Putting the Customer First—Always!

The relationship between the man and the customer, their mutual trust, the importance of reputation, the idea of putting the customer first—always. All these things, if carried out with real conviction by the company, can make a great deal of difference in its destiny.

Thomas Watson Jr., Chairman, IBM Corporation
The 1962 McKinsey Lectures
Graduate School of Business, Columbia University

Value is defined in the marketplace, not the factory. This simple proposition has redefined the scope and focus of business firms around the world.

It isn’t a new idea. In the 1950s, American management gurus, especially Peter Drucker,¹ suggested quite simply that the purpose of a business is to create a satisfied customer. Profit is not the objective, it is the reward. Among the stakeholders in any company, the customer comes first because all of the others are served best when the customer is satisfied.

Nothing could be simpler to understand. A satisfied customer is willing to pay the firm well for its products and services because the customer finds value in them. Value is created for the shareholders in the form of profit when the customer pays the firm a price that is greater than all of the prices the firm itself paid for the goods and services that it has combined into its own product offering. Thus, value is created in the marketplace by customers who perceive value in the firm’s product offering.

This simple truth had barely begun to take hold across American industry in the late 1950s and early 1960s when another management concept, strategic planning, came along. At first, the marketing concept and strategic planning were integrated into a common concept of long-range planning. Over time, however, an apparently more sophisticated analytical framework
from the field of financial management increasingly dominated strategic planning, and the customer’s point of view once again receded into the background.

Return on investment, the Holy Grail of strategic planning, viewed profit as the objective of business activity, rather than the reward for creating a satisfied customer. The interests of the shareholders came first. Short-term profits, usually reported on a quarterly basis, often conflicted with the long-term interests of customers.

By the mid-1980s, the decline of American business in global competitiveness was a stark reality forcing a reassessment of the conventional wisdom of strategic planning. In industry after industry, including automobiles, consumer electronics, steel, and tires, American firms lost their dominant positions to competitors from Asia and Europe who somehow seemed better able to dial into the tastes, preferences, and buying habits of American customers as well as those in the rest of the world. As the harsh realities slowly sunk into the consciousness of American management, there was a rediscovery of the marketing concept.

The marketing concept of the twenty-first century comes with some new twists, however. It is now integrated with important ideas from the field of strategic planning itself and with a fundamental commitment to total quality management and customer satisfaction that has become the keystone of business survival. In one sense, it is a case of old wine in new bottles: customer orientation and total quality management are the same thing.

In another sense, however, today’s marketing concept is radically different from its early form because we now understand that marketing is a total organization commitment, pervasive throughout the firm’s operating systems and culture, not the province of a few specialists. Even more basically, business organizations of the twenty-first century are evolving into new forms in which the traditional functional boundaries are disappearing and the boundary between the firm and its environment is increasingly blurred. Bureaucratic, divisionalized, hierarchical, functional organizations, like their cousins the dinosaurs, have evolved into more efficient organisms in a rapidly changing environment.

This book describes and analyzes the new marketing concept as the guiding force for successful businesses in the global marketplace of the 2000s and beyond. We begin by looking at the evolution of marketing out of the sales function and contrast the sales and marketing mandates. We then explore the complex relationship between the sales and marketing functions and some of the reasons for the frequent confusion of these two different perspectives.
THE EVOLUTION OF MARKETING AND BUSINESS STRATEGY

Marketing in the 1950s

Let’s look at the origins of the marketing concept more carefully starting in the 1950s. We need this historical perspective to understand the roots of the marketing concept, the subsequent criticisms of it, and how it changed American business. This analysis will also help us to understand why the eminently sensible prescriptions of the marketing concept, which sound so reasonable in theory, have been very difficult to implement and maintain in business practice.

We can take the year 1950 as our starting point. Consider these facts:

- The population of the United States was 151 million (compared with 281 million in 2000).
- Gross National Product (GNP) was $288 billion compared with $9,861 billion in 2000. If we adjust for inflation by using constant 1982–1984 dollars, 1950 GNP would be $1,195 billion compared with $5,726 billion in 2000. On a per capita basis, this is $7,870 in 1950 versus $20,347 in 2000, an increase of 159 percent in constant dollars.
- Personal consumption expenditures went from $192 billion in 1950 to $6,728 billion in 2000. Making an adjustment for the effects of inflation, again using 1982–1984 dollars as the constant for comparison purposes, total personal consumption expenditures would be $797 billion in 1950 compared with $11,572 billion in 2000. On a per capita basis, adjusted for inflation, consumption expenditures went from $5,287 in 1950 to $15,036 in the year 2000, an increase of 184 percent and significantly more than the rate of growth in production.
- The average consumer in 1950 enjoyed a material standard of living only one-third that of today.

In 1950, the United States was still recovering from the effects of World War II, when much of the country’s productive capacity was focused on the military effort and consumer products. Durable goods especially, such as household appliances and automobiles, were in very short supply. Conditions for consumers improved rapidly in the late 1940s. Before the postwar economic recovery was complete, however, the country
was brought into another major military conflict when President Truman, in June of 1950, ordered American forces into South Korea after that country was invaded by troops from North Korea. The Korean War continued until a truce agreement was signed in July 1953, putting the United States economy back into a peacetime mode. While the early 1950s did not bring the same austerity conditions that consumers had faced in the mid-1940s, they certainly prolonged the period of economic recovery from wartime conditions.

As American industry turned its attention to satisfying consumer needs, companies began to experience the benefits of the postwar baby boom. The birth rate in the United States (per 1,000 population) went from 19.4 in 1940 to 20.4 in 1945, 24.1 in 1950, and 25.0 in 1955, peaking at 25.3 in 1957. It then declined steadily for the next two decades, except for a small increase in 1969–1970, reaching a low of 14.8 in 1975–1976. The 1980s saw a slow increase up to 16.7 in 1990, when the rate again began to decline. The annual rate recently has held steady around 14.5 births per thousand total population, less than 60 percent of what it was during the mid-1950s. Rapid increases in the number and size of young families was a major driver of consumer demand when the marketing concept took form.

In the post-Korean War years, American industry looked optimistically at a growing market of young families with increasing incomes. Younger families needed both the durable goods required for establishing their households as well as the packaged goods and other nondurables that provide the necessities and conveniences of everyday life. Established households still had pent-up demand for durables from the war years. (Services accounted for only 32 percent of personal consumption expenditures in 1950 compared with approximately 60 percent today.)

