

# Customer first thinking.

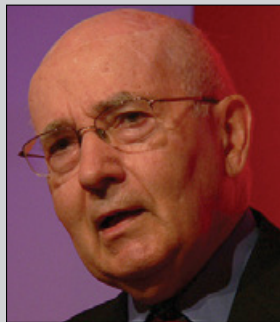


## The Future of Marketing

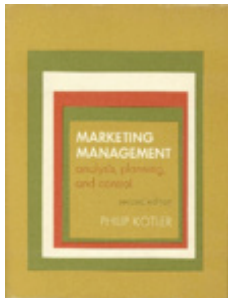
An Interview with Philip Kotler, the “Father of Modern Marketing”

### Philip Kotler:

He is universally acknowledged as the “Father of Modern Marketing”. His classic textbook “Marketing Management” is now in its 15th edition. He has been called the “most influential marketer” of all time. World-famous marketing academic Philip Kotler shares his perspective on the future of marketing and “why it will be markedly different”.



His book “Marketing Management: Analysis, Planning and Control”, first published in 1967, ranks amongst the most influential, and enduring, business textbooks of all time. Now in its 15th edition, it remains the most authoritative guide to the practice of marketing ever written.



Half a century ago marketing played a minor role in influencing business strategy. But Philip Kotler, a trained economist, understood that the growth rate of a company was affected by much more than simply the market response to product and price: it depended on being customer driven. His book gave inspiration to an emerging profession in search of legitimacy.

Since then, each new edition of his seminal work has reflected the ongoing evolution in marketing theory and practice, keeping it as relevant as ever, even to a generation of digital natives raised on social media. His latest (co-authored) book, “Marketing 4.0”, addresses even more directly the need to transform marketing practices, calling for a more humanistic model, where the goal is to win the loyalty of customers by connecting more closely with their values and needs. “Marketing’s job today is to sell materialism and consumption,” he writes. “Tomorrow’s marketing will be markedly different.”

Philip Kotler is the S.C. Johnson & Son Professor of International Marketing at the Kellogg School of Management at Northwestern University. His reputation as the “Father of Modern Marketing” was earned through his prolific writing (he has written over 60 books), his prescient and thought-provoking views, his extensive speaking engagements around the world, and the advisory work he has done for many blue-chip companies. The American Marketing Association calls him “the most influential marketer of all time”.

In this exclusive interview, Professor Kotler shares his perspective on the current state of marketing and the future role it will play in shaping a better world.

SS

**Stephen Shaw (SS):** You’ve been the world’s leading marketing academic for half a century. You are acknowledged as the “father of marketing”. You’ve written the standard textbook on modern marketing. Given where we are today, with the massive disruption in the marketplace, is there a need to start from scratch with a next-generation textbook?

PK

**Philip Kotler (PK):** The concept of marketing is more than a century old. Some early textbooks bearing that name, marketing, started appearing in the early part of the 20th century, written by economists, not marketing people - economists who were unhappy with how their profession only talked about price. They never talked about advertising lifting the demand curve; they rarely talked about the complicated channels of distribution. They just talked about how an individual might react to the price going up or down. Those early marketing textbooks started to address a broader picture involving many kinds of advertising and marketing channels. But marketing back then was not very analytical at all.

When I wrote my first edition in 1967 called “Marketing Management,” I based it on organizational behavior theory, consumer psychology theory, economic theory, and mathematics. It was a brand-new type of marketing textbook and it succeeded. It succeeded because it gave pride to marketers. Up to that point, marketers were seen as artists, not social scientists. The book gave them pride in their profession - because it introduced a lot of frameworks which made them more relevant to how the rest of the business community operated.

But to answer your question about whether I would re-write my textbook, I would not drop many of the fundamental concepts in marketing. Certainly, marketing has to start with the customer, and I would add the stakeholders. You can't think just about the customers. They're not going to be satisfied if other stakeholders, like employees and channel partners, are not satisfied. But I would add a lot more to the next edition about digital, the Internet and Facebook.

SS

It seems to me we've reached the point where not many elements of what I would call the classical marketing model are bound to survive. Does the entire strategic framework have to be revisited?

PK

Let's start with what has to be preserved of the framework we have: the four Ps. Now the four Ps are simply tools for influencing the level of demand. Of the four Ps, the two most important Ps are product and price. Why? Because if you don't create the right product features and set the right price for what you're offering, nothing else matters. Sure,

a clever promotion might get customers to try the product. But because the price is not right, the customer won't buy again. So I put a lot of emphasis on creating a product offer that is correct. Then marketers have to do an excellent job in laying out the other two Ps, place and promotion, which will influence how many prospects will get to know about the product offer. Other tools, such as packaging, brand concept, service level also play a role in affecting the level of demand. Each company must formulate its own model of demand-influencing factors and how they work.

