth of disintermediation and reintermediation. What I mean by that is there will be much more direct marketing. I plan to buy a car directly from General Motors in the future, not through dealers. You've heard the statement that people would rather go to the dentist than to buy a car, that it's an unpleasant experience, of which only one company has solved that problem, and that's Saturn, where it's very pleasant to buy a car and in fact you learn that you can return the car within 30 days if you're unhappy. Which is a whole new way of selling automobiles, but the point is we think there will be more direct marketing, and yet there will be also a need for coaching and facilitation on the Internet. We will see that we are searching for certain information and certain information intermediaries will emerge who will make a business out of being an intermediary and helping us navigate through the Internet to get information about what's the best car, where can I buy it, how much will it cost me and so on and so forth.

These are some of the reasons why we have to rethink our marketing, and here's my argument about marketing's new test: marketing may have won the war and destroyed itself in the process. What do we mean by that?

Many product driven companies have become market driven, we wanted them to become market driven, we said 'Pay attention to the customer, don't make a widget and try to sell it, try to figure out what unmet needs customers have and design a solution'. And we've won that war, at least conceptually most companies say yes we want to be market driven. Every one in these companies focus on satisfying the customer, we want the manufacturing person in the company to welcome prospects and customers into the factory which looks clean, efficient and impressive on the customer; the factory becomes a tool for marketing. The accountant should answer the question of any customer immediately about why the bill is what it is. We want every function to think customer. So we won that point.

So then the question is, 'What's marketing's role?' That is, we, like doctors who have cured every disease, are no longer needed. Maybe we're needed in a company with the role of providing colleagues with a deeper understanding of customer needs, perceptions and preferences. It might be argued that that's our role. We're so customer minded and sophisticated that we can help our colleagues understand customers better.

My argument is that marketers have really two new roles now. One, they should help their company move from being market driven to customer driven. Let me explain that in a moment. And then to help their company move from being market driven to market driving.

Well, let's take the first one, just briefly, and it goes like this if you want to visualise it: we've been product driven - most companies start with a product and then they look and search for customers, they hire salesman and say please find us customers, and now we've changed the idea, we say no, find a market, target it, find out its needs, do the best you can and be superior to your competitors in satisfying those needs. So that's what we call the STP formula, Segmentation, Targeting and Positioning.

We don't think of markets as homogeneous anymore. It's a little different than the old marketing which was product driven marketing which was called LGD marketing, lunch, golf and dinner. And LGD marketing works, I mean I have nothing against taking a client out to lunch and a golf game and so on, though its going to work less well in the future because essentially the buyers are under great pressure to rationalise their purchase decision. They can't tell the boss that it was a good dinner and that's why he bought that truck. But in any case, we must move from being - you see a market segment is pretty big, even a niche is big although I think the future of many companies lies in being niche oriented and I would recommend the book *The Hidden Champions* by Herman Simon to really see some beautiful examples of companies that own 70 or 80 per cent of the global market in very speciality areas.

But even a niche, maybe the next step is to actually know a lot about each customer in your niche, and that's what I mean by customer driven. That's the database marketing once again. That's what Tesco is trying to do and Boots by asking you to take their Clubcard - namely you have to supply a little information, they'll know more about your needs and then they can individualise their relationship with you. I won't say more about that, I want to say something about market driving and how it differs from being market driven. I would say that, a thought that recently came about is that not long ago we admired the Japanese, there are so many reasons why they have taken over the auto market, the fax market and electronics and so on, and we believe part of it was due to something called *Kaisan*.



Kaisan is a philosophical orientation that everyone should do everything better every day. Kaisan is continuous improvement, whether your job is a factory worker or your job is a marketer or whatever. Keep thinking how can I do this better. And then recently someone said that's not enough, you're not going to be a winner if you're just into continuous improvement, you should be into continuous breakthroughs, and by the way the person who said that was Tom Peters and if you know Tom Peters you'll understand that that's the way he talks. He talks about us living in a nanosecond culture. Meanwhile he writes a 900 page book which is hard to read in a nanosecond culture, but in any case let's assume that we want to be continuously breaking through and developing new solutions.

How do we do that? And I would say that you become a market driving firm. A market driving firm creates a product/service offering, periodically, that represents a substantial leap in value, so customers or consumers will say 'My God, that's a wonderful thing I'm glad to see. Here's a car that goes for 200 miles on the fuel that you put in. Here's an electric car that I finally feel good about because it works and I don't have to live with the limitations other electric cars have'. But in any case it represents a superior leap in value, and its based on the company itself building a business system that is superior to its competitors' business systems, and one that is hard to imitate by competitors. The market driving firm effectively destroys the core competencies of its rivals and at the same time prevents rivals from easily imitating the innovative business system.