**The Old Marketing Concept: Stimulating Demand for What Factories Produced**

Markets became increasingly competitive following the war years of the 1940s and 1950s as new and old firms alike sought to attract consumers. As conditions of economic scarcity waned, consumers were given a larger array of choices. New product development activity increased rapidly, fueled in no small measure by the major increases in research budgets, almost half of which had been government funded, that had accompanied the war effort. Companies began to diversify out of their core businesses, oil companies into petrochemicals, for example, and rubber companies into plastics, creating new competitors in many industries. With more competing
brands and the virtual end of supply scarcity, consumers could demand more precise and total response to their needs and wants. The Age of the Consumer had begun.

Changing marketplace conditions were a major stimulus to the development of the customer-oriented marketing concept. Increased competition for the consumer’s patronage called for more care in understanding and responding to consumer needs and wants. Up until this time, the definition of marketing was essentially that of selling what the factory could produce. The focus of management was on products and production, not on consumers. Marketing was responsible for stimulating demand; it was different from “selling” or “sales” in that it also included advertising, sales promotion, and other forms of mass communication. Marketing management was also responsible for market research and sales planning, including forecasting and budgeting, helping manufacturing decide how much to produce. Marketing departments were found only in large companies, however. In the vast majority of firms, the little marketing activity to be found resided in the sales department.

Prior to the development of the marketing concept, the goal of marketing activity was to produce a sale, to maximize sales volume. Profitability was not a major marketing concern. The basic assumption was that sales volume was the key to profitability. The more the sales and marketing people could sell, the higher the profit the firm could expect as it spread its fixed costs over larger production volume and reduced variable cost per unit as well.

Selling, product planning, pricing, and distribution were seen as separate management areas, each with a unique set of problems to be managed by specialists. Much of what we think of as marketing today was found in a sales department, managed by the Sales Manager. In addition to responsibility for the salesforce, the sales department would include advertising, sales promotion, sales correspondence and service, and perhaps marketing research, if such a function existed in the company. The role of marketing was to make the sales department as effective as possible in moving the merchandise, supporting it with advertising, sales promotion, market research, and recommended pricing actions.

In most firms, product planning was not a marketing activity. Rather, products were the responsibility of the research and development, engineering, and manufacturing people. The idea of an integrated “marketing mix,” blending product, pricing, promotion, and distribution policies and conscious strategic analysis of the interactions among them, had not yet gained acceptance.
Putting the Customer First—Always!

Such was the world of the early 1950s: growing markets, increasing competition, companies focused on their current products and production capacity, marketing dominated by selling functions, and consumers with increased spending power and increased discretion in how they would spend it.

CUSTOMER ORIENTATION AS A NEW IDEA

Perhaps the wisest viewer of this scene was Peter F. Drucker, a management consultant, lecturer, writer, and college and business school faculty member. Born in Austria in 1909, Drucker was educated in Germany in economics, politics, and the law. He worked for several years in England before coming to the United States in 1937. As a frequent advisor to banks and corporations, a reporter on economic affairs for newspapers and business journals, and a professor of politics and philosophy, he brought a unique perspective to the changing business environment in America. He saw things in a different way from the typical manager and management theorist.

It is fair to say that Drucker was the academic father of the marketing concept with its central tenet of customer orientation, the basic assertion that the company should put the customer first, always. In his famous book, The Practice of Management, published in 1954, Drucker addressed the fundamental question: What is a business? His thoughts were revolutionary:

If we want to know what a business is we have to start with its purpose. . . . There is only one valid definition of business purpose: to create a customer.

It is the customer who determines what a business is. For it is the customer, and he alone, who through being willing to pay for a good or service, converts economic resources into wealth, things into goods. What the business thinks it produces is not of first importance—especially not to the future of the business and to its success. What the customer thinks he is buying, what he considers “value,” is decisive . . .

Because it is its purpose to create a customer, any business enterprise has two—and only these two—basic functions: marketing and innovation.4

Drucker believed that marketing, as opposed to selling, was an American invention, created by “the assumption of responsibility for creative, aggressive, pioneering marketing by American management.” He noted that Cyrus McCormick, the inventor of the mechanical harvester, also invented market research and analysis, the concept of market share or “standing,” modern pricing policies, the sales/service specialist, parts and service supply to the customer, and customer credit. McCormick did all of this before the middle of the nineteenth century, to create markets for his invention.
Drucker saw the traditional American manager’s attitude of “The sales department will sell whatever the factory produces” being replaced by “It is our job to produce what the market needs.” In contrast, he believed that “In Europe there is still almost no understanding that marketing is the specific business function—a major reason for the stagnation of the European economies of today.”

(By the end of the 1970s, however, European and Asian competitors were teaching lessons on customer orientation to the Americans.)

Drucker went on to explain:

[Marketing] is so basic that it is not just enough to have a strong sales department and to entrust marketing to it. Marketing is not only much broader than selling, it is not a specialized activity at all. It encompasses the entire business. It is the whole business seen from the point of view of its final result, that is from the customer’s point of view.

As a good example, Drucker pointed to the General Electric Company which had developed a new marketing approach, beginning in 1947 in some affiliated companies. By 1950, these methods had been more or less completely adopted throughout the company. The new General Electric approach emphasized integration of all marketing functions and an analytical perspective, based on market research. In its 1952 Annual Report, General Electric had proclaimed the importance of putting the customer first in the process of production planning, attempting to build consumer appeal into the product from the design stage on. General Electric reported:

[General Electric] operating managers were presented with an advanced concept of marketing formulated by the Marketing Services Division. This, in simple terms, would introduce the marketing man at the beginning rather than the end of the production cycle and would integrate marketing into each phase of the business. Thus, marketing, through its studies and research, would establish for the engineer, the designer and the manufacturing man what the customer wants in a given product, what price he is willing to pay, and where and when it will be wanted. Marketing would have authority in product planning, production planning and inventory control, as well as the sales, distribution and servicing of the product. This concept, it is believed, will tighten control over business operation and will fix responsibility, while making possible greater flexibility and closer teamwork in the marketing of the Company’s products.