What is important is that the four Ps should come after, not before, STP: I want my the 16th edition to start with the idea that we must segment, target, and position. That's fundamental. If I'm competing against McDonald's, I have to have a marketing plan for mothers with children that is different than my marketing plan for the teenagers, and different for the seniors. So I've got to define my segments before I even go to the four Ps. Our aim is to know enough about potential customers to develop the right offer expressed in the right message to reach a prospect at the right time and place.

SS

What you seem to be addressing is “personalization at scale”. But that still requires a product to be made and you don't make products for individuals, you make them for segments of individuals who share similar needs. In your books you've always been a huge proponent of a customer driven approach in marketing.

PK

Yes, but some companies will add a level of “customization” to their product offering. I am also a fan of micro-segmentation which goes deeper than macro-segmentation. Mark Penn wrote “Microtrends: The Small Forces Behind Tomorrow's Big Changes.” He names a whole list of smaller niche groups that you could make a fortune on because they've been neglected by mass marketing.

SS

Traditional organizational structures separate product marketing from channel marketing. It seems to me that's one of the key inflection points today. A different approach is required which deemphasizes the channel mindset – instead, puts the emphasis on the customer relationship. Isn't that what's at the heart of your newest book “Marketing 4.0”?

PK

The very first era was Marketing 1.0: where marketing's job was simply to describe the offer in a functional way to customers. The message was factual and unemotional. Marketing 2.0 occurred when marketers realized that emotions play a key role in the choices made by consumers. I felt very strongly that there was also a 3.0 level that is more humanistic - make your offer something that will improve their lives. That is what my book Marketing 3.0 was about. Marketing 4.0 was written to take into account the new digital world of Internet, Facebook, Google, mobile phones and online buying.

SS

In Marketing 4.0 a core principle is the need to manage the customer relationship from awareness to advocacy – an idea that originated in the 1980s.

PK

Yes, we want to satisfy our customers so successfully that they want to be engaged. The ultimate sign of success is when a company does not have to advertise; it's all done by their customers. There is nothing more powerful than word-of-mouth advertising.

SS

I'd like to shift to another concept you've written about which resonates strongly with me – what you call holistic marketing: the idea that marketing has a much bigger role to play in influencing the quality of the customer experience.

PK

Holistic marketing is about delivering a customer experience that goes beyond the product. Consider Starbucks. Starbucks could be a simple coffee house where you drink a cup of coffee and leave. That's not Starbucks. Starbucks enhanced the customer experience by becoming the coffee drinker's "third home." Your first home is your family. Your second is your office. Starbucks is your third home. And it is more holistic because the servers – the baristas – know how to treat the customers. And they in turn are treated well by management. Starbucks enhances the lives of its customers, employees ... down to those who grow the coffee for them. That's holistic marketing.

SS

The concept of brand identity and positioning is undergoing a major shift as well, moving toward this idea of having a brand purpose that goes beyond the benefits of the product. The brand is no longer a vehicle just to produce better advertising, but in fact a "North Star" for the organization, doing what you were just describing, which is bringing

all stakeholders together to rally under a single banner of helping people. And that again goes back to Marketing 3.0, about helping people. What are your thoughts on that?

PK

Today branding is the key. David Aaker deserves major credit for raising our consciousness about branding. The company is not just trying to sell something. It wants to create customers who trust you and your products. They are fans who love your story. All great brands have managed to build a signature story. I think highly of L.L. Bean because they took back, without a question asked, the boots you bought but that didn't live up to its claims. You trust them and they trust you. L.L. Bean has defined its purpose as a business: to help customers enjoy outdoor life. Nike is another company with a very clear purpose: to recognize the athlete in all of us.

SS

You mentioned a very important word: trust. Yet public trust in institutions and business is declining. To gain trust, brand purpose statements have to be authentic. A company has to live up to that brand purpose. But that can be really hard. Shareholders might object.

PK

An increasing number of companies today are accepting some measure of social responsibility. At a minimum, they need to show that they care about the environment and the community. I would go further and advise a company to adopt and own some specific issue and goal, one that its customers and employees and investors care deeply about. Avon has adopted the goal of helping improve the research and treatment of breast cancer. They have raised millions of dollars for this cause and their women clients appreciate it. Avon has won their trust about wanting to make a difference.

