CHAPTER ONE

MARKETING AS A BUSINESS DISCIPLINE

Marketing is the whole business seen from the point of view of its final result, that is, from the customer's point of view.

—Peter Drucker, founder of modern management theory

A great deal of confusion exists about the nature of marketing. This confusion stems from a more general misunderstanding of marketing as a business discipline. Managers often think of marketing in terms of tactical activities such as sales, advertising, and promotion. In fact, within many organizations marketing is thought of as an activity designed to support sales by helping managers sell more of the company's products and services.

The view of marketing as an activity designed to support selling is particularly common among organizations whose primary activity is selling large inventories of warehoused products. These companies often view the goal of marketing as "selling more things, to more people, more often, and for more money." Many managers find this view appealing because it is intuitive, clear, and succinct. The problem with this view is that it does not describe marketing but a related business activity—sales. Indeed, selling more things, to more people, more often, and for more money is a definition of sales, not marketing. This raises the question of defining the boundaries between sales and marketing.

Marketing as a business discipline is much broader than sales; it involves all aspects of developing the offering that is to be sold. The goal of marketing is to create a product that sells, not to sell a product. While marketing certainly can facilitate selling, this accounts for only a portion of its scope. *Marketing is not only much broader than selling, it is not a specialized activity at all,* writes Peter Drucker, business philosopher and writer, viewed by many as the founder of modern management science. *It encompasses the entire business. The aim of marketing is to make selling superfluous.*

Marketing is also regarded by many organizations as equivalent to advertising and sales promotion. Thus, marketing is frequently defined as a process of communicating the value of a product or service to customers—which is, in fact, a better definition of advertising than of marketing. Advertising is only one aspect of marketing, albeit its most visible aspect. Marketing begins long before advertising is conceived: marketing guides the development of the offering that will later be advertised. In the same vein, marketing is often equated with sales promotions such as price discounts, coupons, and rebates. Yet, sales promotions aimed at nudging customers to purchase a company's offerings reflect only one facet of marketing. This view of marketing as an activity that helps bring products to market is oblivious to marketing's role in creating the very products that need to be promoted.

Equating marketing with sales, advertising, and sales promotions share is a common misperception, whereby marketing is defined as a tactical activity. This myopic view of marketing as a tactical tool limited to creating awareness, incentivizing customers to make a purchase, and facilitating sales precludes companies from harnessing marketing's full potential to develop a comprehensive business strategy. What is missing is the understanding of how sales, advertising, and promotions fit together and how they relate to the other tactical aspects of the marketing process, including product development, pricing, and distribution. More important, the view of marketing as a tactical tool does not address the question of what drives the individual marketing activities, how the company creates offerings for its target customers, and how these offerings create value for these customers and the company.

Marketing is far more than tactics. In addition to specialized tactical activities that include sales, advertising, and sales promotion, marketing also involves strategic analysis and planning, which provide the foundation for the success of its tactical elements. As a strategic discipline, marketing is first and foremost about creating value; the different marketing tactics—such as sales, advertising, and promotion—are the means for achieving the company's value-creation goals. Focusing on value recognizes marketing as a central business function that permeates all areas of an enterprise. This view of marketing as a fundamental business discipline is the basis of the strategic marketing theory outlined in this book.

Marketing as a Value-Creation Process

There are many definitions of marketing, each reflecting a different understanding of its role as a business discipline. Some define marketing as a functional area—similar to finance, accounting, and operations—that captures a unique aspect of a company's business activities. Others view marketing as a customer-centric philosophy of business, or as a process of moving products and services from a concept to the customer. Yet others view marketing as a set of specific activities that marketers are involved in, such as product development, pricing, promotion, and distribution. And for some, marketing is simply a department in the company's organizational grid.

This diverse set of definitions attests to the multiple functions that marketing serves. Marketing is a business discipline, a functional area, a business philosophy, a set of specific business activities, as well as a distinct unit in a company's organizational structure. Although diverse, these views of marketing are conceptually related. Marketing as a business discipline is defined by the view of marketing as a philosophy of business, which in turn defines marketing as a set of processes and activities coordinated by the marketing department. Thus, the key to defining marketing is delineating its core business function, which can help define the specific processes and activities involved in marketing management.

The integrative nature of marketing as a business discipline calls for a definition that captures its essence and can serve as a guiding principle in managerial decision making. Because marketing studies consumer and business markets, its focal point is the exchange of goods, services, and ideas that takes place in the market. Furthermore, because the driving force for this exchange is the process of creating value, the concept of value is central to marketing. This view of marketing as an exchange that aims to create value for its participants is reflected in the following definition of marketing as a business discipline:

> *Marketing is the art and science of creating value by designing and managing successful exchanges.*

Marketing is an *art* because it is often driven by a manager's creativity and imagination. In fact, many brilliant marketers—Henry Ford, King Gillette, Ray Kroc, and Henri Nestlé, to name a few—have not formally studied marketing. Their marketing prowess is driven by their innate ability to identify unmet customer needs and develop products to fill those needs. Yet, marketing is also a *science* because it represents a body of generalized knowledge about value creation. By examining the successes and failures of different companies throughout time, marketing science has articulated a set of general principles that abstract from the idiosyncratic experiences of individual companies to capture the essence of the marketing process. The scientific aspect of marketing that distills the logic underlying the processes of creating and managing value is the focus of this book.

Marketing is a business discipline about markets; consequently, its focus is on the *exchange* of goods, services, and ideas—the defining activity of a market. In this context, marketing aims to develop and manage successful exchanges among the participating entities: the company, its customers, and its collaborators. Because the main function of the marketing exchange is to create *value*, the concept of value is central to marketing. Value is a strategic concept that captures the benefits that exchange participants receive from the market exchange. Optimizing value for target customers, collaborators, and the company is the key principle that guides managerial decision making and serves as the foundation for all marketing activities. The goal of marketing is to ensure that a company's offerings create superior value for target customers in a way that enables the company and its collaborators to achieve their strategic goals.