General Electric was clearly in the vanguard in implementing the marketing concept. What it called the “advanced concept of marketing”
combined customer orientation, market research, and integrated marketing. It saw the need for marketing to begin with the conceptualization of the product and its planning, not with the factory’s finished product. It made a clear distinction between the new customer-oriented marketing concept and the old selling approach to marketing.

In addition to General Electric, there were a number of other large companies such as IBM, Procter & Gamble, and General Foods, and their CEOs, championing the marketing concept. In the consumer packaged goods area, these included Pillsbury and its president, Robert J. Keith. In a 1960 article, Keith described Pillsbury’s progression from a production orientation to a sales orientation to a marketing orientation and, ultimately, to marketing control. He compared this “marketing revolution” to the revolution caused by Copernicus’ paradigm-shifting proposition that the earth revolved around the sun rather than the reverse. In this case, the company was seen to revolve around the customer rather than the customer around the company.

Keith believed that the experience at Pillsbury was one that would be followed by every company seeking continued improvement in profitability. The core of the marketing orientation at Pillsbury was the development of a brand manager organization which had evolved out of the advertising department as a method of achieving marketing integration, a system already in place at Procter & Gamble and other leading packaged goods companies. The move from marketing orientation to marketing control was basically a shift from short-term to long-term orientation in the business, from marketing tactics and operations to overall business policy and strategy, all focused around the consumer. Keith had a strong vision of the marketing revolution:

Soon it will be true that every activity of the corporation—from finance to sales to production—is aimed at satisfying the needs and desires of the consumer. When that stage of development is reached, the marketing revolution will be complete. 8

In the minds of many executives, the marketing concept was being accepted as a new management philosophy, a new concept of what it means to be a business, as Peter Drucker had proposed.

It is important to understand Drucker’s early statement of what the marketing concept is, and what it is not. It is not a statement of business strategy or tactics. It does not offer a clear road map or checklist or “do-it-yourself” guide. In fact, it says little about how to become customer-oriented. Nor is it a
guide to organization structure for improved marketing. It is especially important to remember that, according to Drucker, marketing should not be a separate business function at all. It certainly doesn’t urge, as its critics would subsequently claim, that the firm should have a strong, separate marketing department. The notion of marketing “empire building” is not part of the marketing concept.

What the marketing concept offers is a statement of management philosophy, a basic set of values and beliefs to guide the organization. As McNamara, a management consultant, noted, the marketing concept is:

... a philosophy of business management, based upon a company-wide acceptance of the need for customer orientation, profit orientation, and recognition of the important role of marketing in communicating the needs of the market to all major corporate departments. ⁹

Today, we see the marketing concept as a statement of organizational culture, an agreed upon set of shared values among the employees of a company representing a commitment to putting the customer first in all management and operations decision making. It calls for everyone in the organization to think about their job in terms of how it delivers value to customers. Note that Drucker specifically talked about value for the customer as the necessary driving force and vision for any successful company.

At the forefront in the implementation of the philosophy of the marketing concept was the Manager of the Marketing Research Service at General Electric, John B. McKitterick. McKitterick was comfortable at the interface of the worlds of business and academe, stayed current on the marketing literature, and spoke frequently at professional meetings on the subject of the marketing concept. While he noted that marketing textbooks and journals had been advocating the importance of being “market-oriented” for decades, what was new in the late 1950s was the fact that business managers were beginning to implement these ideas. But it was the ideas, the subtle change in meaning hidden in words, that fascinated McKitterick. He saw the focus of management shifting away from the customer as the means to profit and toward serving customers as the end purpose of business activity. Profit, he said, was becoming less the end objective of business and more a condition that must be satisfied. ¹⁰

While we might disagree with the implication that customer satisfaction and profit are competing objectives, the important point in McKitterick’s opinion is that management was elevating the customer’s interest into the primary position in the business planning process. A key concept here
Putting the Customer First—Always!

was that of *market segmentation*. Based on the fundamental premise that no firm could do an equally effective job of delivering value to all potential customers, the marketing concept called for the firm to analyze its potential markets carefully, identifying those customers whose unsatisfied needs it could best serve.

**Marketing and Innovation: A Company’s Two Basic Functions**

Drucker, it will be recalled, said that every firm has only two basic functions—*marketing* and *innovation*. Merely being “customer-oriented” in the philosophical sense was not enough, nor was marketing skill, narrowly defined; constant innovation in order to deliver better value to consumers in a competitive marketplace was also a basic requirement. McKitterick made the point forcefully:

[A] company committed to the marketing concept focuses its major innovative effort on enlarging the size of the market in which it participates by introducing new generic products and services, by promoting new applications for existing products, and by seeking out new classes of customers who heretofore have not used the existing products. . . . [O]nly thinking of the customer and mere technical proficiency in marketing both turn out to be inferior hands when played against the company that couples its thought with action and actually comes to market with a successful innovation. . . . *So the principal task of the marketing function in a management concept is not so much to be skillful in making the customer do what suits the interests of the business as to be skillful in conceiving and then making the business do what suits the interests of the customer.*

**Implementing the Marketing Concept**

Implementation of the marketing concept requires five steps:

1. Developing a culture of customer orientation.
2. Emphasizing profitability rather than sales volume.
3. Deciding how to compete: Market segmentation, targeting, and positioning.
4. Developing an integrated marketing mix.
5. Defining organizational responsibility for marketing.
Customer Orientation and Profitability

The commitment to innovation and customer-oriented business decision making is only the first step in implementing the marketing concept. This commitment establishes the culture of customer orientation that is the foundation of the marketing concept. It is absolutely essential, the basis on which all strategic activities must be built. But by itself it is incomplete as a business strategy; it says nothing about how to create and deliver customer value profitably.

The next step is to shift the focus away from sales volume and toward profitability. When managing for profitability, not sales volume, the firm is focusing on the value its products create for customers in the competitive marketplace. Profit does not come at the expense of the customer, as some would argue. On the contrary, it is the best possible measure of the value that has been created for customers.

Declining profitability is a signal that the company’s product offering is becoming less effective, relative to substitutes and competitive product offerings, in delivering value and satisfying customer needs. It may often be the result of aggressive attempts to expand sales volume by serving a larger portion of the total market, requiring higher expenditures on promotional activities and low prices. This is where the concept of market segmentation becomes essential to our understanding.

