Interview: Philip Kotler

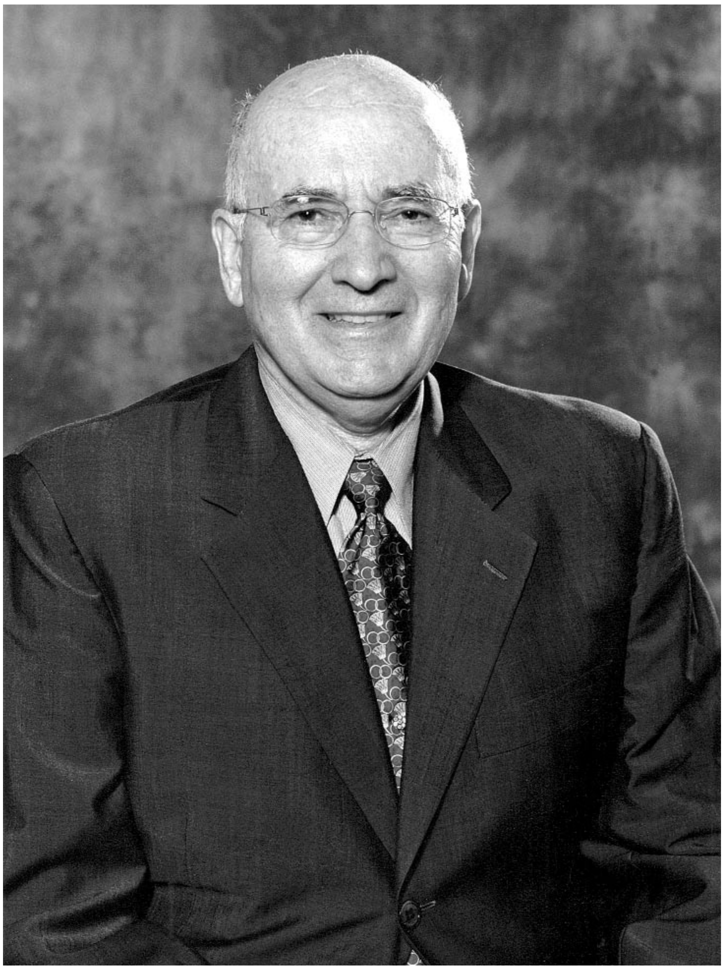
The world's leading marketing expert, Philip Kotler, S.C. Johnson & Son Distinguished Professor of International Marketing at the J. L. Kellogg Graduate School of Management, Northwestern University, talks about why marketing isn't high enough up the boardroom agenda, what place social responsibility has in marketing and the future challenges facing marketing. Interview by **Stuart Crainer.**

There is a lot of debate at present about how to move marketing higher up the boardroom agenda. What are your thoughts on this?

Marketing is poorly understood by business leaders. They largely view marketing as a promotion function. In too many companies, marketers have become 1P marketers, the 1P being "promotion". Their responsibility and control of the other 3 Ps – product, price, and place (distribution) – has weakened and is handled more actively by others. One factor is that many CEOs view marketing as the marketing budget, which is largely spent on promotion. People in other departments work actively on product (R&D), price (finance) and distribution (the sales force).

Where is the unified vision that starts with defining target markets and their needs and carries this all the way to preparing integrated solutions? My view is that marketing must become the driver of business strategy. Businesses that grasp the true role and potential of marketing will use it as the driver of their business strategy and not simply as a tactical complement. Marketing must also gain a seat on the board, which is rare. Today top management consists largely of people from accounting, finance or legal backgrounds.

That said, marketing cannot be resurrected overnight. In the first place, too many marketers have become so specialised that they don't think in terms of the company's big picture. Marketers typically lack financial and strategic skills. Second, marketers won't get more respect until they learn how to deliver more ROI accountability for what they spend. CEOs want and deserve better metrics for measuring marketing's ROI.


Philip Kotler

Is customer relationship management living up to its promise?

CRM remains one of the most promising new marketing developments in recent years. It can be tremendously effective when it is used correctly. The more a company knows about its customers and prospects, the more effectively it can compete.

However, the performance of CRM investments in recent years has been poor, with somewhere between 40 per cent to 60 per cent of companies reporting disappointing results. Too often CRM is imported as a technology before the company has adopted a genuine customer culture. Adding technology to an old organisation only makes it a more expensive old organisation. So the challenge is to know when CRM is appropriate and how to implement it successfully. CRM makes the most sense in data-rich industries such as banking, credit cards, insurance and telecommunications. It makes the least sense in mass consumer markets selling low price goods. Coca-Cola is not going to benefit by accumulating the names of two billion consumers of Coke.

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In deciding whether to invest in an expensive CRM system, consider what the Royal Bank of Canada did. It asked the vendor, the Siebel Company, for four estimates:

- What will the system cost?
- How long will it be before the system will be operationally ready?
- In how many months will the incremental sales above baseline cover the initial system investment?
- What is the long-run ROI that it will get from this system?