Example: Dell computer today is selling £1 million dollars of computers, each day, over the Internet. That's astonishing. Now this is direct marketing of computers. Compaq is in a bind. Compaq sells its computers through retailers. It now has to move direct too. Now it's hard to do what we call dual distribution, namely you're selling through retailers and you're selling around them by going direct. And it hardly ever works, and I don't know if Compaq are going to make it for the following reason: they're going to do patch work on their business system to do some direct marketing but they're not wholeheartedly committed to only direct marketing, they're going to continue to do retail marketing, and somehow they're not duplicating the cost structure that is enjoyed by Dell as a computer. Dell will have the competitive advantage of a lower cost structure in spite of what Compaq does. In other words Dell has made it too hard for Compaq and other competitors to actually reach the efficiency of the system that they're using.

Then the question arises, basically how do you do breakthroughs? What kind of breakthroughs are we talking about? We're talking about the market driving firm can create new markets to begin with - that's not something you do every day or every year, but you think about new markets. CNN of course created a whole new market called realtime 24 hour global news. FedEx developed a whole new market called overnight delivery.

Sometimes it's not creating a new market, it's redefining a category. Walmart is a discount store but it redefined the whole nature of discounting and did it with the quality of service and quality of product that we would really expect

from non-discounters. Barnes & Noble is a store in the United States which is redefining the bookstore, because it's no longer a bookstore, it's really a community centre from 9 o'clock in the morning to 11 at night seven days a week you can go and look at books. You can have coffee there, you can hear an author talking about his books, you can hear a flutist playing an instrument. It's becoming a performance venue and basically we used to say 'Let's go to a movie tonight'. No-one says that anymore, we say 'Let's go to Barnes and Noble'. 'Why do you want books?' 'No not necessarily but everyone else is there.' They redefine the nature of a book store. Unfortunately in the process they're destroying most of the little bookstores but that's something marketers also have to think about when they ask what's the broader implications.

Sometimes the breakthrough is transforming a marketing function. South West Airlines created a whole picture now, they're using a value positioning called 'Less for Much Less'. In other words we fly in an air plane, we're given food, air plane food is considered an oxymoron generally, and we cannot tell the pilot or stewardess 'Don't give us the food but take something off the cost'. They don't give us the option. We don't want the food but we have to pay for it anyway. So along comes South West Airlines and said look its half price, there's no food but we do give you peanuts and you carry on your own baggage and there's no reserve seats. And people are flocking to what is the most profitable airline in the United States, 'Less for Much Less'.

So these are other types of breakthroughs that are occurring and we have to applaud them. By the way I have a list of companies that have been marketing visionaries that they broke through the current paradigm in their business. Anita Roddick of the Body Shop broke the paradigm of how you normally sell cosmetics, or skin care lotions. We have, I'm sure you recognise most of these people, Marks & Spencer a long time ago they broke the paradigm but it's a very new way to do business. And all of them created either new categories or new markets or new ways to do business.

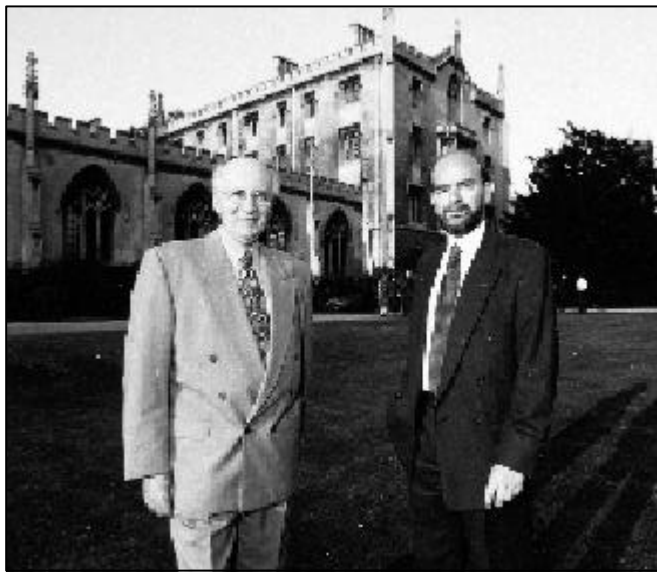
Basically, the idea breaks down into the following: Marketers must be very good in shaking up their firm. As marketers it's not a matter of just improving - can we be the ones who actually show our firms new ways to create markets, to create categories, to become more customer driven and more market driving as firms? I don't know who else is going to do it. Frankly its often been done by the president of some of the companies I've just mentioned, I mean people like Fred Smith and Steve Jobs, Michael Dell and so on. But frankly I don't know if they started it or it was people around them but I think the marketer is the one who should shake up their own companies with new visions and so on.

