

**JENNY DARROCH**

**MARKETING  
THROUGH  
TURBULENT  
TIMES**



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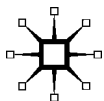
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# MARKETING THROUGH TURBULENT TIMES

Jenny Darroch

*Peter F. Drucker and Masatoshi Ito  
Graduate School of Management*

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First published 2010 by  
PALGRAVE MACMILLAN

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Palgrave Macmillan in the US is a division of St Martin's Press LLC, 175 Fifth Avenue, New York, NY 10010.

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ISBN: 978-0-230-23730-8

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources. Logging, pulping and manufacturing processes are expected to conform to the environmental regulations of the country of origin.

A catalogue record for this book is available from the British Library.

A catalog record for this book is available from the Library of Congress.

10 9 8 7 6 5 4 3 2 1  
19 18 17 16 15 14 13 12 11 10

Printed and bound in China

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# Foreword

## WE LIVE IN INTERESTING TIMES

Cycle compression is evident all around us. Digital technology and mass media have forever changed the average length of major events: events that would have spanned decades in past centuries play out in years, or even months in our time. In his path breaking book, “The Singularity” futurologist Ray Kurzweil refers to the inability of the human brain to comprehend a constant *rate* of change... the times we live in are only set to become even more interesting.

Witness the current recession, already the deepest since the Great one. Emerging from the depths of this recession there is a good chance that global consumers will never behave in the same credit-crazed, free-spending ways again. Or will they? Or will the old behavior morph into something new? What lies ahead? What other shocks await our global, interconnected markets that impact lives of farmers in India and traders in New York with breathtaking synchronicity.

Against this backdrop, the hapless CEO is desperately trying to make three, five, and even ten year bets of resource allocation, whilst fielding the intense scrutiny of customers, employees, and shareholders. Leading an organization during such trying times is, to put it mildly, challenging. Uncertainty often encourages risk aversion, which in turn leads to analysis-paralysis and organizational rigor mortis. But today’s environment also offers a unique opportunity to leap ahead of the competition by embracing the new world order and managing with, rather than against, change.

## ZIG WHEN THEY ZAG

*Marketing through Turbulent Times* is a timely book. Jenny Darroch provides an excellent overview of the current economic times and links together the disparate themes of recession, democracy, and individual depression and explores the role of social media and democracy. The

recent fall-out from the election in Iran is only one compelling example of social media giving newfound power to the commons.

We know that social media is here to stay. We also know that social media has already substantially altered the way in which we communicate. The challenge for CEOs and marketing managers today is to embrace this technology and, instead of ignoring technology that might be hard to fully understand, embrace it and become leaders in the formation of best practices. Rather than allowing the current economic times to become an excuse for inactivity, *Marketing through Turbulent Times* aims to provide a roadmap for leaders wanting to grow their organization or start new ventures.

Embracing and enabling change is certainly consistent with “high-tech” companies such as Google, eBay, Skype, PayPal, but it also applies to companies in more established industries. No corner of the industrial landscape will remain untouched by the forces of this change.

## GOOD LUCK BEATS GOOD STRATEGY

The traditional approach to managing change has often involved building detailed scenarios of the future and planning for alternative scenarios and understanding sensitivities. However, this approach is fraught with issues. To quote Yogi Berra, it is tough to make predictions... especially about the future! Luck beats strategy any day. A far better approach is to *maximize your chances of luck*. Execute against a variety of promising avenues. Open the company to information from outside. Stay close to start-ups in your industry. Delete the word “cannibalization” from your corporate vocabulary. If you don’t cannibalize yourself, someone else will. Any singular strategy that is built on a singular world-view of the future is highly likely to fail.

## LESSONS FROM THE WORLD’S MARKETPLACE

Drawing from my own background, apart from its obvious success, eBay also provides an excellent example of a healthy and functioning market that I believe has had a profound impact on the way consumers expect to be treated when doing business with any organization. With eBay, buyers have access to good information about the items they want to purchase and buyers only pay what they believe an item is worth. Sellers learn to communicate the value proposition of their items in a way that meets the needs of their target market. To be

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successful, sellers need to receive good feedback, and good feedback requires sellers to be customer focused. *Marketing through Turbulent Times* addresses these issues in the section covering growth through excellent execution of the current marketing strategy.

Further, by acquiring PayPal, eBay changed the nature of its business, which ultimately begs the question of “What business are you in?” Is diversification something to fear? No, not at all. What is important is to recognize the dynamic nature of business and therefore be willing to adapt as the organization evolves.

## LESSONS FROM DRUCKER

Jenny Darroch encourages us to look at the business through customers’ eyes and to understand the needs customers seek to satisfy when using a product or service. As a former student of Peter Drucker, I am sure that he would have approved. It is easy to forget about the customers’ perspective when we are faced with substantive economic challenges but Jenny Darroch reminds us that during such difficult times, it is perhaps even more important to remember that customers are the reason you are in business.

*Marketing through Turbulent Times* provides a roadmap for leaders who want to generate growth through excellent execution of the current marketing strategy while also adopting a more disciplined approach to creating growth by identifying problems and solutions. While Jenny Darroch was motivated to write *Marketing through Turbulent Times* in response to the current recession, I believe the ideas contained within the book are enduring.

Rajiv Dutta,  
Executive in Residence at the Peter F. Drucker and  
Masatoshi Ito Graduate School of Management  
Former President of eBay marketplaces  
Former President of Skype  
Former President of PayPal  
July 31, 2009

# Preface

Long before I decided to write a book about marketing through turbulent times, I was fascinated by what I saw happening around me. Even before the collapse of the financial system at the end of 2008, there was an aura of insanity. House prices were escalating at unprecedented rates yet the government seemed to be doing nothing to stop the housing bubble inflate further. Many people I know were living beyond their means and using home equity to support an unsustainable lifestyle.

Then, almost overnight, credit was hard to come by, many banks failed, unemployment sky rocketed, people lost their homes, and we were all overcome by a sense of fear and uncertainty about the future, tainted by a sense of hopelessness.

At the same time, the US witnessed an unprecedented election and installed President Obama as its first African American president. Not only did Obama win this historic election but he also reached out to the people, used social media to rally the masses, emphasized the importance of the democratic process, and urged people to mobilize and make a difference to the future of the US. Obama gave people hope.

To me this period has also represented a period of great contradictions: on the one hand Obama made people feel hopeful; on the other hand, the ailing economy and a fear of the unknown made people feel hopeless. So, we have an unusual situation in which hopefulness and hopelessness are trying to co-exist.

The extraordinary situation in which we found ourselves inspired me to write *Marketing through Turbulent Times*. I was left wondering how marketing managers could make sense of such a bizarre environment, an environment in which history cannot be called upon to make sense of the future. My goals in writing *Marketing through Turbulent Times* were straightforward: to provide an overview of and a context to the current environment; to remind marketing managers not to get spooked by circumstances but to stay focused on what

it means to implement great marketing strategies (that is, *Hope is not Enough*); to reflect upon what it means to be relevant in this topsy-turvy world within which marketing managers operate; and to inspire marketing managers to flush out growth opportunities amongst a mire of uncertainty. And that is what *Marketing through Turbulent Times* is about.

While the growth strategies I have outlined in *Marketing through Turbulent Times* are relevant to today, they will endure and provide guidance for managers wanting to *create turbulence* when the recession passes. The strategies outlined in this book are appropriate for any organization where generating growth is a primary goal. All that will change over time is what constitutes relevance.

This book was certainly inspired by recent events but to write it meant drawing upon over twenty years of experience in marketing and a life-time interest in current events. A project of this magnitude certainly requires a support team. For me, completing the book on time would have been impossible without the encouragement of my dear husband, Andrew. We have spent many hours talking about the events of the past 12 months and questioning what this means for society at large and marketing in particular. Many conversations have occurred at the dinner table where my sons, Sam and Ben, have actively participated. Apart from endless discussions, having an accommodating family has been essential to the success of this project.

I am indebted to my students at the Peter F. Drucker and Masatoshi Ito Graduate School of Management who not only put up with weekly updates on the content of my book but also allowed me to test ideas out on them as I was developing the themes contained within this book.

I would like to thank the Dean of the Peter F. Drucker and Masatoshi Ito Graduate School of Management, Ira Jackson, who has encouraged me to ask important questions and pursue a wider range of research and writing.

Many faculty and staff colleagues at the Drucker School and Claremont Graduate University have also inspired and encouraged me to complete this project. I am especially grateful to Bernadette Lambeth, my wonderful secretary at the Drucker School.

Lastly, I would like to thank the team at Palgrave Macmillan. From my initial meeting with Ursula Gavin in Claremont, to my many emails with Stephen Rutt and Eleanor Davey-Corrigan, I have been truly impressed by your professionalism and support. Thank you.

This book is dedicated to my three boys – my husband Andrew, and my sons Sam and Ben.

Jenny Darroch  
Claremont, May 2009  
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# About the Author

Jenny Darroch is on the faculty at the Peter F. Drucker and Masatoshi Ito Graduate School of Management at Claremont Graduate University in California where she teaches marketing strategy to MBA and Executive MBA students. The Peter F. Drucker and Masatoshi Ito Graduate School of Management was recently named one of the 15 top business schools in the US for General Management by *The Princeton Review*. *The Princeton Review* also named the School fifth in the US for the quality of its faculty.

At the Drucker School, we proudly speak of the Drucker Difference, a philosophy that guides our research and teaching activities. We believe that management is very much a human enterprise – an art as well as a science. We recognize that good management takes into account people and their values, not just the tasks to be performed. In a climate of ethical challenges and increased globalization, we aim to create leaders who do well and do good. We acknowledge that today's business and industry leaders want individuals who are productive and purposeful, who achieve professional success and social impact, and who understand the importance of strategic thinking and value-based management. You will find the Drucker Difference infused throughout Jenny's teaching and research and it is also central to her approach in *Marketing through Turbulent Times*.

Jenny joined the Peter F. Drucker and Masatoshi Ito Graduate School of Management in 2004. She came to the School from New Zealand, where she was the Founding Director of Entrepreneurship at the University of Otago in New Zealand. As Director of Entrepreneurship, she developed and launched an innovative Masters in Entrepreneurship degree, seeded research projects in entrepreneurship, worked with the local city council and polytechnic to develop an incubator, launched an entrepreneurs' club for local students, and helped raise money to support the entrepreneurship program.

Her research focuses on how marketing and entrepreneurship combine to culminate in market creation. Jenny has published



widely and a number of her papers have received awards at international conferences. Her research has appeared in a range of journals including the *European Journal of Marketing*, *Technovation*, *International Entrepreneurship and Management Journal*, *Journal of Marketing Theory and Practice*, *Journal of Business Ethics*, *Journal of International Entrepreneurship*, *Marketing Intelligence and Planning*, *Journal of Economic Psychology*, *Journal of Knowledge Management*, and the *Journal of Intellectual Capital*. She coedited (with Professors George Day from Wharton and Stan Slater from Colorado State University) a Special Issue of the *Journal of the Academy of Marketing Science* as a tribute to the late Peter Drucker.

Jenny completed a PhD in marketing from the University of Otago in New Zealand. Jenny also has postgraduate degrees in economics, marketing, and international business and an undergraduate degree in economics and marketing. Prior to becoming an academic, Jenny worked in marketing management and marketing consultancy with Reckitt Benckiser, Smith & Nephew, AC Nielsen and Darroch Consulting. Her client base was varied and included banks, food and beverage manufacturers, information technology companies, plastics and paper manufacturers, and government agencies.

Jenny is a thought leader in marketing and regularly speaks at prestigious events around the world and contributes articles to a range of international publications.

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# Introduction

Today, as I sat down at my computer to write, I scanned [www.cnn.com](http://www.cnn.com) as I often do. Monday January 26, 2009, was the day that many large corporations were announcing fourth quarter results for 2008 and the public had already been forewarned not to expect stunning news. But, as I scrolled through the headlines I noted that Home Depot was laying off 7,000 employees, Sprint was laying off 8,000, Caterpillar a further 5,000 (for a total of 20,000), Pfizer was buying Wyeth and planning to lay off 10% of the workforce or about 5,000 people, and ING had cut 7,000 positions. By the end of the day, Monday January 26, 2009, had been labeled Black Monday with a total of 71,400 jobs lost in just one day and over 200,000 since the start of the year – not to mention the 2.6 million jobs lost in 2008. The most jobs lost in one year since the end of World War II.

In another story published at [www.cnn.com](http://www.cnn.com) on the same day, the National Association of Business Economics released the results of a survey of economists who believe the already deep recession will worsen in 2009. If it is any comfort, the survey suggests these are the worst business conditions since 1982, when the survey began. The following day, on January 27, 2009, [www.cnn.com](http://www.cnn.com) reported that the Consumer Confidence Index, published by the Conference Board in New York, was at an all-time low (the index was started in 1967).

We have already absorbed news of the meltdown in the financial sector and the bailout of AIG, the bankruptcy of Lehmann Brothers, the mergers and acquisitions of large financial institutions – for example, Wells Fargo acquiring Wachovia, JP Morgan Chase acquiring both Washington Mutual and Bear Stearns, and the Bank of America acquiring both Countrywide Financial and Merrill Lynch. And the bad news keeps coming. Seasonally adjusted retail spend in December 2008 was down 9.8% from December 2007 and a number of retailers have already closed (e.g., Circuit City, Linen n' Things, and KB Toys) with others announcing restructuring, layoffs and some store closures (e.g., Macy's, Sak's Inc., CostPlus Inc., Ethan Allen Interiors, and Gottschalks). The State of California is running out of money and will issue IOUs to anyone to whom it owes tax this year. House

prices nationwide declined between 15–18% in 2008, depending on the index used, although in some areas prices declined by 30–40%. Mortgage foreclosures continue to undermine any chance of economic recovery to such an extent that President Obama is considering using \$100 billion of the \$700 billion bailout fund to ease the mortgage-foreclosure crisis. As I write, the Dow Jones Industrial Average is hovering around 8,100, down 35% from a year ago, and down 40% from its peak of just over 14,000 in October 2007. The impact on retirement funds and university endowments (to name but a few affected sectors) has been severe.

The overall result is that GDP shrank by 3.8% in the last three months of 2008, the sharpest decline in 26 years. Consumer spending was down 3.5% overall, with spending on big ticket durable items down 22%, companies spent 28% less on equipment and software, and US exports fell by almost 20%.

Being a human being (or, in the context of this book, a consumer) is difficult in such challenging, and for some, even depressing times. While I am not suggesting that consumers, as a whole, are clinically depressed, many individual consumers are suffering from fear, hopelessness, worthlessness, helplessness, anxiety, worry, and restlessness – all symptoms of depression. At times, the end result is tragic – on the night of January 26, for example, a man shot his wife and five children after being fired from his job. As the Mayor of Los Angeles, Antonio Villariagosa told reporters, “Unfortunately, this has become an all-too-common story in the last few months.”

For consumers, the feelings characteristic of depression are exacerbated because individuals living in a democratic society are accustomed to having certain rights and powers. Sure, individuals know that democracies also have regulations that control aspects of both consumer and organizational behavior, but living in a democracy means enjoying certain freedoms and liberties. In times like these, when consumers who are already fearful of losing jobs and homes are made to feel unimportant to the lifeblood of an organization and simultaneously powerless when interacting with organizations, then I suggest the balance of power has tipped too far in favor of organizations.

This book centers around the relationships organizations have with customers: why customers are important to the future of any organization; how organizations should respond to customers’ current circumstances by staying relevant to their needs; and how organizations

can find their own green shoots to enable them to survive and grow during difficult economic times by better meeting the needs of existing customers while simultaneously finding new customers to serve.

We know that an organization with a strong external focus understands that “[c]ustomers are the firm’s core asset and attracting, retaining and growing them is critical to the firm’s health” (Capon and Hulbert 2007). When times are tough, however, managers are more inclined to become very internally focused, finding ways to drive down costs so as to retain shareholder confidence and stay afloat, often forgetting about the importance of customers.

Because marketing itself is not directly linked to the immediate production of output (Jacobs 1991; Porter 1992; Stein 1989), marketing-related costs are often among the first to be cut when organizations face difficult economic times and/or a decline in income (Rappaport 2006; Rust et al. 2004). For example, unprofitable products are discontinued, product offerings are often made smaller but still sold for the same price, the customer service function is reduced, customers are made to wait longer before being attended to, customers are expected to perform functions previously undertaken by the organization, delivery times are extended, and marketing funds are diverted away from long-term brand building activities to short-term sales promotions.

Sadly, when an organization becomes so internally focused, customer dissatisfaction is likely to be endemic. Since customers themselves are facing economic uncertainty, and because of the very nature of the democratic society within which they live, they are likely to feel even more aggrieved at their perceived loss of freedom and rights.

Being a senior manager during such difficult economic times is nothing short of frightening. In fact, I have heard a number of senior managers say that they are “spooked” right now. Since the economy seems to have surpassed all previous recessions, managers can no longer look to the past to help understand the present or predict the future. As Brian Dunn, the president of Best Buy recently said, “In 42 years of retailing, we’ve never seen such difficult times for the consumer” (Colvin 2009a).

Most reports in the media are of the “Panic, Slash and Burn” variety. For example, on March 29, 2007, Circuit City announced the laying off of 3,400 people, all of whom were paid above local market rates. How do consumers respond? In my case, I stopped going

to Circuit City to buy anything more than DVDs and CDs that were advertised as weekly specials. I found my response interesting because we had purchased a television, computers, a camera, mobile phones, and a number of small appliances from Circuit City in the past. I always preferred Circuit City over Best Buy because it was not as noisy. But as soon as I read about layoffs, I perceived that the quality of advice offered at Circuit City would deteriorate. I never really gave Circuit City the chance to prove me wrong because I simply stopped buying from them. So, I was hardly surprised to read that Circuit City filed for bankruptcy protection on November 10, 2008 and then on January 16, 2009 Circuit City announced it would liquidate its stores.

I hope Starbucks is not heading in the same direction. Starbucks has been affected by the recession with consumers making fewer visits to a chain often referred to as “Fourbucks”. On January 29, 2009, Starbucks announced it would layoff 6,700 workers and close 300 stores in response to a 70% decline in profits and a 6% decline in revenue in an attempt to save \$400m this year. There have been other cost saving measures announced – for example, Starbucks will stop brewing decaffeinated coffee after noon, although decaffeinated coffee is still available, freshly brewed and with a four minute wait. Earlier, in April 2008, Starbucks launched Pike Place Roast, which consumers have compared to Dunkin’ Donuts or McDonald’s coffee – a dangerous strategy for a company whose brand was founded on specialty coffee and European neighborhood coffee houses and appealed to coffee connoisseurs who saw Starbucks as somewhat of a status symbol. Soon after, McDonald’s started promoting its McCafe’s and served iced coffees, lattes, cappuccinos, and regular coffees – all in direct competition with Starbucks and now likely to be seen as a viable alternative to the repositioned Starbucks.

Cutting labor is likely seen as “the right thing to do” because the cost of labor is easily quantifiable and therefore labor-related cost savings are easy to report to stakeholders. The speed and ferocity of layoffs in January 2009 went hand in hand with organizations announcing fourth-quarter results. After all, it is better to appear proactive, as if everything is under control, when announcing dismal performance results by sacrificing employees, restructuring the organization and freezing salaries so that the market does not overreact to disappointing news by quickly selling off stocks. This is why, in spite of the vast number of layoffs, the Dow Jones Industrial Averages

managed to hold within a range of 8,000–8,200 points during the last week of January 2009.

Layoffs contribute to the downward spiral, however, as people cut back on expenses to save money in case they are made redundant and/or endeavor to live within their [new] means. Talk to anyone who even vaguely follows the news and you will hear a sense of fear and anxiety in their voice. Comments such as “everywhere I go, car parks are empty, store fronts vacant and it seems there is no one in stores to help me” or “I’ve never lived through anything as scary as this” are not uncommon.

The long-term effects of redundancies on organizations, however, are seldom acknowledged by the media. Employees are an important and valuable intangible asset to organizations since every employee holds tacit knowledge about the organization, its policies, procedures, and best practices, its corporate culture, historical events, and details of relationships with stakeholders such as suppliers and customers. To lose employees, on mass, not only disrupts the flow within the organization as those who are left behind attempt to find new ways of managing with the remaining group of colleagues, but also diminishes the intellectual capital of the organization, an important resource that underpins sustainable competitive advantages. Losing employees also alters consumers’ perceptions of the organization. Take Circuit City – why would customers buy a big ticket item from Circuit City if they fear the store is likely to close down? What recourse does the buyer have if the product proves to be faulty?

As I have already mentioned, labor is an obvious area in which to make cuts, because the public understands the cost-cutting mentality behind large numbers of redundancies. And by announcing large numbers of redundancies, senior managers give the appearance of having everything under control. But organizations often also make cuts in softer areas, those areas not directly linked to the immediate production of output, such as marketing, R&D, and human resource development. Of these softer areas, marketing is at the top of the list because many managers believe marketing activities offer no long-term benefits beyond the time period in which the expenditure is incurred (White 2000); all that will happen when marketing budgets are cut is that fewer new customers are introduced to the brand (Shimp 2003). Of course, evidence suggests otherwise. For example, six years after the 1982 launch of Nissan to the US market, at a cost of \$240m, Datsun, with no advertising expenditure at all, still had

the same brand recognition as Nissan (Aaker 1993). But, as I will discuss in Chapter 5, marketing managers have not always done a good job of positioning marketing expenditure as an investment in the organization's brands or demonstrating the return on marketing investment.

Not only are marketing budgets being cut, but also the mix of marketing tools seems to have shifted away from new media toward traditional media. The need to: (1) demonstrate the return on marketing investment; and (2) understand new media, such as social networking sites, blogs and mobile devices, are cited as two of six marketing priorities for 2008–2010 (see [www.msi.org](http://www.msi.org)). Unfortunately, it is extremely difficult to measure the short- and long-term benefits of new media, simply because our understanding of the effectiveness of new media is better described as “best known practice” rather than “best practice” – that is, we are still trying to figure out how to use new media in the most effective ways. Therefore, rightly or wrongly, managers tend to fall back upon the traditional media during difficult economic times – that is, media for which metrics are well-established and media considered as “safer bets” by chief marketing officers, many of whom have not grown up with, and therefore are not so accustomed to, new media. This change of emphasis has impacted companies such as Yahoo, who missed its fourth quarter targets in 2008 by \$303m, partly in response to a cutback by advertisers, especially the use of Web banners (*Los Angeles Times*, January 28, 2009).

Although the economic situation might still get a lot worse, we do know that at some time in the future the recession will end. We also suspect that recovery from the recession is likely to be slow and painful. What will happen when the recession ends? How will customers respond to organizations that mistreated them in the past? What can organizations do now to pay attention to current customers? How should customers interact with organizations? This book addresses these questions.

This book is about marketing in turbulent times and creating turbulence during periods of growth. I have divided the book into four broad themes. First, I continue to develop the current context within which organizations and consumers function by further outlining characteristics of the current economic and political environment. I add evidence to describe how consumers and organizations have responded so far. I then focus on growth strategies, which range

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from executing the current marketing strategy well while staying relevant to consumers, through to identifying new product and market opportunities. These growth strategies are not only appropriate to organizations marketing in turbulent times but are also suitable for any situation within which generating growth is a primary goal. Therefore, the strategies for growth I outline in this book encompass responding to the current turbulent times and creating turbulence when the economy is out of recession. The final part of the book outlines the benefits and risks associated with pursuing a strategy of growth. I also identify characteristics of organizations more likely to successfully implement a strategy of growth.



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# Part I

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## The Context

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# The Consumers' Perspective

### LIVING IN A DEMOCRACY

Democracy is derived from the Greek word meaning *demos* or the mob, the many, and *kratos* or rule. In North America, and in fact in most of Europe, the British Commonwealth, and Japan, living in a modern democracy means that all citizens can participate in society if they wish and all citizens “must then mutually respect the equal rights of fellow citizens within a regulatory order that defines, protects and limits those rights” (Crick 2002, p. 13). Thus, living in a modern democracy brings together two ideas – power to the people and legally guaranteed individual rights, two often contradictory ideas. Importantly though, democracy is a cultural way of being that means many things at once (West 2004), for example, “regular and fair elections, government transparency, political pluralism, a free press, freedom of association, freedom to complain about the degradation of society” (Dasgupta 2007, p. 142).

To flourish in a democratic society means nurturing a system in which people can exercise independence, choice, and self determination (Dasgupta 2007). To have freedom means to enjoy civil liberties, to participate in the political process and have access to commodities such as food, clothing, shelter, education, and healthcare (Marshall 1950).

Sure, marketing has been attributed with shaping consumers' needs and preferences and redefining what society sees as “normal” in terms of the food we eat, the clothes we wear, the house we live in (and all the things that go inside the house), the car we drive, the level of education we expect and the standard of healthcare we receive. But, living in a modern democracy also means that we should be able to: generate enough wealth to enjoy the standard of living we want; decide where and how we will generate and spend money, voice an opinion about anything we want, and participate in elections of those people we chose to represent us.

When Thomas Marshall wrote about freedom in 1950, he used the term social democracy to describe a blending of socialism and

capitalism to form a democratic welfare state. Characteristic of a democratic welfare state is large government expenditure on public works and access to free or heavily subsidized healthcare and education. During the 1980s, however, many Western economies moved away from social democracy as governments privatized state-run organizations in an effort to cut costs and make these organizations more efficient. In New Zealand, for example, the government created a number of state-owned enterprises, such as New Zealand Post, New Zealand Railways, and Meridian Energy, and completely privatized other organizations, for example, the Bank of New Zealand, Telecom, and the National Film Unit. Similar changes occurred in the United Kingdom under Margaret Thatcher during the early 1980s.

While the US does not have a social democratic party, the government does offer much of what characterizes a social democracy. For example, K-12 education is largely free, welfare programs such as Medicare and Medicaid exist, basic social security is provided, unions function to protect workers' rights, and the government actively promotes programs aimed at protecting public health and the environment. In the last four months of George W. Bush's presidency, for example, the administration intervened in the economy more than at any other time in the last 75 years (Will 2009). And during his presidency, the Bush administration spent significant amounts of money expanding welfare. For example, by "grafting a prescription-drug entitlement onto Medicare...the president expanded the welfare state by more than any president since Lyndon Johnson created Medicare in 1965". Similarly, by signing the Farm Bill in 2002, the government "increased corporate welfare for agriculture at a time of record farm profits" (Will 2009).

Of course the recent turn of events, as the Obama administration tries to get the economy moving again through expensive stimulus packages, provide further examples of continuing government intervention. In fact, the headline on the front cover of *Newsweek* for February 16, 2009 reads: "We are all Socialists now: The perils and promise of the new era of big government".

The US economy is also characterized as having a very market-directed economic system (Furuhashi and McCarthy 1971). A democracy and market-directed system go hand in hand because in a pure market-directed system, consumers, through consumption choices determine what is to be produced and by whom (Furuhashi and McCarthy 1971). Furthermore, it becomes the responsibility of government to "ensure property rights are protected, contracts are

enforced, individuals are not exploited, no group monopolizes the factor or product markets, the various factors are compensated at competitive rates, and producers do in fact deliver goods of the quality they claim to be offering” (Furuhashi and McCarthy 1971, p.6).

A market driven system, however, can also be detrimental. For example, producers and consumers do not always, and cannot always, make the best decisions; special interest groups join forces and exert greater power than individuals working alone; income distribution is unequal and so some consumers have more power in the marketplace than others; market structures vary by industry and provide some producers with more market power than others; and the pricing mechanism might be ineffective in running the whole system (Furuhashi and McCarthy 1971, pp. 6–7).

Therefore, even though President Coolidge stated back in the 1920s that “[t]he business of America is business” (<http://www.answers.com/topic/calvin-coolidge>), it seems that there have been many periods in recent history in which people were dissatisfied with the way in which businesses and markets function (see for example, (Furuhashi and McCarthy 1971)). As West (2004) suggests, American democracy is centered on a capitalist market driven economy, one which values prosperity. But what people really want are guidelines on how to improve their lives.

## [POTENTIAL] PROBLEMS WITH THE US MODEL

There is an emerging view that democracy in the US is waning (West 2004). More recently, Frances Moore Lappé wrote that “American democracy has been thinning, rapidly and dangerously – from the drastic retreat in government transparency to the violation of constitutional protections to the reversal of progress in overcoming poverty” (Lappé 2008). For example, the way in which banks bundled up and sold off mortgages to Wall Street, who then sold them off to wealthy investors hoping to get into the buoyant housing market was, as Ali Velshi, CNN’s chief business correspondent describes “the perfect storm” characterized by “a lack of regulation, [and]...greed and creativity in the financial industry”(Tanneer 2009). In a short time, “the suits on Wall Street gambled the country into penury and George Bush failed to stop them” (Anon 2009a, p. 30). Lappé (2008) supports this view by adding that “in just one generation, much of the underpinning of democratic freedom can be stripped away”.

So, we are left with a market-directed system that the government failed to control which, in turn, has threatened the very nature of democracy in the US itself. In fact, West (2004), in his book *Democracy Matters*, argues that the glorification of the market in the US is one of three forces working against a functioning democracy. West (2004) adds that the US places too much emphasis on the market and this has led to a society that worships and glorifies business leaders, quickly salvaging them when they do wrong, glamorizes material gain and encourages wealth inequality, does not take sufficient notice of workers' rights or the treatment of workers, focuses on the individual, pays insufficient attention to matters of public interest, encourages and supports the formations of oligopolies, and fosters fear and insecurity among workers.

Interestingly, and perhaps in response to such a focus on the market, it seems that the American psyche is changing and the public are becoming more tolerant of social issues largely due to the changing attitude among young voters. A Pew Research Center poll published in *Newsweek* on January 26, 2009 (p. 49) found that in 1987, 54% of those polled agreed with the statement that, "The best way to ensure peace is through military strength", by 2007 this number had dropped to 49%. Or, "We should allow gays and lesbians to marry" (27% vs. 37%), or "We should improve the position of minorities with preferential treatment (24% vs. 34%), or "Corporations strike a fair balance between profits and public interest" (43% vs. 38%).

Along with a growing empathy toward social issues, on November 4, 2008, the American people voted to return the Democrats to office. This was no ordinary election, but an historic election of America's first African American president, President Obama. With Obama in power, the view is that Americans can "retrieve what we have lost", get the buy-in of citizens and restore the US to a democracy "strong enough to meet today's challenges" (Lappé 2008).

The voter turnout during the November 2008 election itself clearly demonstrated Americans love of democracy. Tremendous hope has been placed on Obama, not just because he is America's first African American president, but also because he represents a return to America's democratic tradition. As President Obama stated in the opening lines of his Presidential acceptance speech:

If there is anyone out there who still doubts that America is a place where all things are possible; who still wonders if the dream of our

founders is alive in our time; who still questions the power of our democracy, tonight is your answer.

Although Obama “must tackle two wars, a calamitous recession and the unexpected...[y]et by a three-to-one majority, American’s are more optimistic with him in charge” (Anon 2009a, p. 34). Other polls show similar results. For example, in a poll published in *Newsweek* on January 26, 2008 (p. 43), 66% said they were very/somewhat optimistic that the new administration would be able to improve the way things are going in the country and 71% were confident Obama would successfully turn the economy around.

### **ADD TO THAT A RECESSION**

Not only do we live in a society in which people hope democracy will be properly restored but we are also witnessing one of the most severe economic collapses since the Great Depression. In fact, West (2004) appears almost prophetic since much of what he identified as a consequence of placing too much emphasis on the market has come to fruition: the failure of the Securities Exchange Commission (SEC) to act on information that banks were insolvent or to uncover Madoff’s Ponzi scheme; worshipping and glorifying Wall Street; the emergence of oligopoly positions in the banking industry; and fear and insecurity among workers as hundreds of thousands are laid off.

And so, we are left with hope that democracy will be restored and we will be relieved from the despair caused by the recession and failure of the markets. What does it mean to be a consumer in such difficult times and how should organizations respond to come out of the current economic mire stronger than before? The following chapter focuses on consumer responses to the current economic and political challenges.



