Marketing Insights from A to Z

Marketing Insights from A to Z

80 Concepts Every Manager Needs To Know

Philip Kotler

John Wiley & Sons, Inc.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.
Published simultaneously in Canada.

Library of Congress Cataloging-in-Publication Data:
Kotler, Philip.
Marketing insights from A to Z : 80 concepts every manager needs to know / Philip Kotler.
p. cm.
ISBN 0-471-26867-4
1. Marketing. I. Title.
HF5415 .K63127 2003
658.8—dc21 2002014903

Printed in the United States of America.

10 9 8 7 6 5 4 3 2 1

To all those who have worked in
business and marketing
with a passion to satisfy customer needs
and enhance customer and societal well-being.

Preface

My 40-year career in marketing has produced some knowledge and even a little wisdom. Reflecting on the state of the discipline, it occurred to me that it is time to revisit the basic concepts of marketing.

First, I listed the 80 concepts in marketing critical today and spent time mulling over their meanings and implications for sound business practice. My primary aim was to ascertain the best principles and practices for effective and innovative marketing. I found this journey to be filled with many surprises, yielding new insights and perspectives.

I didn't want to write another 800-page textbook on marketing. And I didn't want to repeat thoughts and passages that I have written in previous books. I wanted to present fresh and stimulating ideas and perspectives in a format that could be picked up, sampled, digested, and put down anytime. This short book is the result, and it was written with the following audiences in mind:

- Managers who have just learned that they need to know something about marketing; you could be a financial vice president, an executive director of a not-for-profit organization, or an entrepreneur about to launch a new product. You may not even have time to read *Marketing for Dummies* with its 300 pages. Instead you want to understand some key concepts and marketing principles presented by an authoritative voice, in a convenient way.

- Managers who may have taken a course on marketing some years ago and have realized things have changed. You may want to refresh your understanding of marketing's essential concepts and need to know the latest thinking about high-performance marketing.
- Professional marketers who might feel unanchored in the daily chaos of marketing events and want to regain some clarity and recharge their understanding by reading this book.

My approach is influenced by Zen. Zen emphasizes learning by means of meditation and direct, intuitive insights. The thoughts in this book are a result of my meditations on these fundamental marketing concepts and principles.

Whether I call these meditations, ruminations, or cogitations, I make no claim that all the thoughts in this book are my own. Some great thinkers in business and marketing are directly quoted, or they directly influenced the thoughts here. I have absorbed their ideas through reading, conversations, teaching, and consulting.

Introduction

Today's central problem facing business is not a shortage of goods but a shortage of customers. Most of the world's industries can produce far more goods than the world's consumers can buy. Overcapacity results from individual competitors projecting a greater market share growth than is possible. If each company projects a 10 percent growth in its sales and the total market is growing by only 3 percent, the result is excess capacity.

This in turn leads to hypercompetition. Competitors, desperate to attract customers, lower their prices and add giveaways. These strategies ultimately mean lower margins, lower profits, some failing companies, and more mergers and acquisitions.

Marketing is the answer to how to compete on bases other than price. Because of overcapacity, marketing has become more important than ever. Marketing is the company's *customer manufacturing department.*

But marketing is still a terribly misunderstood subject in business circles and in the public's mind. Companies think that marketing exists to help manufacturing get rid of the company's products. The truth is the reverse, that manufacturing exists to support marketing. A company can always outsource its manufacturing. What makes a company prosper is its marketing ideas and offerings. Manufacturing, purchasing, research and development (R&D), finance, and other company functions exist to support the company's work in the customer marketplace.

Marketing is too often confused with selling. Marketing and selling are almost opposites. "Hard-sell marketing" is a contradiction. Long ago I said: **"Marketing is not the art of finding clever ways to dispose of what you make. Marketing is the art of creating genuine customer value. It is the art of helping your customers become better off. The marketer's watchwords are quality, service, and value."**

Selling starts only when you have a product. Marketing starts before a product exists. Marketing is the homework your company does to figure out what people need and what your company should offer. Marketing determines how to launch, price, distribute, and promote your product/service offerings to the marketplace. Marketing then monitors the results and improves the offering over time. Marketing also decides if and when to end an offering.

All said, marketing is not a short-term selling effort but a long-term investment effort. When marketing is done well, it occurs before the company makes any product or enters any market; and it continues long after the sale.

Lester Wunderman, of direct marketing fame, contrasted selling to marketing in the following way: **"The chant of the Industrial Revolution was that of the manufacturer who said, 'This is what I make, won't you please buy it?' The call of the Information Age is the consumer asking, 'This is what I want, won't you please make it?' "**[1]

Marketing hopes to understand the target customer so well that selling isn't necessary. Peter Drucker held that **"the aim of marketing is to make selling superfluous."**[2] **Mark**-eting is the ability to hit the **mark.**

Yet there are business leaders who say, "We can't waste time on marketing. We haven't designed the product yet." Or "We are too successful to need marketing, and if we were unsuccessful, we couldn't afford it." I remember being phoned by a CEO: "Come and teach us some of your marketing stuff—my sales just dropped by 30 percent."

Here is my definition of marketing: **Marketing management is the art and science of choosing target markets and getting, keeping, and growing customers through creating, communicating, and delivering superior customer value.**

Or if you like a more detailed definition: **"Marketing is the business function that identifies unfulfilled needs and wants, defines and measures their magnitude and potential profitability, determines which target markets the organization can best serve, decides on appropriate products, services, and programs to serve these chosen markets, and calls upon everyone in the organization to think and serve the customer."**

In short, marketing's job is to convert people's changing needs into profitable opportunities. Marketing's aim is to create value by offering superior solutions, saving buyer search and transaction time and effort, and delivering to the whole society a higher standard of living.