SS

A corollary of brand purpose is the concept of shared values, meaning you can only truly connect with people if you see the world the same way they see it. That's why developing a brand purpose is not easy. After all, which audience are you trying to share values with?

PK

A company must start democratizing the discussion of what its purpose should be. Why should it be only a top-down decision? It should be broadened to involve the customers, employees, and the investors. Whose lives are we hoping to enhance? What is the best way to enhance their lives?

SS

However, here's the contradiction I see: Most publicly traded businesses are committed to aggressive growth, and that forces marketers to be mainly focused on demand generation. How does marketing live up to some of these new ideals we've been talking about, in the face of that pressure to grow? How does marketing become more customer-centric and put the interest of customers first, indeed put the interests of people first, when the expectation is to deliver short-term sales and growth?

PK

Companies have a decision to make. Do they want raw growth where they attract lots of new customers, many of whom are merely brand switchers? Or do they want customers whom they can retain over the long-term even at the expense of faster growth? Those long-term customers will trust that the company is dedicated to them. If the company adds some new products, those customers are more likely to try them out. These companies achieve organic growth through cross-selling and upselling to their loyal customers, not by just attracting occasional buyers.

SS

And you can only do that, presumably, if you adhere to higher order principles. Otherwise people won't view you any differently in terms of your values, your ethical conduct, your authenticity, your ability to deliver on your promises. A brand should be a friend, that's how you characterize it, I believe.

PK

I favour companies who stand ready to invest more in improving their customers' lives. Jeff Bezos of Amazon first helped people easily order books online. He invited customer comments on books so that customers would buy with better knowledge about the book they were considering. He recognized that he could sell other goods to Amazon customers by providing more information, faster guaranteed shipping and easy return policies. He aimed to make online buying so pleasant that it was far easier and more convenient than in-store shopping. He was customer obsessed, not profit-obsessed.

SS

Isn't that really the new business model, not simply a new marketing model?

PK

Yes. It is both. His model is disrupting many established businesses and business practices. The old advertising agency is in trouble because it hasn't moved quickly

enough into the new world of digital and online marketing. And store retailers who only do in-store selling or catalog selling are an endangered species.

SS

You're touching on a really important point, and that is the digital disruption going on, along with the challenge to marketing orthodoxy. You mentioned ad agencies are suffering because their business model remains ad-based. In recent years we've seen advertising dollars shifting out of traditional media to digital. But now there's a dark cloud hanging over digital advertising. What happens if we become an ad-free world? Where do those dollars go, back into the general budget?

PK

You could put more money into better service which will generate more positive word-of-mouth. You could put more money into innovation and new product development. You can lower your prices. You can buy other companies on a growth path. I always thought that companies spent too much money on print and broadcast media. Many ad campaigns work only fairly or poorly. Most people can't remember which car company ran which advertising campaign. Years ago, Budweiser ran an experiment where it lowered the ad spend in one city compared to what it was spending in a similar city. Sales stayed at the same level despite the cut in advertising.

SS

It goes back to the conversation we were having earlier. If an organization remains in thrall to the analysts, that shareholder-first mentality leads to a more myopic view. No one's willing to plan around the long-term. They might lose their job. So, planning methods are always focused on short-term objectives. That makes it hard to survive challenges to a business model, doesn't it?

PK

Yes, that's why I admire a company like Unilever and its CEO Paul Polman who knows that businesses have neglected the harm that their practices do to the environment and the climate. He has set the goal of doubling his business without damage to the environment.

SS

Unilever had that near-death experience recently with 3G Capital almost devouring them, but they managed to escape that fate, thankfully. I think the other thing to note is their embrace of what we were talking about earlier, brand purpose.

PK

Yes. Every Unilever brand has its purpose thought out. Dove does a beautiful job in defining women's beauty as inner beauty.

SS

Are there other brands you admire?

PK

I love the book "Firms of Endearment." The authors asked members of the public which companies they love. They found over 20 companies that Americans loved and these companies shared several traits, including a strong customer focus. These companies also spent less than their competitors on advertising. Why? Because their loving customers did the advertising for them on Facebook, Instagram and other social media platforms. I also admire companies that invite customers to co-design and co-market with them. Consider Lego and Harley Davidson. These companies invite customers to actively participate in the development of their products. Building a community of enthusiastic fans is the greatest thing a marketing company can do.

SS

It seems to me what you're describing goes beyond loyalty: that is, the willingness of customers to commit to the success of a company because they are believers in what the brand does, not just for them, but for society in general. It's this progression from audience to follower to believer to cultist. Does that progressive relationship over time represent the new marketing framework?