# The Consumer Response: Combining Hopefulness with Hopelessness

The preceding discussion provided context for this chapter by profiling the current political and economic landscape. Recently, President Obama described the effect of the tanking economy on ordinary Americans as: “Lost jobs and lost careers. Promising businesses in a shambles. The college acceptance letter returned to its envelope” (Gellene 2009). Against this backdrop, I now want to further examine the response of consumers, question whether changes to consumers’ behavior are likely to be permanent, and conclude by offering suggestions as to how consumers can become more empowered. I will continue my discussion on consumer empowerment in Chapter 4 when I introduce social media as one method for giving a voice back to the people.

## LINKS TO DEPRESSION

Is the economy in a depression? What does it mean to have a depressed organization (or an organization filled with depressed employees)? What does it mean to have depressed consumers?

At the time of writing this book, the current economic recession had surpassed all other post-war recessions, and comparisons were being made to the 1930s depression (see for example, *The Economist*, (Anon 2009j, p. 77). In fact, the current recession is now being referred to as The Great Depression 2.0 (Horovitz 2009). While there are many differences, for example, in the 1930s, 4000 banks failed and depositors lost money because deposits were not insured by the government (i.e., there was no Federal Deposit Insurance Corporation or FDIC) (Gross 2008)), there are sufficient similarities such that governments around the world are taking extreme caution when putting economic stimulus packages together to avoid history repeating itself.

Against this backdrop of uncertainty, employers, employees, and consumers are frightened, unsure of how long the recession will last or how substantive the impact might be on individuals’ lives both now

and in the future. For managers, “managing the fear and loathing has become a job in itself” (Conlin 2009) and employees have become punctual and docile, appearing at work “spiffy and dry-cleaned” (Conlin 2009). The downside is that while employees are “towing the line”, they might lack the courage to express divergent points of view that in turn may result in more positive outcomes, such as developing break-through innovations. So, while necessity is the mother of invention, necessity might be overcome by fear and the subsequent opportunity for organizations to reinvent themselves might be forsaken.

A commonly held view is that US style market capitalism is “under assault from self inflicted wounds” (Gross 2008). A more extreme view is that market forces and market moralities have taken away the meaning of hope and love (West 2004, p. 26). In addition, West (2004) suggests that people face the demons of despair, dread, and disappointment, brought about by an overemphasis on the market. As a result, people suffer from physical depression, personal worthlessness, and social despair (West 2004).

The impact of the current turbulent times is exacerbated because crisis feeds uncertainty, uncertainty affects behavior, and a change in behavior feeds the crisis (Anon 2009b). It seems that we are in a negative cycle, one that is hard to break out of. The central question to this chapter is how consumers will change, whether these changes will be short-lived or not, and what consumers can do to feel empowered again.

## **EXTERNAL CHANGES IMPOSED UPON CONSUMERS**

Between 1995 and 2001, dotcom companies, which had very little revenue and certainly no profit, were valued in the billions of dollars. The appeal to investors was the size of their customer database. The NASDAQ peaked on March 10, 2000 at 5048.62; nine years later the NASDAQ closed at 1268.64, 75% percent off its peak (La Monica 2009). There is no doubt that investors hoped that the future value of technology stocks would rise. These investor expectations fueled the dotcom boom by unduly escalating asset values, something known as irrational exuberance.<sup>1</sup>

Roll the clock forward to the credit crunch of 2008. The current recession has been attributed to an abundance of subprime mortgages, which were easy to sell to investors who underestimated the risk

associated with buying such mortgages (*The Economist*, March 7, p. 79). While the credit crunch and demise of technology stocks are clearly different events, they share the common characteristic of being spurred on by the market, looking for the next opportunity to make money. West (2004) cautions that such idolization of money and wealth could well lead to the demise of democracy.

Therefore, as the economy grew through 2003–2007, and the idolization of money and wealth became more apparent, a growing consumer insecurity was developing because a gap had emerged between what people considered a normal lifestyle and what individuals could buy based on their own incomes (Webster 1974). As a result, many people were beginning to feel powerless and chose to compensate through consumption (Rucker and Galinsky 2008). Evidence that compensatory consumption was taking place is provided by the savings rates, which dropped from 8.7% in 1977 to 0.6% in 2007 (Samuelson 2008), rising household debt, and people tapping into home equity lines of credit to support their newfound needs. Therefore, as the economy entered into recession, we were surrounded by compensatory consumption, new definitions of normal and a growing number of people living beyond their means.

Housing provides a good example to illustrate how the concept of normal was successfully redefined. When George W. Bush ran for reelection in 2004, he introduced the concept of the “ownership society”, a society in which every American family could own a house and a stock portfolio (Karabell 2008). In October 2004, Bush stated that “America is a stronger country every single time a family moves into a home of their own”. With that, he pushed through policies such as zero down payment, a government sponsored program that allowed people to get a mortgage with no down payment. More exotic mortgages followed, sometimes requiring little or no documentation. These and other innovative financial products we now know brought the financial system to the brink of collapse (Karabell 2008). Britain also encouraged home ownership, or as Margaret Thatcher called it “a property-owning democracy” (Karabell 2008, p. 39).

Home ownership is hardly a new priority because *The Homestead Act* of 1862 offered land to anyone willing to “brave the Western frontier”. Similarly, and immediately following World War II, Levittown was developed as the first planned affordable suburb in the US (Karabell 2008). The difference, however, between Bush’s promise and other housing initiatives is that earlier programs were “connected

to actual income and gainful employment” (Karabell 2008). Bush’s ownership society was made possible by subprime mortgages for which applicants falsified income and/or were given low teaser interest rates that, once adjusted, made mortgages unaffordable.

So, not only are we living in a society in which people want to own homes, but we also see many of these same people wanting homes that are much bigger than average. In 1950, the average sized American home was just 983 square feet and “people thought it was normal for a family to have one bathroom, or for two or three growing boys to share a bedroom” (Adler 2006). In 2004, the average sized American home was 2,349 square feet and “normal” has, no doubt, been redefined (Adler 2009) with 0.5% or 10,000 homes constructed in 2004 and 2005 at 6,000 square feet or more. As an aside, and given the new found frugality that characterizes the current turbulent times, and a new awareness of the impact large homes have on the environment, these large homes have become the focus of “McMansion Backlash” (Solomon 2009).

And so we had compensatory consumption and growing household debt. These were the prevailing conditions surrounding the economy as it went into recession; and when the recession took hold, credit was hard to obtain and many people lost their jobs. In addition, the US saw a change of government and president with the election of Obama, a Democratic President, in November 2008. I have already documented some of these events in earlier chapters but I want to identify and emphasize a series of direct changes affecting consumers, many of which are directly attributable to the current turbulent times. To me, these represent changes to the marketing landscape – some are likely to be more permanent than others and the extent of these changes is still hard to determine. These changes also speak to the issue of relevance, that is, what it means for organizations to remain relevant to consumers in turbulent times, something I will address in more detail in Chapter 6.

- Consumers are fearful about their own economic circumstances and uncertain about their futures and, as a result, have become a lot more frugal. Consumer spending has dropped, which causes many economists some concern because consumer spending accounts for about 70% of the economy. Even more alarming is the fact that in the last recession of 2001, consumer spending did not drop at all (Colvin 2009a). Without spending, economic recovery will take

much longer to achieve. When will consumer spending increase again?

- Some sectors have been hit very hard. In a study released by Cramer-Krasslet, nearly two-thirds of respondents reported cutting back on discretionary spending (such as vacations and cars), more than half said that they were more price conscious than before, and just under half said they only spend when they have to (Sullivan 2008a). There is plenty of evidence of consumer cut backs. In March 2008, Abercrombie & Fitch reported a 34% drop in sales year on year, Saks was down 23.6% and the department store Nordstrom was down 13.5%. By contrast, Wal-Mart was up 1.4% and Ross Dress For Less was up 3% (Chang 2009). Holiday habits are changing with the growth in demand for campground holidays as “people still want to get away but are looking for more affordable vacations” (Martin 2009, p. B1). Last year, the Los Angeles public library system set record highs in circulation and visitors (Gibbs 2009). A further indicator of consumer cut backs come from the auto industry where US new car sales will likely reach only 3.5 per 100 people, the lowest since 1963 and down from an average rate of 5.7 for the 46 years from 1963 through to 2008 (Hirsch 2009).
- In addition, many consumers are also concerned about consuming luxury brands when so many people are facing severe financial hardship. Sara Albrecht, owner of Ultimo, a Chicago based designer boutique was reported as keeping a stack of brown paper bags on hand for customers who want to keep their buying secret from family and friends (Anon 2009c). In earlier times, this was referred to as “stealth wealth” to describe people who want luxury but do not want to consume instantly recognizable brands, that is people who want the best but prefer to spend on “private pleasures as opposed to public swank” (van der Post 2000).
- Home ownership was once seen as a good way for households to accumulate wealth, good for the economy because it encourages people to save, and good for society because home owners invest more in their neighborhoods (Anon 2009h). These long-held assumptions are now called into question as 23m American families lost their homes in 2008, 10m Americans owe more on their home than the home is worth, and the value of American homeowners’ equity dropped from a peak of \$12.5t in 2005 to \$8.5t at the end of 2008 (Anon 2009h).

- Home ownership keeps the unemployed frozen in one place. Not only is the US economy facing high unemployment of around 9% but there are also structural changes occurring which result in mismatches between employers needs and workers skills. Homeowners are stuck – they cannot afford to sell their homes and when they still owe the bank more money than the value of the home, they cannot move to where potential jobs are (Coy 2009).
- Consumers are not using credit cards as much – either because they are living within their means, or because they do not have access to the same amount of credit as they once did. In 2008, unpaid balances on credit cards issued by the top-five financial institutions operating in this market totaled \$604b; for JP Morgan Chase alone, credit card debt sat at \$183b, a staggering 22% increase over 2007 (Kalwarski 2009). As a result, older concepts, such as lay-aways (lay-bys) are making a come back.
- Even if consumers do not have to cut back because of a loss of income, many are cutting back to rebuild retirement or college funds – all of which have been reduced by the sharp decline in the stock market. In fact, the net worth of households in the US declined by \$2.7t between the third quarter of 2007 and mid-2008 (Samuelson 2008). It seems that households have already adjusted and savings reached 2.9% of income in the fourth quarter of 2008, the highest in seven years (Cooper 2009). Will consumers continue to save and what impact will this have on the economy in the future?
- Then there is “affluent deprivation” (Samuelson 2008, p. 28) that signals a new state of mind whereby people feel poorer because they face higher taxes, more health care costs, and higher energy bills.
- Employment within large organizations is no longer considered a safe bet; for many the dream of rising up the corporate ladder may well have disappeared. In the short term, people who are looking for work have to lower their sights. Many people are likely to have to take jobs on a project-by-project basis or perhaps work multiple jobs. This means that employees (who are also consumers) are never sure if and when the next pay check will appear and are more careful with every purchase they make because of the uncertainty attached to how long their money will need to last.
- There is a hint that the recession affects genders differently. In February 2009, 8.8% of men in the US were unemployed but only

7.3% of women were unemployed resulting in, what Burns (2009) calls, a “he-cession”. If these numbers hold and the trend continues, we might well end up in a society where more women are the primary income earners. What impact will such a change have on families and social structures?

- The Obama administration is placing a lot of emphasis on growth through green technology (green is the new red white and blue). Examples include the more efficient use of energy in the home, harnessing alternative forms of renewable energy, and using more fuel efficient forms of transport. Even structural changes to employment are being encouraged as “green collar” jobs and are advocated to replace lost blue and white collar jobs. What will a green economy look like five or ten years from now?
- More regulations and government intervention means that increasingly the public looks to the government for leadership and new regulations. As Jim O’Neill, head of global economic research at Goldman Sachs recently said: “We live in an era when capitalism needs to be managed. More than any time since World War II, governments that intervene to smooth the economic cycle will better handle the crisis” (Barrett 2009, p. 49). But importantly, does this increased intervention take away the will to be self-sufficient, to innovate, to find solutions to problems we have with the current array of available products?
- Similarly, will consumers stop taking risks? For example, many new ventures have been formed by entrepreneurial consumers who see problems with existing products they use and, as a way of providing a solution to the problem, start a new venture. In the US, being an entrepreneur, starting a new venture, and raising venture capital are all considered noble and admirable achievements. But, in the current economic climate, the US government even plans to regulate the venture capital market as part of an overall plan to regulate the financial markets. Will the lure of new venture formation lose its appeal?
- Even though the US economy is in a recession, it is also a democracy. With a democracy come rights and expectations. For example, the right to be courageous, nonconformist, and true to oneself (West 2004). As I have mentioned in earlier chapters, President Obama mobilized the masses and gave people a voice in the months leading up to the election. The way in which people walked the streets to campaign for Obama and turned out to vote is evidence of peoples’

will to [re]embrace democracy. More recently, President Obama has been looking to do the same as he markets his economic stimulus package. Obama was recently reported in the *Los Angeles Times* as saying: “When we all work together, when each of us looks beyond our short-term interests to the wider set of obligations we have to each other, that’s when we succeed” (Parsons and Wallsten 2009). Similarly, David Plouffe, Obama’s chief strategist, was reported in *The Economist* (Anon 2009f) saying: “In the next few weeks, we’ll be asking you to do some of the same things we asked of you during the campaign – talking directly to people in your communities about the President’s ideas for long-term prosperity”.

## IS PERMANENT CHANGE LIKELY TO HAPPEN?

Is the economy at an historic inflection point where past behavior is no longer a reliable guide to future behavior? A country where opportunity and getting ahead are no longer valued as much (Samuelson 2008)? Can we expect people to go back to asking “What do I need” rather than “What could I buy” (Palmeri 2009)? Importantly, if people do change by, for example, focusing on what they need, will change endure? The following sections outline reasons why change in consumption will (not) occur in the future.

### Here Are Some Reasons As to Why Change Is Not Likely to Occur

Ingrained in American society is, first and foremost, a business culture, a market driven society (West 2004). Corporate leaders and elected officials are preoccupied with and rewarded for generating economic growth and national prosperity or maximizing returns to shareholders. Is the US too market driven, at the expense of a flourishing democracy (West 2004)? If so, will it ever change?

Americans are often called upon to consume as a way of helping economic recovery. This occurred immediately following World War II when consumption was positioned as being patriotic (Cohen 2003). Then, two weeks after the terrorist attacks on September 11, 2001, President George W. Bush did the same by urging “Americans to carry on as if there were no war [on terror]. “Get down to Disney World in Florida.... Take your families and enjoy life, the way we want it to be enjoyed” (Bacevich 2008). It seems the same pressure is on consumers today, as evidenced by an article in *Newsweek* titled “Stop saving



now!” in which the central message was that President Obama needs to revive confidence, which will increase demand and increase spending and help fuel an economic recovery (Gross 2009).

Not only is consumption ingrained in society as a patriotic act but there are also other deep-seated cultural values that are unlikely to change quickly. Take Generation Y, a generation of consumers born somewhere between the early 1980s and early 2000s, a generation also labeled as Generation Me (Kelley 2009). Generation Me is characterized as a group of teenagers who display narcissist tendencies, that is, who have a disproportionate sense of self-worth fueled by “six-figure sweet 16 parties and plastic surgery for graduation presents, all in the name of “self esteem” ...and without the resiliency skills they need when Mommy and Daddy can’t fix something”(Kelley 2009). Will parenting styles and teenagers’ views of themselves change overnight? Probably not.

Many view the current cuts in consumer spending as more symptomatic of circumstances, that is, a bank-imposed constraint, rather than a deep-seated change to consumer behavior. Add to that the view that human nature doesn’t change quickly, then all we are seeing are consumers adapting to a new situation: “When things get better, we’ll go back to the way we always were” says Bill Mellnick of Brand Idiomatics in Pennsylvania (Sullivan 2009, p. 11).

Here is further evidence that old habits don’t die easily. In Spokane County in Washington, for example, water-softening phosphates in dishwashing detergent have been banned because the phosphates take oxygen from the Spokane River and destroy fish. This is the first such ban in the US. But Patti Marcotte, a working mother, wasn’t happy with the green alternatives and so at night she makes a 45 minute trip across the border to Idaho to buy phosphate filled cleaners (Murphy 2009).

A recent article in *The Economist* (Anon 2009l) said that America will return to “an old-fashioned version of populism, driven by economic anxiety and directed at economic interests”; something *The Economist* called “economic populism”. If in fact, economic populism takes effect, then the public will continue to express a loss of confidence in, and even anger toward, the private investors and financial institutions that President Obama actually needs support from to kick-start the economy. Therefore, just as consumers are encouraged to save and invest so too will the public be encouraged to forgive and forget the recent actions of financial institutions as a way of helping move the economy forward.

In addition, it seems that the current financial and economic situation provides opportunities for some to make money at others' expense. For example, there are television advertisements at the moment encouraging people to mail in gold for cash, yet owners of gold jewelry are unlikely to get what their jewelry is worth and can probably do better selling the same on eBay. Similarly there is an increase in the number of scams targeting "struggling homeowners seeking to stave off foreclosure" (Dorning and Colker 2009). So, amongst the rubble, there are multiple signs of people finding cracks to exploit to maximize wealth, in this case, at other peoples' expense.

### **Here Are Some Reasons As to Why Change Is Likely to Occur**

Change will occur simply because when the economy finally begins to grow, growth will come from other sectors, not housing and easy credit. In an interesting column in the *Los Angeles Times*, Hiltzik (2009) suggests that "housing and easy money are unlikely to be the engines of growth in the future" largely because "one can never count on getting out of a fix the same way one got into it". One reason for history never quite repeating itself is that governments react by regulating those things that caused or influenced the economic downturn in the first place – for example, after the Great Depression came "deposit insurance, Social Security and a modern Federal Reserve" (Hiltzik 2009). Hiltzik continues by suggesting that the next decade will be defined by a growth in green technology.

Will peoples' values change? Following the Great Depression, and because of the depth of economic despair, consumer confidence was shaken and people became more resilient. For the same reason, Paul Mellon, the Treasury Secretary, seems to think change will come about as a consequence of this recession also. He sees the "downturn as a force for good"; as a result of the current recession "people will work harder, live more moral lives" (Gross 2008). In addition, consumers will only spend on products of value and continue to shop more responsibly (Sullivan 2009).

One further reason why change might take place is the way in which the Obama administration is adopting behavior economics to nudge people to change on the basis that others have also changed (Grunwald 2009). One example is the way in which Michelle Obama

was photographed planting the White House vegetable garden. Her gardening was an attempt to encourage us all to eat fresh produce, and better still, to eat what we produce ourselves.

Will change occur? I feel that the jury is still out on this one. If I were to make a prediction, I would say that the same drive to make money to fuel consumption will continue unless there are fundamental shifts in peoples' underlying values. If underlying values are not transformed, all that we will see are changes to the way in which people accumulate wealth. Only time will tell whether values themselves have fundamentally changed.

### **BEFORE CHANGE CAN OCCUR, CONSUMERS NEED TO FEEL EMPOWERED**

To me, one of the barriers for change is the fact that the balance of power has tipped too much in favor of corporations and, as a result, individual consumers feel powerless. Unless balance is restored, our underlying value system is not likely to change.

Corporations had too much power immediately after World War II, when consumers were encouraged to consume to speed up economic recovery. As a consequence, the consumer rights movement emerged in the 1950s to give consumers a collective voice in the face of aggressive sales and promotional techniques.

We find ourselves facing similar circumstances today – consumers need to feel empowered to have a voice. For example, on January 29, 2009 we were told that the folk on Wall Street had given themselves bonuses of just over \$18b in 2008, about the same as the level of bonuses paid in 2004. This was a slap in the face to the American taxpayers, whose funds were being used to bail out Wall Street in an effort to keep money flowing around the credit markets. Sure, Obama reprimanded Wall Street on national television but the people stayed largely silent. Elsewhere on the same day, two and a half million people exercised their constitutional right to strike and took to the streets of France to protest against President Sarkozy bailing out French banks rather than increasing wages and consumer spending power and protecting jobs. Thierry Dedieu, of the CFDT general workers' union, told the BBC that "People had the feeling they were paying for a crisis they were not responsible for". The difference is that Americans stayed silent while the French exercised their democratic right to portray a collective voice.

The ability to bounce back is crucial in tough times, not just for economies but for human beings (Sulkowicz 2009). How then do consumers bounce back and become more resilient, learning from the current economic crisis?

For change to occur consumers need to feel empowered, to believe that they can facilitate change. I will talk about social media, a vehicle that I believe can restore a voice to the people, in the next chapter, but for now I will focus on other strategies aimed at empowering individuals.

- Change will not come about if people are self-indulgent, narcissistic, and self-pitying. For change to occur, consumers need to rise up and think for themselves and learn to rely on themselves (West 2004). People need to regain their own sense of worth and dignity. After all, to resist the abuse of the elite is to preserve the core of the American democratic tradition (West 2004).
- Related to this is an important reminder: as consumers, you are the reason organizations exist and you deserve to be treated as an important partner in a symbiotic relationship. For example, if you are phoning a customer call center, it is your right to be treated as if your business is important to the organization. If you are trying to renegotiate the terms of your contract with an organization, a good question to ask is: “Is that the best you can do for me?”
- While it is natural to feel anger toward those behind hedge funds and working in investment firms, anger itself is not a helpful emotion. To become an empowered consumer, consumers need to accept the sequence of events that led up to the financial crisis and the current situation they currently find themselves in. We are better to put our energy into improving our own lives and the lives of those around us than to vent anger at the system that got the country and world economy into this mess.
- Remember that information is power. As an empowered consumer, you have an obligation to be well-informed. For example, Hong (2008) outlined a behind-the-scenes look at car pricing and offered advice on car pricing structures, how to ensure you get a good price by going online and getting dealers to compete for your business.
- Understand that many consumers felt powerless and engaged in compensatory consumption, consumption of products that many could not afford. To understand what compensatory consumption means is a step in the right direction. As well, it is important to find

other ways to feel important and powerful, to regain status in your community. Examples include exercising, gardening, spending time with friends, being a good neighbor, volunteering. What becomes important here is that the relationship between consumption and happiness becomes less overt.

## CONCLUSIONS

The consequences of decreased consumer confidence fuels a reluctance to spend, as well as creating fear, stress, and even depression. Stress takes its own physical toll on consumers, in terms of how we treat relationships, our physical health, what we eat, our state of mind, and even whether we are able to sleep at night. One of the key findings of a recently released poll conducted by The National Sleep Foundation suggested that almost one-third of Americans lose sleep because of concerns about their personal finances and the US economy. And while the correlation between economic uncertainty and consumer health may not be scientifically clear-cut, it is fairly safe to assume that stress and depression are associated with negative health effects (Gellene 2009).

It is somewhat ironic then to reflect upon a recent television advertisement for American International Group (AIG), a company that lost billions of dollars through complicated bets its Financial Products unit made on the housing market, and was subsequently propped up with tens of billions of taxpayer dollars. Added to this was the huge amount of negative publicity for the company brought about through the paying of over \$165m in bonuses to AIG employees. The advertisement shows a small boy, who is unable to sleep at night, entering his parents' bedroom. While we might expect the boy to say he had been woken by bad dreams, we instead hear the boy tell his parents: "I'm worried about this family's financial future". In reply, his father reassures the boy: "Don't worry, we're with AIG". Perhaps current and potential customers of AIG should be more worried about AIG's future (Zimmerman 2009).

There is no doubt that consumer markets, and society at large, are at an important inflexion point. A more extreme view is that the very heart of democracy is under threat. We operate in a new world, a world that has suddenly changed and perhaps caught many of us off-guard. This chapter outlined the many characteristics that were imposed upon consumers. For some consumers, the outcome will

mean a better world and better lives, for others the outcome, at least in the short term, will be unsettling and disruptive.

Central to this chapter is a broader question of whether the changes we see around us will become permanent. That is, will peoples' values change? Without knowing what the future holds, instead of encouraging consumers to spend as a way of getting out of the current economic recession, this chapter seeks to empower consumers to regain their voice. Consumers need to feel empowered and to feel an integral part of the economic system again.

# Social Media: Giving a Voice Back to the People

The 20th century “has been characterized by three developments of great political importance: the growth of democracy, the growth of corporate power, and the growth of corporate propaganda as a means of protecting the corporative power against democracy” (Alex Carey quoted in Camp 2001).

As we come to the end of the first decade of the 21st century, the US government has spent \$8,887 per person since 2007 on bailing out the financial system and 549 bailout related groups have formed on Facebook (Anon 2009g). In my opinion, this decade will be remembered for the historic election of President Obama, the public distrust of large corporations and their brands (Anon 2009d), and the use of social media<sup>2</sup> to give a voice back to the people. Just as Gutenberg’s printing press of 1440 enabled democracy in the West (Baker and Green 2008), so too will new digital technology enable social media to move the balance of power away from corporations and back to the people.

## SOCIAL MEDIA AND DEMOCRACY

I see social media as providing a vehicle to enhance the democratic process. I came across a website listing the five principles of democracy<sup>3</sup> and I will use these five principles, taken directly from the website, to demonstrate how social media might restore a balance of power between the people and corporations. I will focus my comments on the practice of marketing.

### Freedom of Speech, Debate, and Enquiry

*The principle:* Democracy affords people the opportunity for open debate, and the freedom to read, write, and speak one’s mind without

fear of the consequences. As Robert Burns wrote in his 1794 poem “Here’s a Health to Them That’s Awa”<sup>4</sup>:

Here’s freedom to them that wad read,  
Here’s freedom to them that wad write,  
There’s nane ever fear’d that the truth should be heard,  
But they whom the truth would indict.

*How this applies to marketing:* While traditional mass marketing is an efficient way to reach a large audience, messages flow in one direction – from the organization to the masses. As a consequence, people feel they have no voice. Rather than engaging in two way communication with organizations, they are being “spoken at”. If the message is off-point or irrelevant, consumers can feel aggrieved that the organization has lost touch with their needs and wants and somehow doesn’t care about them. Furthermore, when consumers interact with organizations (think the credit card industry), they are often left to feel powerless, not helped by the organization and unimportant in the scheme of things.

Social media gives a voice to people. It enables us to communicate freely with each other and voice our opinion back to organizations. At a time when people have lost faith in big business, many of us prefer to receive recommendations from friends and colleagues, people we consider equals. Blogs have become a popular vehicle for people to exercise freedom of speech. In 2003, a San Francisco firm called Technorati estimated there were 300,000 blogs, in 2008 there were 112 million (Staff 2009). Furthermore, 80% of bloggers post product reviews or blog about brands they love or hate (Staff 2009). This means that blogs provide a “heat map of what a growing part of the world is thinking about, minute by minute” (Baker and Green 2008). Dell, for example, is mentioned in 5,000 online conversations every day. Not only are the public offered the opportunity to share their views of Dell but Dell also has the opportunity to keep track of how their brand is viewed by consumers and the public at large (Nelson 2009).

While there is mixed evidence as to exactly how many blogs exist and how many are read and commented on each month, the fact is that a small number will be influential. As Baker and Green (2008) suggest, even if there are only 2–4 million blogs in existence, and only 40,000 new blogs are added each day of which only 0.01% contain



comments that are relevant to your organization, this means 40 new blogs could be created each day that are “talking about your business, engaging your employees, or leaking those merger discussions you thought were hush-hush”.

For organizations, one downside risk of social media is that messages themselves are consumer generated and so the brand message is no longer completely controlled by the brand owner. This means that anything can happen, and the brand position the organization has worked so hard to create could be compromised at any time. A good example of how quickly reputation can change comes from Domino's Pizza. Recently, two disgruntled employees placed a short video on YouTube in which one of the employees put cheese up his nose before placing it on the food he was preparing to sell. News spread fast – I learned about the episode from *BusinessWeek* (Stead 2009). What was interesting to me is that Domino's Pizza found out about the incident from a blogger and then created a Twitter account to answer questions about it. Therefore, Domino's Pizza used social media to manage a crisis facilitated by social media.

### Popular Democracy

*The principle:* In a popular democracy people themselves retain and exercise the right to initiate policy and law, rather than being subjected to it. Government, the servant of the people, should listen to, respond and deliver what people want. In a popular democracy, there is no sense of a morally superior system and so no one concept should be imposed upon other people or cultures.

*How this applies to marketing:* Over the past few centuries, organizations have become accustomed to shaping their own message. With blogging, power moves back to people. In fact, one of the characteristics of social media is that people can build a shared meaning by exchanging stories and experiences. A typical blog, for example, lists posts and provides opportunity for comment. It is not unusual, if you read through the thread of a blog, to see a person absorb other points of view and alter their own perspective of say a product or brand. This means that not only are messages consumer generated but also that they evolve.

For organizations, social media such as blogs provide a rich resource of consumer information. By monitoring blogs, marketing managers can get instant feedback on the product, brands, and aspects of its marketing strategy, while addressing consumer concerns

and problems or correcting misinformation. Therefore, just as governments respond to the people and deliver what people want, social media allows organizations to do the same.

One of the concerns with consumer generated media is the assumption that a message is in fact generated by consumers and therefore evolves based on consumer input alone. On the one hand, if I was to read a blog or watch an online video that appeared to be home-made, I might conclude that the message was generated by a member of the public who is just like me. What I don't know, and might never know, is whether the message is generated by someone who has been "bought" by the organization to promote the organization's brands or dismiss the actions of a competitor or whether the message has been generated by the organization itself without declaring it.

Currently, only 15% of Fortune 500 companies maintain a blog and most blogs are located within the organizations' websites (Burson-Marsteller's Fortune 500 Blogging index survey quoted in Staff 2009). What this means is that the public is still likely to be relatively confident that messages on blogs are in fact consumer generated. But such confidence in the source of a message can quickly change.

Just as marketing research lost its credibility when sales people posed as marketing researchers to sell products, so too will social media lose its value to marketers if people no longer trust the source of the message. Marketing managers need to be vigilant to preserve the integrity of social media. For example, an organization hosting its own blog is safe; declaring the source of comments left by the organization on a public blog is appropriate.

Without a vibrant social media community, marketing managers will lose the opportunity to gain rich insights from consumers and the public at large, to identify opinion leaders, to manage misinformation, to correct problems, to identify new opportunities and to develop creative communications strategies. Consumers are already wary about organizations and brands; a well-managed approach to social media allows consumers to regain some power in the corporate-public relationship, to have a voice, and to restore democracy in the world of marketing.

## **Open, Accountable, and Diverse Media**

*The principle:* A healthy national mass media is essential to a functioning national democratic process because national media forms

and validates most people's understanding of what is "real". In addition, national mass media reaches millions of voters and so if you can control the mass media that informs the voting choice of people, then you can control the democratic process.

Mass media must be open and transparent so that we know who is behind the news and what individual or corporate agendas are. Mass media should be accountable to the public and therefore provide a remedy when the message is inaccurate, and diverse in its composition to ensure that media monopolies do not develop and dominate.

*How this applies to marketing:* Not only has corporate power grown but the media channels through which corporations disseminate messages are now controlled by a few organizations: Vivendi Universal, AOL Time Warner, The Walt Disney Co, Bertelsmann AG, Viacom, and News Corporation.<sup>5</sup> When ownership becomes so concentrated, there is concern that a handful of multinationals are controlling what we see, hear, and read. Questions arise such as: "What impact does consolidation have on news coverage, entertainment culture, freedom of speech and democracy?"<sup>6</sup>

Social media is an open, accountable, and diverse form of communication. With social media, messages are many and are no longer controlled by a few. Social media, as a vehicle for communication, should be encouraged.

## **Economic Democracy for the People**

*The principle:* This principle means decentralizing economic power and empowering smaller units such as people or communities. With economic democracy, people themselves should be empowered to create and control their own money supply.

*How this applies to marketing:* For a long time, strategic brand management has tried to move consumers along a continuum ranging from being aware of and feeling good about a brand to having a relationship with the brand and, better still, forming a brand community of other like-minded brand advocates. One example of a brand that has achieved a vibrant brand community is Harley Davidson with its Harley Owners' Group or HOG. Another example is that of Apple users.