And the way I see us doing it is this: we've got to do more problem analysis, ideal analysis and consumption chain analysis. And I'll end with illustrating what I mean by those three approaches.

Problem analysis is one way to get ideas - we talk to consumers, and the consumer says I can't open the package. Fine, let's make a better package. I can't tell how to connect the computer keyboard and the printer. Fine, let's colour code

them so when someone buys those things they know how to put it together themselves. I can't tell how much battery charge is left. Fine, and so on and so forth. But these lead to tactical improvements. They don't lead to creating new markets. It's a very good way to find leads on improving what you're offering.

Now, there is a thing I would call ideal analysis where we ask not what is your problem but instead how would you ideally like to buy the product, if it were available in that form? And so we hear things like, 'I don't have time to go to the supermarket, I wish I could just order the food and I hope that I would save money of the people interviewed said often they will also say they When you hear that, is there a yes, and in the United States its a piece of software and it's and I do not go shopping seeing the inside of a simply get on our computer, we Campbell's, Tomato, and we cans, and in ten minutes we've received by the Duel T running around picking those they're bringing it over to us normal price plus seven dollars. expensive but we actually are one: 20 per cent of what we was impulse items. Now you food you've had in the house never opened. And secondly, we didn't have to drive, park, stand in line, shop, and our time is worth more. So someone came up with the idea that there's a market there and it came out of a wish system. 'I wish it were possible.'



have it home delivered, I wish doing this.' In fact 60 per cent they disliked shopping, or don't have time to shop. solution? And the answer is called PeaPod, and PeaPod is available in Chicago. My wife anymore. I don't remember supermarket, because we look up soup, its A to Z, soup, put the number six for six placed an order that was company and someone's objects, those items, and two hours later and we pay the Now it sounds a little more saving money. Why? Number used to buy in a supermarket know those are the cans of for two years now and you've

Movies. People would sometimes say I don't think there's enough movie choices available at the local cinema, nor is there enough food choice and I hate it when a tall person takes the seat in front of me. And what's the answer? It's called the megaplex theatres now. In Belgium there's one, its a Cineflex, 24 screens, restaurants, fancy restaurants and regular ones, its not just pop corn and basically it's stadium designed so I don't care how short you are, unless Michael Jordan sits in front of you you're going to see the screen. I can go on with more illustrations, I have an number of others. I'll give you one more that's kind of interesting about hotels. 'I wish I could stay overnight in an expensive city like Tokyo or Paris and keep my cost under 50 dollars.' Any solution for that? There is, [did you use it, by the way?]. Well, it's a Formula 1 type in Europe, but in Japan you don't get a room you get a box basically. We call it a berth like on a train. You rent space and you crawl in to it basically there's a box of Kleenex and a Sony little TV set. But it does solve a very big problem for people who cannot afford prices as they are in Tokyo.

There's more to say but I'm going to stop with just one little item here. Maybe our job should be to resolve contradictions, that is we always find customers wanting this, they want high quality, low price. Maybe there's an answer to that, and I'll share with you this last story of a company that was discovered that reconciled three contradictions, three wishes that people had that seemed irreconcilable. For example, 'We would like the product to have high quality but to have low cost and to be delivered fast'. And normally we say positioning is the art of making a choice, so maybe a company should say, 'Oh we're the high quality company', or they should say 'We're the low cost company' or 'We're the fast company'. But three MIT professors went to Japan and found a company that is best at all three. Could you guess the name of this company? I'll give you one clue - it's an automobile company. Toyota. Toyota is able to produce the highest quality cars - we don't have troubles or problems with Toyota cars - they can be produce at the lowest cost, labour cost, because of the automation and all that, and they can make a car that you specify, with the requirements you want on it within three days. Not three weeks. But they can have it ready for you in three days. So I think that marketers have to say not 'Oh I can't do that' but the creative marketers say 'I can do that, I can figure out a way to deliver a combination of benefits consumers really want'.

SUMMARY

And so let me just summarise but saying now that we have helped companies become market driven, qualification - I don't know if we helped or if the economy created that result because of competition. Competition itself will make us all customer orientated, market oriented. But in any case, we must now go from being just market driven where we're looking at a target market, to customer driven, where we have the names of the customers and we know about their needs and we must also become market driving. We must drive the market, we must create new values for the market and not simply respond to needs, there's something about 'Oh, I'm going to find a need and fill it' that isn't enough any more. We've got to create new markets, new categories and so on.

For details of the next annual debate please contact the College at: Cambridge Marketing College, St. John's Innovation Centre, Cowley Road, Cambridge, CB4 4WS. Telephone Number:01223 421903