Market segmentation, targeting, and positioning constitute the third set of requirements for implementing the marketing concept and deserve special emphasis as they are the heart of marketing strategy.

Market Segmentation, Targeting, and Positioning

Market segmentation recognizes that customers have distinct needs, preferences, and buying patterns. It is the process of analyzing the market in order to define, creatively, distinct groupings of customers for whom the firm has the potential to offer superior value. These different groups will respond differently to the firm’s product offering and communications.

Market targeting involves developing products and communications aimed at specific parts of the total market in order to more effectively and efficiently compete. Market targets should be those segments that offer the best return on marketing investments and the greatest profit opportunities. One of the drivers of the product lifecycle, in which profit margins begin to erode following the early growth stage of the market, is increased competition from
Putting the Customer First—Always!

market nichers who selectively target parts of the total market with a superior product offering.

The inevitability of the product or market lifecycle brings us back to the centrality of innovation in the marketing concept. The successful firm must continuously improve its product offering in order to remain competitive. Inefficiency and lower profit margins inevitably creep in when the company relies on heavier promotional expenditures and aggressive pricing actions to prop up sales volume for an increasingly obsolete product aimed at multiple market segments. Superior marketing skill is a myth when applied to obsolete products in an undifferentiated or incorrectly segmented market.

Positioning is the process of developing the value proposition, which differentiates the product offering from its competitors in the customer’s mind. It is implemented through communications—personal selling, advertising, sales promotion, publicity, and so on. All brand elements such as company and brand name, logos, packaging, promotional materials, and labeling are part of the positioning process. Positioning is critical to the success of the product offering. For many product offerings and market targets, the product positioning is more enduring than the physical product itself. Brand image and positioning may remain constant while the product is continuously refined and improved in response to changing customer preferences and technology.

**Integrated Marketing**

The fourth requirement for implementation of the marketing concept is to develop an integrated approach to the marketing policy variables of market segmentation, product, pricing, promotion, and distribution. The concept of integration itself is rather subtle and complex. It has three dimensions: priority, completeness, and synergy.

Prioritizing marketing decisions means putting the elements in proper sequence. First must come the market segmentation process, selecting those customers that the firm is to serve. By committing to serve a particular set of customers, the company is committing to develop a particular set of competencies, resources, and skills that will define the firm in the future. *The selection of markets to be served is the single most important decision that any firm makes.* It is even more important than the product offering. The product is a variable that can be tailored to the customers’ needs and wants if the firm has chosen its customers so that they match up with its unique competitive capabilities.
Second in decision priority comes the product itself. Is the product offering consistent with the best available technology and designed to provide the best solution for the customer in the customer's use situation? The product offering must be continuously refined, improved, updated, and expanded if the firm is to be successful in meeting and exceeding customer expectations, which change over time in response to the promise of competitive product offerings. The concept of the product must go beyond the core, physical product itself, and even beyond the “expected” product in the mind of the customer, which includes all of the service features, which are required to make it available to, and usable by, the consumer. It must be “augmented” with additional features and services that exceed the customer’s expectations in ways that are important to the customer.12

The third decision priority is pricing, which is part of the product offering and determines the economic value delivered to the customer as well as the value to be captured by the firm. In fact, a given price level may be a design objective in the development of the product offering. The customer’s use situation and competitive product offerings may define a rather narrow range of pricing opportunities. Pricing must also recognize the need for promotional expenditures and reseller profit margins in order to play its proper strategic role in the marketing mix.

Following market segmentation, targeting, product development and positioning, and pricing, which define the firm’s product offering (and its business-level strategy which can be thought of as the answer to the question “How do we want to compete?”), policies relating to distribution and promotion, or marketing communications, must be decided on. There may be tradeoffs to be made between reliance on resellers in the form of wholesalers, retailers, and other forms of distributors, and the use of a direct salesforce of company employees. In both cases, the reseller organization and the direct salesforce must be supported by advertising, sales promotion, customer service, publicity, telemarketing, and other forms of communication to optimize response to marketing expenditures.

In the process of describing decision priorities, we have also touched on the dimensions of completeness and synergy. A complete marketing strategy must be based on careful analysis and programming of all of the marketing mix elements and it must consider specifically the interactions and interdependencies among them. For example, pricing is a key dimension of product positioning. Market segmentation has specific implications for the organization of the selling effort as well as for product line development and management. Advertising message and media strategy must be
consistent with the desired image called for by market targeting and product positioning. The entire effort must be coordinated at a high level of strategic management to insure that marketing decisions are both consistent and thorough.

**Defining the Role of Marketing in the Organization**

Fifth and finally, organizational responsibility for marketing must be assigned. Commitment to the marketing concept and its implementation will not happen unless there is clear, high-level managerial responsibility for it. Here we encounter a fundamental dilemma, inherent in the marketing concept. On the one hand, responsibility must be assigned. On the other hand, as Peter Drucker noted so carefully, marketing is really not a separate function at all. Rather, it is the total business seen from the point of view of its ultimate purpose—that of creating a satisfied customer.

The challenge, in a nutshell, is how to make sure that everyone in the organization is focused on the customer and committed to delivering superior customer value while at the same time achieving a distinct level of competence in marketing skills and assigning clear responsibility for marketing results. Why have Marketing Managers at all? The short answer is that there must be people within the organization who are clearly “experts on the customer” and who can provide the rest of the organization with the necessary information and insights into customers’ evolving definitions of value. They must also take responsibility for guiding the various organizational processes that lead to the creation and delivery of superior customer value.

We must leave this complex issue unresolved for the moment, but it is one that we will come back to many times as our analysis of the new marketing concept develops.

**PROBLEMS IN ADOPTING THE MARKETING CONCEPT**

By the mid-1960s, marketing researchers had begun to study the extent to which American firms had actually adopted the marketing concept. They did this by looking at the extent to which management was committed to customer orientation and managing for profitability rather than sales volume. In addition, they frequently looked for the presence of a strong, central marketing department as evidence of the extent to which the firm had adopted the marketing mandate. As noted, this is a very controversial measure.
Problems in Adopting the Marketing Concept

It became increasingly common, however, to equate strong marketing with a large marketing department. Hise, for example, in a 1965 study, defined a firm’s adoption of the marketing concept as including:

- Customer orientation.
- Profit orientation of marketing operations.
- “An organizational structure in which all marketing activities are performed by the marketing department, and where the chief marketing executive is accorded a place on the company’s organization chart equal to that given the top financial and manufacturing executives.”