Effective social media facilitates brand communities. To be successful, a brand community will be drawn together for a purpose – a community within which there is already trust and authenticity, and

information to share that is of value to the community (Anon 2009i). Examples of online forums can be found at Sypderco ([www.spyderco.com](http://www.spyderco.com)), War Hammer ([www.warhammeronline.com](http://www.warhammeronline.com)), rail roads ([www.railroad-line.com](http://www.railroad-line.com)), and Microsoft ([www.forums.microsoft.com](http://www.forums.microsoft.com)), to name but a few.

In a sense, social media has not changed the desire of people to join a club or be part of a community; it has just made it easier to do so. Plus, organizations can actively, and now more easily, promote and host brand communities as part of their marketing strategy.

### Equality before the Law

*The principle:* Each citizen has an equal ability to seek and receive justice, which means that each person should have free access to the law. The jury system is the sign of a healthy democracy because common people are the final arbiters of the “rule of the law”.

*How this applies to marketing:* To me, social media removes any hierarchy and allows all customers to be treated as equally important. For example, if you are reading a blog and notice a customer comment, you are unlikely to know whether the comment comes from a large vs. small customer, a recent vs. lapsed customer, or a current vs. non customer. For all intents and purposes, all customers and all comments are equally important.

## THE FUTURE

The way in which organizations communicate with their audience is changing. First, and due to the current turbulent times within which organizations operate, marketing budgets are being cut. In a study, 60% of the Best-in-Class companies had cut their marketing spend in traditional media outlets by 60% (Zabin 2009). The reduction in traditional media hasn't been replaced by new media because, in a recent study of chief marketing officers of large organizations, only 10% of marketing budgets were allocated to new media (Fine 2009).

Second, marketing managers are under increasing pressure to be accountable for their expenditure and, sadly, the effectiveness of new media is still difficult to demonstrate. As a result, marketing managers have returned to traditional media because they can confidently argue return on marketing investment. A recent quote by Fine (2009, p. 72) illustrates this point: “And who in charge of ad budgets will try

radical moves today, when everyone knows a failure will cost them their jobs? ...No one was ever fired for buying a prime-time TV ad.” Marketing managers are simply fearful of “trying a new approach in a difficult time.”

Social media gives consumers a voice and therefore shifts some power away from organizations and back to the public. This can only be beneficial at a time when consumers have lost faith in big business and brands. In addition, social media is a new marketing tool that is likely to be here to stay. It is a valuable communication tool and one that organizations should strive to understand and integrate into a marketing communications strategy. Here are some examples.

One of the ways in which advertising is thought to work is by getting consumers involved with the advertisement itself. This proved to be particularly effective with low-involvement product categories such as grocery products. Involvement creating advertisements typically ran like mini-soap operas, but were 30 second commercials created around a product. Johnson & Johnson has just launched three “webisodes” for its Clean & Clear range about two friends who are trying to get to the premier of *Hannah Montana: the Movie*. (Cassidy 2009). To me, social media offers the opportunity to create consumer involvement.

BMW ran a competition on Facebook to launch its BMW 1-Series. 10,000 people created drawings of the BMW 1-Series on a graffiti wall application page on Facebook and more than 600,000 people voted on the artistic works (Staff 2009). Another example is that of Burger King who ran a promotion on Facebook. Facebook users had to sacrifice or “defriend” ten Facebook friends to get a coupon for a free Whopper burger. The ten who were “defriended” were then sent a message to inform them that they had been sacrificed for a Whopper burger. While Facebook stopped the promotion because it violated company policy against alerting friends of their removal from Facebook, the promotion did reach 82,000 people and got a lot of media attention in the process (Staff 2009).

Viral videos provide another example. The use of viral videos is expected to grow by 72% between now and 2012 (Forrester Research quoted in Staff 2009). Blendtec, a manufacturer of kitchen blenders, has started a viral video series called “Will it blend?” in which the Blendtec’s CEO attempts to blend anything from golf balls, to skis in a regular blender ([www.willitblend.com](http://www.willitblend.com)). The website offers viewers the opportunity to suggest things to be blended and send the link to a friend.

All of these examples show how social media has been used to reach a target market, get noticed, and talked about – all good in the competitive world of integrated marketing communications in which organizations are constantly looking for new ways to reach target markets.

## CONCLUSIONS

Social media is here to stay. An indicator of its likely impact comes from a study of 1,217 information technology executives and decision makers in North America and Europe. Of this group, 91% read blogs, watched user-generated video, or other social created content at least once a month, 55% were in social networks, 58% had reacted to social content by posting a comment, and 43% had created content themselves (Bernoff 2009).

Information technology executives and decision makers are, what I would call, early adopters of social media because they are technologically savvy and therefore more likely to understand the technology behind new media. But, these are people who are also opinion leaders, people we look to at home, at work, and within our local communities for comments and advice on technology related matters, in this case social media. The heavy use of social media by information technology professionals is an early indicator of just how much impact social media will have on our lives in a relatively short time. Imagine if we all used blogs to the same extent as the sample of information technology professionals do. Add to that the fact that social media is right for the times as people look to regain some power away from corporations and it is clear that social media is likely to have a profound impact on the way in which we communicate.

Therefore, organizations should do their best to understand “best known practice”, which is somewhat of a moving target. As Erin Nelson, the chief marketing officer of Dell notes, social media allows organizations to connect and transact with customers (Nelson 2009):

1. Listen to customers, prospects, and influencers and absorb their input. Blogs and social networks provide an excellent place for marketing managers to access conversations, and hear the language consumers, prospects, and influencers use to describe your brands and those of your competition.

2. Join the “in” crowd. Know where your customers are talking. Use this information to monitor and adjust marketing campaigns, correct misinformation, and solve problems.

3. Chat and cultivate. Get involved in the conversation, talk to your customers and identify new ambassadors for your company.

4. The more, the merrier. Nelson discusses a new concept called crowdsourcing, a process that enables customers to create new products and solve business challenges. Imagine having access to 100,000 people, from around the world, all of whom are willing to debate and share ideas with you.

These four points above are all essential to any organization wanting to be market focused, to stay connected with as many customers as possible, and to give customers a reason to come back and do business with you again. Social media facilitates this process.

## **Part II**

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# **Staying Focused**

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# Hope Is Not Enough: Some Guiding Principles for Marketing through Turbulent Times

With President Obama and the Democrats in power, there is a move toward increased government intervention and regulation. In 1974, Webster (1974, p. 6) outlined a range of possible responses to threatened government regulation:

1. Deny everything.
2. Blame wrongdoing on small marginal firms in the industry.
3. Discredit the critics.
4. Hire a public relations man.
5. Attempt to defang the legislation through lobbying.
6. Launch a fact-finding committee to see if improvement is necessary.
7. Actually do something.

This book is about the last point: actually doing something, but more specifically doing something that is appropriate to the current turbulent times (which I outlined in Part I) to generate growth. I have divided my discussion on “doing something” into two parts. In this section, I outline a number of guiding principles and follow this with a discussion on the need to focus on excellent execution of the current marketing strategy to generate growth. This means staying focused on the current products and current markets served by the organization. In the next section, I will examine what it means to push the product-market boundaries to generate growth.

### **REMEMBER, CUSTOMERS ARE THE REASON YOU ARE IN BUSINESS**

If you pick up a standard marketing textbook, for example Kotler and Keller (Kotler and Keller 2009), you will find a discussion of

different company philosophies that influence an organization's approach to strategic decision making. The three orientations I want to focus on are:

- Production orientation – an organization following the production orientation believes that customers want a range of inexpensive products and so the organization focuses on production and distribution efficiencies.
- Selling orientation – customers won't buy the organization's products unless encouraged to do so and so the organization needs to sell and promote aggressively. The underlying philosophy is to sell what the organization makes rather than what customers necessarily want.
- Market orientation (or the marketing concept) – make what the customer wants so that the product essentially sells itself. Here the emphasis is on identifying latent or explicit customer needs and satisfying them by providing something of value to customers.

The three orientations are often presented chronologically so as to reflect the history of marketing thought (see Figure 5.1).

A production orientation was prevalent during the industrial revolution and through to the end of World War II. Immediately after World War II, a selling orientation emerged when consumption was encouraged as a way of facilitating a post-war economic recovery – in fact, consumption was seen as somewhat patriotic (Cohen 2003). The downside of this was that organizations were given a free license to aggressively sell and promote products to consumers, products that consumers might not have needed or wanted.

In response to excessive sales and marketing techniques, however, came a renewed interest in consumer rights with new regulations to

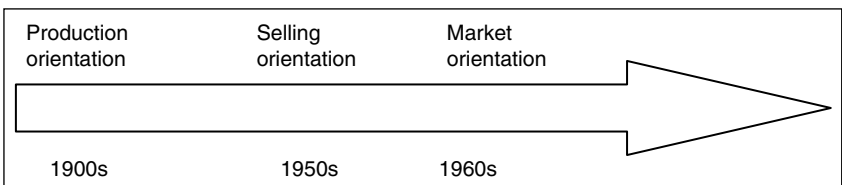


Figure 5.1 Strategic orientations

Source: Original.

protect consumers. In 1962, President John F. Kennedy gave a special message on protecting consumer interests (Kennedy 1962):

All of us are consumers. All of us have the right to be protected against fraudulent or misleading advertisements and labels – the right to be protected against unsafe or worthless drugs and other products – the right to choose from a variety of products at competitive prices.

Four basic themes were identified in President Kennedy's speech to address the principles of consumer rights: the right to safety, the right to be informed, the right to choose, and the right to be heard. An additional four principles were later added: the right to satisfaction of basic needs, the right to redress, the right to education and the right to a healthy environment.<sup>7</sup>

President Kennedy's speech spawned a lot of activity around consumer rights. For example, Consumer International was formed in 1960, the Truth in Lending Act came into effect in the US in 1968, followed by the Consumer Product Safety Act in 1972; the Misrepresentation Act came into effect in the UK in 1967, followed by the Unfair Contract Terms Act in 1977 and the Sale of Goods Act in 1979. World Consumer Rights Day was first celebrated on March 15, 1983 and the United Nations General Assembly adopted the UN Guidelines for Consumer Protection in 1985 (Anon 2003).

This period provided an important inflection point in the history of marketing management. In response to rising consumer advocacy, organizations became more customer focused (Keith 1960), customers were increasingly consulted by managers, and the customer viewpoint became central to business definition (Bell and Emory 1971; Bennett and Cooper 1979). During this time, terms such as "the consumer is king" (Bartels 1962) or the customer is the "centre of the universe" (Keith 1960) emerged. This is the time when the marketing concept, or market orientation, developed.

General Electric is attributed with being the first organization to embed the marketing concept into a broader discussion about its operating philosophy. In its 1952 Annual Report, General Electric made reference to the marketing concept as a principle that

...introduces the marketing man at the beginning rather than at the end of the production cycle and integrates marketing into each

phase of business...marketing establishes...for the engineer, the design and 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 will have authority in product planning, production scheduling and inventory control, as well as in sales, distribution or servicing of the product. (p. 21)

Thus, General Electric firmly positioned the customer as central to new product development and marketing activities, and encouraged everyone within the organization, not just those in sales and marketing, to pay attention to the customer.

While the three strategic orientations were presented in chronological order, I believe we can find evidence in the current landscape of all three orientations at play. That is, we can find examples of organizations that favor one approach over another.

We teach marketing managers to follow a market orientation and in so doing consider the explicit and latent needs and wants of current and potential customers. I am convinced, however, that the vast majority of organizations are still very much internally focused, constantly finding ways to drive costs down and push products to customers, forgetting to look at the business from the outside, from the customers' point of view. The current economic recession has simply exacerbated this tendency toward organizational-centricity.

There are two famous Peter Drucker quotes that support my point. First, Drucker (1986) reminds us that marketing means to look at the business from the outside, from the customers' point of view, to understand what customers value and to identify the needs customers seek to satisfy by consuming your product:

To start out with the customer's utility, with what the customer buys, with what the realities of the customer are and what the customer's values are – that is what marketing is all about. (Drucker 1986, p. 251)

Second, Drucker (1954) reminds us that the purpose of a business is to earn customers, to serve the customers you have, and to make sure your customers want to come back for more. Customer tastes and preferences will change as a result of competitors offering new products that incorporate new technologies, and because of changing economic and social conditions. Therefore, it is essential that any

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organization also innovates to stay relevant and to ensure customers remain loyal partners over the long term.

...there is only one valid definition of business purpose: to create a customer....It is the customer who determines who the business is....Because it is the purpose to create a customer, any business enterprise has two – and only these two – basic functions: marketing and innovation. (Drucker 1954, pp. 39–40)

Marketing through turbulent times often forces managers to make decisions to maximize profit and cash flow at the expense of serving the organization's current customers and giving existing customers reasons to come back for more. During turbulent times, it is even more important to remember that customers are the reason you are in business – can organizations afford to alienate customers? I think not.

## **BUT UNDERSTAND THE PROFITABILITY OF CUSTOMERS**

In the previous section I emphasized the need to be customer-focused. I now want to expand upon this by asking whether an organization should keep all of its customers. That is, are all customers equally important?

During turbulent times, many managers make decisions to maximize cash flow and, as a result, a number of organizations have built up substantial cash reserves. The numbers are staggering: Wynn Resorts has \$1.3b in cash on its balance sheet, Bristol-Myers Squibb has \$8.0b and Eli Lilly \$5.5b (Levisohn 2009). The challenge then is to understand the profitability of your customers and the cash flow implications of doing business with them.

If you can name your customers because you have a customer list or database, then you can probably identify the profitability and cash flow implications of doing business with individual customers. If not, then you are likely to have to work in aggregates by identifying the profitability and cash flow implications of doing business with a “representative customer”.

Once you understand the financial implications of doing business with your customers, that is, whether a customer or type of customer is likely to have a positive or negative impact on the financial status

of your organization, then the next step might be to ask whether you should “demote” or “fire” customers. For example, American Express offered to pay some customers \$300 each if they closed their accounts with American Express by April 30, 2009. American Express was concerned about the risk of credit card defaults, which are approaching an all-time high of 11%. In addition, American Express, like other credit card companies is reducing credit lines, raising interest rates, and cutting back on mail solicitations as a way of minimizing exposure to credit card defaults.<sup>8</sup>

What are the long-term implications of firing customers? I believe that finding an answer to this question poses a real struggle for organizations. On the one hand, the organization itself does not want to fall into financial hardship and so managers need to act prudently to protect the viability of their own organization. Since many customers are going through difficult financial circumstances themselves, continuing to do business with all customers might place the organization at risk. On the other hand, retaining customers and empathizing with them and their plight could pay off in the long term.

American Express has also generated a lot of negative press. Lazarus (2009) wrote an editorial in the *Los Angeles Times* questioning the practice by profiling an American Express customer who had excellent credit and no debt. Because the customer missed a payment to MasterCard three years ago, American Express wrote to the customer to say it was canceling a benefit allowing the customer to carry an extended balance on certain travel expenses. The customer believes that American Express is relying too heavily on computer software to flag potentially risky customers without paying attention to individual situations. While we will never likely know the real story behind this one customer, American Express is playing a dangerous game because it is attracting negative publicity for a practice that is probably fiscally prudent. And then on May 18, 2009, American Express announced that it would cut 4,000 jobs or 6% of its workforce (Pepitone 2009) – an early warning sign of trouble ahead?

I believe that customers should be examined (preferably by a thinking person rather than a computer algorithm) on the basis of whether they fit the organization’s overall mission and whether they might become good long-term prospects for the organization. An obvious example is that of college students, who generally have very little money but represent good future earnings potential. If students were profiled by Banks then they would appear to be high volume,

low value, and probably unprofitable customers – a group not worth doing business with. Banks, however, recognize the long-term earnings potential of college students and set about building relationships with them early on in their campus lives.

Similarly, an organization might want to appear to be serving a cross-section of the market because it is strategically important to do so. For example, an organization might serve a mass market allowing it volume, efficiencies, and visibility. At the same time, the organization might customize innovative solutions for a smaller group of customers. Serving a smaller more demanding niche segment is likely to be perceived by outsiders as prestigious; developing innovative solutions for a smaller group of customers might also lead to innovations that can be developed for other markets. Therefore, the question must be asked as to which customers or market segments are strategically important for your organization both now and in the future.

Once you have identified the financial and strategic implications of doing business with different types of customers, the next question to ask is whether you can afford to continue doing business with them right now. If you are a small business, or a business with limited access to funds, how much money do you need to stay afloat right now? How much money do you need to fulfill a customer order? Is it possible to ask for cash up front or even a proportion of the total invoice up front to enable you to cover your immediate costs? Can you barter? Can you ask to be paid in stocks? Can you be paid according to the benefits you deliver – for example, a percentage of the additional sales you generate for your client or a percentage of the actual money you save your client? Be creative and think of ways you can stay in business while keeping strategically important clients.

During turbulent times, even though customers are the reason you are in business, not all customers are worth retaining. A bad customer is one that will put the organization at risk financially. A really bad customer is one that not only puts the organization at risk financially but also jeopardizes the overall strategic position of the organization. Thus, managers need to fully understand both the financial and strategic implications of doing business with all customers.

## **EMPATHIZE WITH CUSTOMERS**

Many customers are also employees and so have a vested interest in the current economic crisis. Many customers/employees feel a terrible



sense of betrayal and a lack of control because they don't know what is coming next; often they are at the whim of circumstances.

I don't think it's ever been this bad. Not in my tenure. Because the people that we're dealing with now, they have always had [money]. They went to school, they were able to get jobs. Now the jobs are not even out there. (Elizabeth Gore, a counselor at the County Mental Health ACCESS call-in center quoted in Vercammen 2009)

Consumers are anxious and concerned about their current situation and their future, not to mention the circumstances of people they know. It is hard to ignore the media, although I know of some people who have decided to stop seeking news on the current economic crisis simply because they can't absorb any more. I think we all understand that we are in a deep economic recession, which is now being likened to the Great Depression (the Great Depression 2.0) (Horovitz 2009), and we are not sure whether we have hit the bottom, whether more bad news will follow, and whether the government can effectively turn the economy around.

It would be wise for managers to follow the advice of Fred Crawford, of AlixPartners, and make "doomsday plans" even if the organization is still profitable. "[I]f you've done your 2009 budget, figuring sales will fall by 5 percent, then say, try refiguring it based on a 15 percent drop" (McGinn 2009, pp. 46–47). The point is that employees, who are also customers, are part of the doomsday strategic planning process within organizations. Many employees are likely to be consulted as to where cuts could be made, while others hear that budgets are being prepared to allow for 15% cuts. What I have witnessed is that rumors soon develop within the organization that the doomsday budget will in fact be implemented. The result is that employees become even more paralyzed and panic stricken, convinced that they will in fact become casualties. It seems that rumors are often more harmful than the truth.

Add to that the insensitivity shown by many organizations to the plight of employees and customers. Take John Thain, the former CEO of Merrill Lynch, for example, who spent \$1.2m remodeling his office. Or AIG, who took senior executives on a lavish executive retreat just after being bailed out with taxpayer money and later paid executive bonuses of \$165m for 2008; or Wall Street executives, who were paid more than \$18.4b in bonuses for 2008; or the CEOs of the

big-three auto makers who used private jets to attend bailout meetings in Washington. The list goes on.

In response to the announcement about Wall Street bonuses, President Obama said “This is the height of irresponsibility” ... “[we need] folks on Wall Street who are asking for help to show some restraint and... some sense of responsibility”. Obama appealed to the “most effective tool at his disposal right now: public shame” (Parsons and Puzanghera 2009, p. A21). As the months pass, the public has become angrier and less sympathetic toward the plight of big businesses – especially those seeking government (that is, tax-payer) assistance.

In difficult economic times it is “a sense of humanity that determines how well managers lead during a recession” (McGinn 2009, p. 46). Just as CEOs need to be concerned and honest in dealing with employees, so too should those within organizations be concerned and honest when dealing with customers.

How to respond during turbulent times, however, has caused considerable debate among marketers. Take the 2009 Super Bowl for example. “This is the first Super Bowl of the Great Depression 2.0” said Steve Hayden vice chairman at Ogilvy Worldwide (quoted in Horovitz 2009). Since a 30-second television spot costs \$3m (or \$100,000 per second!), the cost seems hard to justify. In addition, prior evidence suggests a direct relationship between consumer confidence and advertising recall – when consumer confidence is low, advertising recall is also low (Horovitz 2009). Then there is the issue as to the appropriate message to use in a Super Bowl commercial. Is the Super Bowl a time to bring a “moment of joy” to consumers as Pepsi did? Or is the Super Bowl a time to show the company is still around, as Audi did? Or is the Super Bowl best avoided because advertising on the Super Bowl sends the wrong message to employees and constituents, which is why FedEx decided not to advertise during the Super Bowl (Horovitz 2009). The Super Bowl example illustrates just how difficult it is to make decisions about how to allocate marketing expenditure during turbulent times.

During turbulent times, it is important to be empathetic toward your customers. For example, Hyundai launched its Assurance program, which allows a new car buyer to miss three months worth of car payments and return the vehicle if laid off, hurt, forced into bankruptcy, or sent overseas for work (a similar promotion was later introduced by General Motors and Ford (Woodyard and Horovitz 2009)).

JetBlue offered to refund the value of a JetBlue airline ticket to any customer who was subsequently laid off before the ticket could be used. Walgreens Care Clinics will see patients free of charge from 11am to 3pm weekdays as long as they can show they are unemployed and uninsured (Feldman 2009). FedEx allowed job hunters to print their resumes free of charge at more than 1,600 locations on March 10, 2009 (Feldman 2009). And Denny's gave away Grand Slam breakfasts for one day in February 2009. As Nelson Marchioli, the CEO of Denny's said: "The free offer is our way of reacquainting America with Denny's real breakfast and with the Denny's brand" or as a Denny's manager put it: "the promotion is a little "economic stimulus" for the average hardworking person" (Kavanagh 2009).

What is important with these examples is that Hyundai, JetBlue, Walgreens, FedEx, and Denny's all recognized the amount of pressure people are under. They empathized with their customers by offering promotions appropriate to the times, and got a lot of free publicity for their efforts. The lesson here is that it doesn't hurt to acknowledge your customers' current situation. Let your customers think: "I can see by its actions that this brand is on my side" (Anon 2008b).

As with other recessions, the current recession will also pass but not before it has caused havoc in many individuals' lives. As Samuelson (2008) said, when people feel they are getting ahead they will be more optimistic, but in a slowing economy people will be grumpier and more contentious: "Economic growth has anchored our self-esteem; slower growth suggests a grumpier America" (p. 28). This is likely to be our reality for the next few years: grumpy customers and fearful employees.

## **NOW IS THE HOUR: BE DECISIVE**

*You can't bank on hope.* (A quote by Daniel Collins of Corning Inc., explaining why the company is laying off 3,500 people that appeared in Newsweek, February 9, 2008, p. 27).

Warren Bennis is a well-known scholar in the field of leadership. In his 1989 book, *On Becoming a Leader*, he outlined the differences between managers and leaders. There are three characteristics of strong leaders that I want to touch upon: strong leaders need to (1) have a compelling vision, (2) skillfully communicate that vision; and (3) inspire people to follow that vision. Central to strong

leadership is the ability to function in turbulent times, where the future is uncertain and when decisions might appear risky. Therefore, rather than being paralyzed by circumstances, strong leaders need to look to the future, innovate, question long-held assumptions, inspire those around them, and maintain trust.

But in turbulent times, there is increased pressure to cut costs, implement more stringent systems to manage revenue and costs, and meet short-term sales and profit targets. In fact, during turbulent times, those at the top are praised for their ability to be in control, to be good administrators, and to manage the bottom line: “Managing in a recession requires fewer big thoughts and a painstaking attention to detail” (McGinn 2009, p. 46). These are attributes more characteristics of good managers than strong leaders (Bennis 1989).

During turbulent times there is a tendency to cut prices to capture sales. The danger is that by dropping prices, consumers alter their expectations as to what the product is “worth”. Consumers may even start to view products as commodities, seeing all products as the same. Instead of succumbing to the pressure to meet short-term targets by dropping prices, marketing managers must continue to focus on the brand, the value that the brand offers, and why the brand is different to those currently on the market. This is what Abercrombie & Fitch has tried to avoid:

“We will not become promotional,” said David Cupps, general counsel and secretary at Abercrombie.... At stake is the apparel company’s carefully crafted image as a casual-but-elite lifestyle brand for young adults. Abercrombie executives worry that offering hefty discounts could hurt the brand’s integrity and appeal in the long run. (Chang 2008)

Colgate Palmolive and McDonalds are doing the same. Both have increased their prices – for example, the price of a McDonalds double cheeseburger went up 19c in December 2008 – and focused on brand building instead (Colvin 2009b).

The discussion above illustrates the tension managers and leaders face. Although the organization needs to be managed well to survive, those within the organization cannot afford to be paralyzed by turbulent times. It is therefore just as important today, as it is during periods of growth, for leaders to be allowed to flourish and take charge, share a vision for the future, and ensure stakeholders understand and

are inspired by that vision. To do well during turbulent times requires a special blend of management and leadership skills.

### **BE MORE ACCOUNTABLE: DEMONSTRATE RETURN ON [MARKETING] INVESTMENT OVER THE SHORT AND LONG TERM**

Good marketing managers endeavor to enhance the credibility of their profession by being more accountable for expenditure. Standard measures of marketing performance include awareness, sales, market share, customer satisfaction, and customer retention. Increasingly, cash flow is also included as a measure of marketing performance. If marketing managers do a good job of creating, communicating, and delivering customer value then measures of marketing performance will improve.

Marketing is also seen as having an important role to play in enhancing the value of assets such as brand equity and customer equity, both of which require constant investment over the long term. One of the challenges facing marketing managers is to explain, and in fact demonstrate, the long-term effects of marketing expenditure. As I mentioned earlier, when short-term earnings goals are under threat, marketing expenditure is often among the first items to be cut mainly because it is not tied to the production of goods. In fact, nonmarketers often view marketing expenditure as frivolous.

A recent example of this comes from General Motors who, in February 2009, cut its advertising budget by \$800m (Bensinger 2009). Mike LaNeve, head of sales and marketing for General Motors North America decided to focus the remaining marketing budget on pushing “the product message hard” to ensure consumers remain “confident in GM and our products” (Bensinger 2009). Thus, General Motors moved money away from long-term brand building activities, which would probably have been viewed by the government and public as a waste of taxpayers’ money.

General Motors faces a short-term problem, if not a crisis: sales are down 45% year on year against a market decline of 33%, and 80% of people recently surveyed said they would not buy a car from an organization receiving bailout money (Bensinger 2009). While I realize that the General Motors situation is exceptional, General Motors decided to spend its money on generating short-term results, in this case, to assure consumers that buying a car from General Motors is

a “safe bet”. If General Motors survives in its current form, it will have a lot of catch-up to do to reestablish the brand as an icon of the American auto industry.

Organizations need to have marketing plans in place that balance spending for short-term results and spending on long-term brand building activities; turbulent times are no different. While the need to spend for immediate results is more urgent during periods of economic difficulty, it is the responsibility of marketing managers to educate others within the organization as to why expenditure for the long term is equally important. Here are a number of reasons to support a long-term position.

Marketing expenditure builds brands and brands should be viewed as appreciating assets. If managed well, a brand should command a price premium in the market and increase in value over time. By cutting back on brand building expenditure, the long-term value of brands to the organization is jeopardized.

Marketing expenditure will continue to have influence beyond the year in which the expenditure occurred. For example, advertising has both a cumulative and residual effect and so consumers often recall seeing an advertisement long after it appeared (remember the Datsun-Nissan example given earlier?). In addition, organizations need to constantly remind or reinforce earlier messages. Ephron (1995) likens advertising to renting shelf space. By not advertising, the organization runs the risk of not having any shelf space at a time when new consumers enter the market.

To build credibility, marketing managers need to demonstrate a stronger case for marketing expenditure by using the language of finance, for example, by outlining the short- and long-term return on marketing investment. Marketing managers also need to demonstrate the impact marketing expenditure has beyond the period in which it is incurred – that is, marketing managers have a responsibility to continuously demonstrate a link between marketing expenditure today and the future value of the organization and its brand assets tomorrow. When asked to justify expenditure for a particular marketing campaign, it is the responsibility of marketing managers to move beyond an answer in the realms of “It depends” to a more detailed explanation of measurable outcomes that relate to the impact the marketing expenditure has on the market and shareholder value. Marketing should not be the poor relation, the quick fix, to enable the organization to meet earnings goals. Instead, marketing should

be viewed as an integral contributor to the long-term value of the organization. Until marketing can align itself more to the goals and language of finance, however, it is likely to be the functional area most under threat when expenditure is scrutinized.

## CONCLUSIONS

This chapter identified a number of guiding principles for managers operating in turbulent times: (1) remain focused on customers, remember that customers are the reason you are in business, and give customers a reason to come back for more; (2) understand the strategic and financial implications of retaining all customers; (3) empathize with customers and their plight; (4) be decisive, share a vision, and give people a reason to follow your vision; and (5) be more accountable for marketing expenditure by demonstrating return on short- and long-term marketing investment.

Having outlined a number of important principles for marketing through turbulent times, I now want to focus on more specific strategies to facilitate growth. In the next chapter, I will explore what it means to maintain momentum and stay focused on the current marketing strategy to achieve growth.

# Marketing through Turbulent Times: Growth through Excellent Execution

There is only one valid definition of business purpose: to create a customer. ... Therefore, any business enterprise has two—and only two—basic functions: marketing and innovation (Drucker 1954) pp. 39–40

In the previous chapter, I outlined a set of guiding principles for managers operating in turbulent times. I now want to turn my attention to specific growth strategies. In this chapter, I will address the need to maintain momentum and stay focused on executing existing marketing strategies extremely well. In subsequent chapters, I will identify strategies for growth by pushing the organization into new markets and with new products. I want to begin this chapter by addressing the issue of momentum by examining how organizations responded to the 1980s recession.

## HOW DID ORGANIZATIONS RESPOND IN THE 1980S?

The current recession has been compared with the recession of the 1980s for its length and severity along with its impact on the housing, automobile, and financial sectors. One key difference between the two recessions, however, is that the 1980s recession was government induced in an attempt to drive down inflation. By contrast, the current recession was not; in fact, governments around the world are struggling to implement policies to minimize the effects of the recession.

In this section, I want to evaluate the decisions made by organizations during the 1980s recession and show how these decisions affected performance once the recession ended. I feel that the addition of empirical data adds an interesting perspective to the theme of marketing through turbulent times as it allows us to use history as a guide to the future.



The data used here comes from COMPUSTAT North America, a product owned by Standard & Poor's, which provides financial and market information on active and inactive companies listed on the New York Stock Exchange or NASDAQ.<sup>9</sup>

I decided to compare the performance of an individual organization to others within the same industry. To do this, I used the Global Industrial Classification System (GICS) developed by Standard & Poor's in 2001<sup>10</sup> in collaboration with Morgan Stanley Capital International. An organization is assigned to one of ten industries based on the nature of its primary business. The ten industries are listed in Table 6.1. I particularly like the separation of consumer discretionary and consumer staples because consumers are likely to cut back on discretionary spending during a recession but maintain spending on staples.

There were two recessions in the early 1980s, a brief recession from January–July 1980 and then a slightly longer recession lasting from July 1981 until November 1982. Since the data I use is annualized, I marked 1980–1982 as the recessionary years, 1979 as the year prior to the recession, 1983 as the year immediately following the recession and 1987 as the five-year point after the recession. I identified how much each organization spent on R&D and marketing during the recession and then compared this expenditure to other organizations in the same industry. In addition, I took the organization's "pulse" one year after and five years after the recession by measuring its market share, return on assets and Tobin's Q (these measures are described in Table 6.2).