Marketing is not limited to maximizing monetary outcomes; rather, it is defined using the broader term *success*, which extends beyond monetary outcomes to include all forms of value created in the market. Indeed, success is not always expressed in monetary terms, such as net income, return on investment, and market share. For many organizations, success is defined in nonmonetary outcomes, such as technological leadership, customer satisfaction, and social welfare. Therefore, the goal of marketing is to create exchanges that are deemed successful—monetarily or otherwise—by the participants in the exchange.

The view of marketing as a process of creating and managing value has important implications for the way managers should think about the role of marketing within the company. Because it aims to create value for the key participants in the marketing exchange—customers, the company, and its collaborators—marketing plays a pivotal role in any organization. Consequently, marketing is not just an activity managed by a single department; it spans all departments. *Marketing is too important to be left to the marketing department*, advocates David Packard, the cofounder of Hewlett-Packard. *In a truly great marketing organization, you can't tell who's in the marketing department. Everyone in the organization has to make decisions based on the impact on the customer.*

The Role of Frameworks in Marketing

The rapid growth of technological innovation, ever-increasing globalization, and the emergence of new business models have made today's markets exceedingly dynamic, unpredictable, and interdependent. The increasingly complex environment in which companies operate underscores the importance of using a systematic approach to market analysis, planning, and management. Such a systematic approach can be achieved by using frameworks.

Frameworks facilitate decisions in several ways. Frameworks help identify alternative approaches to thinking about the decision task, thus providing managers with a better understanding of the problem they are trying to solve. In addition to helping formulate the problem, frameworks typically provide a generalized approach to identifying alternative solutions. Frameworks further enhance decision making by providing a shared vocabulary with which to discuss the issues, streamlining the communication among the entities involved in the marketing process.

Because of their level of generality, frameworks are not intended to answer specific marketing questions. Instead, they provide a general approach that enables managers to identify the optimal solution to a particular problem. Using a framework calls for abstracting the problem at hand to a more general scenario for which the framework offers a predefined solution and then applying this solution to solve the specific problem. By relying on the abstract knowledge captured in frameworks, a manager can effectively sidestep the trial-and-error-based learning process.

The role of frameworks in business management can be illustrated with the following example. Imagine that a client, a cereal manufacturer, asks your advice on how to price a new cereal. After analyzing the industry dynamics, you identify five key factors that need to be considered when deciding on the price of the cereal: customer willingness to pay for the cereal, the availability and pricing of competitive offerings, the cost structure and profit goals of the company, the margins that suppliers and distributors charge, as well as the more general context factors such as the current economic environment, consumption (health and diet) trends, and legal regulations concerning pricing strategies and tactics.

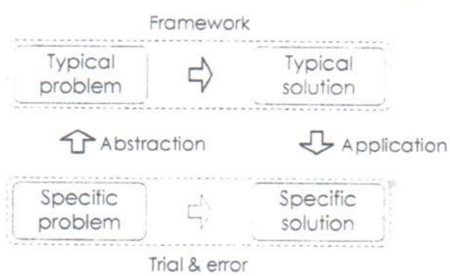
A month later you receive an assignment from a different client, a gas pipeline manufacturer, asking for your help with setting pricing for a new pressure valve. You diligently analyze the industry and end up suggesting the same five factors: customer willingness to pay, competitive pricing, company costs and goals, collaborator (supplier and distributor) margins, and the current context.

The following month you receive another assignment from a telecommunications company, asking for your advice on pricing its new mobile phone. By this time you have realized that the three recent requests are conceptually similar, calling for setting a price for a new product. Moreover, you realize that setting the price in all three tasks calls for analyzing the same five factors: customer willingness to pay, competitor prices, company goals and cost structure, collaborator prices and margins, and the overall economic, regulatory, technological context in which the company operates. (These five factors comprise the 5-C framework, which is discussed in the following chapter.)

As the above example illustrates, frameworks build on already existing generalized knowledge to facilitate future company-specific decisions. Thus, many of the business problems companies face on a daily basis can be generalized into a framework that can be applied to solving future problems. The role of frameworks as a problem-solving tool is captured in the words of French philosopher René Descartes: *Each problem that I solved became a rule which served afterwards to solve other problems.*

The effective use of frameworks as a managerial problem-solving tool involves three key steps. First, a manager needs to generalize the specific problem at hand (e.g., how to price a new mobile phone) to a more abstract problem that can be addressed by a particular framework (e.g., how to price a new product). Second, the manager needs to identify a framework that will help answer the specific problem (e.g., the 5-C framework) and use it to derive a general solution. Third, the manager needs to apply the generalized solution prescribed by the framework to the specific problem. The reliance on generalized knowledge captured in frameworks can help managers circumvent the trial-and-error approach to solving business problems (Figure 1).

Figure 1: The Role of Frameworks in Marketing Management



Frameworks vary in their generality. Some address more fundamental strategic issues, such as identifying target customers and developing a value proposition for these customers, whereas others deal with more specific issues such as product development, branding, pricing, promotion, and distribution. In this context, this book presents an overarching framework for identifying, analyzing, and solving marketing problems that incorporates both strategic and tactical aspects of marketing management. By offering an integrative view of the key marketing concepts and frameworks, this book offers a systematic and streamlined approach to marketing analysis, planning, and management.

ADDITIONAL READINGS

Drucker, Peter (1954), *The Practice of Management*. New York, NY: HarperCollins.

Kotler, Philip (1999), *Kotler on Marketing: How to Create, Win, and Dominate Markets*. New York, NY: Free Press.