He found that the companies surveyed were doing market research and surveys and giving marketing partial responsibility for product development but in general were not managing for profitability. Large firms were more likely to use market research. In most of the firms surveyed, the top marketing executive reported to the president of the firm. Hise’s overall conclusion was that most large and medium-sized manufacturing firms had adopted the marketing concept, especially in terms of customer orientation and organization structure, with large firms showing a somewhat stronger tendency.

In 1972, McNamara published the results of another survey of American manufacturing firms’ practices with respect to adopting the marketing concept. He used primarily organizational criteria in making his judgments, including:

- The organizational level of the top marketing executive.
- The presence or absence of people with marketing backgrounds in top management positions.
- Whether marketing was centralized at the corporate or product/division level.
- The scope of the marketing research function.

He did not consider direct measures of customer- or profit-orientation, but for these constructs he used surrogate organizational measures such as the presence of marketing executives on nonmarketing committees and the presence of formal training and communications programs.

His primary conclusions were that large firms and consumer goods companies were more likely to have adopted the marketing concept than were smaller companies and those marketing to industrial customers.
large companies, where marketing was centralized at the corporate level, the role was that of a coordinating and consulting function rather than a direct operating role. In the smaller companies, and in industrial firms, there was a limited amount of integration of marketing functions, but with more of an operational focus.\textsuperscript{14}

By the mid-1970s, it had become clear that the rather simple strictures of the marketing concept were not easily or readily accepted by most companies. Instead of true customer orientation, managing for profitability, and integrated marketing at the business unit level, what was often found was continued product and manufacturing orientation, continued emphasis on sales volume rather than long-term profitability based on customer satisfaction, and weak integration among marketing functions and of marketing with other functions like research and development and manufacturing. In most companies, sales still dominated. The job of marketing was to sell what the factory could produce.

The original marketing concept saw marketing as a function that pervaded all aspects of the business, putting the customer in the center of all operational and strategic decision making. The objective was to do the best possible job of satisfying customer needs. At both General Electric and Pillsbury, for example, it was stated explicitly that as the marketing function came to fruition, all operations management, from product design to production planning to manufacturing to inventory control and distribution, would ultimately be coordinated, integrated, and directed by marketing. This vision was clearly stated by Keith's fourth phase in the development of the marketing concept, that of marketing control.

Instead of a blurring of the boundaries between the traditional management functions (sales, finance, manufacturing, engineering, etc.) called for by the move to total customer orientation, the functional boundaries grew higher and stronger. In large consumer goods companies, marketing had typically become the dominant managerial function and now provided a large portion of the top management of the company. In smaller companies and in firms serving industrial markets, marketing, if it existed at all, was relatively weak. There was still manufacturing and engineering dominance and there was a sales volume and selling orientation. Marketing was typically a staff function, perhaps within the sales department or else as part of the administrative structure reporting to the president or chief operating officer.

Champions of the marketing concept were troubled by what they saw in the mid-1970s. It had not lived up to its promise of revolutionizing American business. It was becoming clear that many of the companies in several
Problems in Adopting the Marketing Concept

key industries were facing non-American competitors who were taking significant market share and apparently much more in touch with the American consumer. Automobiles, consumer electronics, office machines, and photographic equipment and film are just a few of the industries that were under siege.

Why was the marketing concept, so simple an idea to understand, so hard to implement in practice? There are three areas to consider:

1. The validity and soundness of the marketing concept *per se*.
2. Errors and shortcomings in its implementation.
3. Inherent conflicts with other management functions.

Flaws in the Marketing Concept

This chapter has stressed, as did Drucker, that the marketing concept is a management philosophy, a way of thinking about the business and its fundamental purpose: to create a satisfied customer. From a societal point of view, customer orientation is the strongest source of legitimation for business as an institution, especially for a business grown too large to be controlled by its owners and their wishes for business purpose. In its simple form, where its intent is most clear, the marketing concept does not contain significant *strategic* content. It says virtually nothing about how the firm should satisfy customer needs. Indeed it says nothing about *which* customer needs a firm should focus on. Because of these unanswered questions, the marketing concept has a nebulous quality about it that makes it very difficult for marketing managers and other advocates of customer orientation to defend themselves against the other management functions.

Difficulty in Analyzing Customer Needs

A key part of customer orientation and integrated marketing is the use of market research to analyze customer needs and wants and to provide feedback of the results to other parts of the business. The implication is that marketing has the ability to discover, to understand, and to communicate to others the essence of customer needs. The even more basic implication is that customers know their needs. Suppose they don’t. Where does that leave the marketing concept and customer orientation?

There are a number of situations where customers do not and even cannot know their own needs and wants. Consumers could not know they
wanted television or electronic fuel injection or compact discs or fluoride toothpaste before they existed. A possible retort here is “Of course, but they had clearly defined needs for information and entertainment, dependable engine performance, improved musical listening, and better dental health.” From a practical standpoint, how useful is that level of analysis? What good does it do a firm in the radio manufacturing business to have its marketing research learn that people want better information and more entertainment?

The real challenge for the firm is to create new markets, not just to serve existing ones. The legendary success stories—Ford, Disney, IBM, Hewlett-Packard, Federal Express, Apple, AOL, and the like—did just that. These managers did not start with a clean piece of paper when they asked customers what they wanted. They had a vision of a capability to produce a unique product or service that would revolutionize the way customers solved a problem. They could lead their customers into the future, especially if they listened to customers as they developed and refined the features of their product offering. They were committed to leading and educating their customers in the use of their products. They had a vision.

Not all real business opportunities are as revolutionary. Consider those instances in which customers can come closer to expressing their unsatisfied needs, for example “I would like to have a toothpaste that will make my children want to brush their teeth three times a day and that will prevent cavities.” There is still the question of whether the company has the capability to develop the called-for solution or whether the solution is even remotely technically feasible.