*Table 6.1* The ten global industrial classification system (GICS) sectors

GICS	Description
10	Energy
15	Materials
20	Industrials
25	Consumer discretionary
30	Consumer staples
35	Health care
40	Financials
45	Information technology
50	Telecom services
55	Utilities

Table 6.2 Measures used in the study

Measures of the organization's pulse	Description
Market share	The organization's sales divided by the total sales for its industry, based on the GISC sector to which it belongs.
Return on assets	<p>Definition: this measure reflects how effectively the organization uses its assets to generate revenue.</p> <p>Calculation: income divided by total assets.</p> <p>Interpretation: This figure is best interpreted by comparing organizations within the same industry to see which organization makes better use of its assets because some industries that require large initial investments will likely have a lower return on assets.</p>
Tobin's Q	<p>Definition: Tobin's Q is used to reflect the market value of an organization.</p> <p>Calculation: Tobin's Q is calculated by taking the market value of installed capital divided by total assets. Market value of installed capital equals the market capitalization of the organization (which is common shares outstanding multiplied by the closing price for the shares), debt in long term liabilities and debt in short term liabilities.</p> <p>Interpretation: If Tobin's Q is greater than one then the organization's market value is greater than its book value. This means that it is profitable for the organization to create more capital. Put another way, a dollar invested in the organization is "worth more" than the original investment.</p> <p>If Tobin's Q is less than one, then the organization's market value is less than its book value, which means that the market undervalues the company. The organization would gain more by decommissioning old equipment and cutting back production.</p>
<b>Measures of marketing and R&amp;D</b>	<b>Description</b>
R&D intensity for the organization	<p>Definition: a measure of how much money the organization spends on R&amp;D.</p> <p>Calculation: R&amp;D expenditure as a percentage of sales.</p> <p>Interpretation: as with return on assets, this figure is best interpreted by comparing the R&amp;D intensity of the organization to other organizations within the same industry.</p>
The difference in R&D intensities.	<p>Calculation: the R&amp;D intensity for the organization compared with the R&amp;D intensity for <i>all</i> other organizations in the industry, excluding the organization itself.</p> <p>Interpretation: I used a 1 to indicate the organization spent more than the industry average on R&amp;D and a 0 to indicate the organization spent less than the industry average on R&amp;D.</p>

Continued

Table 6.2 Continued

Measures of Marketing and R&D	Description
Marketing intensity for the organization	<p>Definition: a measure of how much money the organization spends on marketing.</p> <p>Calculation: marketing expenditure as a percentage of sales.</p> <p>Interpretation: as with return on assets, this figure is best interpreted by comparing the marketing intensity of the organization to other organizations within the same industry.</p>
The difference in marketing intensities	<p>Calculation: the marketing intensity for the organization compared with the marketing intensity for <i>all</i> other organizations in the industry, excluding the organization itself.</p> <p>Interpretation: I used a 1 to indicate the organization spent more than the industry average on marketing and a 0 to indicate the organization spent less than the industry average on marketing.</p>

The first step, in what became a lengthy and often tedious process was to identify the top 20 organizations in each industry based on 1979 sales. I decided to focus my attention on the top 20 organizations because once I moved past the top-20, the market shares of subsequent organizations were extremely small.

I needed data across a range of variables from 1979 right through to 1987. Probably because of the historical nature of the time period I was working with, there was a lot of missing data and this presented challenges as I tried to build a usable top-20 list. For financial services, however, I decided to retain only 18 organizations because of the extent of the missing data problem. I decided not to include two industries: Telecom Services and Utilities, because a lot of the organizations were not publicly traded at the time which meant I was unable to calculate market values.

## The Results

Table 6.3 shows the results of my analysis. I am interested in the differences between short- and long-term market share (that is market share in 1983 and 1987), short- and long-term return on assets, and short- and long-term Tobin's Q when comparing the "big spenders" (i.e., those organizations that spent ahead of the industry average during the recession) with "below-average spenders". I tested the findings to determine which pairs of results are

Table 6.3 The impact of spending ahead of the industry average

	R&D		Marketing	
	Organization spent more than the industry average	Organization spent less than the industry average	Organization spent more than the industry average	Organization spent less than the industry average
Market share in 1983	2.54	2.41	1.99	2.45
Market share in 1987	2.35	2.40	1.86	2.31
Return on assets in 1983	<b>6.07%</b>	<b>3.09%</b>	<b>5.91%</b>	<b>2.90%</b>
Return on assets in 1987	6.38%	3.53%	5.22%	4.15%
Tobin's Q in 1983	<b>1.02</b>	<b>0.76</b>	0.89	0.80
Tobin's Q in 1987	1.15	<b>0.94</b>	<b>1.10</b>	<b>0.80</b>

statistically significantly different and have noted any differences in bold in Table 6.3.

This is what I found:

- Organizations that spent more on R&D during a recession compared with the industry average had a higher return on assets *one* year after the recession. More specifically, the return on assets for big spenders was 6.07% compared with 3.09% for below-average spenders, a difference of almost three percentage points.
- The same was true for organizations that spent more on marketing during a recession – the return on assets was statistically significantly higher *one* year after the recession for big spenders compared with below-average spenders (5.91% vs. 2.90%; again a difference of three percentage points).
- Taken together, the results show the importance of maintaining R&D and marketing spend during a recession. If expenditure is maintained at a level greater than or equal to that of its competitors then organizations will be able to make better use of their assets in the year immediately following the recession.
- Spending above the industry average on both R&D and marketing, however, *did not* impact the long-term return on assets.
- Organizations that spent ahead of the industry average on R&D managed to enhance their market value, as measured by Tobin's Q, *one* year and *five* years after the recession compared with

organizations that spent below the industry average. Not only was the Tobin's Q higher for the big spenders but also it was above one. This means that every dollar invested in the business will have generated \$1.02 in 1983 and \$1.15 in 1987. By contrast, organizations that spent below the industry average on R&D risked the long-term viability of their organizations as demonstrated by a Tobin's Q of 0.76 in 1983 and 0.94 in 1987. When the Tobin's Q goes below one, the market value of the organization has dropped below its book value and investors and managers should ask whether the organization should be cutting back on production and decommissioning old equipment.

- Organizations that spent ahead of the industry on marketing managed to enhance their market value *five* years after the recession ended, but not in the year immediately following the recession. Five years out, the big marketing spenders had a Tobin's Q of 1.10 compared with 0.80 for the below-average spenders, indicating the additional value marketing expenditure brings to the organization. As with R&D, these results showed that by not spending on marketing during a recession, the future of the organization is dangerously jeopardized.
- The results provide clear evidence of the long-term effects of marketing expenditure. The big marketing spenders were not better off in 1983, the year immediately after the recession but had a statistically significantly higher Tobin's Q in 1987. What this shows is that marketing expenditure, which helps build brand equity, takes time before it has any impact.
- There were no differences in market share between the big spenders and below-average spenders with respect to either marketing or R&D. To me, this is explained by the number of organizations in a sector and therefore the relatively low market shares of each organization, which makes it difficult to detect changes over time. If I was to repeat the analysis by subindustry, I might detect differences in market share.

When I examined the results of individual organizations, I found that Exxon Mobil had the highest sales in the Energy sector in 1979, spent the most on R&D and marketing through the recession compared with other organizations in the Energy sector, and maintained the position of market leader in the Energy sector in 1983 and 1987. Similar results were reported for BP, Royal Dutch Petroleum,

United Technologies, Du Pont, ICI Chemicals, General Electric, Philips Electronics, Procter & Gamble, Johnson & Johnson, Bank of America, Chase Manhattan, IBM, Hitachi and Xerox: all held a top-five position in their respective industries before, during and after the recession.

### Some Additional Insights

Based on the data I reported in this section, it is clear that maintaining momentum with R&D and marketing expenditure during a recession enhances both short- and long-term performance. These are important results because some of our greatest inventions occurred during economic downturns. In the Great Depression, Neoprene and nylon were developed by DuPont, Hewlett-Packard and Polaroid were founded during this period, and the Radio Corporation of America returned to profit in 1934 as it moved its R&D efforts away from radio to the emerging television sector (Nicholas 2008).

As Joseph Schumpeter (1954) reminds us, industries move in cycles and opportunities to change the way in which an industry operates are frequent, whether the economy is in recession or not. This is something Schumpeter called “Creative Destruction” to explain how change occurs within an industry. What is important is that organizations are always looking for ways to create change – either through developing and commercializing new technology and new products, or by identifying new markets. Change can alter the face of the industry and the position of key players within it. Add to that the thought that “necessity is the mother of invention”, which further emphasizes the need to maintain R&D and marketing expenditure during difficult economic times. Adversity often forces us to rethink our mental models of the industry, its products and markets. During turbulent times, we might well come up with some of our best ideas that result in substantive change and lead to sustainable competitive advantage.

### HOW NOT TO GROW

But simply spending on R&D and marketing alone is insufficient. I have always maintained that it is the effective use of R&D and marketing expenditure that will differentiate winners from losers. Here are some examples of “not so great execution” by large organizations. I have included them to illustrate just how easy it is to jeopardize

growth by making it difficult for existing customers to do business with an organization.

Frank phoned Verizon to investigate buying a new modem. Frank was told that a new modem would take several days to ship and so decided to go to a BestBuy or Verizon store instead. However, the sales representative with whom Frank spoke to on the phone acted in haste and put the order through before Frank had the chance to make a final decision. The sales representative said he couldn't cancel the order and all Frank needed to do was refuse the courier delivery when the modem was delivered to the house. Unfortunately, the courier did not require a signature and so left the parcel at the front door. It took several phone calls to get instructions and the correct paperwork to enable the modem to be returned to Verizon. But then, even though the modem was verified as having been returned, Frank's phone bill continued to show payment for the modem (the payment was divided into three installments over three months). Every time Frank received a new phone bill, Frank would call Verizon only to be told that it should be credited the following month. Four months later, the bill was finally credited for the full amount.

Lynda had a thin credit history and was asked to put deposits down with service companies while building credit. After 12 months of paying all bills in full and on time, all service companies with the exception of Comcast, returned deposits. The deposit paid to Comcast was only \$30 but Comcast (now Time Warner Cable) refused to refund the deposit. Lynda has been told on many occasions that the only way the money will be refunded is when Lynda terminates the contract with Time Warner Cable, something Lynda promised to do as a matter of principle.

Burt is a customer of NetFlix and pays \$16.99 per month and can rent three movies at one time. Burt received a promotion titled "Everyone's a winner when you give free movie rentals". Included were four cards for Burt to give away to friends and family allowing each recipient one month free rental. Well, not everyone is a winner because current NetFlix members and their households may not participate. This type of promotion happens a lot – gifts and discounts to entice new customers but nothing to say thank you to existing customers.

And now for a personal story. A few years ago, we wanted to buy our son an Xbox for Christmas and, as it turned out, so did many other people. Every day for about five days, we visited BestBuy, Circuit

City, Good Guys, Target, EB Games, Game Stop, FYE, and Wal-Mart in an effort to locate an Xbox. Each time, we asked three simple questions: (1) what time do deliveries arrive into store; (2) could the sales associate let us know how many Xbox units would be allocated to the store; (3) could we “book” and pay for an Xbox in advance. The answers were pretty uniform: (1) deliveries come in over night, but arrive anytime in the morning; (2) sales associates don’t know how many units are allocated to the store; and (3) no, you can’t reserve the product. In addition, many sales associates rolled their eyes at us and, if we asked whether more units were due before Christmas, we would get a fairly standard reply “I don’t know, perhaps you could come back later”, or a more “helpful” reply was “it might pay to shop around”. It became clear to us was that the burden was firmly placed on our shoulders, the shoulders of the customer, to do the work to spend money. Doesn’t make sense, does it?

OK, so now you are going to think I am really obsessive, although I prefer to think of myself as a critical marketer. We decided to phone 1-800 MICROSOFT to determine whether the problem was with retailers or a lack of inventory on the part of Microsoft. The receptionist at 1-800 MICROSOFT suggested we call 1-800 4MYXBOX, which we did. The person at 1-800 4MYXBOX said the problem was with retailers as there were plenty of Xboxes in Texas the last time he looked (not very helpful as we live in California). We finally located an Xbox online via GameStop and placed an order in time for Christmas – only to find the unit arrived two days after Christmas because deliveries from the East coast were grounded due to snow storms!

To this day, I simply cannot understand why retailers cannot better manage inventory and why customers, who have already decided to spend money at retail, are burdened with pursuing products to buy. It reminds me of Kmart, who filed for Chapter 11 bankruptcy protection in 2002. Reasons given to explain the demise of Kmart included inferior customer service, diversifying too broadly into hardware and books, and not knowing whether it was a low-price leader like Wal-Mart or a slightly higher quality discount store like Target (Gallagher 2002). But, the main reason offered for Kmart’s demise was inadequate investment in technology such that the company could not track, order and distribute inventory into stores (Gallagher 2002). It seems that nothing much has changed in the world of retailing (Adler 2009). A lack of inventory will continue to pose a substantial threat



to the viability of many organizations today because inventory and investment have been cut by an average of 38% in response to the current turbulent times (Anon 2009e).

## GROWTH 101

I hope I have made my point that many an opportunity is lost through sloppy execution of existing marketing strategies. I now want to focus on how to excel by focusing on the current product-market space within which the organization competes, that is, how to excel by following a strategy of market penetration.

The purpose of a market penetration strategy is to increase sales without departing from the original product-market boundaries within which the organization operates (Ansoff 1957). Therefore, the organization will put in place programs to sell more products to current customers or find new customers who are seeking to satisfy the same needs and wants as existing customers. An organization following a market penetration strategy would likely pursue the following goals:

- To increase market share by encouraging brand switching behavior. While it may be possible to generate growth by introducing new customers to the product, growth is more likely to occur by encouraging consumers of competitors' products to switch to your product. For example, Colgate is less likely to generate additional sales by introducing new customers to toothpaste but instead will generate sales by taking customers from, say, Crest. Similarly, Verizon is more likely to grow its customer base by appealing to AT&T or Sprint's customers than by introducing new customers to cell phones. The same is true of many mature markets such as fast moving consumer goods, banking, insurance, autos, and airlines.
- To increase the volume purchased by existing customers. Volume can be increased in one of two ways – either increase the frequency of use or increase the amount used per occasion. When looking for ways to increase volume, a good starting point is to identify light vs. medium vs. heavy users (both in terms of frequency and amount used). Then ask what you know about each group of customers before putting in place programs to move a light user to a medium user and a medium to a heavy user. For example, Starbucks knows that Americans drink 3.4 cups of coffee a day,

an average Starbucks customer visits the store 6 times per month and heavy users of Starbucks visit the store 18 times per month (Keller 2008b). What can Starbucks do to encourage an average customer to move toward 18 visits per month? What can Starbucks do to encourage a greater proportion of the 3.4 cups of coffee consumed daily to be purchased from Starbucks? In another example, if customers already visit McDonald's for lunch or dinner, what can McDonald's do to encourage more people to visit McDonald's for breakfast? While I am not a fan of the "super-size me phenomenon" in the fast food industry because it encourages people to consume more calories than they need, encouraging people to trade up from a small to regular or from a regular to large serving of fries or soda are good examples of a strategy aimed at increasing the volume used per occasion.

I often hear people say: "There is nothing wrong with our strategy, what we need to do is better implement the strategy we have". I have developed a checklist below to help identify areas in which your organization could improve the execution of its current marketing strategy.

*Know your customers and make them feel important:* Do you know exactly who your customers are? Do you have a profile of your customers? Do you understand what a "day in the life of" your target customer looks like? Steve Jobs deliberately targeted a specific, somewhat elite, target market when Apple launched the iPhone. The strategy seemed to pay off because four million iPhones were sold within 200 days of launch in June 2007 (Sullivan 2008b). AutoZone is a \$6.5b business that sells auto parts and accessories. AutoZone effectively targets the do-it-yourself market by providing a full range of parts, brightly lit stores, friendly staff, and easy to follow repair instructions. AutoZone has seen a 6% increase in same store sales (Demos 2009).

*Know why your customers buy once, and return to buy again:* Why do customers buy your product? Have you identified the needs and wants customers seek to satisfy by consuming your product? How else can your customers satisfy the same needs? Do you know which attributes are the most important to your customers? The toothpaste market was once divided into four segments based on different needs consumers have: *Sensory*: Seeking flavor and product appearance; *Sociables*: Seeking brightness of teeth; *Worriers*: Seeking decay

prevention; *Independent*: Seeking low price (Haley 1968). Why do customers buy your toothpaste – if it is to brighten teeth, what else could your customers use to brighten their teeth?

Do you make your customers feel valued by your organization? Staples recently sent me a brochure to “recognize that you’re one of our most loyal customers” and included a range of coupons “reserved only for our best customers”. A small gesture, but nonetheless a pleasant gesture, to acknowledge the business I put their way.

*Points of Parity*: Have you identified a minimum level of performance customers expect from products in the category (we call these points of parity)? Does your product perform at this minimum level? By meeting points of parity, customers have no reason *not* to buy from your organization. For example, new legislation is about to be introduced in the US to regulate fuel efficiency. Therefore, consumers will soon expect to buy a car that achieves say 35 miles per gallon – a point of parity. Or, if you bought a digital camera today you would probably expect a minimum of 6 mega pixels, more if you want to enlarge photos, and a 5x optical zoom if you are going to take a lot of photos outside – again, points of parity.

*Points of difference*: Do you know what truly sets your brands apart from those of your competitors? Are these points of difference relevant to the market?

*How do customers behave?* Do you know your customers’ purchase behavior? Can you name your customers or are you working with aggregate descriptions of target markets? When do your customers buy? How often do they buy? Where do they buy from? What does it mean to be a light, medium, or heavy user of your product or of products in your category? How can you move a customer from a light user to a medium user and from a medium user to a heavy user? Do you have any lapsed users? Why have they lapsed? Can you do anything to encourage them to return to your product?

*Customer churn rate*: What customer churn rate does your organization experience? Is this churn rate too high? Has the churn rate increased due to the current turbulent times? What can you do to retain a greater proportion of customers and to encourage them to buy more from your organization? For example, frequent flyer and other reward programs were designed to retain customer purchases (although we now belong to so many loyalty programs that the competitive advantage of such programs has likely worn off).

*Doing business with your organization:* Is it easy for your customers to find information about your organization and its products? For example, when I buy a car I can go to the manufacturers' own website or brochure and easily compare models of car. Similarly, I can go to websites such as [www.carsdirect.com](http://www.carsdirect.com) and get technical specifications for a range of cars to enable me to compare the size of the car, engine size, fuel efficiency, add-ons, etc. This simplifies information gathering, an essential part of the decision-making process for purchasing high involvement products such as cars.

Do your customers experience any difficulties when interacting with your organization? If you expect your customers to get information or order online, have you actually gone through a "mock" exercise to see how easy it is for customers to find information about your organization and/or products and place an order with you? If you expect customers to phone your organization, again, have you ever done this as if you were a customer? An organization I always enjoy dealing with is [SwimOutlet.com](http://SwimOutlet.com). If ever I need to query or return anything to [SwimOutlet.com](http://SwimOutlet.com), I always get a quick and reasonable response from someone who seems to be able to connect with the problem I have. My questions are answered quickly and I don't dread having to communicate with them.

*Happy customers:* Are your customers satisfied with your products and your organization? More importantly, do they plan to buy from you again in the future? Do they recommend you to friends? I like the Net Promoter Score<sup>11</sup> to measure the strength of relationship between your customers and your organization and/or your product. To calculate a Net Promoter Score, ask your customers: "How likely is it that you would recommend [Company X] to a friend or colleague? Consumers respond using a 0–10 rating scale: (1) Promoters (9 and 10) are loyal enthusiasts who will keep buying, refer others and fuel growth; (2) Passives (7 and 8) are satisfied but are not all that enthusiastic. This group is vulnerable to competitive offerings and therefore more likely to brand switch; (3) Detractors (0–6) are unhappy customers who could damage your brand and impede growth through negative word-of-mouth. The Net Promoter Score is easily calculated: take the percentage of customers who are Promoters and subtract from this the percentage of customers who are Detractors.

*Is your product easy to find?* Can your customers find your product? If you are marketing a mass product, do you need to expand the

number of distribution outlets to make it more accessible? If you are marketing a more specialized or exclusive product, do you need to reduce the number of distribution outlets to ensure distributors are passionate about your product and can give the right information about it?

Do you have an inventory management problem and find that your product is constantly out of stock (think Kmart)? Are there any other ways to ensure your product is available to your target customers at a time and place they want the product? For example, Domino's Pizza allows orders to be placed online for delivery at a time and place that suits its customers.

*Staying relevant:* Are your communications relevant to your target audience? Do you need to change your message to maintain relevancy? For example, when consumers are feeling the pinch financially, they are likely to be seeking out better value. Many restaurants, especially fast food and fast casual restaurants, have responded by emphasizing cheaper menu items to encourage consumers to continue to dine with them. Another example is that of household cleaners. At a time when consumers are becoming more aware of the impact household cleaners have on the environment manufacturers increasingly emphasize the use of environmentally friendly ingredients. Or Sun Chips, who make claims on their packs that some of their products are made in plants powered by solar energy.

Target successfully repositioned its stores away from Wal-Mart by tidying them up, improving the lighting and displays, and generally making the stores feel more urban and sophisticated. As part of the repositioning strategy, Target partnered with fashion designer Isaac Mizrahi and introduced a range of apparel in line with its new market position. Therefore, Target made changes to its existing format as it moved toward another market, and in the process, distanced itself from the market served so well by Wal-Mart.

*Acquiring from competitors:* Since growth is likely to come from brand switching behavior, do you know which brands your customers are likely to switch between and have you put in place programs to encourage brand switching? An obvious example is the use of coupons and in-store price discounts – if you buy Dove shampoo and conditioner because it is on special this week but the next time you need hair care products you buy Pantene because it is on special then Dove and Pantene are part of your “choice set” and price promotions have encouraged you to brand switch.

*Keeping in touch:* Are you using the media channels your target audience is exposed to? In the 1950s and 1960s, there were fewer television channels and more women stayed at home. Therefore, if your target market was the person in the household responsible for the household shopping it was likely to be women and you could likely reach this audience through television. In fact, the name soap opera came about because soap companies sponsored 15 minute serialized radio dramas created during the Great Depression. By 1940, 90% of all commercially sponsored daytime broadcast hours were sponsored soap operas and this was seen as an effective way of reaching housewives.<sup>12</sup> To reach the same target market now is far more complex because more men do the household shopping and about 60% of all women aged 20 or older work (James 2009). In addition, there are hundreds of television channels, along with a vast array of other methods available to reach a target market. And even when you think your target market is being exposed to your television commercial, between 5.8% and 16% of viewers will be simultaneously surfing the Internet (the figure is higher for women aged 30–39 years) (Helm 2009a).

General Mills identifies “touch points”, which are the media or locations where it makes best sense to touch, locate, or contact the target consumer. When General Mills launched Fiber One, it targeted Weight Watchers meetings and blogs devoted to health and fitness to promote the taste of the new product. By contrast, General Mills has a series of humorous “Roll into the X games” webisodes aimed at teenage boys where it promotes its frozen pizza snacks (Anon 2008a). Similarly, when Kimberly-Clark launched its Huggies Pure & Natural line of diapers it advertised on “mom blogs”, sites visited by many young mothers who research pregnancy and child birth (Helm 2009b).

Is your marketing budget sufficient to ensure your communications reaches and grabs the attention of your target audience? Do your customers understand your message? Are you communicating with the market frequently enough to remind your customers that you exist and that they should purchase from you?

*Value:* What about price? How do consumers define value in your category? Does your product offer consumers good value?

*Strong brands:* How strong is your brand? Does it enjoy high levels of brand awareness? What does your target audience associate with your brand? What do they feel about your brand? What points of

difference does your brand offer compared with other brands on the market? Do you emphasize your brand's points of difference in your communications strategy? What if your brand is out of stock – will customers purchase a competitor brand or wait until they can purchase yours? Does your brand encourage customers to have a relationship with it by, for example, joining a club or user group? Are customers advocates for your brand?

The points above cover the key aspects of marketing management, and the message is simple: if you want customers to use your product, use your product more, and if you want to find new customers for your existing products, then you must first implement your current marketing strategy well.

## CONCLUSIONS

In turbulent times, organizations need to maintain momentum and focus. Momentum is achieved by holding expenditure on R&D and marketing to a level that is competitive with the industry. Maintaining momentum means your organization is poised well to compete as the recession ends. Focus is achieved through excellent execution of the current marketing strategy.

I strongly believe that an organization should *not* seek to grow by pushing product-market boundaries unless it is doing all that it can to implement the current marketing strategy well. Since market and product development initiatives take additional resources, those within the organization must first ask whether the time, energy, and money is better spent executing the current strategy.

Having said that, there are some risks inherent in focusing on a market penetration strategy – the main risk is that the market is likely to be in a mature state and therefore very competitive. Consumers are price sensitive and it is difficult to make your product stand out and be seen as unique and different. In addition, as consumers' knowledge of available products increases, consumer generated media also increases. This means that you as the brand owner no longer have as much control over your brand message in the market – consumers will feel more motivated to tell other consumers exactly what is right and wrong with your product and can do so easily by writing blogs and online reviews and visiting Internet chat sites.

Along with the challenges of operating in a mature and competitive market, markets are dynamic and consumer needs and wants constantly change. Change can be brought about by competitor actions, regulations, technology, and the like. By focusing on a strategy of market penetration, the danger is that your organization risks losing relevance by not adapting to change.

And so, while I advocate growth through excellent execution, or at least not jeopardizing the long-term health of the organization through sloppy execution, I also encourage managers to look for growth opportunities. Even in turbulent times, there are opportunities to redefine the competitive landscape and strengthen the position of your organization. The next two chapters will focus on growth by pushing product and market boundaries.



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## **Part III**

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# **Pushing the Boundaries**

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# Pushing Product-Market Boundaries: What Is a Market?

In the previous two chapters, I offered guiding principles to managers operating in turbulent times and encouraged managers to maintain momentum and focus. I now want to discuss how to push market boundaries with new products to generate growth. In the first chapter, I noted that these growth strategies are not only appropriate to organizations marketing in turbulent times but are also suitable for any situation within which generating growth is a primary goal. Therefore, the strategies for growth I outline in this book encompass responding to the current turbulent times and creating turbulence when the economy is out of recession.

But before I begin to outline growth strategies that push product-market boundaries, I need to pause and reflect upon the concept of a market. A market is one of those terms that we all seem to understand but, at the same time, never really stop to define:

Images of the market, the concept of the market, what the notion of a market evokes does not seem to bother those who refer to it frequently. They appear to know the meaning of it. But once you think deeply about markets it seems that there are different points of view (Snehota 2004, p. 15).

I will use this chapter to trace the origins of the term market before discussing their treatment within marketing.

## ECONOMICS

To understand what we mean by market development, it is important to first consider how a market is viewed in neo-classical economics, a discipline from which marketing emerged.

To an economist, a market is primarily seen as a place to efficiently allocate scarce resources. Remember Economics 101? Here, we were taught to draw supply and demand curves, and declare the market in

equilibrium if the quantity demanded by buyers at a particular price equaled the quantity sellers are prepared to produce at the same price. Therefore, to economists, the interest in markets themselves is more an interest in the price needed to clear a market.

If we take this a step further, then we assume that price conveys all meaning to buyers and sellers in the market and so all that buyers need to know before making a purchase is the price the product will sell for. Similarly, all sellers need to know before producing a product is the price it will likely fetch in the market. Sellers might compete on the basis of price and buyers may enter into price negotiations, but price is all that is required for a transaction to occur.

Because economics encourages us to focus on buyers, sellers, and the price required for a transaction to occur, economists do not pay much attention to the role of suppliers, strategic alliance partners, stockholders, and other stakeholders who make up the network around the organization that can influence the way the organization performs. Furthermore, economic analysis focuses on one-off transactions, not long-term relationships between buyers and sellers, a concept that is very important to marketers.

In addition to the factors I have outlined above, there are a number of other hallmarks of neo-classical economics that influence the way in which markets are believed to work. I have outlined these below and provided appropriate counterpoints along the way.

Economists maintain that buyers and sellers behave rationally and that each makes decisions to maximize his or her utility or satisfaction. These decisions are based upon full information about the price, the products being sold, and the capabilities of the organizations selling the product. In reality, we don't know a lot about an organization when we enter into a transaction with it. Even if we read about the organization, we know we will never find out everything about it. We also know that we do not have a computer-like ability to process information and, in fact, we can only process a limited amount of information at a time – this is something Herbert Simon called bounded rationality (Simon 1957). The following example puts an economist's view of an individual's computational power in perspective:

If two rational people played a game of chess, there would be a period of silence of about two hours while each player worked out all the moves. After two hours, one would resign (Anon 1994).

In reality, we know that there are other factors that influence purchase and production decisions. Consumers, for example, are influenced by needs and wants, the power of brands, and the meaning embodied in the brand. Organizations are influenced by a range of strategic and financial concerns. For example, an organization might want to make a full range of products to show the market the extent of its expertise or it might undertake promotions to maximize cash flow.

In economics, markets comprise a group of products that are close product substitutes, that is, products which are functionally similar. In marketing, markets comprise a group of consumers with the same needs or wants. To a marketer then, competitors are all organizations that produce products that allow customers to obtain the same satisfaction (Drucker 1964, p. 114).

To an economist, changes to the market occur outside the organization. This means that the organization does not influence changes in, for example, technology or consumer tastes and preferences. This view does not, however, take into account entrepreneurial organizations, those organizations that innovate by leveraging internal resources and capabilities, invent new products and processes, and then lead consumers to these new products by changing tastes and preferences.

Lastly, in neo-classical economics, markets are, by and large, stable. If change occurs, the market will converge toward a new equilibrium where supply and demand is equal. To an Austrian Economist, the opposite is true – markets are always in disequilibrium, in a constant state of flux.

## EARLY DEFINITIONS OF MARKETING

As I have mentioned in the section above, we know that markets are complex, and are often difficult to understand. We know that there is more to making a purchase decision than price alone. In addition, we don't have access to full information; we have limited cognitive ability to process all of the information we are exposed to; organizations are part of a complex market network; building relationships with customers and retaining them for the long term is strategically more important than simply engaging in one-off transactions; markets are dynamic and constantly changing; organizations themselves can be the driver of change by developing new technologies, inventing new

products and shaping consumer preferences; the economist's view of the market does not fully explain how firms grow; and markets themselves are not simply defined on the basis of those products that are close product substitutes.

Despite these limitations, economists have certainly influenced marketing. In fact, the first definition of marketing, developed in 1935,<sup>13</sup> focused on the efficient management of supply and demand to allow markets to clear and restore equilibrium. In 1935, marketing was defined as

The performance of business activities that direct the flow of goods and services from producers to consumers.

It took 50 years before a new definition of marketing appeared:

Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives (American Marketing Association 1985).

## **INDUSTRIAL ORGANIZATION ECONOMICS AND MARKET SEGMENTATION**

I find the transition between the 1935 and 1985 definitions of marketing fascinating because both reflect the times within which the definitions were developed. The 1935 definition captured the role of marketing to help clear markets by matching demand and supply.

At the time the 1985 definition of marketing appeared, industrial organization economics had made a substantial impact on management theory. One of the most influential writers of the time was Michael Porter who developed Porter's Five Forces (1985).

Central to Porter's (1980, p. 1) work is the idea that the structure of an industry determines "the competitive rules of the game as well as the strategies potentially available to the firm". The four factors that appear on the perimeter of the Five Forces model – bargaining power of suppliers, bargaining power of buyers, the threat of new entrants, and the threat of substitute products and services, all work together in a system that determines the context within which an organization appears, evolves, and competes. An organization should be able to monitor its strengths and weaknesses relative to the

industry and create a defendable, profitable, and sustainable strategy (Porter 1980).

The way in which Porter's Five Forces works had a profound impact on marketing in the 1980s, and dare I suggest, still continues to influence the way in which many practice marketing today. Just as Porter suggested that managers should be able to assess the profitability of an industry before determining how to compete in that industry, marketing also suggested that managers should be able to assess a market and determine how to position a product within that market. This emphasis on sound planning and execution is reflected in the 1985 definition of marketing.

Marketing planning begins with a situation analysis that encompasses an examination of (1) the industry and its competitors; (2) customers, who they are, what they want and how they might be grouped together as segments; (3) the political economic, social, and technological environment within which the organization operates; and (4) the organization itself and those factors that both help and hinder the organization. Once an organization has completed a situation analysis, and therefore done its homework, managers should be able to identify a profitable industry and/or an appealing market. In marketing, this means selecting an appropriate target market, establishing a value proposition, and then combining the four Ps of marketing (product, price, place, and promotion) to succeed.