PK

Yes! Today most companies do research on what their target customers and prospects want. Companies should go beyond this – bringing the customer into the process of figuring out what the company can make for them.

SS

We talked a lot about trust earlier. Do you see the relationship between consumers and brands changing fundamentally in the next five years? For example, is it conceivable that the brand relationship will form a set of concentric rings, where in the very inner circle you have brands enjoying the highest degree of trust, whereas in the outer rings brands are almost faceless and serve more of a provisional, utilitarian role?

PK

Sure, let's return to Unilever. Unilever has built some brands that have a strong following, like Dove and Axe. These brands aim to improve customers' lives. Other brands

such as cleaning products - they are more peripheral. They are bought because of Unilever's good name. These brands can be trusted.

SS

You've been writing about the marketing profession for many years. You've taught many generations of students. You've been a source of enlightenment for a lot of folks like myself who have your books on their shelves. What keeps you going?

PK

When I joined Northwestern, I was given a choice between teaching economics or marketing. I realized that economics was pretty well settled in its structure. Big new ideas were not likely to happen and revolutionize the discipline. Marketing, on the other hand, was under-developed. It was full of description and prescription but not very analytical and scientific. I decided to teach marketing. Marketing was the right subject for me because it needed new frameworks, new tools, new methodologies, a new purpose. I keep going because marketing is still an unfinished symphony. So much is happening in the field, so much new thinking is called for.

SS

You recently moved into writing books on socio-economic issues like "Confronting Capitalism" and "Democracy in Decline". What drew you into that orbit?

PK

My long-term goal is to see how companies and institutions can further the Common Good. This has been my orientation in marketing: How can we better serve customers by improving their lives? Academic marketers should do more questioning about company practices. Why didn't we question how the tobacco industry was producing so much illness with their glamorization of smoking? Why didn't we question how the oil industry was polluting our atmosphere? Why didn't we question the food industry's over-use of salt, sugar, and fat that enter our diets and lead to obesity and health problems. I am in favour of marketers being the ones to ask: What are doing to advance the Common Good?

## CREATING CUSTOMER VALUE AND ENGAGEMENT IN THE DIGITAL AND SOCIAL AGE

Top marketers share a common goal: putting the customer at the heart of marketing.

Today's marketing is all about creating customer value and engagement in a fast-changing, increasingly digital and social marketplace. Marketing starts with understanding consumer needs and wants, determining which target markets the organization can serve best, and developing a compelling value proposition by which the organization can attract and grow valued consumers. Then, more than just making a sale, today's marketers want to engage customers and build deep customer relationships that make their brands a meaningful part of consumers' conversations and lives.

*Philip Kotler; Gary Armstrong, Principles of Marketing, 2016*

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## THE HOLISTIC MARKETING CONCEPT

Without question, the trends and forces that have defined the new marketing realities in the first years of the 21st century are leading business firms to embrace a new set of beliefs and practices. The holistic marketing concept is based on the development, design, and implementation of marketing programs, processes, and activities that recognize their breadth and interdependencies. Four key dimensions of holistic marketing are:

1. Internal marketing – ensuring everyone in the organization embraces appropriate marketing principles, especially senior management.
2. Integrated marketing – ensuring that multiple means of creating, delivering, and communication value are employed and combined in the best way.
3. Relationship marketing – having rich, multifaceted relationships with customers, channel members, and other marketing partners.
4. Performance marketing – understanding returns to the business from marketing activities and programs, as well as addressing broader concerns and their legal, ethical, social and environmental effects.

*Philip Kotler; Kevin Lane Keller, Marketing Management, 2016*

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## THE FUTURE OF MARKETING

To succeed in the future, marketing must be more holistic and less departmental. Marketers must achieve wider influence in the company, continuously create new ideas, and strive for customer insight by treating customers differently but appropriately. They must build their brands more through performance than promotion. They must go electronic and win through building superior information and communications systems. The coming years will see:

- The demise of the marketing department and the rise of holistic marketing.
- The demise of free-spending marketing and the rise of ROI marketing.
- The demise of marketing intuition and the rise of marketing science.
- The demise of manual marketing and the rise of both automated and creative marketing.
- The demise of mass marketing and the rise of precision marketing.

*Philip Kotler; Kevin Lane Keller, Marketing Management, 2016*

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Stephen Shaw is the chief strategy officer of Kenna, a marketing solutions provider specializing in customer experience management. He is also the host of a regular podcast called Customer First Thinking. Stephen can be reached via e-mail at [sshaw@kenna.ca](mailto:sshaw@kenna.ca).