In his classic statement of the marketing concept, “Marketing Myopia,” Ted Levitt built a convincing argument that the business should define itself not by its products but by the nature of the basic customer needs it was committed to satisfying.\(^\text{15}\) His examples of firms in the industrial graveyard because they failed to do so included railroads and buggy whip companies. The argument was that the railroads should have defined themselves as being in the transportation business and that the buggy whip manufacturers should have been able to develop new lines of business to serve the automobile owner. Putting aside the fact that government regulation prevented it, there seems little point in telling a railroad that it should go into the trucking business to compete with the truckers or into the airline passenger business to keep the customers who used to travel by rail. The buggy whip people could probably have used their leather-crafting skills better in making belts or hats than in trying to develop new products for the automobile market. There are fundamental questions about the capability of the firm, its resources and skills, and even more basically its values and mission, that
must be answered before we can match up the strategy of the business and a set of market needs.

**Understanding What the Firm Can Do Well**

The market alone cannot tell the firm what to do. A creative process is required to look at the market, understand potential customer needs and wants, consider the basic capabilities of the firm, conceive potential product offerings based on the present and potential capabilities, design and develop such products, and actually make them and deliver them with the full bundle of supporting services to a clearly defined target market. It is just as important to understand the firm’s capabilities as it is to understand customer needs. The marketing concept does not deny this fact, it just doesn’t say anything about it.

A literal interpretation of the marketing concept would suggest that the firm should take information from the marketplace as the sole basis for deciding what to do. Somehow, this implies that the market itself provides not only information about customer needs but also the criteria that tell the firm what to do. Carried to this extreme, of course, the marketing concept begins to make less and less sense. To that extent, therefore, the marketing concept is an incomplete management philosophy.

One insightful commentator, Andrew Kaldor, a management consultant, addressed this issue in the early 1970s with his concept of *Imbricative Marketing*, a phrase that, not surprisingly, never caught on. “Imbrication” is an overlapping of edges, and the concept of imbricative marketing involved four steps:

1. Identification of the organization’s skills.
2. Identification of the objectives of the organization.
3. The identification of the leading part of the system in which the firm operates, which can be thought of as its position in the value chain.
4. The identification of market needs compatible to the organization’s needs.¹⁶

More recent authors have made much of the concept of the firm’s “distinctive competence,” but Kaldor was using the concept in 1971:

By concentrating on the firm’s competencies, the concept of imbrication attempts to outline the areas in which the firm may actualize its potential. It is a
framework for strategy selection because it includes the firm and its environment, recognizes the repercussive nature of policy making, and concentrates on those areas in which the firm can maximally utilize its resources. Thus, the framework defines those areas of choice confronting the firm through the conjunction of the freedom the environment allows the firm and the capabilities within the firm. The integrity of the firm is preserved by interpreting and translating information about the environment from the perspective of the firm and not from the perspective of the environment. 17

No firm can be all things to all potential customers. If the marketing concept was to be a useful management tool, not just a statement of corporate culture and business purpose, it would need to be expanded to include a more strategic focus on matching up market needs and the firm’s capabilities.

### Errors in Implementing the Marketing Concept

Beyond the conceptual problems with the marketing concept, which it is fair to assume many managers had not thought about deeply, there were a number of problems at the implementation level, including:

- Failure to make customer orientation the true priority.
- Underinvestment in marketing.
- Weak performance by the marketing organization.
- Creation of a marketing bureaucracy.

### The Difficulty of Making Customer Orientation the Priority

First, for many companies the adoption of the marketing concept was mostly at the conceptual level. It is easy for top management to say we are committed to the customer. That has the familiar ring of “motherhood and apple pie.” It is harder to make the resource commitments to marketing information systems, strategy development, processes for identifying and developing professional marketing management talent, and organizational structures necessary to keep the total organization focused on the customer. It may be even harder to develop and maintain a true culture of customer orientation, a set of values and beliefs that puts the interests of the customer first, ahead of those of all the other constituencies and stakeholders served by the organization.

Not all chief executive officers (CEOs) are truly committed to putting the customer first, even if they say they are. Many CEOs clearly put their
shareholders first; all too often, shareholders’ interests dominate, in terms of the priority of return on investment and quarterly earnings per share. Especially in publicly owned corporations where large institutional investors (notably pension funds) often control huge blocks of stock, top management would seem to have little choice but to make short-term profit the number one objective.

The argument that, over the long run, all constituencies including the shareholders are served best by putting the customer first is a bit nebulous, especially for financial analysts whose job is to focus on return on investment. The marketing concept’s assertion that profit is the reward for creating a satisfied customer and that the firm that does the best job for the customer will be the most profitable has lacked sound empirical support until quite recently and may appear to its critics to be little more than wishful thinking.

If top management does not truly put the customer first, they have put something else first—usually earnings per share. The rest of the organization can figure this out in a hurry and will behave accordingly, especially if they are evaluated and rewarded in terms of short-term measures of profitability and financial performance.

**Underinvestment in Marketing**

The marketing concept requires specific resource commitments, most of which do not pay off in the short term. There is an obvious requirement for information from the marketplace about customer needs, wants, preferences, buying habits, and usage patterns, and about competitive product offerings. This information must be collected and professionally analyzed. Models must be developed for examining relationships among market characteristics, marketing actions, and customer response to marketing effort. Professional marketing requires the development of truly professional marketing personnel and marketing information systems.

These are long-term investments with long-term payoffs and long-term strategic consequences for the firm. Budgeting for these investments puts the marketing function in direct conflict with other management functions for scarce financial resources. Such requests may conflict directly with the short-term profit orientation of the firm.

The marketing department may be trapped in a self-fulfilling-prophecy cycle: Lack of investment in information and analysis, resulting in failure to develop the professional marketing personnel and analytical systems necessary to identify and track the strategic and financial consequences of
marketing actions, makes it difficult to justify rigorously the request for funds to develop and maintain such systems.

As financial management gained ascendancy in the 1970s, the marketing function in many companies looked less professional than its other management colleagues who had often been trained more completely and more rigorously in the management and analytical disciplines. To quote one executive:

Marketing tends to be peripatetic. They do less homework than the other business functions such as finance, manufacturing, and engineering. They tend to fly by the seat of the pants and their approach is much less documented. They are less even, more in-and-out than the other functions. I have great affinity for the marketing people. I like to talk to them. But when they go away I wonder if they were really listening. 18

Weak Performance by the Marketing Function

All too often, marketing promised more than it could deliver. This is true both on the academic side, where marketing scholars were struggling to develop a rigorous analytical base for the marketing discipline, and on the business side where marketing departments were often staffed with people poorly prepared for their responsibility.