Perceptual maps are often used to pictorially communicate target markets and value propositions and identify gaps in the market, that is, to identify product-market boundaries. Figure 7.1 is an example of a perceptual map illustrating how hotels are positioned for business travelers according to two attributes: the quality of the facilities, services and staff vs. long-term stay; upscale, superior vs. affordable. The perceptual map also shows the market segments (and their size) based on consumers' demand for the attributes shown. To look at this perceptual map, one might reach the following conclusions:

- Brands compete with a smaller subset of brands. For example, Ritz-Carlton and Four Seasons compete with each other but neither competes with Motel 6 or the Courtyard by Marriott.
- There are a cluster of brands (JW Marriott, Marriott, Hyatt, and Sheraton) that compete for a slice of Market #4, which is the biggest business hotel market.



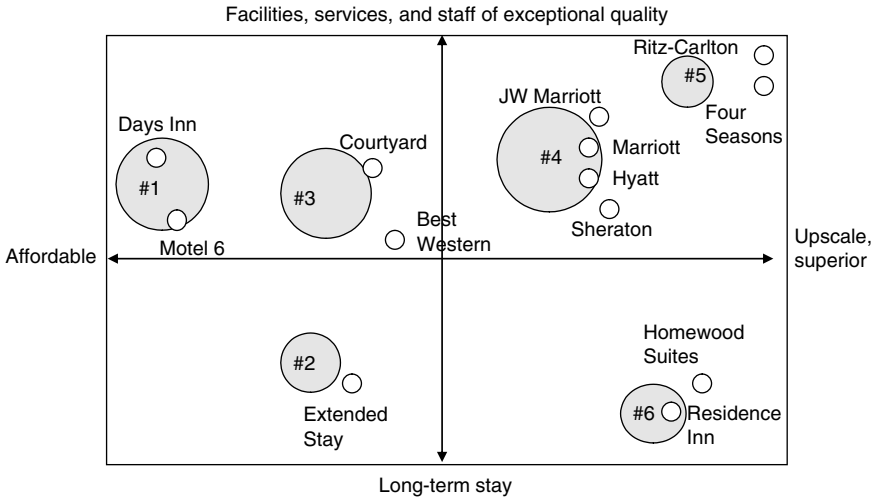


Figure 7.1 A perceptual map of hotels for business travelers

Note: Based on data from a survey reported in [http://www.btonline.com/businesstravelnews/headlines/article\\_display.jsp?vnu\\_content\\_id=1003726520](http://www.btonline.com/businesstravelnews/headlines/article_display.jsp?vnu_content_id=1003726520) to create the perceptual map.

Source: Original.

- Market #6 wants an upscale and superior long-term stay option and the Residence Inn by Marriott seems to directly meet the needs of this market.
- The needs of Markets #2 and #3 are not directly met but this is likely to be based on the fact that both markets want more affordable options than the brands are able to deliver.

## CRITICISMS OF MARKET SEGMENTATION

One of the criticisms of Porter's Five Forces was the idea that all managers needed to do was pick an industry based on how structurally attractive it appears, identify an entry strategy based on what managers believe competitors will do, and acquire any resources that are needed to implement the strategy. What Porter's Five Forces largely overlooked was the inside workings of the organization itself, its resources, routines, and capabilities.

The same criticisms hold true of marketing and the use of perceptual maps. Theoretically, all hotel chains could commission marketing research projects that provide similar market assessments. This means that managers from a variety of organizations competing in the same market could all read similar marketing research reports

that identify the same opportunities, and then acquire the necessary resources to enable them to make a product to address the market opportunity. Why is it then that some organizations will be more successful than others at exploiting an opportunity?

One explanation might be that organizations have different brands that guide strategic decision making – for example, the Ritz-Carlton is unlikely to drop its price and compete with Motel 6 for Market #1. Or, the opportunity might not fit with the organization's existing strategic business unit and markets it currently serves.

Another explanation is that each organization has different resources, experiences, and competencies that influence its ability to succeed in the market. This might be as simple as the organization not having the appropriate tangible assets, such as plant and equipment (or the means to purchase new plant and equipment), to make the most of an opportunity identified in the market. Alternatively, the organization might not have the right mix of intangible assets, for example, the managers reading the marketing research report might not have the right knowledge and experience to enable them to see the extent of the market opportunity identified in the report.

So far, I have suggested that perceptual maps do not necessarily lead to successful marketing decision making. I now want to discuss a range of methodological and philosophical concerns I have about the quality of the research undertaken to generate perceptual maps. My goal is to warn against placing too much emphasis on perceptual maps for strategic marketing decision making.

When reading the results of a study that provides a perceptual map, there is an implicit assumption that the right questions are asked of a representative sample of the population, and correct data analysis decisions are made that culminate in the identification of a number of market segments based on just two attributes.

Where do questions about attributes come from? When generating a list of attribute questions, the normal procedure is to conduct focus groups or in-depth interviews with a group of respondents from which the list of attributes is generated. A danger, however, is that consumers will only talk about the product in the context of what they currently know, and since much of consumers' knowledge is greatly influenced by what they read or hear around them or by what marketers tell them is important, consumers are unlikely to think outside of the box and come up with new attributes or attributes that are just beginning to appear in consumers' consciousness.

For example, imagine a series of focus groups were conducted among people who buy toys for children. The objective of the focus groups might be to uncover a list of important attributes respondents consider when buying toys. The list of attributes would be used in subsequent quantitative research from which perceptual maps for toys would be constructed. The list might include factors such as: play value, educational value, value for money, faddishness, quality of the toy, etc. I doubt that any research conducted in 2006 would have considered whether toys contained lead paint as lead paint has been banned on toys made in the US since 1978<sup>14</sup> – to consumers, this was a problem taken care of long ago. As we know, lead paint in toys became a problem again during 2007 when Mattel recalled nearly one million Chinese-made toys, including Elmo and Dora the Explorer (Moore and Cheng 2007). If the same research was conducted soon after the lead paint saga, the list of attributes would likely include whether the toys are safe. In this case, something external to the market, something not engineered by the organization itself, influenced consumer decision making when buying toys.

Another example is Hormone Replacement Therapy (HRT), which until 2002 was used to treat symptoms of menopause and promote long-term health benefits by warding off heart disease and osteoporosis. A large study was released in 2002, which found that women taking both estrogen plus progestin had a slightly greater chance of incurring heart disease, breast cancer, stroke, and blood clots.<sup>15</sup> Overnight, consumers could evaluate different attributes of HRT based on the new data that was released.

Sometimes, however, organizations themselves change the way consumers view a problem and its solutions. Take obesity as an example. For a long time, obesity was seen as a condition caused by personal weakness and a lack of willpower – essentially people were overweight because they had eaten too much or exercised too little. Obesity was eventually classified as a chronic disease, and placed alongside other chronic diseases such as diabetes and high blood pressure. New ways to combat obesity emerged, for example, prescription medicine such as Xenical, an orlistat (also known as a fat blocker), were introduced to the market and prescribed alongside a recommended change to diet and exercise.

More recently, we have been told that being obese is likely to be caused by our genetic makeup and is therefore completely beyond our control. New drugs are being developed and introduced by

pharmaceutical companies to address neuro-hormonal imbalances that cause obesity. This is quite a change to the way obesity was perceived by the public and, in this case, the change in perception is largely driven by research and development – that is, change has been driven by the organizations themselves. Relating this to a perceptual map means that the list of attributes consumers value when considering methods to lose weight will have changed from diet and exercise to fat blockers to metabolic adjustment.

Another concern I have with the method used to develop perceptual maps relates to sample selection. When we teach marketing research, we suggest that if managers need to make projections about the population based on the research then care must be taken to ensure the sample is representative of the population. This means that if 53% of a sample of business travelers said that affordability was the most important attribute when choosing a hotel then 53% of the entire population of business travelers would also view affordability as the most important attribute. But, for a sample to be representative, everyone in the population must have an equal chance of being selected in the sample (we call this a probability sample).

Taking representative samples is becoming more difficult. Years ago, if we decided upon a phone interview as the appropriate method for collecting marketing research data, we would use phone books from which to select samples. We would start with a random page in the phone book and then select say, every third or fifth name. Most homes had landlines and most numbers were listed in the phone book. People were not inundated with telemarketing calls, as they are now, and so when a marketing researcher phoned to ask a member of the household to participate in a marketing research study, the call was seen as a genuine attempt to conduct a marketing research study and respondents were generally willing to participate.

Being able to use a phone book from which to draw a representative sample is no longer an option because many homes do not have landlines and/or are not listed in the phonebook. For example, in June 2007, the US had 163m landlines compared with 262m mobile lines (Deleon 2008). In addition, telemarketing has become so intrusive that a large number of households are now on “do not call” databases. Add to that the fact that people are either too busy or simply unwilling to participate in marketing research. In response, many research firms have built marketing research panels from which samples are selected. These are panels of people who have agreed to

participate in a small number of studies a year. The panels might have a special character, for example, a panel of primary care physicians, a panel of families with most children still living at home, or a panel of people who are tech-savvy.

On the surface, using a panel seems like a good idea. It is, after all, a practical solution to a growing problem of low response rates. But, using a panel will not yield a representative sample. Sure, the marketing research firm might be able to justify the quality of the panel by matching key demographics with those of the population – for example, age, household size, level of education, and income. It is almost impossible, however, to know whether the sample represents the population on a number of key psychographic attributes. People who participate in a panel, for example, have time on their hands, are motivated to participate to earn small incentives, such as reward points, and are altruistic, believing it is important to give opinions to help marketers do their jobs better. Are panel members, therefore, representative of the population psychographically? I doubt it. Add to that the possibility that the more panels people participate in the more marketing research-savvy they become. Even though a well-run panel will limit the number of times a panelist is approached per year, being on marketing research panels is now considered an “occupation” where panelists can earn between \$5 and \$75 per completed interview<sup>16</sup> and panelists belong to more than one panel to make a reasonable living from this kind of work.

Then there is the problem of the frame of reference respondents’ use when answering questions. The best way to explain this is to think of how we fill out personality tests. If you are applying for a new job and are asked to complete a personality test, you are normally instructed to focus on how you perform in your current job, not how you believe you need to perform to succeed in the job you are applying for. Even if you follow the instructions, it is possible that you will draw upon different skill sets when doing your current job – for example, at times you need to be an effective communicator and inspire your direct reports, at other times you need to possess great attention to detail when preparing your analysis of the month’s results, at other times you need to be creative and contemplate new ideas and create new visions for the future. The point is that you are one person and yet under different circumstances you will call upon different skills.

The same concern applies to the frame of reference used when developing perceptual maps. Who are you when you complete a

questionnaire asking you to evaluate the importance of different attributes? For example, when I buy wine to drink after work then I might place a higher value on a wine that is of good enough quality and that represents value for money; when I buy wine to serve at a meal with old friends then I might value brands for nostalgic reasons; when I buy wine to serve at a meal with a bunch of wine connoisseurs then I might value the reputation of the winemaker, the year in which the grape was grown and the variety of the grape itself. The point is, that I am the same person buying wine but I will value different attributes for different consumption situations. This is not necessarily reflected in perceptual maps.

My other concern with the research method used to generate perceptual maps relates to data analysis. Perceptual maps are usually constructed using multidimensional scaling. One of the criticisms of any data analysis procedure, multidimensional scaling included, is that the analyst must use his or her judgment along the way. In marketing research, judgment is used when coding data and grouping certain attributes together, judgment is used when deciding which attributes are used to build a perceptual map, judgment is used when deciding which secondary statistical techniques are used to create the perceptual map, judgment is used when deciding how many markets to retain, judgment is used when naming the market segment, and judgment is used when deciding which variables best describe each segment. I am not suggesting that sound statistical rules are not applied along the way but I am noting that even data analysis can be wrought with difficulties.

The problem with all of this is that well-meaning marketing managers commission marketing research studies to produce perceptual maps. The marketing manager believes that he or she is doing the right thing and, as a result of the study, will make better marketing decisions. A report is produced that makes sense, is nicely typed, free of spelling and grammatical mistakes, and looks good – glossy cover, book-like in its presentation, great use of colors, and plenty of nice pictures (including perceptual maps). This becomes an important document that guides decision making and, because the report looks good and was done by a bunch of professionals, the assumption is made that the marketing research results are somehow “right”. Unlike academic research, commercial marketing research is not usually checked for reliability. What this means is that two marketing research studies aren’t conducted concurrently to determine whether the same results

hold up under different circumstances and with different samples. Normally, to get one marketing research study commissioned within a specific time frame is an achievement in its own right; there is seldom the time or money available to repeat the study straight away just to check that the results are reliable.

As if I haven't depressed you enough, I now want to move on and address my philosophical problems with perceptual maps. To me, perceptual maps are nothing more than a snapshot of a market. To enable me to develop this point, let's assume for a minute that perceptual maps are an accurate snapshot of the market.

Recall my earlier discussion in which I noted that perceptual maps were developed at a time when we firmly believed that market changes could only occur outside of the organization? Over time, however, we now know that consumers do change and learn to value different attributes. How do customers go about this process? Either something happens beyond the boundaries of the organization, for example, customers become concerned about lead in the paint used in toys or customers become aware that the world's oil reserves are finite and will one day run out and as a consequence start to value cars that use alternative energy sources. Alternatively, the organization drives changes in customer perceptions by encouraging customers to value a car fueled by a renewable energy resource such as ethanol or telling people that obesity is beyond their control and is in fact caused by genetics.

Therefore, my overarching criticism of perceptual maps is that while they can be an important planning tool, perceptual maps are nothing more than a starting point from which to make strategic marketing decisions. I have no doubt that perceptual maps help managers understand the current market and, because they are presented pictorially, perceptual maps can be very effective communication tools. But, perceptual maps should not be taken as 100% accurate and they certainly should not be accepted as the only framework within which to operate. They are nothing more than a starting point from which to push product-market boundaries.

Letting a perceptual map constrict the way in which you view the market, risks developing strategies that only exploit current market segments to enhance performance rather than finding new ways to compete. This is made worse for most organizations operating in mature markets, where market boundaries are a given and everyone, it seems, knows the rules of the game.

If we follow techniques such as the product life cycle, we know that growth in mature markets comes from acquiring market share from competitors rather than introducing new customers to the category or product. We also know that markets are intensely competitive and organizations find it increasingly difficult to improve sales and profitability. In fact, many organizations seek to improve efficiencies by outsourcing production, merging with or acquiring competitors, and innovating to cut production or process costs. To succeed in a mature market means executing the current strategy well (recall the discussion on excellent execution in the previous chapter?). But, to succeed in a mature market can also be tiring because the emphasis has to be on excellent execution. To put it bluntly: you can't afford to take your eyes off the ball. Add to that the danger that assumptions about what drives the market and how to succeed in a market are left unchallenged. This means that you do not necessarily see the need for change nor do you appreciate the impact any changes will have on your products. As a result, your products become irrelevant and obsolete.

Two of my favorite quotes to illustrate the danger of operating in a mature market, without questioning assumptions about the market, come from the 1930s in response to the opening of supermarkets. The first supermarket opened in Jamaica, Long Island in 1930 and by the 1930s supermarkets were thriving in California, Ohio, Pennsylvania, and elsewhere (Levitt 1960). The food chains, the dominant business model of the time, chose to ignore them.<sup>17</sup>

The first quote was made by an executive of a big chain who, in response to the aggressive expansion of independent supermarkets, found it "hard to believe that people will drive for miles to shop for foods and sacrifice the personal service chains have perfected and to which [the consumer] is accustomed" (Zimmerman 1955, p. 48 in Levitt 1960).

The second is a quote from a 1936 National Wholesale Grocers' Association conference, which Levitt (1960, p. 48) paraphrased as

...there [was] nothing to fear. ...the supers' narrow appeal to the price buyer limited the size of their market. They had to draw from miles around. When imitators came, there would be wholesale liquidations as volume fell. The current high sales of the supers was said to be partly due to their novelty. Basically people want convenient



neighborhood grocers. If the neighborhood stores “cooperate with their suppliers, pay attention to their costs, and improve their services, they would be able to weather the competition until it blew over”.

As we know, supermarkets became the standard and corner grocery stores slowly went out of business. As Drucker (1964, p. 114) once said that “the customer rarely buys what the business thinks it sells him or her. One reason for this, of course, is that nobody pays for a “product”. What is paid for is satisfactions.” Therefore, marketing research should try not to look at “our customers, our market, our products, but at the market, the customer, his purchases, his satisfactions, his values, his buying and spending patterns, his rationality” (Drucker 1964, p. 131).

## CONCLUSIONS

I began this chapter with a discussion of the concept of the market by tracing its origins back to neo-classical economics. This helped to illustrate how the concept of a market appears in marketing. I then compared and contrasted industrial organization economics and Porter’s Five Forces with perceptual maps, a tool often used by marketing managers.

I included in my discussion a description of perceptual maps, a method used to pictorially represent product-market space. Although I outlined some of my frustrations with this technique, I presented perceptual maps as more of a starting point, a place from which managers can begin to question assumptions they have of the product-market space within which they operate so as to push into new markets with new products.

Taking such an approach is even more important in turbulent times because growth industries are hard to find and managers can fall into the trap of slogging it out in mature industries, industries that face the possible threat of decline. As Levitt (1960) suggests, managers should focus on identifying growth opportunities within existing industries, rather than trying to pick the next growth industry. To me, this is critical to generating growth in turbulent times.

I will now discuss how product-market boundaries can be pushed, moved, and rearranged as a way of finding growth opportunities and future platforms from which to compete.

# Pushing Product-Market Boundaries by Pursuing Growth Opportunities and Creating New Markets

In the previous chapter, I presented a market as a group of consumers who have the same *problem* (i.e., the same needs and wants) for which a product will provide a *solution* (i.e., it will satisfy those needs and wants). I cautioned against allowing perceptual maps, a representation of a product-market space, to constrict the way in which managers make strategic decisions about their organization and how it competes. I will now focus on how organizations can push product-market boundaries by creating new markets with new products.

What is a market? And how is a market created? Well, the good (and the bad) news is that “markets define themselves” (Buzzell 1978, p. 10); that is, market boundaries are largely arbitrary and it is really up to managers to decide which market(s) to serve and where market boundaries exist. Thus, market definition is a matter of strategic choice and not a preexisting condition of the market (Buzzell 1978).

Market creation as a concept is not new. In fact, in the first edition of the first volume of the *Journal of Marketing*, one of the leading academic journals of the American Marketing Association, Coutant (1936, p. 27) noted that:

...the flow of business depends mostly upon natural supply and demand. Once that was roughly true, when supply never quite equaled the capacities of markets to absorb them... A great thinker named Millikan pointed the way out of such a blockade, however, when he observed that progress comes from creating new wants in people and satisfying them.

Even earlier, Jackman and Russell (1910, p. 121) said, “It is one thing to make goods and another to manufacture a market for them. This is the theory of modern business.” Done well: “Changes are

sometimes so fundamental that before long [people] cannot imagine living any other way” (Pilzer 1990, pp. 53–54). This is certainly true when we think about products that have become everyday items in a relatively short period of time, such as the Internet and e-mail, mobile phones, laptops, barcodes, digital photography, and online shopping – it is difficult to imagine life without them.

I want to structure my discussion on market creation through new product development around Figure 8.1. Figure 8.1 outlines a simple continuum, anchored at one end by “Problems looking for solutions” and at the other end by “Solutions looking for problems”. This means that ideas for growth originate by either: (1) identifying new problems, that is new needs and wants, and then either modifying or repositioning an existing product as a viable solution for the problem or developing a new product to solve the problem; or (2) developing solutions and then either linking them to existing problems, or developing new needs and wants (that is new problems) that the solution will satisfy.

In my discussion, I have identified four stages that exist along the continuum:

1. You have a problem – now give me some ideas for a solution and I’ll see what we can do.
2. You have a problem – we’ll brainstorm it and come up with a solution for you.
3. We have a solution – this will solve your problem.
4. We have a solution – now we’re going to tell you what your problem is.

Any one of these stages provides organizations with opportunities to generate growth.

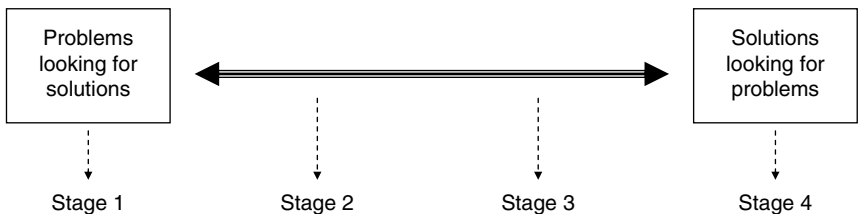


Figure 8.1 Problems and solutions

Source: Original.

## YOU HAVE A PROBLEM – NOW GIVE ME SOME IDEAS FOR A SOLUTION AND I’LL SEE WHAT WE CAN DO

My discussion about the continuum in Figure 8.1 begins at the far left-hand side at Stage 1. Here, customers can state a problem they have with current products and then either directly or indirectly suggest a solution. For example, we know that as people downsize their homes, either as they approach retirement or because of economic necessity, they will demand smaller furniture. Downsizing, it seems, has recently become more prevalent and there is increased demand for smaller furniture but a lack of product availability. Consumers asked furniture retailers why they couldn’t buy smaller sofas, coffee tables, and bedroom furniture, which led to a growing number of manufacturers making smaller furniture to fit into smaller homes (Dalesio 2008).

Consumer needs can evolve, which also explains why new markets sometimes appear. Take household cleaners for example. Let’s imagine that we constructed a perceptual map in 1990. To compete in this category, all products probably needed to offer value for money as well as having an attractive scent (we call these the points of parity). But, products were differentiated on the basis of how effectively they cleaned and whether the packaging was easy to use. Now roll the clock forward to 2009, a time when consumers are becoming increasingly aware of the need for environmentally friendly household cleaners, perhaps brought about by renewed discussion and government policies aimed at protecting the environment. If we were to redo the perceptual map today, we might find that the attributes now valued by consumers are: environmentally friendly and effectively cleans. Packaging, while still important, is no longer one of the most important attributes (as long as it is recyclable).

This explains the recent launch of Clorox Green Works, a range of natural cleaning products. Clorox already had a full range of household cleaners but recognized that a new market had emerged, a group of consumers who wanted chemical free, yet effective household cleaners: “the chemical avoiding naturalist” (Anon 2009k). Clorox managers believed there wasn’t a complete range of products on the market to meet the needs of “the chemical avoiding naturalist” and so, once this new market was identified, Clorox modified its existing product range to explicitly target this group.

More couples are meeting partners online. In an effort to determine whether the relationship has potential, new partners are going on

“holidates”. The problem is that while new couples want to impress each other, they don’t want to sit in a hotel room for the weekend watching television. Instead, they want to be kept busy with a range of interesting and exciting activities (Yoshino 2008). “We think we’ve got something here that’s satisfying a need” said Brian Richardson, Fairmont’s vice president of brand marketing and communication. “I’m not going to suggest it fell out of any profound deep scientific research. ... There was just evidence to suggest that couples fairly new in a relationship are increasingly interested in traveling together, doing interesting things together and wanting to make an impression” (Yoshino 2008). Therefore, hotels, which were already accommodating couples on “holidates”, added new services or repackaged existing services to better meet the needs of this group.

### **YOU HAVE A PROBLEM – WE’LL BRAINSTORM IT AND COME UP WITH A SOLUTION FOR YOU**

Moving further along the continuum to Stage 2 in Figure 8.1, are consumers with needs and wants but for whom a solution may be beyond the consumers’ imagination. Consumers in this situation are unlikely to be able to offer specific suggestions on how their problem can be solved. An example might be cell phones that take photos, play music, and contain a computer chip that works as a credit card. Here, the problem might have been stated by consumers as: “Look at how much I have to carry around with me: a phone, my MP3 player, my camera and all these credit cards”. Consumers, however, are unlikely to have had the knowledge to suggest a convergence of different products into one solution – that is, a camera and a phone that can also be used to make payments at point of purchase.

When solutions appear on the market, they will be either related or unrelated to other solutions currently available. To me, a related solution means that consumers are not required to change their behavior or perceptions of how to solve a problem; whereas with unrelated solutions, they do. Here are some examples of related solutions.

The first vacuum cleaner was invented in 1868 by Ives W. McGaffey. It was not the easiest vacuum cleaner to use because the person operating the appliance had to turn a crank handle while pushing the vacuum cleaner across the floor. Most new product development on the vacuum cleaner has since focused on improving suction power, adding different brush heads for different types of floors and allowing dust

bags and canisters to perform better; after all, consumers wanted a vacuum cleaner that was effective at cleaning all types of floors and so new product development largely focused on allowing consumers to do this better.

In 1990, Dyson entered the vacuum cleaner market with a product based on cyclonic principles; to consumers the cyclonic principle was probably less important than the fact that vacuum cleaners were now bagless.<sup>18</sup> What is interesting about the Dyson example is that Dyson was not in the vacuum cleaner market but it leveraged new technology and found a point of entry into the market. By introducing bagless vacuum cleaners, Dyson also changed the attributes consumers' value when evaluating vacuum cleaners and so drove a change in the market.

The modern day circus originated in 1768 with performers doing tricks on horseback. During the early 1800s, the American circus evolved and people came to expect rope dancers, jugglers, clowns, trapeze artists, and wild animals. In 1984, Cirque du Soleil started with a performance based entirely around the gymnastic abilities of its agile performers.<sup>19</sup> Now, with concerns over animal rights, circus entertainment has been redefined. Cirque du Soleil was a newcomer to the circus market but successfully redefined what the concept of a circus could be.

Online travel sites such as Orbitz.com or Expedia.com, were designed to enable customers to search for all possible combinations of air travel and hotel accommodation. Additional products such as car rentals, train tickets, travel insurance, and tickets to shows were added to grow revenue. Online travel sites quickly became one stop shops for all travel needs. Consumers might not have explicitly asked for a one stop travel shop but may well have described the frustrations they experienced when booking travel and accessing multiple sites to account for the range of the additional services required. One stop travel shops redefined the market.

Although a small number of electric cars were launched onto the US market from 1997–1999, the Honda Insight entered the US market as the first hybrid. This was followed by the Toyota Prius in 2000.<sup>20</sup> While some consumers buy hybrids because of a concern for the environment, we also know that hybrid cars gained popularity because gas prices were high, peaking in 2007,<sup>21</sup> with sales dropping back slightly in 2008, as gas prices fell again. Therefore, companies such as Honda and Toyota, who were already making

cars, developed hybrid cars, a related new product to meet the needs of the market. In this case, consumers might have stated that a problem with existing cars was their dependence on expensive, nonrenewable fuel but consumers would have been unlikely to offer a specific solution.

In 1979, Sony introduced the Sony Walkman, a personal stereo that used cassette tapes allowing consumers to listen to music anywhere and anytime. Consumers could buy manufactured cassettes of their favorite music or compile their own cassettes (remember recording music from the radio and having to press two buttons to record and one to stop the recording with expert precision so as to avoid hearing the DJ?). The next step for Sony was to introduce the Sony Discman, a similar product but an improvement on the Sony Walkman because it used compact discs instead of cassettes, and compact discs were becoming more prevalent as a music medium.

The introduction of the Sony Walkman is a good example of a new product that provided a solution to consumers' problems. Sony was already in the stereo market. To develop the Walkman, Sony identified problems with current stereos (they weren't very portable – unless you were happy carrying a boom box on your shoulder) and people mostly used portable stereos at the beach, at work, at sports venues, essentially anywhere a portable stereo could be placed. In addition, by playing a portable stereo, people in close proximity could hear your music. While this might have been desirable at times, for example, when friends got together at the beach listening to music, there are also times when a personal stereo might need to be private. So, there were problems with current portable stereos – they weren't that portable nor were they all that private. In response, Sony developed the Walkman that addressed consumer problems with the current product offerings.

The next example is that of the cell phone. While the cell phone of today is vastly different to the first cell phones, the changes along the way have been relatively gradual. The first commercial cell phone call was made in Los Angeles in 1984. The phone cost \$2500 and ran off a car battery; now 80% of all Americans own a cell phone that can fit in their back pocket (Semuels 2008). In the second quarter of 2008, an average subscriber sent or received 357 text messages compared with 204 phone calls (source: Nielsen Mobile in Semuels 2008). Currently about 11% of Americans use the Internet on their cell phones at least once a month and a further 6% use it less frequently

(Semuels 2008). As a result, there has been a shift in consumer preference away from mobile handsets toward feature-enhanced devices. When buying a cell phone back in the 1980s, consumers were likely to want a cell phone that did not drain the car battery. As cell phones became smaller, more personal, and something that consumers took with them, style and fashion became more highly valued. Using the language of perceptual maps in the previous chapter, instead of evaluating a phone on two attributes: does not drain the battery and is easy to use, cell phones would now be evaluated as fashionable and stylish, and feature-enhanced.

The examples outlined above are all examples of related solutions to consumer problems, that is, solutions that require very little change in behavior or understanding of the way in which the solution works for it to be adopted. Now I want to provide some examples of unrelated solutions. Twenty two million people are known to be addicted to alcohol, nicotine, cocaine, heroine, and amphetamines (Interlandi 2008). We know that existing treatments for addiction include psychotherapy, cold turkey, and rehabilitation centers.

Although the American Medical Association recognized addiction as a disease in 1956, it is only recently that treatments have begun to appear on the market to target the underling biochemistry of addiction, by for example, blocking the intoxicating effects of drugs, or providing medication to enhance willpower (willpower-in-a-pill) (Interlandi 2008). Thus, a completely new solution is being developed to treat addiction.

People lead busy lives and, as a result, many people often feel physically and mentally fatigued. Knowing this, Dietrich Mateschitz developed Red Bull, based on an energy drink in Thailand. Red Bull was first launched in Austria, Mateschitz's home country. Sure, there were other ways to obtain energy boosts – coffee, caffeine tablets, and chocolate and other sugary products, but there had never before been a specific energy drink. What is interesting with the Red Bull case is that at the time of launch, Austria had only three food and drug categories: traditional foods, dietary foods, and pharmaceuticals. Red Bull was unable to launch as a traditional food because it would not have been able to make claims about its performance benefits and so Red Bull lobbied to have a new category, functional food, introduced. Functional foods later expanded to include products such as nutraceuticals, a nutritive food thought to have curative properties (Keller 2008a).



Oftentimes, organizations will identify problems consumers have with current products, which are difficult to solve. But in the process of trying to identify a solution, other ideas will appear. For example, Coke and Pepsi are facing a backlash against the plastic bottles used for bottled water as consumers are becoming increasingly concerned about the impact the bottles have on the environment. Sales of bottled water grew only 2% in 2008 in a category worth \$12b. Although plastic bottles have been modified to be more environmentally friendly, Coke and Pepsi are expanding their products by adding vitamin and herb enhanced water (e.g., Coca-Cola's Vitamin Water brand and Pepsi's Sobe brand) to counteract an inevitable decline in the market (Palmeri and Byrnes 2009). And so based upon the problems we have with current products, come new solutions: a thirst quenching beverage; a drink to boost my vitamin and mineral count.

## **WE HAVE A SOLUTION – THIS WILL SOLVE YOUR PROBLEM**

Stage 3 on Figure 8.1 captures the situation where consumer behavior has changed but there isn't a product on the market that sufficiently meets the needs of consumers who are engaging in this new behavior. We often find this when consumers have latent needs, that is needs that they may not be able to articulate.

Sony was already in the portable stereo market when it developed the Sony Walkman and Sony Discman but Apple's story is a little different. Apple, as we know, was already in the personal computer market. Steve Jobs noticed that music consumption behavior was changing as young people were using computers and compact disc burners to download music from sites such as Napster (Schendler 2005). Consumers needed an MP3 player to enjoy this digitally recorded music and so MP3 players were starting to appear on the market. Unfortunately, it was illegal to download and copy music because copyright was being infringed. Apple, therefore, developed the iPod, an MP3 player. Importantly, and perhaps integral to the success of the iPod, was that Apple worked with record labels to launch iTunes, which allowed consumers to legally download music.