I like the following quotes about CRM. Steve Silver, a highly respected marketing consultant, says: "CRM is not a software package. It's not a database. It's not a call centre or a web site. It's not a loyalty programme, a customer service programme, a customer acquisition programme or a win-back programme. CRM is an entire philosophy".

And Edmund Thompson of the Gartner Group says: "A CRM programme is typically 45 per cent dependent on the right executive leadership, 40 per cent on project management implementation and 15 per cent on technology". These comments sound right to me.

What kind of impact are the Internet and other advances in communications technology having on marketing?

In the business-to-business area, the Internet is revolutionising business practice and efficiency. Companies have much more information on suppliers and their prices; there is more reliance on auctions and requests for proposals; and many more transactions are taking place over the net.

Other technologies are also finding growing use – among them database marketing and CRM, sales automation, marketing automation, marketing processes dashboards, smart cards, wireless marketing and others.

My guess is, however, that the average US or European company is only using about 10 per cent of the Internet's potential. Most companies think that their Internet potential is achieved when they open a company web site. However, I would ask the company the following questions: Do you use the Internet to test new product and marketing concepts using online focus groups and consumer panels? Have you assigned someone to research competitors' strategies, tactics and resources using the Internet's rich information highway? Do you use the Internet to train and communicate with your employees, dealers and suppliers? Do you use your web site to recruit new employees? Do you distribute coupons and samples through the Internet? Do you monitor chat room discussions to learn how people talk about products, companies and brands related to your business?

I suspect that most companies would not be able to answer yes to many of these questions.

The economist Milton Friedman famously said: "There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits". What are your thoughts on the social responsibility of marketing?

In the 1970s, I began to distinguish between business marketing, non-profit marketing, social marketing and societal marketing. We know what *business marketing* is.

Non-profit marketing describes the work of non-profit organisations to attract clients and funds to support social and cultural services such as aid to the needy, museums, theatrical performances, public health initiatives and so on. I formulated *social marketing* as a discipline for trying to influence healthy behaviour (such as healthy eating, daily exercise) and discourage unhealthy behaviour (smoking, using hard drugs). *Societal marketing* focuses on the impact that marketing practices have on the wellbeing of society. In this case, I said that companies should distinguish between satisfying a person's needs, weighing the impact on the person's wellbeing, and the impact on the public's wellbeing. Thus smoking a cigarette meets the person's need but hurts his health and increases the public's health costs.

Nancy Lee and I are researching a book on corporate social responsibility. We are attempting to help companies answer the following questions: Are we giving anything back to society? How much should we give back? What social initiatives would create the most good for the company and the social cause? How can we measure the impact of our contributions? We have contacted 40 companies that have exhibited high social responsibility, among them Avon, Kraft, Levi-Strauss, Body Shop, Ben & Jerry's and Procter & Gamble. Their approaches

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differ and shed light on the variety of ways that a company can contribute to the social good. A company can sponsor a major social cause, do volunteer work in the community, give philanthropic gifts or establish highly ethical business practices. We are learning how they chose their social initiative, what benefits they expected and what benefits they received. Our aim is to produce a framework that companies can use to determine what kind of social "caring" to give, at what level and with what expected results on their own business performance and on social welfare.

Let's look at marketing in the future. What do think are the biggest challenges facing marketing?

I would list the following:

Getting better financial measures of the impact of marketing programme.
Marketing has been lax in developing marketing metrics to show what particular marketing expenditures have achieved. CEOs are no longer satisfied with communication measures of how much awareness, knowledge or preference has been created by marketing programmes. They want to know how much sales, profit and shareholder value has been created. One step in the right direction is at Coca-Cola, where its marketers must estimate – before and after a campaign – the financial impacts of their programmes even if it is guesswork. At least this will produce a financial mindset in Coca-Cola's marketers.

Developing more integrated information about important customers.
Customers come in contact with a company at various touch-points: by email, snail mail, phone, in-person and so on. Yet if these touch-points are not recorded, the company won't have a 360-degree view of a prospect or customer and therefore is handicapped in developing sound offers or communications with the customer.

Getting marketing to be the company's designer and driver of market strategy.
As I said earlier, too much marketing today is dealing only with promotion whereas other departments determine the product, the price and the place. I remember a major European airline where the vice-president of marketing confessed that he doesn't manage the price or the product conditions (food, staff, décor) or the flight schedules but only the advertising and sales force. How can marketing be effective if the 4Ps are not under unified planning and control?

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Facing lower cost/higher quality competitors.
As China develops economically, firms will face a repeat of the Japanese threat, which consisted of competing with Japanese companies able to offer better products at lower costs. This will force more companies to shift production to China and change the face of industry and employment at home.

Coping with the increasing power and demands of mega-distributors.
Mega-retailers such as Wal-Mart, Costco, Toys R Us, Office Depot and others are commanding a larger share of the retail marketplace. Many supermarket chains are creating store brands that are equal in quality to national brands and lower in price, thus forcing down manufacturers' margins. National brand companies feel more than ever at the mercy of mega-retailers and are desperately searching for defensive and offensive strategies.■

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