From the academic perspective, it is fair to say that management science, using the tools of rigorous mathematical and statistical analysis, had not lived up to its promise in marketing. 19 Although there had been a lot of “over promising” in the 1960s and 1970s, that is not the principal point here. Rather, there is a fundamental difficulty inherent in the nature of marketing problems for the manager who wishes to justify marketing expenditures by establishing cause-and-effect relationships between marketing actions and sales and profit results. In a competitive marketplace, where consumers are exposed to thousands of selling messages from dozens of competing suppliers, where customers have limited ability to process information and a number of other constraints on their decision making, where every sale is the result of many complex interactions between marketing variables and buyer characteristics, it is virtually impossible to find strong causal relationships.

The financial manager can run a computer model to predict return on investment given assumptions about risks and interest rates. The manufacturing manager can rather precisely determine the amount of production output that will result from specified inputs of raw materials, machine time, workforce hours, energy, and other factors. The marketing manager must
Problems in Adopting the Marketing Concept

often answer “It all depends . . .” when asked to predict the results of a given investment. At best, the manager may be able to specify what it depends on. More commonly, he or she may not be able to get to even that general level of analysis.

In the best companies, marketing management talent was being recruited from leading universities and exposed to rigorous in-house training and management development programs. Such excellence was characteristic of the large consumer packaged goods companies like Procter & Gamble, General Mills, and Gillette, and some of the more prominent industrial firms like General Electric and IBM. In many other companies, however, as will be readily admitted by their managers, marketing was still seen as an adjunct to the sales department. Field sales managers were brought into headquarters to head a poorly conceived marketing operation. The long-term, strategic, research-based requirements of the marketing concept were superseded by the short-term, tactical, intuitive emphasis and skills of the sales manager who continued to be under pressure to produce maximum sales volume in the short term.

In a 1980 study of top management views of the marketing function, many of the respondents commented on the separation of sales and marketing. The president of one of the “Big 3” American automobile companies commented:

The auto companies are in the Dark Ages. They confuse sales and marketing. The “sales and marketing guys” are all sales guys. They don’t sell cars to the public, they sell them to the dealers. The auto companies do not see that they have any incentive to become customer and marketing oriented.20

The chief executive officer of a major paper products company, with over 30 years of experience in a variety of both consumer and industrial businesses, commented from this broad perspective:

The marketing concept is only 25 or 30 years old and to get it understood and accepted is the biggest challenge any organization faces. Marketing tends to degenerate into a sales orientation and into an exclusive concern for marketing communications. . . . In industrial companies like this one, the experience ladder is usually built on direct sales or a related function, and this can create a very narrow viewpoint. They bring the values of a salesman into the marketing function, partly because they feel they have been successful and have been promoted into marketing. In an industrial organization, there is an almost inevitable pressure from individual customers that creates a short-term orientation, a concern for specific orders, specific customer problems, and specific requests. It is a continuing uphill battle to get marketing people to see their
Putting the Customer First—Always!

Job in broad strategic terms. It is difficult for anybody to think broadly, reflectively about what they do. But salespeople will never be able to develop a marketing plan. There are many, many more salespeople in the typical organization than marketing people, and this also helps to explain why the sales viewpoint tends to drive out the marketing viewpoint.  

Marketing Bureaucracy

Over time, the marketing department became a distinct organizational entity in many companies, driven in part by the inherent conflict between the sales and marketing viewpoints. Assigning marketing responsibility to sales organizations in general did not work very well. Marketing was identified with marketing research and product development, while sales was associated with promotion, distribution, and pricing. Integrated marketing required something more.

Despite the urging of Drucker and others that marketing was really not a separate business function at all, it was necessary to find organizational mechanisms for implementing the marketing concept. There must be responsibility established for market information, market analysis, and integrated marketing—coordination of the parts of the marketing mix and of marketing with other functions, especially manufacturing and distribution.

In the consumer packaged goods firms, organizational responsibility typically resided in a brand management function. Here, marketing was a line management function with profit-and-loss responsibility implemented through a rigorous annual budgeting process. Some firms in industries such as paper, chemicals, office machinery, and computers also found it possible to organize around product managers or market managers who had clear profit and loss (P&L) responsibilities.

In many other cases, however, marketing remained a staff function, reporting through a sales vice president or marketing vice president to a chief executive officer such as the president. Within the marketing function, there were managers of advertising and sales promotion, market research, and sometimes product development, distribution, packaging, public relations, and publicity. Pricing responsibility was often diffused across marketing, sales, and financial management. Sales was frequently a separate function, with its own vice president, reporting separately to the CEO.

Organizational separation of marketing and sales created a number of issues of responsibility and coordination. Some firms attempted to manage the inherent conflict with a kind of matrix organization in which salespeople also had a “dotted line” responsibility to a product manager or market manager. Seldom did these arrangements work well. Again, the
Problems in Adopting the Marketing Concept

sales viewpoint tended to dominate. The product or market manager was a general without troops. Market development activities, for example, would receive inadequate attention from a salesforce focused on making the sales revenue numbers for the current period. Marketing planning remained an advisory or consulting function with unclear responsibility for results and was often viewed as an impediment to quick response in the increasingly competitive marketplace.

If marketing was a separate staff function, it was not a profit center but a cost center. It had a budget and a staff, clearly assigned costs, and no assigned revenue. When the cost-cutting, downsizing, and delayering mandates of the 1980s and 1990s came along, marketing departments were in a very exposed position. Marketing staffs were reduced significantly and in some cases eliminated altogether. The rationalization was sometimes that of the old marketing concept—marketing should not be a separate staff function at all; rather it is the responsibility of the businesses, the operating units, to become customer-focused and market-driven. Reducing marketing headcount at the corporate level, however, didn’t mean that better marketing would result at the operating unit level. The basic problems of the marketing concept and its implementation remain, regardless of the level in the organization to which they are assigned.

Having marketing as a separate function also had another negative consequence: It let the rest of the organization “off the hook” in terms of customer satisfaction. Other functional managers could follow the mandates of their own disciplines, not the customer’s requirements. (If the marketing department is going to worry about the customer, the other departments can go about their own business.)