What is interesting with examples like the Apple iPod is that its popularity spawned a vast range of new products, including products

such as the headphones by Skull Candy for MP3 players<sup>22</sup> or the Bose SoundDock (an iPod docking station).<sup>23</sup>

## **WE HAVE A SOLUTION – NOW WE’RE GOING TO TELL YOU WHAT YOUR PROBLEM IS**

At the far right-hand side of the continuum are solutions looking for problems. Here, the organization has an internal resource or capability that underpins the development of a new product for which consumer demand needs to be built. The challenge then is to tell consumers the needs and wants the new product solves.

Here are some specific examples to demonstrate how organizations have developed new products and then led consumers to these products by suggesting needs and wants consumers had either paid little attention to before or perhaps didn’t know existed. For example, people were already cleaning their teeth and were visiting their dentists on a semi-regular basis for heavy duty cleaning and checking. We know that toothpaste was used to satisfy one of four needs: flavor, brightness of teeth, decay prevention, and low price (Haley 1968) and for a long time, normal colored teeth were seen as ranging from light yellow to grayish white. In fact, dentists consider slightly yellow enamel to be stronger than white enamel. People did not actively seek teeth whitening treatments although those with stained teeth due to coffee and smoking, or yellow teeth due to aging, were able to get the stains removed using technology that essentially whitened teeth.

Although there were products around to whiten teeth, these were being used for a specific purpose – to remove stains and natural discoloration due to aging. People with “normal” teeth saw no need to whiten them because, in their opinion (or according to their dentist), slightly yellow teeth were healthy.

By changing our perceptions, however, as to what constitutes healthy teeth, demand for teeth whitening products has flourished and a range of treatments are now available from do-it-yourself toothpaste and whitening strips through to products requiring the expertise and equipment of specialists.<sup>24</sup>

The point is that a solution existed (teeth whitening technology) for which there was not much demand because consumers did not perceive any need to change the color of their teeth. Over time, consumers have been led to believe that white teeth are in fact healthy and

white teeth have become the new normal. If we repeated the earlier study on the toothpaste market then we would need to add “whitens” to the other four attributes outlined earlier.

Another example is that of Swatch. Prior to the launch of the Swatch, people tended to own one watch at a time, watch designs were classic and timeless and watches were built to last. Technology existed to make a Swiss time piece that was cheaper to buy and so Swatch was born. Swatch, which stands for Second-Watch,<sup>25</sup> developed and positioned a range of watches as casual and fun – a watch for all occasions, and people began to view watches as a disposable fashion accessory. Therefore, consumers started valuing different attributes when buying a watch. If we were to construct a new perceptual map following the launch of Swatch then consumers would now likely value the attributes of fashionable and fun vs. value for money instead of classic vs. long-lasting because Swatch has changed our understanding of what a watch can be.

While we joke about having “senior moments”, we do know that memory loss begins gradually in our 20s and can advance to dementia among older people. We also know that attention deficit drugs such as Adderall and Ritalin, and drugs for sleep disorders, such as Provigil, are already being used off-label as cognition drugs (Gibson 2009). Pharmaceutical companies have realized that there is an opportunity for “still-healthy baby boomers” to take memory treatments, a market estimated to be worth \$20b (Gibson 2009). But for the market to be worth \$20b, pharmaceutical companies need to tell “still-healthy baby boomers” they have a problem for which there is a solution. Once a product is available, it is believed that cognitive enhancing drugs could be widely used by students, job seekers, assembly line workers, pilots, surgeons, and the like (Gibson 2009). Obviously there are a whole range of societal and ethical issues that are raised while creating such a market.

Or genetic testing, which has been available for a while to test at risk families. For example, women known to have a high prevalence of breast cancer in the family are tested to determine whether they themselves are likely to suffer from breast cancer. Now, people can participate in genetic testing to identify their full genome sequence. Proponents of genetic testing say that people will be better able to take control of their health needs by knowing in advance whether they are more likely to get say heart disease or breast cancer. We now called personalized medicine (Kaplan 2008). By making

genetic testing more readily available, a new market appears – that is, people wanting genetic testing for interest or lifestyle reasons. Again, societal and ethical concerns about the implications of developing such a market need to be considered.

A less controversial example is that of the SanDisk Corporation, a company that began making flash drives, but now describes its business as “the world’s largest supplier of innovative flash memory data storage products” ([www.sandisk.com/corporate/about](http://www.sandisk.com/corporate/about)). SanDisk recently launched a slotMusic card that can be plugged into most mobile phones or digital music players. SanDisk perceived that not all consumers who want digital mobile music want to spend time researching what to buy on a website and then use a PC or Internet to purchase and manage music. Therefore, consumers can go to Best Buy and Wal-Mart (and eventually supermarkets and mall kiosks) to buy a slotMusic card containing their favorite music. “Music industry experts say that they aren’t sure whether it will catch on but that they want to experiment with new ways of distributing their work” (Quinn 2008).

Another example is that of 3M’s Post-it Notes, which were developed by applying a weak adhesive to paper. Both adhesives and paper products were familiar to 3M but by introducing Post-it Notes, 3M introduced a new solution to consumers – putting sticky little bits of paper on books and other surfaces. Or Procter & Gamble, who invented a material in the 1960s that could absorb a lot of water. “Until we converted it into Pampers disposable diapers, it was just a new kind of material. We created this entirely new product category that created an industry” (A.G. Lafley in Crockett 2009, p. 44).

What binds these examples together is that they all begin with solutions looking for problems. To get the market to accept the product, consumers had to be convinced that they either (1) have a problem, a need and want, for which there is now a solution (think teeth whitening); or (2) have a problem that can be solved using a completely different solution (think Pampers or Swatch watches). What the organization ends up with is a new market. Here are some quotes to illustrate how organizations have deliberately pursued a strategy of market creation:

“They’ve created a whole new audience: an alternative youth-leaning, nonfiction-seeking core” says Tom Quinn, senior vice-president

of Magnolia pictures, commenting on Rakontur Films the company that developed *Cocaine Cowboys* (Farzad 2008).

“Once we make the consumer need apparent, mothers will understand it” says Dianne Jacobs, Nestlé’s senior vice-president of infant nutrition on the launch of a range of Gerber food for 2–4 year olds (McConnon 2008)

### **Can Completely New Needs be Created?**

To me, an important question pertinent to market creation is whether completely new needs can be created or whether a finite set of needs exists. In 1938, Murray came up with what is seen as a complete list of human needs (see Table 8.1).

Like Murray, many consumer behavior experts believe that new needs cannot be created because needs are based on human genetics and experience (Hawkins et al. 2007). To Hawkins and his colleagues, all that marketers can do is generate demand, and therefore make people more willing to buy a particular product by, for example, making the need that drives the behavior more intense (Carver and Scheier 2008).

Thus, marketers can influence those underlying factors that eventually manifest themselves as new needs by putting together marketing programs aimed at reinforcing or shifting consumers’ experience, knowledge, thoughts, beliefs, feelings, and images. One example might be repositioning a brand by encouraging consumers to focus on different needs. For example, instead of positioning Mercedes as the car to satisfy the need for achievement (one of the ambition needs), it could be repositioned as the car to satisfy the need to spend time with others (one of the affection needs). By doing this, a new group of Mercedes consumers might appear who want to buy Mercedes because of their need for affiliation with others.

Alternatively, a new product could be introduced for which consumers have no knowledge or experience but the new product is anchored against needs and wants that consumers are familiar with. For example, medication to treat addiction could be positioned against the need to play and have fun with others. Or genetic testing could be associated with an exhibition need, that is the need to shock and thrill people by declaring that you are genetically predisposed toward heart disease. What Murray’s list offers then is a starting point, a list of possible needs the organization’s products could appeal to.

*Table 8.1 Murray's psychogenic needs*

- 
- A. Actions associated materialistic needs:
1. Acquisition – to gain possessions of property; to work for money or goods.
  2. Conservance – to collect, repair, clean, and preserve things.
  3. Order – to arrange, organize, put away objects; to be tidy, clean, and precise.
  4. Retention – to retain the possession of things; to hoard; to be frugal.
  5. Construction – to organize and build.
- B. Actions associated with ambition:
6. Achievement – to overcome obstacles. To exercise power.
  7. Recognition – to demand respect. To seek social prestige, honors, or high office.
  8. Exhibition – to attract attention to oneself. To shock, thrill others.
- C. Actions which involve the defense of status or the avoidance of humiliation:
9. Seclusion – isolation, reticence, self-concealment.
  10. Infavoidance – to avoid failure, shame, humiliation of ridicule.
  11. Defendance – to defend oneself against blame. To justify one's actions.
  12. Counteraction – to overcome defeat by retaliation. To defend one's honor with action.
  13. Blamavoidance – to avoid blame or punishment. To follow the law.
- D. Actions associated with human power:
14. Dominance – to influence or control others. To persuade, direct, and lead.
  15. Deference – to admire and willingly follow a superior. To follow.
  16. Similance – to emphasize. To agree and believe.
  17. Autonomy – to resist influence or coercion. To strive for independence.
  18. Contrariance – to act differently from others. To be unique and unconventional.
  19. Aggression – to assault or injure. To blame, accuse, or ridicule.
  20. Abasement – to surrender. To comply, apologize.
- E. Actions associated with affection between people:
21. Affiliation – to form friendships and associations.
  22. Rejection – to snub, ignore, or exclude.
  23. Nurturance – to nourish, aid, or protect.
  24. Succorance – to seek aid, protection, or sympathy.
  25. Playful – to relax, amuse oneself. To have fun.
  26. Inhibition – the absence of socially unacceptable conduct.
- F. Actions associated with information needs:
27. Cognizance – to explore and ask questions.
  28. Exposition – to point and demonstrate. To explain and give information.
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Source: By permission of Oxford University Press, Inc. from "Explorations in Personality" by Murray, Henry A. (2007, pp. 80–83) originally published in the 1938 edition.

## AND THE ORGANIZATION DIVERSIFIES

Markets are dynamic and always changing. When an organization identifies problems or changes in behavior for which consumers require a solution, or solutions for which a problem needs to be identified then it

deliberately sets out to develop new products to better meet explicit or latent consumer needs and wants. New products are likely to attract new markets and so, without necessarily intending to do so, the organization diversifies its business. That is, by developing a new product, the organization has pushed into new product-market space. For example:

- Hotels added exercise and spa treatments to meet the needs of current hotel guests but also attracted nonhotel guests, that is, people living in the community, who wanted to work out, have a massage, or have their hair and nails done.
- Hybrid cars not only appealed to those who were concerned with the environment or gas prices but also attracted commuters. For example, early adopters of hybrid cars in Los Angeles were allowed to use the car pool lane, normally restricted for cars with two or more passengers, cutting down on commuting time considerably.
- Online travel sites find that consumers visit the site to purchase show tickets only, rather than show tickets in addition to plane and hotel reservations.
- Energy drinks were initially used by people who stayed up late at night, for example, people at night clubs, shift workers, truck drivers, and students. Once energy drinks were available, other markets developed, for example, athletes wanting to boost their performance.
- The Apple iPod was launched as an MP3 player to better meet the needs of people who wanted to listen to music whenever and wherever they wanted. But, a group of people saw the iPod as a relatively inexpensive external hard drive with a lot of storage capacity and so another market opened up for iPod.
- Plagiarism has, for a long time, concerned faculty. When grading assignments, faculty might be suspicious that students have “lifted material” without correctly attributing the material to a source. Another concern is that a group of students turn in the same assignment – one writer, multiple submissions. Turnitin (see [www.turnitin.com](http://www.turnitin.com)) was launched in 1996, at a time when students were starting to access large quantities of material on the Internet. The founders of Turnitin wanted to develop a system to help students become better engaged in the writing process; to help them “better learn to write, think, and reason” and therefore interpret and synthesize material found in multiple sources.

Turnitin also had the ability to identify plagiarized material. What is interesting is that while Turnitin is still used by faculty to help students develop writing skills with its WriteCycle program, it is also used by faculty who simply want to check for plagiarism as Turnitin will calculate the percentage of work copied. Therefore, by developing a new product to solve one problem, a new market emerged: faculty wanting to check for plagiarism when written assignments are submitted.

The challenge, therefore, is for companies to recognize that when a product is developed to better meet the needs of one market by giving consumers different attributes to value, demand will build around new attributes and eventually a new market forms. The key is to be able to identify the formation of a new market and respond accordingly.

The really enterprising entrepreneur has not often, as far as we can see, taken demand as “given” but rather as something that he ought to be able to do something about. (Penrose 1959, p. 80)

The new market and new product might become the organization’s core business, which begs the question: “What business are you in?” If a hotel generates more revenue by allowing people within the community to use its fitness, health and beauty facilities, is the hotel in the accommodation business or in the health and fitness business? Similarly, if online travel sites generate more revenue by selling tickets to shows is it in the ticket sale business or the online travel business?

## DIVERSIFICATION AS A DELIBERATE STRATEGY

Oftentimes, an organization will end up diversifying its core business by moving into new product-market spaces as a natural outcome of finding solutions for problems or problems for solutions. But an organization can also deliberately seek to diversify through vertical, horizontal, and lateral diversification (Ansoff 1957).

With vertical diversification the organization moves back up the supply chain to make the components, parts, and materials that go into existing products. Alternatively, the organization moves down the supply chain and owns all or parts of the distribution channel through which its products pass. Examples include the Ford Motor



Company, which used to produce its own tires, glass, and metal products, ExxonMobil, which extracts oil and then refines and retails it as gasoline, or The Body Shop, which owns its own retail distribution network.

Or an organization might undertake horizontal diversification and so develop new products that are within its existing scope and understanding (think 3M Post-it Notes). Another example is the laptop. The Xerox NoteTaker is often credited with influencing the design of the first portable computer, the Osborne 1.<sup>26</sup> Xerox, IBM, and Compaq were all early entrants into the laptop market. Developing laptops was not beyond the realms of possibility for these computer giants.

By contrast, lateral diversification would push the organization into completely new spaces. For example, Quaker Oats bought Gatorade in 1983 as a way of getting into the beverage industry, Ford acquired Hertz rental cars, Virgin Music ventured into the travel industry with Virgin Airlines, Walt Disney moved from operating theme parks to making movies then to family vacations, and Apple got into music retailing with iTunes.

Diversification can come in a variety of shapes and sizes. I have seen as many as seven categories of diversification identified (for example Rumelt 1974; 1982) but diversification ultimately boils down to whether the diversification is related to core products or markets – that is, whether the diversification pushes the organization out of its comfort zone by requiring new skills, capabilities, and resources. I will discuss the dangers of diversification in the next chapter but for now I just wanted to flag the fact that diversification is either a natural outcome of pushing product-market boundaries or part of a deliberate growth strategy.

## CONCLUSIONS

Drucker once said that the purpose of an organization is to create a customer and that organizations need to focus on two functions: marketing and innovation (Drucker 1954). By this, Drucker meant that an organization must do a great job serving the customers it currently has while giving customers a reason to come back for more. Identifying growth opportunities is never as easy as simply picking one end of the continuum and pursuing a single strategy. The reality is that organizations need a combined approach – simultaneously creating new customers while better serving existing customers.

There is always customer attrition, and so the organization needs to be on the lookout for customers with similar needs and wants to those currently served. But, markets are dynamic and other factors force change – for example, an economic recession, more government regulations, a new found frugality, concern about big business and whether organizations (and the brands they own) can be trusted, and a new interest in the green economy. Therefore, like it or not, managers need to identify changes to consumer tastes and preferences, changes that the organization will likely respond in order to remain competitive. Therefore, organizations need to find ways to remain relevant to existing customers while at the same time, creating new customers – either similar types of customers to the ones you currently serve or customers with new needs and wants.

Ask: What problems do customers have with current products on the market? How can we improve our existing products to better satisfy customer needs and wants? What new products might we develop? What needs and wants would these products satisfy? What might your organization look like in five years time if you pursued these opportunities?

However, and as I have previously mentioned, before embarking on any kind of diversion into new solutions and new products, those within the organization must be sure that the current strategy is being properly implemented and current customers are being served extremely well. This is especially important when marketing through turbulent times because cash is a precious resource, staff numbers are likely to have been reduced, and those who remain feel stretched and uncertain about the future. Therefore, the danger with diversification, especially during turbulent times, is that an already stressed organization overstretches itself. The worse case scenario is that the core business may fail.

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## **Part IV**

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# **Risks, Benefits, and Other Things**

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# Generating Growth – The Risks

So far, I have outlined strategies for growth. I will now focus on some of the risks associated with growth strategies: (1) pushing the organization into uncharted territories, (2) sluggish (or nonexistent) consumer adoption; (3) developing accurate forecasts for a market that doesn't exist; (4) losing sight of what business you are in; and (5) ethical concerns associated with creating new needs and wants and encouraging consumption.

## **THE DANGERS WITH CREATING NEW PRODUCTS AND NEW MARKETS**

Not all product development is the same, either to the organization that develops the new product or to the user of the new product. To explain innovation from an organizational point of view, we often use the Booz Allen and Hamilton (1982) typology of innovation. Here, six categories of new product development are offered: new to the world and new to the firm innovations; new additions to existing product lines, and innovations that improve, reposition, or simply reduce the costs of existing products.

New to the firm and new to the world innovations are considered the most risky to the organization because they push the organization into areas for which it lacks expertise. Take, for example, Quaker Oats' purchase of Gatorade back in 1983. Quaker Oats purchased Gatorade as a way of getting into the beverage industry. Because Quaker Oats had no expertise in this area, we would consider this a new-to-the-firm innovation. But, making beverages is not new and so Quaker Oats could have hired in expertise to help them succeed in the category. As an aside, Quaker Oats didn't manage the Gatorade brand well and the brand was subsequently taken over by PepsiCo.

By contrast, Global Positioning Systems (GPS) have been used by the military since 1972 but Qualcomm was the first in the world to introduce GPS technology to mobile phones.<sup>27</sup> Therefore, integrating GPS with mobile phones was not only new to Qualcomm but also new to the world. For Qualcomm, the risks were high as a lot of the

R&D had to be done in house and, apart from the military, there were very few people in the world with expertise that Qualcomm could call upon. But the benefits for Qualcomm have been phenomenal and the company turned over US\$11.142b in 2008, with a profit of \$3.16b.

Other types of new product development involve adding new products to existing product lines, improving existing products (perhaps as a way to cut costs), or changing products as part of a repositioning exercise. In all of these situations, the organization is able to rely on existing capabilities, which is unlikely to place the organization in as much risk.

Thus, relevant questions to ask when engaging in new product development are: Does the organization have access to enough money to see the new product development process through to completion? Does the organization have sufficient expertise in-house to see the new product to market and deal with any technical problems that might arise along the way? Is the organization able to accurately read the market and determine how the product will be used and what the likely level of demand will be? Will the new product meet its launch deadline? What might cause a delay in launch?

Just as new products have risks, so too do new markets. Some new markets will be similar to those currently served while others will be vastly different. For example, Pepsi acquired Gatorade and, no doubt, found it easy to integrate Gatorade into its product portfolio because the markets served were largely similar. Examples of a related market comes from Snapple, which began by distributing its products to small delicatessens and corner grocers using a network of small family owned distributors to meet the needs of its market before distributing through warm channels such as supermarkets. Snapple, however, lacked experience in the warm channel, which placed the organization at risk as it transitioned into this new market (Keller 2008c). An example of an unrelated market comes from Apple, who had expertise selling personal computers but not music. To succeed in this new market, Apple had to quickly develop expertise in music retailing.

## ADOPTION

In this section, I will identify the relationships between behavior and adoption, and outline two approaches to explain stages of adoption.

## Will Behavior Change?

New products will often fail if fewer consumers adopt the product than was first anticipated. When we evaluate the likelihood of rapid adoption, one of the first areas to consider is the impact the innovation has on behavior. Some new products require consumers to substantially alter their behavior to use the new product (think of the Internet), some require slight changes in behavior (think disposable diapers) and some require very little change in behavior (think frappuccino instead of latte) (Schiffman and Kanuk 1997). The greater the change in the behavior required to adopt the product, the more risky the new product is to the innovating firm.

One of the reasons the Dyson vacuum cleaner has been so successful is that consumers didn't need to alter their behavior much to use it. That is, consumers understood the new product well enough so that it was relatively easy to adopt, looked good, and made them believe they were cleaning their floors better. The see-through canister on the Dyson vacuum cleaner helped reinforce this perception of clean floors because a user of a Dyson vacuum cleaner could see how much dust was removed from the floor. Like Dyson, circus lovers didn't need to change their behavior to go to Cirque du Soleil as the concept of a circus as entertainment didn't change, what changed was the format of the show.

By contrast, to adopt the iPod, consumers had to substantially alter their music consuming behavior. Instead of buying compact discs, consumers could download music from iTunes and store and organize music on a personal computer. What I find so interesting is that iPod users were willing to change their behavior because they placed significant value on the benefits associated with using an iPod. For example, there were problems associated with buying and using compact discs: remembering to go to a music store to buy the compact discs, hoping the compact disc is in stock, having to buy the entire compact disc to listen to one track, and having room at home to store compact discs. The iPod overcame these problems.

Not only did the iPod improve the way in which consumers bought and listened to music but it also altered the way in which people interacted with music socially. For example, I often see teenagers walking around together sharing an ear plug from head phones, and people can organize their music on the computer to make play lists for functions, special occasions, and friends. Therefore, although consumers



needed to alter their behavior to adopt the iPod and iTunes, consumers seemed willing to do so because they valued the benefits associated with the iPod. I doubt that even Apple predicted how much cultural impact the iPod would have on music consuming behavior. But the fact that Apple managed to change music consuming behavior is the reason it has been so successful.

E-mail and the Internet provide interesting examples for a different reason because the technology was around for a long time before either was truly adopted by the mainstream population. By 2008, 80% of all individuals in the Republic of Korea use the Internet. Other figures are: 69% of all individuals in Australia and New Zealand, 68% in the US and Japan, 62% in the EU-25, 60% in Singapore, 20% in Mexico, and 14% in Thailand.<sup>28</sup>

It wasn't that long ago that I had to send a telex or fax to another organization, write a letter to family, and use the library and encyclopedias for research purposes. I can't imagine not having instant access to information when I have questions about people, products, historical facts, etc. as I do now. In order to adopt e-mail and the Internet, we had to substantially alter our behavior with respect to the way we communicated and obtained information. Initially, consumers were not willing to change their behavior; eventually they did change, and did so rapidly.

### **Stages in Adoption**

For a new product to do well, it needs to be adopted. When it comes to new product adoption, we know that people adopt at different rates. This is explained by the Rogers Adoption Curve (1962). The Rogers Adoption Curve is a simple but fairly powerful tool that illustrates how a product migrates through different groups as part of the adoption process.

Rogers (1962) identified five categories of adopters:

1. Innovators are technology enthusiasts who tend to be technology savvy and don't mind trying new products, even before the new product is considered the standard, nor do they mind paying a high price for the product. One advantage of innovators is that they provide an excellent source of feedback about new product concepts because they are likely to be interested in the intricacies of how the product works. In fact, a lot of new product research, especially research for

products that are different and for which the technology is complex, should occur among innovators as this group is likely to offer valuable criticism and insights.

2. Early adopters are opinion leaders and like to adopt new products because they believe the new product will provide solutions to problems better than those products currently available in the market. Early adopters also believe they might gain some kind of competitive advantage by adopting the new product – for example, an early adopter will be seen as a trend setter or opinion leader. Early adopters are important to reach quickly because they will influence how rapidly (or how slowly) others will adopt the product. For example, if a new design of skateboard is launched then it might be advantageous for the skateboard manufacturer to give free samples to skaters who are seen as trend setters such as celebrities who like skateboarding, celebrity skateboarders, or skateboarders who are considered opinion leaders at the local skate park.

3. The early majority is more deliberate in their adoption of new products and tend to wait until the benefits are proven in the market ensuring that the market and the product have become mainstream. This was the case with Blue Ray, supported by Sony, which eventually won over high definition DVD, developed by Toshiba. The early majority waited until Toshiba withdrew from the race and it became apparent that Blue Ray would become the dominant platform to supersede DVDs.

4. The late majority is skeptical, conservative, and risk averse. This group tends to avoid new technology and will wait until prices are low, and the technology is mainstream before adopting the new product. An example here is online shopping. To get the late majority to buy products online, probably means convincing this group that Internet security is no longer a problem and that buying online is in fact cheaper and more convenient than going to traditional bricks and mortar stores.

5. Laggards are tradition bound and, if they adopt the new product at all, will be among the last, preferring to wait until they can no longer avoid it. For example, Polaroid film is no longer available and so if a person had a Polaroid camera that needed replacing, then he or she would probably now buy a digital camera. To most of us, a digital camera is the norm and many of us have already owned more than one digital camera. But to a laggard, the purchase of a digital camera is likely to be made begrudgingly because there was nothing wrong with the Polaroid. To a laggard, gathering information about digital

cameras, evaluating alternatives, and finally committing to a product is likely to be a long, drawn out, and probably stressful process.

Relevant questions when applying the Rogers Adoption Curve include

- Who are the innovators and early adopters in this category? What do they look like?
- How likely is it that innovators and early adopters will try the product?
- What do innovators think of the product? Can I use this group as an early warning system to enable me to iron out potential problems with the product? Can this group become part of the new product development team?
- What will innovators and early adopters use the product for?
- How can I encourage early adopters to influence the early majority?
- How much do I expect consumers' behavior to change to adopt this product? This is of particular concern for early adopters, who need to be convinced that the product solves a problem they might have and is better than other products on the market. It is of even greater importance for the early and late majority who will hold off buying the product, especially if they need to change their behavior considerably to use the product.
- As the product moves through the adoption curve, do different groups use the product for different purposes to satisfy different needs and wants? For example, when the first cell phones were launched they were used by sales people who were working remotely from their offices. These people spent a lot of time in their cars, but still needed to be contactable. Not long after, cell phones were used by shift workers who drove home late at night and wanted a cell phone for safety reasons. Who would have imagined when the cell phone was first launched in the 1980s that we would give them to young school children, or that cell phones would be more popular than land lines, or that people would use cell phones to text instead of talk? Another example is Botox, a product developed for muscular dystrophy, which was then used to cure migraines before being used as a beauty treatment to remove wrinkles (in fact, the same is true of many prescription medications where the current use is quite different to that originally intended). Another

example is the iPod, which was used as an MP3 player and then an external hard drive.

To summarize, there are two risks associated with product adoption. First, the product needs to be adopted to be successful. Second, as the product is adopted, new markets are introduced to it. Thus, the purpose we think our product will serve is often different to the purpose it is actually used for. Managers need to be adept at noticing different problems the product is solving as the product moves through the adoption curve as these new problems might in fact spell a different market, and therefore a stronger future, for the product.

### The Decision-Making Process

For consumers to adopt a new product and include it as part of their “normal” repertoire of products, they must pass through a decision-making process comprising three stages (see Figure 9.1).

Before a consumer can adopt the product, he or she must first “know” about it. If a consumer is already using a similar product, or knows of people who are using similar products, then he or she is more likely to be receptive to the new product that solves a similar problem to those products currently available. Similarly, if a consumer is dissatisfied with current products on the market, then the consumer is more likely to be receptive to a new product claiming to solve the problem in an enhanced manner.

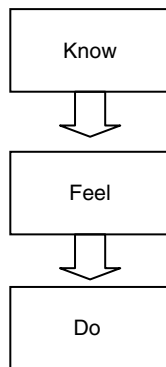


Figure 9.1 The consumer decision-making process

Source: Original.

In addition, some consumers are simply more open-minded and receptive to new ideas, that is, they themselves are more innovative. This means, that some consumers will be more willing to accept that they have a problem, perhaps a problem they had never really considered important or relevant, while other consumers find new products intriguing and will quickly evaluate whether the new product is something for them. In this case, individual personalities influence the “know” stage because some people are simply more open to new ideas and will accept change more readily than others.

Now that consumers know about the product, they need to be moved to “feel” that this is a product for them. To achieve “feel”, consumers might need to be convinced that the product offers advantages over existing products and isn’t too difficult to use. This explains why insulin pens for diabetics have been successful because they are more discreet and easier to use than traditional injections, or why Google succeeded as a search engine, because it offered more advantages over earlier search engines such as NetScape. By contrast, there is a new keyboard called the DVORAK keyboard that is meant to be better to use than the traditional QWERTY keyboard, but it is unlikely to be adopted because consumers will need to completely unlearn touch typing to adopt DVORAK.

To achieve “feel”, consumers might need to revisit their assumptions about problems and solutions. With obesity, for example, we now understand that it is not just an unhealthy lifestyle that leads to obesity. Genetics might also influence our propensity to gain weight. Instead of managing obesity through diet and exercise we can now look to medication to influence our metabolism.

Consumers also need to be convinced that this is the product for them. One way to do this is to let consumers try the product or at least see an in-store demonstration for it. For example, TiVo, one of the first digital video recording devices, might have been more successful had consumers been allowed a 30-day free trial in the home because once people tried TiVo they couldn’t imagine life without it.

Another approach is to make people believe that because everyone else is using the product, you should be too. A recent article in *Time* magazine reports the results of an experiment in San Diego. Three messages were tested to encourage people to use less electricity: an appeal to homeowners’ environmental consciousness, an appeal to their wallet, and an appeal to conformity. The results found that

people used less electricity if they were told their neighbors were also using less electricity (Grunwald 2009). Peer pressure works!

Critical to the “feel” stage, therefore, is the way in which the organization communicates with its target market: How clear is the message? How relevant is the message to the target market? Does the communication approach encourage the target market to form a positive impression of the new product and develop a belief that this is the product for them? Do other consumers (e.g., our early adopters) act as advocates for the new product? Has the organization convinced the target market to adopt the product?

Now, we want consumers to “do”, that is, to go out and actually buy the product. But, buying the product once isn’t enough. We also want our new consumers to return and repurchase the product. We therefore want our consumers to believe that this is the product for them, to let the product become part of their repertoire, and to recommend the product to others. We want our product to become the new “normal”.

When pursuing a growth strategy then, organizations must consider how easy it is to move the target market through the know-feel-do process. I believe that successful migration through know-feel-do is a combination of good luck and good marketing. Sometimes, the time is right for a new product because external factors are at play. Think of Clorox Green Works or hybrid vehicles – consumers are being told to be more environmentally conscious and therefore are more receptive to products that do not harm the environment. At other times, an organization simply does a great job of convincing consumers that this is the product for them (think Red Bull). What is important, however, is that moving consumers through the know-feel-do process, that is moving consumers toward adoption, is critical to the success of any growth strategy.

## **MARKETS THAT DON’T EXIST CAN’T BE ANALYZED**

Some organizations expect marketing managers to accurately predict sales volumes and provide insights into the likely future of the product. Here are some examples of predictions made in 1967 about how the world might look 30 years out. As you can quickly see, the first three predictions turned out to be less accurate than the bottom three:

- There would be manned planetary landings by 1980, and a permanent moon base by 1987.

- Private cars would be banned from city centers by 1986.
- Primitive life would be created in laboratories by 1986.
- Credit cards would virtually eliminate money by 1986.
- By 1986 there would be explosive growth in expenditures on recreation and entertainment.
- Many of us would be working at home by the 1980s; using remote computer terminals to link us to our office (Cornish 1997).

These examples illustrate just how difficult it is to predict the future and therefore just how difficult it is to forecast demand for new products. And yet many organizations require a forecast that appears accurate before additional resources are released to continue developing new products. I now want to demonstrate just how difficult it is to create a reasonable forecast for a new product by outlining how many assumptions need to be made across a range of measures. As you read through this section, ask: Where would data for these measures come from? What would happen to my final forecast if my assumptions are wrong?

*The size of the target market:* Earlier, for example, I suggested that 22m people were addicted to alcohol, nicotine, cocaine, heroine, and amphetamines (Interlandi 2008). In this case, the size of the population is easier to measure. By contrast, estimating the size of the population who might use genetic testing or cognitive enhancing drugs is likely to be more difficult to identify. Here, we know the size of the population of, say baby boomers, but we really don't know how many of this group suffers from, or perceives that it suffers from, memory loss. Estimating the size of the target market is further complicated if we believe one group of consumers will use the product when in fact it is used by a different group – for example, online travel sites being used by people wanting to buy show tickets or the iPod being used as an external hard drive.