When marketing became a function, it was no longer a focus. Somewhere along the line, marketing orientation was substituted for market or customer orientation. Perhaps it was Pillsbury’s Keith with his concepts of marketing orientation and marketing control who unwittingly first made the substitution. It should come as no surprise that managers of other functions were not ready to buy into the notion of a firm controlled by its marketing department.

**Conflict between Marketing and Other Management Functions**

When marketing exists as a separate management function, there is an inherent conflict with the other management functions. Under the marketing concept, marketing among all the management functions is the one charged
with responsibility for telling the rest of the organization what to do. It is
marketing's job to research customer needs and wants and to direct the
firm's product development, manufacturing, and distribution activities,
and indeed all other support functions from credit to human resources to
purchasing to financial management, toward the delivering of maximum
value for customers. Marketing is charged with being the expert on the cus-
tomer, for keeping the rest of the organization both informed about and
focused on the customer. Marketing is an advocate for the customer's point
of view.

There are two problems with this:

1. Managers in other functions have other constituencies that must be
served and satisfied.
2. Marketing is not alone in thinking that they know best what is in the
customers' best interests.

Any organization is a complex coalition of interests. According to the
stakeholder theory of the firm, each of the company's functional specialists
is responsible for securing the favor and serving the needs of a group of per-
sons and organizations who provide resource inputs to the firm or who
place constraints upon its activities:

- Financial managers are accountable to the firm's shareholders, banks,
  and other investors.
- Purchasing managers must manage relationships with suppliers of
  raw materials, components, services, and other inputs to the opera-
tions of the business.
- Engineers and scientists represent the scientific community and are
  caretakers for a body of professional knowledge.
- Human resource managers and line managers share responsibility
  for the employees who contract with the firm.
- Manufacturing management is accountable to multiple constituenc-
  ies including the employees, the owners of the productive assets,
  vendors, and customers.

It is the job of top management to coordinate and manage the trade-offs be-
tween these potentially conflicting interests.

The marketing concept asserts that customers should be first among
equals, that is, they are the constituency that must be served first because
Problems in Adopting the Marketing Concept

customers have veto power over all of the other decisions made within the organization. If the customer doesn’t buy, the other inputs and constraints become irrelevant because the firm will be out of business. This should give legitimacy to the mission of the marketing function to make the rest of the business customer-oriented.

Managers in other functions may honestly believe that they are putting the customer’s interests first when they look at things from their own internal/company perspectives. The research scientist, the engineer who specializes in product development and design, the manufacturing manager, the purchasing manager, and all the rest are not willing to concede that their own viewpoint about what serves the customer best is in error. A manufacturing manager for a chemical company once said to me, for example: “I’ll tell you what is best for the customer—it is what runs best through my plant!”

R&D people are certainly entitled to the view that they know better than the customers themselves what is in their best interest because they, the scientists, have a better view of what is possible. They know the technology, the customer doesn’t. Some may think they even know better than customers themselves what is best for the customer. This can be a problem especially in firms dominated by the disciplines of physical or biological sciences and engineering.

Can the Marketing Concept Improve Organizational Performance?

A final, and perhaps most basic problem with the marketing concept is that there was virtually no convincing evidence that a commitment to the strictures of the marketing concept would actually improve profitability or other measures of organizational performance. The argument that profit was a reward for creating a satisfied customer seemed to be one based on faith rather than hard data. It would be a hard argument to prove, because the relevant profits were long-term profits. Furthermore, concepts like customer orientation and integrated marketing would prove very difficult to make operational, observable, and measurable. (Research has begun to provide the necessary connections as described in Chapter 7.)

In the absence of empirical support for the argument, and given the marketing concept’s call for a long-term, strategic view of a firm that put the customer’s needs first, it was no surprise that the emphasis on strategic planning and sophisticated financial management that evolved in the 1970s would revolve around short-term measures of profitability such as cash flow, return-on-investment, and earnings per share. The current interests of
the shareholders, and sales volume as the key to short-term earnings, would continue to dominate firm management at the expense of the interests of customers and long-term profitability. Global competitors found an interesting opportunity in the United States, the largest domestic market in the world, where management attention was not sharply focused on the changing needs and preferences of an increasingly sophisticated consumer.

**SUMMARY**

Thus, the marketing concept ran into rough times as it matured. While no one argued with the basic wisdom of customer orientation, managing for profitability, and integrated marketing, getting the marketing concept implemented proved to be very difficult work. First, there was the problem of the rather weak strategic links of customer orientation back to the resources, skills, and other competences of the firm. It was often not clear that the customers could say what they needed or wanted or whether it was reasonable to assume that customers should be able to direct the development of potential technological and other capabilities.

Second, there were difficulties of implementation including the tension between the demand for short-term earnings based on current sales volume and the need for a long-term, strategic focus on future earnings requirements. Short term tended to drive out attention to long term; sales dominated marketing. Firms that underinvested in marketing tended to weaken their marketing activities, undercutting the ability of the marketing function to gain credibility with the other management functions and contribute to organizational effectiveness. Marketing didn’t always live up to its promises.

A separate marketing department and the development of a marketing bureaucracy added to the problem. If marketing and sales were separate functions, there was an inherent conflict that was usually won by the sales department. If the company had not made a commitment to a strong marketing department, as opposed to simple lip service to the concept of being customer-oriented, it was easy for the other management functions to refuse to be guided by the market information provided by a marketing department. Information is the key, and to be useful it must be credible. If marketing has low credibility, the other functional managers can in good faith hold onto their belief that they know best what is in the customer’s best interests.
A new marketing concept would have to address these questions, but in the context of the new organizational forms that have emerged in the global marketplace—network organizations consisting of smaller, more entrepreneurial business units; some as traditional divisions of larger corporations; others in the form of joint ventures; strategic alliances to develop new technologies; strategic partnerships with vendors; and a variety of long-term relationships with resellers, customers, and suppliers of services of all kinds. The traditional functional, bureaucratic, hierarchical, divisionalized corporate structure defined by the pyramid of its organization chart and its shiny corporate offices is obsolete. As these new organizational forms have evolved, the marketing concept had to be reinvented for the twenty-first century.

That is the purpose of this book.