*Awareness:* Here, I need to start reducing the size of my potential target market by taking into account the number of people who are likely to become aware of the product, after all the target market won't buy the product if they aren't aware of it.

Awareness will be influenced by how effective the communications strategy is, that is, by how much money is spent communicating with the target market, and by the reach, frequency, and quality of the integrated marketing communications program undertaken. With

traditional media channels such as newspapers, magazines, and television, we have relatively good data to enable us to estimate levels of awareness generated by our communications program. With new media such as Internet advertising, Facebook, and blogs, it is more difficult to predict awareness attributed to these channels. So, despite our best efforts to estimate awareness as an outcome of our communications strategy, we can still get it wrong. In addition, other factors come into play – for example, a competitor might increase its advertising budget as we go to air, or our advertisement might not grab peoples' attention as much as we had anticipated. Continuing with my addiction example, I might believe that I can generate a 40% level of awareness among my target audience of drug addicts. This means that 8.8m people will become aware of my new product to treat addiction.

*Trial:* Once consumers are aware of the product, they need to decide that this is the product for them. During marketing research, we often use purchase probability scales to measure purchase intention – that is, how likely are you to buy this product? Imagine, using a five-point rating scale with answer options ranging from definitely would buy, probably would buy through to definitely wouldn't buy. It is unwise to assume that 100% of all those who say they will definitely buy will actually end up buying the product and so we tend to factor down the responses. For example, many marketing research organizations will combine a percentage of the definites (say 80%) and a percentage of the probables (say 50%) to calculate likely trial.

One of the problems with any measure of trial is that marketing research studies are typically conducted in artificial environments, for example, the respondent has just spent the last hour talking about a product category and evaluating your product and believes it is great: "This is the product for me". The respondent indicates that he or she would definitely buy the product but, some months later, when the product is eventually on the market, doesn't purchase it at all. This illustrates the gap in marketing research between "what I say and what I do" and demonstrates, yet again, how difficult it is to forecast demand for new products. Using the example of addiction, imagine only 15% decide to use a prescription medication to help manage addiction. Thus, our population of 22m people is now reduced to a market of 1.32m people.

*Availability:* Even if you intend to try the product, you need to be able to buy it – that is, the product has to be available and so the level of



distribution the organization manages to achieve will influence sales volumes. So, using the example of prescription medicine for addiction, imagine a potential consumer goes to his or her primary care physician and requests the new treatment. In 75% of cases, the prescription medicine will be offered; in 25% of cases it won't. Our original figure of 22m potential customers is now down to 990,000 people. If the product was sold direct, then this number would be 100%. Or, if you estimated that only 50% of retailers would stock the product, then you would insert a figure of 50% availability instead.

*Repeat:* Once a consumer tries the product for the first time, we then need to take into account how many consumers will become repeat purchasers and factor in the average volume a repeat purchaser will consume in say a year. Let's imagine that of the 990,000 people who are given a one-month prescription medication for addiction, 40% don't want to continue with the treatment after one month but the remaining 60% use the treatment for one year (at the rate of one tablet per day). Therefore, the volume for the first year will be  $(990,000 \times 1 \text{ month} \times 30 \text{ tablets}) + (60\% \times 990,000 \times 11 \text{ months} \times 30 \text{ tables}) = 356,400,000$  tablets. From this number, we can calculate sales revenue and profit.

Any one of the numbers outlined above might be wrong. Of course, when we are forecasting demand we want to be as accurate as we can but we simply can't account for all of the dynamic interactions that occur within the market. For example, a competitor might launch a new product at the same time as ours or we might find that our advertisement does not cut through the clutter as we had anticipated. What if awareness only reaches 30%? This would mean that only 495,000 people will try the product and only 112,860,000 tablets will be sold in the first year. The newer the product, and the less experience the organization has with the market for which the product targets, the more likely it is that the estimates will be wrong.

Add to this my earlier comments about new product adoption. Even though people believe that the new product is the product for them, it might be harder to understand and use than we had predicted or the product might take longer before it reaches the early majority and so the volumes initially predicted might take longer to be realized. Other times, the product might move more quickly through the adoption curve – think products such as Pokémon that became a craze among children or Beanie Babies that became a collectors' item.

In both cases, the products took off quickly and in both cases, they enjoyed a prolonged life, probably exceeding all earlier expectations of sales volumes.

And so my overarching message is that it is difficult to accurately forecast the demand for new products and therefore accurately predict launch volumes, sales revenue, and profits. Some organizations require precision with new product forecasts, for example, start ups seeking venture capital or established organizations with very stringent financial requirements will want more concrete predictions about the potential for the new product. Trying to achieve such precision is, in itself, challenging.

In addition, some organizations simply are not nimble enough and so won't revisit and reconfigure assumptions held about the product and its target market once the product is launched and as the product moves through the adoption process (think (again) of the Apple iPod used as an external hard drive). This scenario is more likely if the new product represents a solution looking for a problem because the chances are high that the organization, and its customers, will discover the problem the product will solve together.

Because the initial launch strategy is often wrong, the challenge is in recognizing the different problems the product solves as it is adopted. And so, my questions are: How precise do new product forecasts need to be? How nimble is the organization? How willingly and how often do those within the organization challenge earlier assumptions (for example, about awareness, trial, availability, adoption, and use)? If the earlier assumptions are found to be wrong, will the new product champion be labeled incompetent or does the organization view this as a natural part of the new product development process?

## **WHAT BUSINESS ARE YOU IN?**

Markets are dynamic and businesses evolve. Some businesses are more rigid than others. I will use Figure 9.2 to frame a discussion of how change occurs. Figure 9.2 outlines three approaches to strategic decision making: strategic commitment, strategic adaptability, and strategic opportunism. I will begin with strategic commitment.

### **Strategic Commitment**

Wal-Mart provides a great example of an organization that demonstrates strategic commitment. We all know of Wal-Mart as

Strategic approach	Strategic risk
Strategic commitment	Strategic stubbornness
Strategic opportunism	Strategic drift
Strategic adaptability	Strategic blinders; misread trends

Figure 9.2 Strategic vision vs. strategic opportunism

Source: Aaker 2008, p. 129, Figure 7.5.

operationally excellent, an organization that drives down costs in its supply chain and offering consumers a wide range of products at relatively low prices. A downside of strategic commitment, however, is that the organization will be stubborn, so fixated on its existing product-market boundaries that it fails to see changes occurring in the market.

Perhaps, the organization hasn't realized that competitors are moving consumers toward new needs and wants or perhaps the organization hasn't realize that its products no longer adequately meet consumer needs. This happened to Wal-Mart after Target repositioned its brand. In response to Target's repositioning, Wal-Mart improved its George range of apparel to make it more relevant to budget-conscious fashion shoppers, tidied up its stores, and made it easier to find products in store. In a way, Wal-Mart had no choice but to reposition its stores because Target had changed the rules of the game for general merchandise retailers.

Thus, a severe consequence of strategic commitment is that the organization remains so focused that it loses relevance and goes out of business. This was true of the Underwood typewriter, a market leader in the 1920s that failed to innovate by investing in computer technology. Olivetti purchased Underwood in the mid-1960s and later dropped the brand name Underwood because it was no longer seen as relevant (Keller 2008c, p. 31).

## Strategic Opportunism

At the other end of the spectrum are organizations characterized as opportunistic. These organizations are likely to be fairly entrepreneurial, and inclined to follow any idea that seems interesting in the hope of generating additional sales.

The downside of strategic opportunism is strategic drift – employees, customers, and other stakeholders alike, will no longer understand what the organization stands for. For example, when Alan R. Mulally took over as the CEO of Ford he wanted to know “why the company had allowed forays into luxury makes such as Jaguar, Land Rover, and Aston Martin to distract it from the Ford brand” (Kiley 2009, p. 32). Thus by pursuing luxury brands, Ford put the core business at risk.

There was a period in Starbucks’ history when it wanted to buy Williams and Sonoma, a relatively up-market retailer of kitchen and living products. At the same time, it invested in Living.com, an online furniture and home products retailer (which later filed for bankruptcy). Had either venture been successful, Starbucks might have generated more revenue from home products than making and selling coffee. The danger for Starbucks, however, is that while it pursued these other avenues, it took its eye off the core business, stretched its resources too far, and likely put the core business at risk.

By contrast, 3M seems to pursue strategic opportunism relatively well. We know 3M as an innovative organization; in fact, its positioning statement on its website is “Innovative and practical solutions from a diversified technology company”.<sup>29</sup> 3M relentlessly follows a strategy of growth through innovation. 3M today is very different to 3M in 1902, when the organization began mining stone from quarries for use in grinding wheels.

Strategic opportunism is also akin to diversification because diversification means simultaneously pursuing new products and markets. A question often asked with respect to diversification is whether it is a strategy worth pursuing and, if so, should an organization pursue related or unrelated diversification opportunities? Unfortunately, there doesn’t seem to be any conclusive evidence to answer this question. Rumelt (1974; 1982) found that organizations which undertake related diversification, that is diversification that leverages existing skills, capabilities, or resources, will outperform organizations that diversify into unrelated areas or do not diversify at all.

Grant and Jammine (1988) found that organizations diversifying into either related *or* unrelated areas will outperform organizations that do not diversify at all and remain focused on a single business unit. At the other end of the spectrum, there is the view that diversification is not good. Think Peters and Waterman (1982), the authors of *In Search of Excellence*, who said that firms should “stick to their knitting” More recently, a report by McKinsey showed that the financial markets favor focused companies over highly diversified companies (Harper and Viguerie 2004).

What these studies overlooked was the context within which diversification was studied – for example, did the organization diversify during times of recession or growth? Was diversification a natural outcome of say, a strategy of new market or new product development? That is, did the organization begin by launching a new product for the current market but find that the new product attracted new markets? Or did the organization actively develop a solution and then link this to a problem, that is, create a market? In both cases, the organization demonstrated an awareness that the business had evolved as the result of implementing a new product or new market strategy and the fact that the organization diversified indicates a more agile organization.

We do know that diversification seems to come in waves. When the economy is growing, organizations expand and diversify by developing new products and new markets either through acquisition or by internal means. When the economy is bad, organizations divest non-core businesses and try to focus, to “stick to their knitting”. But, is an organization going to be more successful if it diversifies (1) during a recession so that it is poised to take advantage of post-recession growth; (2) just as the economy is coming out of a recession; or (3) during a growth period?

### **Strategic Adaptability**

Somewhere in between strategic commitment and strategic opportunism lies strategic adaptability. This means that the organization recognizes that things change, markets evolve, products improve, new technologies appear, government policies change, and so the organization needs to be able to read signals and trends from the market and change and adapt accordingly. The downside, however, is that the organization misreads these trends and makes mistakes along the way.

Brother provides a good example of a company that has adapted as technology has evolved. Brother began as a sewing machine manufacturer in 1908. In 1954, it moved into the area of knitting machines and small electric household appliances. In 1971, it launched the world's first high speed dot-matrix printer, which led to electronic typewriters in 1985 and multifunction printer/fax products in 2003.<sup>30</sup> To me, Brother is a truly remarkable organization that has managed to leverage core technologies and adapt to market changes – and still be around 100 years later.

If I were to choose one of these three strategic positions, I would opt for *disciplined* strategic adaptability. Earlier, I cautioned against stretching the organization into new areas unless those within the organization were convinced that the current strategy was being executed well. This is especially true during turbulent times when resources are limited and people are more cautious. I have to admit that I am not a great fan of strategic opportunism because it encourages undisciplined, unfocused, and possibly skittish, behavior – the consequence of which may be that nothing is done very well. During turbulent times, I believe strategic opportunism poses even greater threats to the organization. But organizations, like organisms, need to adapt to change and so my preference is for a strategy of thoughtful adaptability.

## ETHICAL CONCERNS

Marketing is not without its critics. In this book, I have introduced the concept of market creation and used examples of genetic testing and cognitive enhancing drugs to illustrate the point. A strategy of market creation means creating demand for unwanted goods, goods for which there was little prior demand.

This is where the tension lies between (1) marketing and innovation that solves consumer problems and makes peoples' lives easier; versus (2) marketing and innovation that creates needs and leads to overconsumption and environmental damage. I feel that striking a balance between both is difficult.

If something is legal is it still right? Countrywide Bank continued making subprime mortgages after having been told that many borrowers would not be able to afford the mortgages once the terms of the loan reset. The legal counsel for Countrywide said they would continue writing up sub-prime mortgages until it was illegal. Was it illegal? No. Was it wrong? Yes. Did it do harm? Yes.

The credit card industry has also been accused of adopting unethical business practices: “One of the banks’ nastier practices is offering credit cards to people who have recently emerged from bankruptcy or had other financial problems....it’s like marketing booze to alcoholics – it tempts the vulnerable to hurt themselves. It should be banned” (Sloan 2009, p. 22). President Obama has been attempting to legislate against shoddy credit card practices by banning “arbitrary” interest rate increases, prohibiting excessive fees and ordering more disclosure (Liberto 2009). I sense that credit card companies have started to change their lending practices in anticipation of new legislation but there is no doubt that prior lending practices did do harm.

Another example is that of Nestlé, an organization accused of using unethical methods to promote infant milk formula in favor of breast feeding in developing countries. Again, its practices were not illegal but advocates of breast feeding would argue they were wrong. Or Red Bull, which once left empty Red Bull cans in night clubs and bars to give the appearance that the product was in high demand when in fact it was not. Or Coca-Cola (and other iconic western brands), consumed by low-income people in developing countries. To buy a bottle of Coca-Cola might take as much as a day or several days’ wages. None of these practices are illegal, does this make them wrong?

Drucker once said that all managers should be encouraged to take the Hippocratic Oath, “Above all, do no harm” (2001). While I completely agree, the problem is that we are all likely to have different interpretations of what harm means. Charles Handy (2008) once said,

Drucker saw business as the agent of progress. Its main responsibility, he said, was to come up with new ideas and take them to market. But not just any new ideas, please – only those that bring genuine benefits to the customers, and do not muck up the environment. The market, unfortunately, does not differentiate between good and bad. If the people want junk, the market will provide [junk]. So we have to fall back on the conscience of our business leaders. Maybe they should all be required to sign the equivalent of the Hippocratic Oath that doctors used to be required to swear, including the commitment, “Above all, do no harm.” No, it couldn’t be a legal requirement, just an indication of a cultivated responsibility.

Therefore, striking a balance between product and market development that improves peoples' lives vs. creates needs and wants that result in overconsumption and environmental damage will always subject marketing to criticism. At a minimum, managers pursuing growth strategies should be aware of this tension and ultimately ask "Is what I am doing helping or harming consumers, society at large and the environment?" In the current environment within which we operate where people are losing their jobs and household expenditure is being trimmed, and the government is pursuing policies to promote better stewardship of the environment, I think the definition of "harm" has likely changed. That is, people are more likely to have a stronger view as to what constitutes harmful and wasteful practices. Marketers need to be beware. Not only should marketers be tuned into changing societal definitions of what constitutes harmful and wasteful practices, but marketers can also proactively shape the way in which harm and waste is defined by society.

## CONCLUSIONS

This chapter traced a number of risks and criticisms associated with the growth strategies outlined in earlier chapters. I outlined a number of reasons for new product failure from an organizational point of view and then introduced problems with new product adoption and behavior change to integrate a consumer perspective. I added the problem of market measurement, which is especially relevant to very new products for which demand and adoption is uncertain.

Two other potentially negative consequences of growth via market and product development were introduced: the strategic drift that comes from pursuing new products and new markets and ethical concerns that come with shaping consumer tastes and preferences.

Having outlined some of the risks and criticisms associated with growth strategies, I will now turn to the benefits of growth.



# Generating Growth – The Benefits of Being First

Obviously, one of the main benefits of pursuing growth strategies is enhancing organizational survival during turbulent times. Better still, another benefit of pursuing a growth strategy is growth itself. In this chapter, I will focus on the advantages of being first in a new product-market space, something we call first mover advantage.

## CONSUMER BASED FIRST MOVER ADVANTAGES

To create a market, organizations need to convince consumers that they have a problem for which there is now a solution. Initially, consumers will have relatively low awareness of the problem. And consumers are also likely to be unfamiliar with the products available to solve this problem.

We consider this situation to be one in which there is either latent demand or no demand. Therefore, one of the tasks of marketing managers is to build demand by leading consumers to the new product and giving them a reason to buy it. A major challenge in building demand is that consumers are not really sure of what the ideal combination of product attributes is, that is, what the ideal point is.

When the first product appears on the market, consumers simultaneously learn about the problem and solution. Consumers will form preferences for certain combinations of product attributes and so establish an image in their minds of what an ideal product is, based upon this market pioneering new product. Through trial and use, consumers update and solidify their preferences – if consumers like the market pioneering product then they will form a strong preference for the bundle of attributes offered by the market pioneer; if not, then they will be more open to other products that follow. In addition, and the longer the new product is on the market without competition, the stronger consumer preferences will be for the market pioneer.

To illustrate, think of Apple iPod. The Apple iPod wasn't the first MP3 player on the market but I attribute the Apple iPod with creating

the MP3 category because it was the first MP3 to be supported by substantial investments and so the iPod is attributed with building demand for MP3 players. As a result, the iPod became the “ideal point” in the MP3 category.

What this means is that if you were to go out and buy an MP3 player tomorrow, you would probably ask for an iPod to generically describe all MP3 players. Even if a sales associate entices you to look at an alternative brand of MP3 player, say a Microsoft Zune MP3 player, you are likely to compare the Microsoft product to the Apple iPod. The Apple iPod has become your point of reference against which others are compared. If you already own an iPod, you might be reluctant to switch to a Microsoft Zune MP3, just as new consumers to the MP3 category are reluctant to buy something different because consumers have learned about MP3 players through the Apple iPod.

There is a long tradition of research on market pioneers and the findings generally show that market pioneers enjoy a larger market share than market followers and that this strong market position is sustained over time. Because market pioneers effectively shape consumers’ preferences, they tend to influence which attributes are valued by consumers and so will influence which attributes become “the ideal bundle of attributes”. Thus, market pioneers become synonymous with the product class itself and end up being the standard against which other products are compared. This makes it more difficult for competitors to enter the market. What all of this means is that being a market pioneer provides a source of competitive advantage – that is, the market pioneer has what is called first mover advantage.

Market pioneers also create entry barriers. Not only do market pioneers end up with a market position advantage because they have created the ideal or best position in the market, but they also create switching costs. What this means is that a successful market pioneer makes consumers feel there is a risk attached to changing to another product, perhaps because consumers fear the product quality of a competitor will be inferior or because they might be judged unfavorably by their peer group. Another switching cost relates to the time and energy required to “unlearn” the market pioneer and learn about other products that have subsequently entered the market. This is exacerbated if consumers were trained as they adopted the market pioneering product, for example, consumers were taught how to use new software, or how to order a particular product online. Other

switching costs might exist because of loyalty rewards, for example, frequent flyer programs or prices based on volume discounts.

What do you do if you are following a market pioneer into a new market? Well, if you think back to the discussion in the previous chapter about product adoption, then one of the challenges market followers have is trying to get consumers to unlearn about the market pioneer in order to learn about the market follower. If the market follower requires the consumer to undertake substantial changes in behavior to adopt the product, then the risk of failure is high.

Therefore, an obvious market follower strategy is to come in close to the market pioneer. Perhaps the market follower can offer the same product at a lower price (something often referred to as a penetration price) or identify a problem consumers have with the market pioneer and set about correcting it, or the market follower can add something extra (but not too different) to encourage consumers to switch. The danger here is that, by positioning the market follower close to the market pioneer, the position of the market pioneer is actually strengthened and consumers become even more reluctant to switch to the market follower. Think banks: I don't see a lot of difference between banks, I can't be bothered putting the time and energy into opening up a new bank account nor can I be bothered setting up a new online banking environment. In fact, most of my bills are paperless now and I am not even sure I could easily find my account numbers to enable me to set up online banking with a different bank. Therefore, I perceive that the time involved in setting up a new online banking environment with a different bank to be long and filled with frustration. As a result, I don't bother switching banks.

To facilitate adoption, it is probably less risky for the market follower to enter the market close to the pioneer. To diminish the market position of the market pioneer, the market follower, and subsequent products, should enter the market in such a way so as to try to move the ideal point away from the market pioneer. This is illustrated in Figure 10.1. The market follower comes into the market (diagram 2) followed by later entrants (diagram 3). Eventually, the ideal point might move closer to these other products (see diagram 3).

One of the problems with first mover advantage theory, however, is that first movers are assumed to have got it right, to have read the market correctly and positioned their product accordingly. An alternative perspective is that the first mover got it wrong and therefore

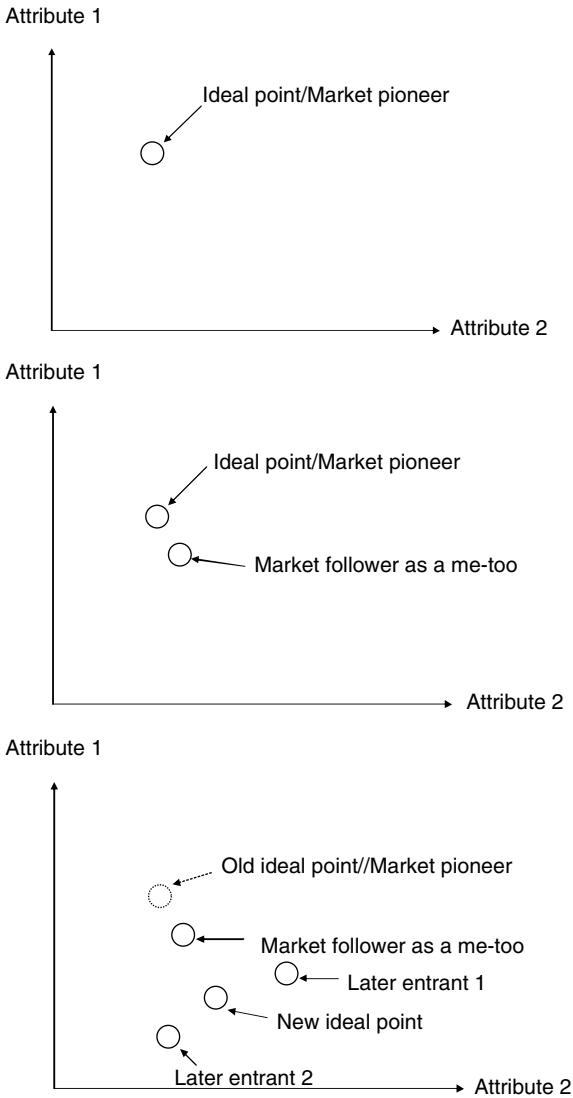


Figure 10.1 Ideal points and market entry  
 Source: Original.

a market follower could encourage consumers to value different attributes.

Therefore, by encouraging consumers to evaluate the product on different attributes, market followers are likely to create a completely

different market landscape, one in which the market follower becomes the new ideal point. A good example is that of Microsoft Zune MP3. When it launched it offered the advantage of being able to take all MP3 music, not just iTunes downloads and so introduced another attribute for consumers to value.

## **OTHER FIRST MOVER ADVANTAGES**

If a market pioneer is in fact successful and becomes the ideal point in the market against which other products are compared, then it is likely that it will also enjoy volume advantages. This means that the first mover will reap the rewards of experience and economies of scale, both of which may drive costs down. If the first mover can also lower its prices then this might create additional entry barriers for market followers.

Not only will experience drive costs down but it will also create further barriers to entry because the first mover will develop proprietary knowledge. Based on this knowledge, the first mover might secure important yet scarce resources such as land, raw materials, or even shelf space in retail stores. Unless the proprietary knowledge is captured in patents, however, the advantage of knowledge might not be sustained because it is hard to keep secrets – people leave jobs and work for competitors, companies reverse engineer, ideas are easily disseminated at conferences, trade shows, and through publications.

## **FIRST MOVER DISADVANTAGES**

But being a first mover isn't necessarily all rosy. Lieberman and Montgomery (1988) pointed out a number of disadvantages associated with being first into a new market.

1. First movers are likely to have invested heavily in R&D, built infrastructure, and trained employees and buyers. Market followers can take advantage of this by leveraging the knowledge and experience of first movers.
2. The first mover is never sure whether the technology it has backed will eventually become the market standard (think Sony Blue Ray vs. Toshiba high definition DVD). By waiting, the market follower

can invest only in the new standard, not earlier technology that could become obsolete.

3. The first mover needs to be a revolutionary and shape consumer tastes and preferences to build demand. Market followers enter the market more aggressively once the door has been opened by the first mover.
4. First movers have invested in fixed assets and this might lock them in, making it difficult to change existing products or introduce new ones as the market evolves. Not only has the first mover invested in fixed assets but also those within the organization are likely to have formed mental models about how the new market functions making it difficult to see changes occurring within the market.

## WHAT DID LEADERS DO?

This chapter has focused on the idea of first mover advantage, something I presented as a benefit of growth. When I introduced first mover advantages, I also suggested that firms who enjoyed a first mover advantage were likely to have a bigger and enduring market share. To close, I would like to share some results of research by Tellis and Golder (1996) who examined historical data to identify the characteristics of market leaders. What their study shows is that it isn't all about being first. Tellis and Golder found that market leaders,

1. Envisioned a mass market and developed economies of scale and experience. For example, Ford's Model T, Sony's VCR, Pampers, Kodak cameras and film.
2. Persisted over time. For example, Pampers were in the product development pipeline for 10 years before they were finally launched; JVC VHS took 21 years and RCA's color television took 10 years.
3. Innovated relentlessly by always identifying opportunities for change. For example, Gillette shavers.
4. Leveraged assets and used these assets to enter a new market. For example, Coca-Cola to Diet Coke, IBM mainframe to personal computers, Apple personal computers to iPods and iPhones.
5. Committed resources. Market leaders have money and are willing to spend it, even when profits are not immediately apparent. For example, Miller Lite waited five years before turning in a profit.

What this means is that while being first is a good thing, an organization needs to pay attention to the characteristics required of market leadership if it plans to retain its first mover advantages over time. This means that along with being first, comes vision and persistence, a passion for innovation, and the willingness to commit resources and leverage existing assets.

# Where do Ideas Come from and How to Manage Ideas from Within the Organization

In previous chapters, I discussed a range of growth strategies. I also identified many of the benefits and risks associated with pursuing a strategy of growth. In this last chapter, I want to identify specific characteristics of organizations that are more likely to generate growth by focusing on where ideas come from and how ideas are managed within an organization.

## WHERE DO IDEAS COME FROM?

In Chapter 8, I presented a market as a group of consumers with the same needs or wants, that is a group of consumers who have the same *problem* for which a product will provide a *solution* and suggested that growth can come about by either identifying new problems and then developing solutions, or by developing solutions and then linking them to problems (see Figure 8.1).

I now want to further explore the central theme of this chapter, that is, the question of where ideas come from, by taking each of these four options outlined in Chapter 8 and elaborating upon the type of marketing research appropriate to each option.

## Consumers Can State the Problem and Solution

If I believe that consumers can state problems and solutions that might lead to growth opportunities, then I will make use of survey research. This is especially the case for firms wanting to follow a market penetration strategy and/or slightly modify existing products to better meet consumer needs. Under this scenario, consumers are likely to be very familiar with products currently on the market that meet their needs because they have been exposed to, and have taken notice of, communication about what is available, used a variety of products



themselves, and observed others using different products. Therefore, consumers will have an opinion about your products and those of your competitors and will be able to evaluate the products within the market relatively effectively.

And so, if you want to fine tune your marketing efforts, then the use of surveys for market feedback is fine. This makes the marketing research process relatively easy because you can use surveys that rely primarily on closed ended responses, and are administered by the phone, mail, or the Internet. By using surveys, you are likely to get information to help you benchmark and fine tune your marketing program. I have created a fairly rudimentary survey that is typical of the types of online surveys car manufacturers often use to collect customer feedback once a car has been serviced (see Table 11.1). Similar surveys are found in hotel rooms to allow guests to provide feedback on their stay, although increasingly, hotels are using online surveys to gather feedback once a guest has left the hotel.

Questions in the car survey covered a range of themes from booking the car in for a service through to collecting the car and paying

Table 11.1 Car survey

How would you rate each of the following?

	Excellent	Good	Average	Fair	Poor	N/a
Making an appointment on the phone	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Checking your vehicle in for a service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Additional communication during service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Length of time service took	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Explanation of costs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Standard of work completed during the service	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cleanliness of car	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Courtesy of service manager	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Courtesy of cashier	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Overall experience	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments:

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Source: Original.

for the service; some surveys like this are a lot longer, some a little briefer. What the survey allows a car manufacturer to do is monitor its performance over time – at each individual dealership and across dealerships, and quickly identify areas in which the service delivery could be improved.

Often surveys such as this do not allow for additional feedback. In this case, the car survey left space for additional feedback – a good thing because it allows respondents to explain their earlier responses. Imagine I had checked “poor” to the question about making an appointment over the phone. If I had been able to give a reason to explain why I had given this response then managers would have had additional information from which to interpret the results. For example, I might have said I needed to drop the car in before 7am to allow me to car pool to work. This type of feedback might allow managers to change the hours the service department works. The downside with open-ended responses, however, is that I might not offer additional or substantive insights – after all, the car survey provided limited space and so the opportunity to “go deep” simply does not exist.

It is increasingly difficult to get large representative samples when conducting marketing research studies like this one. In spite of the overall response rate, managers need to take the time to read the verbatim comments provided by respondents – even isolated comments may give insights into important opportunities or problems.

Unfortunately, the quality of marketing research studies is compromised by response rates. Many people simply elect not to participate in marketing research – perhaps they are too busy, don’t see the value in participating, don’t feel their opinion is important, or have been betrayed by sales pitches disguised as marketing research, which means they are no longer sure whether a marketing research study is in fact a genuine attempt at soliciting feedback from the market. Therefore, when reading the results of a marketing research study, it is important to ask: “What about the opinions of nonrespondents? Aren’t they important?” To overcome this, many research companies will show that the respondent profile matches the population, say by age or geographic spread. But, respondent profiles are almost impossible to match to population data on the basis of attitudes or opinions or lifestyles. Therefore, it is likely that surveys under-represent busy people, for example.

Another caution with studies such as this is not to be overly enthusiastic with data analysis. In this case, the response options ranged from

Excellent to Poor. This measurement scale is what we call an ordinal scale because the words Excellent through Poor are arranged in order. With an ordinal scale, we don't know how much difference there is between Excellent and Good, Good and Average, etc., and we certainly can't assume that the distance between Excellent and Good equals the distance between Good and Poor. What this means is that when we have collected the data, we are unable to do more than calculate medians and modes. Because the measurement scale is ordinal and not interval, it is completely wrong to calculate mean responses for each question and so there is really little we can do with the data from an analytical point of view. This means that whoever commissions a survey like this car survey is very limited in terms of insights that can be gleaned from the data. What should have been used is an interval scale – for example, a reworded question: “It was relatively easy to make an appointment on the phone” could be accompanied by a 5-point rating scale where 5 means “Strongly agree” and 1 means “Strongly disagree”. While the question and instructions are likely to be a little longer, the quality of the data is such that more analysis is possible.

I see so many surveys just like this one. But a downside of these kinds of surveys is that managers start to question the usefulness of marketing research in eliciting feedback, or in the context of this book, identifying new problems and solutions. On the surface, it seems easy to write a questionnaire but questionnaire construction is a science and just because there are software packages and online tools available to help write surveys doesn't mean the survey will be well written or the results representative and useful.

Because online surveys are so easy to conduct and because computers are able to process large data sets and because we have easy-to-use data analysis software packages available, many attempts at getting consumer feedback have become online and quantitative. In addition, many researchers use analytical techniques incorrectly. Survey research should only be seen as a starting point for identifying problems consumers have with products and trying to get consumers to offer solutions.

### **What if Consumers Can't State the Problem and/or Solution?**

Based on what I said about the car survey, it is no surprise then that managers are frustrated with marketing research because it is not able to reveal rich consumer insights that lead to innovative product

development. To this, I suggest the problem is not with marketing research per se, but with the tools and techniques used.

Don Schultz has also been outspoken about the marketing research industry and, in his words, he said he got into trouble for suggesting that the marketing research industry “is in a death spiral” (Berens 2006). What Don Schultz meant was that, “The research people had become so tool and technique driven, that they are more interested in the tools and the techniques than they are in the insight, or the information, they generate” (Berens 2006).

Schultz continued by suggesting a well-defined marketing research study should start by asking “What information are we trying to get? How can customers give it to us? What kind of responses are we going to get?” (Berens 2006). To which I would add, a well-defined marketing research study should place a lot of emphasis on (1) the management problem or opportunity for which marketing research is being commissioned; and (2) the decisions that are likely to be made as a consequence of the research. Managers should even go as far as ask to questions such as: What if the idea doesn’t test well, then what we will do?, Who is going to use the research (e.g., the marketing department, the Board, retailers, venture capital firms)? What are the information requirements?

And so if the goal of a marketing research study is to identify latent needs and wants, then different research tools and techniques are required. Similarly, managers need to be adept at linking problems with solutions if the relationship between both is less explicit.

Murray (1938) introduced the term latent needs to describe needs that are not openly displayed. He used the term manifest needs to describe needs that are easy to observe by people’s actions. In marketing, we have slightly expanded the definition of latent needs to mean those that are “either unknown to the consumer or were such that he was reluctant to admit them” and manifest needs to mean “those that are known to the consumer and freely admitted to the researcher” (Hawkins et al. 2007, p. 373).

If I were to ask you why you drive a Mercedes Benz, you might say: “It’s a large car, which is more comfortable for me”; “It’s a high quality car that performs well and I’ll get good resale”; or “A number of my friends drive Mercedes”(Hawkins et al. 2007). These statements are all considered statements of manifest needs because they are known to the consumer and freely admitted to the researcher.

There may be other reasons, however, as to what motivated you to buy a Mercedes, but for these latent motives you are either reluctant to admit to or perhaps are not even aware of: “It will demonstrate that I am successful” or “It’s a powerful, sexy car and it will help make me feel powerful and sexy”(Hawkins et al. 2007).

If your goal, therefore, is to develop deep market insights and identify growth opportunities, then rather than use tools and techniques such as online surveys to elicit direct market feedback, managers should adopt other approaches. Here, the objective is not to ask consumers to explicitly tell you what they need but to uncover latent needs, problems consumers have with current market offerings or more obscure reasons for buying (or not buying) your product.

One popular approach for uncovering latent needs is the use of projective techniques, an approach aimed at tapping into the underlying motives of individuals. The following is one of my favorite examples of a projective technique taken from 1950.

Haire (1950) set up an experiment in which he developed two shopping lists – the only difference between the shopping lists was that one included Nescafé instant coffee and the other included Maxwell House coffee. One hundred respondents were recruited, 50 were given one list and 50 were given the other. Their task was to describe the woman who brought the groceries. This is what Haire (1950) found.

The description of the woman who purchased Maxwell House coffee:

- “I’d say she was a practical, frugal woman. She must like to cook and bake.”
- “She is probably quite set in her ways.”
- “[The purchase of Del Monte canned peaches indicates that] she may be anxious to please either herself or members of her family with a treat. She is probably a thrifty, sensible housewife.”

In contrast, the description of the woman who purchased Nescafé instant coffee:

- “This woman appears to be either single or living alone. I would guess that she had an office job.”
- “She seems to be lazy, because of her purchases of canned peaches and instant coffee.”

- “ I think the woman is the type who never thinks far ahead... The girl may be an office girl who is just living from one day to the next in a sort of haphazard sort of life.”

While the results are humorous in that they offer a slice of 1950s life, they are also very interesting because they show that women who use instant coffee were perceived as lazy housekeepers and poor wives, whereas users of regular grind coffee were thrifty and good wives. Great insights to help develop demand for instant coffee.

Other commonly used projective techniques rely on pictures and require consumers to describe the picture, identify what led up to the image shown in the picture, explain what is happening in the picture and describe what the people in the picture (if in fact people are shown) are thinking or feeling. While the first such projective technique was developed by Murray and called the Thematic Apperception Technique, pictures, cartoons, unfinished stories are now commonly used to identify latent motives; all work on the principle of “I know more than I can tell”.

Ethnography, a method that relies on direct observation of daily behavior, has made its way from the social sciences into marketing. Ethnography is important because it allows marketers to identify behaviors and changes to behavior and respond accordingly (think Apple with its iPod and iTunes). I recall reading a story about Cyriac Roeding, a person who had worked in the cell phone industry before going on a world tour to watch people use their cell phones. Any of his insights below could spawn new product ideas:

- Most cell phone key pads are in English and non-English speakers are using letters of the English alphabet as symbols for words or phrases in their own languages.
- In many developing countries, people don't have personal computers and laptops but they do have mobile phones and so organizations need to create content, services, and devices for both mobile and personal computer based media.
- In the Himalayas in Bhutan, cell phones were first marketed for safety and then people started using them for recreational means, such as texting.
- In Nepal, people listen to ring tones just as people in other countries might listen to their iPods.

- In developing countries, news travels either via newspapers or texting. In fact, texting is used more for announcing news in Nepal than in the US (Ahrens 2008).

To summarize then, if an organization is looking to identify problems its customers have with existing products then it must begin with customers, and use appropriate techniques for identifying unmet needs, acknowledging that the needs might be either manifest or latent needs. The more latent the need the more sophisticated managers' market sensing capabilities must be. Once needs are identified, products are modified or developed, which allows the organization to grow. I like the quote below from Houston (1986, p. 86) because it reminds us of just how future-oriented marketing should be, that is, marketing is not all about doing well in the present.

Customers are not necessarily good sources of information about their needs a decade from now.... Anticipating future needs and wants are consistent with the marketing concept.

Similarly, Levitt (1960) reminds us that “a company is a customer satisfying organism. Its purpose is to give people a reason to do business with it”. Once again, by focusing on the needs and wants customers seek to satisfy by consuming its products, by understanding changing tastes and preferences and finding new and different ways for consumers to satisfy the same needs and wants, the organization remains relevant and continues to give people reasons to do business with it. Implicit in such an approach is the motivation to create growth opportunities within existing industries rather than always identifying growth industries (Levitt 1960).

## LOOKING INSIDE THE ORGANIZATION FOR IDEAS

So far, I have focused on how to look outside the organization to identify manifest and latent needs and wants. How else can the organization come up with ideas for new products, in particular solutions for which it then creates demand? To answer this question, I want to turn my attention to how ideas are generated internally.

A good starting point is to focus on what the organization already knows and what it has accomplished. This might be as simple as breaking down existing products into product functions, identifying

whether there are any problems with the way in which the product performs and then suggesting how each function could be improved – either to alleviate a problem or to move the function to a new ideal point. Alternatively, the organization could leverage existing knowledge and apply it to different product categories. I am guessing that this is how Brother went from knitting machines to typewriters – that is, they leveraged knowledge about how knitting machines worked and applied this to typewriters.

A number of creativity techniques exist that can be used as part of an internally driven new product development process.

1. *Attribute listing* – list all product attributes and then attempt to modify each attribute. For example, wine is packaged in a bottle with a label and a cork. What would happen if we didn't use a cork? What else could we use? We could use screw caps as we do with water bottles. What would happen if wine didn't come in a glass bottle? It could come in a box or plastic bottle. What would be the implications of this?

2. *Forced relationships* – list a range of products and ask what would happen if we merged product A with product B. For example, what would happen if we merged a camera with a phone? What would such a product look like? What would happen if we merged a car with a bicycle? A saucepan with a toaster? etc.

3. *Morphological analysis* – start with a problem, break it down into a number of dimensions, and list all possible combinations of dimensions in order to generate possible solutions. For example, sleeping requires something to rest on (a bed, a sofa, a chair), somewhere to rest (a bedroom, a hotel, a coffee shop, the office) and a time to rest (night time, mid-afternoon, mid-morning).

4. *Reverse assumption analysis* – begin with normal assumptions and then reverse them. For example, we assume we go to university to sit in classrooms and listen to professors talking about subjects. What happens if we don't need to sit in classrooms? What happens if professors don't talk? What happens if we don't want to learn about specific subjects? From this might evolve peer to peer online learning environments to address world problems such as global warming or poverty.

5. *New contexts* – take familiar products and services and apply them to different contexts. For example, we know that there are many health and beauty services for people, what would happen if we offered the same for pets?



6. *Mind mapping* – start with a thought, write it down, and write down all of the possible associations that come to mind. For example, Car – Mercedes – Luxury – Expensive – Louis Vuitton – France – Wine, etc.

Source: (modified from Kotler and Keller 2009) p. 579.

We know that no matter where the ideas come from, new products suffer from high failure rates – I have heard new product failure rates of 50–95%. In an earlier chapter, I uncovered a number of risks associated with a growth strategy, including not understanding the size of the market or how quickly the product will be adopted. But other problems relevant to this chapter include not completely understanding the problem for which the new product provides a solution and therefore not correctly positioning the product in the market. Other points relevant to this chapter are not having the expertise to develop the new product to the standards required by consumers.

## KNOWLEDGE MANAGEMENT

In a number of places in this book, I have introduced the need to be tuned into the market to identify trends and adapt (remember the earlier discussion on strategic commitment vs. opportunism vs. strategic adaptability), and the need to identify problems consumers are having with products, especially if the consumer is unable to state the problem and/or solution.

Watching the market and being open to change is not characteristic of all organizations. For example:

- Some managers will be myopic and will prefer to work within the existing mental model they have of the market and their perception of the attributes consumers' value.
- Even if managers see a change occurring in the market, many will prefer to sit back, watch, and wait to see what happens, for example, to see how big the new market becomes or what product standard is finally agreed upon.
- Apart from waiting for new product standards to emerge, many managers feel they have no choice but to stay with the products they make. To change might mean putting the organization at risk because the organization lacks the internal capability required to make a change.

- Even if the organization decides that change is necessary, many managers fear they will either alienate existing customers, who will not change with you, or cannibalize existing products (although the reality is that a competitor might undermine the organization anyway).

To minimize the effect of some of the points outlined before, I recommend the organization improves its knowledge management and organizational learning processes. By paying attention to the internal workings of the organization, the organization is more likely to adapt, thrive, and grow. I will now discuss knowledge management and organizational learning as they relate to growth strategies.

Organizations have access to a wide range of knowledge from a range of sources – employees, strategic business units, customers, analysts, stockholders, suppliers, etc. And, not all knowledge is the same. Some knowledge is more tacit and people dependent (e.g., experience) while other knowledge is more explicit and people independent (e.g., data). Furthermore, knowledge changes with experience and learning. The way the organization acquires and disseminates knowledge is critical to how it grows. Nonaka and Takeuchi (1995) identified four types of knowledge transfer as part of a knowledge creating spiral:

- *Socialization*: tacit knowledge interacts with other tacit knowledge. In this case, individuals share knowledge and experiences with others by developing shared mental models, mentoring and coaching, giving people the time and opportunity to talk to one another, developing communities of practice, brainstorming, networking, debriefing after attending conferences, seminars or important meetings with customers, suppliers or regulators or after concluding significant sales agreements or shortly before being transferred or promoted, and running internal seminars led by managers who share their experiences.
- *Externalization*: tacit knowledge converts into explicit knowledge, making the knowledge easier to transfer. Examples include creating metaphors and analogies, translating customer requirements into an agenda for new product development, training and education, capturing the experiences of employees by asking questions such as “What do you know about?” “What do you think about?” “Who in this company has done this?” Externalization also includes capturing best practices, developing knowledge maps that show who has what knowledge within the organization, and developing an

organizational memory to codify and store tacit knowledge (e.g., by recording case studies of new product launches or promotions).

- *Combination*: explicit knowledge is converted into other explicit knowledge. This is typical of database management and information processing where the existing data base is sorted, added to, combined with, and recategorized.
- *Internalization*: explicit knowledge is converted into tacit knowledge. An example might be accessing the technical library or reading case notes held on the computer.

Effective knowledge management practices are essential to support a strategy of growth. This means that knowledge is disseminated using all *four* categories outlined by Nonaka and Takeuchi. I think the category we largely overlook within organizations is that of socialization – giving ourselves permission to stop and talk to a colleague or take the time out to visit a customer. To put this into context, think about going into the office after hours. If you need information, you can look up old reports, access data on a database, and perhaps read case notes on the computer but you can't walk into a colleague's office to ask his or her opinion about what you are working on. That is, you can't practice socialization.

In addition to ensuring the organization supports a range of knowledge management practices, the organizational culture has to pay close attention to how new knowledge is responded to and absorbed. This means that not only do managers need to have a deep understanding of broad market conditions but they also need to have the ability to adjust strongly held mental models of how the industry is defined, what markets exist within the industry, where market boundaries lie, what products should be offered to each market, and what customers need now and in the future. This means that managers leverage knowledge, learn from it and build new capabilities.

This is where the concepts of mental models and organizational learning are important. Let's begin with mental models. We use mental models to organize and simplify complex issues or phenomenon to allow us to make sense of the world around us. Mental models might embody simple cause-and-effect relationships, for example, how many times customers should be visited each year to maximize sales. Alternatively, managers might hold other more complex mental models to explain, for example, why customers are motivated to

purchase a particular product, or what they believe their organization excels at, or what skills are required to make a product.

Mental models, although important, are often incomplete and can quickly become inaccurate and/or cause blind spots to those within the organization. What this means is that many managers fail to recognize external changes and so when new information comes to light, they will filter it through the current mental model rather than using the new knowledge to challenge and develop a slightly altered mental model.

We often talk about single and double loop organizational learning to explain how mental models can be challenged or altered (Argyris 1994; Argyris and Schön 1974; Argyris and Schön 1978). With single loop learning, managers have established “theories-in-use”, which are based upon organizational values, assumptions and norms. Whenever there is a mismatch between the actual and expected outcome, managers will simply change the theory-in-use without changing the underlying norms, assumptions, and values that informed the theory-in-use. Thus, only slight adjustments are made to mental models; instead, managers focus on the routines performed and making those routines more efficient. For example, an advertising campaign is reviewed and fine tuned, or a pricing policy is altered to offer seasonal discount, or vending machines are added to more locations to facilitate greater distribution, or a new product flavor added to the product range. All are examples of organizations that focus on working within existing product-market boundaries.

By contrast, double loop learning means changing the mental models held by questioning and altering assumptions, values, norms, and world views. Managers who practice double loop learning are likely to think outside the box and come up with radically different products and create new markets. Instead of fine-tuning an existing mental model, questions might include: why do customers value these attributes? What would the market look like if customers valued different attributes? Why does our product need to be distributed through bricks and mortar retailers? Why do we need to advertise on television? What would happen if we used Twitter to communicate with our target market? etc.

## CONCLUSIONS

I have spent this chapter addressing the source of ideas to support growth. I have also identified the practices required to encourage

knowledge to flow freely around the organization and to encourage those within the organization to challenge knowledge by engaging in single and double loop learning.

Here is a list of recommendations that bring together much of what has been written about in this chapter:

- Encourage diversity of opinion and ensure the environment supports healthy debate and gives people the chance to challenge the original assumptions held about all aspects of the product-market space within which the organization operates.
- Stay focused on the consumer problems the organization is trying to solve. This will ensure discussion is centered on the problems and attributes consumers' value rather than product functionality. At the same time, recognize when new needs and wants emerge.
- Don't assume that consumers can correctly state their needs and wants. Just as knowledge management encourages socialization within the organization, it also encourages managers to spend time (i.e., to "socialize") with customers in order to understand their needs and wants. Be sure to include research techniques that uncover latent needs and wants. And, take time to watch consumers use the product.
- Pay attention to emerging technologies. What would happen if a new technology could be embedded into your products or processes? What would the new product look like? What additional benefits might the new technology offer consumers? What new needs and wants might the technology solve? If initial results are not encouraging, don't be put off – instead, revisit the technology at a later stage and/or ask how you would react if the results had been more encouraging?
- Similarly, pay attention to emerging government policies, and cultural, economic, and social changes and try to anticipate what impact these changes will have on your customers. What does it mean to stay relevant to your customers in a changing world?
- Although your organization needs deep pockets to develop a new product and/or market, don't use all of the resources to launch the product. Try and keep some in reserve, or know how to access additional resources, because it is likely that your early assumptions about the market are wrong and you will need to redirect to succeed.
- Focus on learning, not perfect planning. Be willing to abandon the original strategy when you see it isn't working. Be willing to

challenge assumptions you held of the product-market space as the product enters the market and starts to evolve. Be prepared to acknowledge that you got it wrong – failure is an option, as long as those within the organization learn from it.

- Who are your non-customers? Why are they non-customers? Do non-customers lack the skills or the money to buy from your organization? Will your new product help customers satisfy their needs more easily? Is there a group of customers out there with unmet needs? Can you create a new market?

# Conclusions

Long before I decided to write a book about marketing through turbulent times, I was fascinated by what I saw happening around me. Even before the collapse of the financial system at the end of 2008, there was an aura of insanity. House prices were escalating at unprecedented rates yet the government seemed to be doing nothing to stop the housing bubble inflate further. Many people I know were living beyond their means and using home equity to support an unsustainable lifestyle. In fact, I started to hear the expression that people acted as if they had an ATM in their living room.

Then the economy tanked as if someone had applied the brake too quickly. Overnight, credit was hard to come by, many banks failed, unemployment sky rocketed, people lost their homes and we were all overcome by a sense of fear and uncertainty about the future, tainted by a sense of hopelessness.

At the same time, the US witnessed an unprecedented election and installed President Obama as its first African American president. The lead up to Obama's historic win was nothing short of riveting. Who will win the Democratic nomination – Obama or Hilary? What will Bill Clinton's role be if Hilary wins the Democratic nomination? Will John McCain beat Obama? Who is Sarah Palin? Who will Obama choose as his vice president? Will Obama hit the ground running and be ready to deal with the economic crisis he inherits?

Not only did Obama win this historic election but he also reached out to the people, used social media to rally the masses, emphasized the importance of the democratic process, and urged people to mobilize and make a difference to the future of the US. Obama gave people hope, made frequent references to the concept of hope during his Presidential campaign and even published a book called *The Audacity of Hope* in 2006.

To me this period has also represented a period of great contradictions: on the one hand Obama made people feel hopeful; on the other hand, the ailing economy and a fear of the unknown made people feel hopeless. So, we have an unusual situation in which hopefulness and hopelessness are swirling around together, finding a way to coexist.

The extraordinary situation in which we found ourselves inspired me to write *Marketing through Turbulent Times*. I was left wondering how marketing managers could make sense of such a bizarre environment, an environment in which history cannot be called upon to make sense of the future. My goals in writing *Marketing through Turbulent Times* were straightforward: to provide an overview of and a context to the current environment; to remind marketing managers not to get spooked by circumstances but to stay focused on what it means to implement great marketing strategies (i.e., *Hope is not Enough*); to reflect upon what it means to be relevant in this topsy-turvy world within which marketing managers operate; and to inspire marketing managers to flush out growth opportunities amongst a mire of uncertainty. And that is what *Marketing through Turbulent Times* is about.

In the first part of *Marketing through Turbulent Times*, I profiled the current situation by integrating themes of economic recession, consumer depression, and democracy. I suggested that although a democratic and market-directed economy go hand in hand, the US government had failed to control the economy which, in turn, threatened the very nature of democracy itself. In fact, I quoted West (2004) who suggested that the glorification of the market works against a functioning democracy.

Along came President Obama who, in his presidential acceptance speech stated that “if anyone still questions the power of democracy, tonight is your answer”. I pointed out that, for many reasons, not just because Obama is the first African American president, his election as President represented a new chapter in US history. With Obama, many hope that a functioning democracy will be restored and that government will intervene to curb an excessive glorification of the market.

But at the same time, I also wanted to paint a picture filled with contradictions, a picture combining hopefulness with hopelessness. I listed many of the ways in which consumers have already responded to the economic crisis by cutting spending, not using credit cards as much to fund purchases, reconfiguring how to spend money, not appearing to consume luxury brands, questioning the sense of home ownership to build wealth, worrying about paying for retirement or college, worrying about the security of one’s job, wondering what the future will look like with all of the green technology we’ve been promised, and a colossal government debt to pay back



in future generations. I questioned whether consumers will return to their old ways once the recession is over – to be honest, we won't know the answer to this question until the recession is over but the question of whether consumers will permanently change their consumption behavior remains interesting. I noted that, for change to occur, consumers need to feel empowered again, to start thinking for themselves; to remind themselves that they are the reason organizations exist; to overcome anger toward Wall Street and other organizations that were responsible for getting the world economy into this mess; and to understand that consumption is often used to compensate for feelings of powerlessness. By empowering consumers, consumers will be made to feel that they have regained some control in the corporate – consumer relationship once again.

It is against this backdrop that I introduced and outlined social media as a tool for restoring a balance of power, or at least returning some power to the people and away from corporations. In fact, I found that social media is aligned to five principles of democracy: the freedom of speech, debate and enquiry; popular democracy; open, accountable and diverse media; economic democracy and equality before the law. I suggested that social media will become an enduring characteristic of our current times – just as the printing press enabled democracy in the West back in 1440 (Baker and Green 2008).

While the first part of *Marketing through Turbulent Times* provided context to what it means to market during turbulent times, the second part reminded marketing managers of just what excellent marketing management means. I also used Part II to address the question of relevance – that is, what does it mean to be relevant in today's environment? I began Part II by outlining a set of principles:

1. Remember, customers are the reason you are in business. Ensure customers remain at the front and center of any strategic decisions you make. Look at the business from the outside, from the customers' point of view. Take the time to understand what your customers value, what needs they seek to satisfy by consuming your product, what it takes to not only serve the customers you have but also create new customers, and what it takes to make customers come back for more.

2. Understand the profitability of each customer. What are the financial implications of doing business with your customers? What are the strategic implications of doing business with your customers?

Should you fire or demote customers? Can you afford to continue doing business with all of your customers?

3. Empathize with your customers. Understand that your customers are anxious and concerned about their current situation and future. Know that your customers are likely to be more grumpy and contentious about the future. Demonstrate a sense of humanity. Put in place special programs to demonstrate that you understand your customers' plight, to show your customers that this is the brand for them.

4. Balance good leadership with sound management. While it is important that you ensure your organization remains financially solvent, don't get bogged down in cost-cutting behavior at the expense of developing and communicating a sound and compelling vision.

5. Be accountable for marketing expenditure. Remember to balance the short-term need to spend money to generate sales with the long-term need to build your brands. Understand the language of finance and demonstrate the return of marketing investment in both the short and long term to ensure your budgets are not the first to be cut when short-term earnings goals are unlikely to be met.

After discussing what I consider sound marketing principles, I then examined how organizations behaved during the last *big* recession, that is, the recession of the 1980s. By using historical data, I demonstrated the need to maintain momentum by spending at least at the same rate as your competitors to position your organization for solid returns once the recession ends. More specifically, I showed that organizations which spend more during a recession on marketing and R&D than their competitors did better after the recession. I also provided evidence of the impact of marketing expenditure on the long-term value of the firm – an important finding for marketing managers who want to demonstrate just how dangerous it is to cut marketing expenditure during turbulent times to balance the books.

I concluded Part II by outlining what it means to execute existing marketing strategies extremely well, that is, by reminding marketing managers what sound marketing management actually means and pointing out examples of bad marketing management practices and lost opportunities. I focused on the usual themes of: Who is my target market? Is my brand appropriately positioned? Should I fine-tune any of my decisions with respect to product, price, place, and promotion to strengthen my position and generate growth? While these areas seem obvious, I provided a long list of questions, a checklist for

marketing managers to use. But I didn't just list a bunch of obvious marketing areas upon which to focus, I took time to integrate the questions on my checklist back to the current times to make them relevant.

I suggested that, in turbulent times, marketing managers should not identify growth opportunities without first ensuring the current marketing strategy is being executed well since new opportunities require resources and represent a diversion from the current strategy. But, I also feel strongly that organizations should not rest on their laurels. Change is occurring all the time and a single-minded focus on excellent execution of the current marketing strategy could also be the organization's undoing as the organization loses relevance and becomes less competitive. This became my platform as I moved to Part III. In Part III, I discussed how to pursue a strategy of growth by pushing product-market boundaries. I took care not to encourage managers to identify growth industries but instead to focus on how to identify growth opportunities within existing industries.

To explain what it means to push product-market boundaries, I paused and contemplated the concept of a market, something we seem to understand but never really stop to define. I described the concept of a perceptual map to help explain markets. I noted that perceptual maps provide an excellent snapshot of a market, are effective tools for communicating product-market boundaries, and encourage managers to focus on the language of consumer needs and wants by focusing on the underlying attributes that structure a market.

In addition, I also pointed out the dangers of relying too heavily on perceptual maps. Not only because they might be incorrect in their construction but also because they can constrict strategic decision making about product-market spaces. I therefore suggested that perceptual maps should be nothing more than a starting point from which we can make strategic decisions about the way in which product-market boundaries are constructed.

I concluded by suggesting that markets define themselves and that the choice of product-market boundaries is a matter of strategic choice rather than a preexisting condition that constricts strategic decision making. In fact, one of the challenges for marketing managers is to create a market and then manufacture demand for the organization's products. I embarked upon a discussion of how product-market

boundaries can be pushed, moved, and rearranged to create growth opportunities.

The framework I used to explain how to push product-market boundaries was simple: a continuum anchored by problems looking for solutions vs. solutions looking for problems. While I suggested two intermediate positions along the continuum, I was largely interested in (1) whether opportunities for growth originated from consumers who had problems with current product offerings. These problems then provided the organization with a challenge to come up with a better solution; or (2) whether the organization developed a solution and then endeavored to link this to a consumer problem. As part of this discussion, I acknowledged that diversification is a natural outcome of pursuing growth opportunities but cautioned against an undisciplined adaptation of the core business.

I used the final part, Part IV, to tie up a few loose ends. I discussed the advantages of being first in a market, something we call first mover advantage. I also discussed a number of risks associated with pursuing growth opportunities:

1. The risk of new. The organization is pursuing new products and/or new markets and so is moving into uncharted territories for which it may lack the money and expertise to succeed.
2. The risk of adoption. Consumers might not adopt the product at all, might not adopt the product as quickly as you would like or need to meet original forecasts, or might not use the product in the way you had intended.
3. The risk of measurement. When dealing with new product-market space, organizations require accurate forecasts of likely sales revenue and profit but the very concept of new makes developing accurate forecasts problematic. Much data and many assumptions are required to make accurate forecasts and for new product-market spaces, data can be hard to come by and many assumptions will not be met.
4. The risk of strategic drift. By pursuing new product-markets, the organization can drift from its original purpose and become unidentifiable to employees, customers, and investors alike.
5. The risk of unethical behavior. Creating markets and developing demand brings with it criticisms of encouraging over consumption and environmental damage.

I then moved on to introduce some of the benefits of pursuing a growth strategy, in particular the benefits of being first. One of the important benefits of being first in a new product-market space is that the organization has the opportunity to shape consumer tastes and preferences, that is, to create a new ideal point against which other products are compared. If you are not first in the market, however, rather than becoming despondent at being beaten and assuming the first mover got it right, ask “What if the first mover got it wrong?”

Within Part IV, I further developed the concept of where ideas come from to generate growth. In addition, I outlined the principles of effective knowledge management to facilitate innovation and growth and encouraged managers to question mental models held of the market.

This book has dealt with one of the BIG problems facing managers today: “How do I manage effectively in such turbulent times?” The recession will end. Does this mean that the contents of this book are no longer relevant? No. Even in periods of growth, creating turbulence, staying relevant, maintaining momentum, executing current strategies well, and forcing changes to product-market boundaries will remain essential ingredients for any organization wanting to grow, reconfigure, and survive.

And so, while the growth strategies I have outlined in *Marketing through Turbulent Times* are relevant today, they will endure and provide guidance for managers wanting to *create turbulence* when the recession passes. The strategies outlined in this book are appropriate for any organization where generating growth is a primary goal. All that will change over time is what constitutes relevance.

# Notes

- 1 [http://en.wikipedia.org/wiki/Irrational\\_exuberance](http://en.wikipedia.org/wiki/Irrational_exuberance) (All the URLs were last accessed on May 25, 2009.)
- 2 Social media includes blogs, internet forums, micro-blogging sites such as Twitter, social networking sites such as Facebook, Linked In or MySpace, wikis such as Wikipedia, social book marking or tagging such as CiteULike or StumbleUpon, online opinion sites such as ePinions, photo, and video sharing sites such as Flickr or YouTube, online product reviews such as epionins, online Q&As, virtual worlds such as Second Life, and online gaming sites such as World of Warcraft.
- 3 [www.sovereignty.org.uk/features/articles/fivedem.html](http://www.sovereignty.org.uk/features/articles/fivedem.html)
- 4 <http://www.robertburns.org/discussions/viewtopic.php?t=419&sid=1a086d45eee8d232fae2a4fc59bd7bf4>
- 5 <http://www.mediachannel.org/ownership/chart.shtml>
- 6 <http://www.mediachannel.org/ownership/front.shtml#print>
- 7 (<http://www.consumersinternational.org/Templates/Internal.asp?NodeID=95043>).
- 8 Los Angeles Times, February 24, 2009, page C2
- 9 <http://www2.standardandpoors.com/spf/pdf/products/MK-GICS4-05.pdf>
- 10 [http://www2.standardandpoors.com/portal/site/sp/en/us/page.topic/indices\\_gics/2,3,1,7,0,0,0,0,0,0,0,0,0,0,0,0.html](http://www2.standardandpoors.com/portal/site/sp/en/us/page.topic/indices_gics/2,3,1,7,0,0,0,0,0,0,0,0,0,0,0,0.html)
- 11 <http://www.netpromoter.com/np/calculate.jsp>
- 12 <http://www.museum.tv/archives/etv/S/htmlS/soapopera/soapopera.htm>
- 13 For a summary of definitions of marketing see: <http://www.marketingpower.com/AboutAMA/Documents/American%20Marketing%20Association%20Releases%20New%20Definition%20for%20Marketing.pdf>
- 14 <http://www.cbsnews.com/stories/2007/09/12/world/main3253213.shtml>
- 15 <http://www.mayoclinic.com/health/hormone-therapy/WO00046>

- 16 <http://www.indeed.com/q-The-Opinion-Panel-jobs.html>
- 17 Chain grocery stores tended to be small (generally less than a thousand square feet) and regional. They sold mostly dry grocery items, canned goods and other non-perishable staples. Separate stores sold meat and produce. Supermarkets were larger, sold meat and produce and were more likely to be found in shopping centers with parking lots (<http://www.groceteria.com/about/history.html>).
- 18 [http://en.wikipedia.org/wiki/Vacuum\\_cleaner](http://en.wikipedia.org/wiki/Vacuum_cleaner)
- 19 [http://www.essortment.com/all/circus\\_rnws.htm](http://www.essortment.com/all/circus_rnws.htm)
- 20 <http://www.hybridcars.com/history/history-of-hybrid-vehicles.html>
- 21 <http://www.hybridcars.com/hybrid-sales-dashboard/march-2009-dashboard-did-hybrid-sales-bottom-out-25712.html>
- 22 [www.skullcandy.com](http://www.skullcandy.com)
- 23 [www.bose.com](http://www.bose.com)
- 24 [http://www.dentalfind.com/Yellow\\_teeth/](http://www.dentalfind.com/Yellow_teeth/)
- 25 <http://en.wikipedia.org/wiki/Swatch>
- 26 [http://en.wikipedia.org/wiki/History\\_of\\_laptops](http://en.wikipedia.org/wiki/History_of_laptops)
- 27 <http://en.wikipedia.org/wiki/Gps>
- 28 [http://www.itu.int/ITU-D/ict/material/LCW190\\_en.pdf](http://www.itu.int/ITU-D/ict/material/LCW190_en.pdf)
- 29 [www.3m.com](http://www.3m.com)
- 30 [www.brother.com](http://www.brother.com)

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