Marketing practice today must go beyond a fixation on transactions that often leads to a sale today and a lost customer tomorrow. The marketer's goal is to build a mutually profitable long-term relationship with its customers, not just sell a product. A business is worth no more than the lifetime value of its customers. This calls for knowing your customers well enough to deliver relevant and timely offers, services, and messages that meet their individual needs.

The function of marketing is typically organized as a department within a business. This is good and bad. It's good because it brings together a number of skilled people with specific abilities for understanding, serving, and satisfying customers. It's bad because other departments believe that all marketing is done in one department. As the late David Packard of Hewlett-Packard observed, **"Marketing is much too important to leave to the marketing department. . . . 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 same thought was well-stated by Professor Philippe Naert: **"You will not obtain the real marketing culture by hastily creating a marketing department or team, even if you appoint extremely capable people to the job. Marketing begins with top management. If top management is not convinced of the need to be customer minded, how can the marketing idea be accepted and implemented by the rest of the company?"**

Marketing is not restricted to a department that creates ads, selects media, sends out direct mail, and answers customer questions. Marketing is a larger process of systematically figuring out what to make, how to bring it to the customer's attention and easy access, and how to keep the customer wanting to buy more from you.

Furthermore, marketing strategy and actions are not only played out in customer markets. For example, your company also has to raise money from investors. As a result you need to know how to market to investors. You also want to attract talent to your company. So you need to develop a value proposition that will attract the most able people to join your company. Whether marketing to customers, investors, or talent, you need to understand their needs and wants and present a competitively superior value proposition to win their favor.

Is marketing hard to learn? The good news is that marketing takes a day to learn. The bad news is that it takes a lifetime to master! But even the bad news can be looked at in a positive way. I take inspiration from Warren Bennis' remark: "Nothing gives me a greater joy than learning something new." (Mr. Bennis is Distinguished Professor at the University of California and prominent writer on leadership.)

The good news is that marketing will be around forever. The bad news: It won't be the way you learned it. In the coming decade, marketing will be reengineered from A to Z. I have chosen to highlight 80 of the most critical concepts and ideas that businesspeople need in waging their battles in this hypercompetitive and rapidly changing marketplace.

Contents

Advertising

I (and most people) have a love/hate relationship with advertising. Yes, I enjoy each new Absolut vodka print ad: Where will they hide the famous bottle? And I enjoy the humor in British ads, and the risqué quality of French ads. Even some advertising jingles and melodies stick in my mind. But I don't enjoy most ads. In fact, I actively ignore them. They interrupt my thought processes. Some do worse: They irritate me.

The best ads not only are creative, they sell. Creativity alone is not enough. Advertising must be more than an art form. But the art helps. William Bernbach, former head of Doyle, Dane & Bernbach, observed: **"The facts are not enough. . . . Don't forget that Shakespeare used some pretty hackneyed plots, yet his message came through with great execution."**

Even a great ad execution must be renewed or it will become outdated. Coca-Cola cannot continue forever with a catchphrase like "The Real Thing," "Coke Is It," or "I'd Like to Teach the World to Sing." Advertising wear-out is a reality.

Advertising leaders differ on how to create an effective ad campaign. Rosser Reeves of the Ted Bates & Company advertising agency favored linking the brand directly to a single benefit, as in

"R-O-L-A-I-D-S spells RELIEF." Leo Burnett preferred to create a character that expressed the product's benefits or personality: the Green Giant, the Pillsbury Doughboy, the Marlboro cowboy, and several other mythical personalities. The Doyle, Dane & Bernbach agency favored developing a narrative story with episodes centered on a problem and its outcome: thus a Federal Express ad shows a person worried about receiving something at the promised time who is then reassured by using FedEx's tracking system.

The aim of advertising is not to state the facts about a product but to sell a solution or a dream. Address your advertising to the customers' aspirations. This is what Ferrari, Tiffany, Gucci, and Ferragamo do. A Ferrari automobile delivers on three dreams: social recognition, freedom, and heroism. Remember Revlon founder Charles Revson's remark: "In our factory, we make lipstick. In our advertising, we sell hope."[3]

But the promise of dreams only makes people suspicious of advertising. They don't believe that their selection of a particular car or perfume will make them any more attractive or interesting. Stephen Leacock, humorist and educator, took a cynical view of advertising: **"Advertising may be described as the science of arresting the human intelligence long enough to get money from it."**

Ads primarily create product awareness, sometimes product knowledge, less often product preference, and more rarely, product purchase. That's why advertising cannot do the job alone. Sales promotion may be needed to trigger purchase. A salesperson might be needed to elaborate on the benefits and close the sale.

What's worse, many ads are not particularly creative. Most are not memorable. Take auto ads. The typical one shows a new car racing 100 miles an hour around mountain bends. But we don't have mountains in Chicago. And 60 miles an hour is the speed limit. And furthermore I can't remember which car the ad featured. Conclusion: Most ads are a waste of the companies' money and my time.

Most ad agencies blame the lack of creativity on the client.

Clients wisely ask their agencies to come up with three ads, from mild to wild. But then the client typically settles for the mild and safe one. Thus the client plays a role in killing good advertising.

Companies should ask this question before using advertising: **Would advertising create more satisfied clients than if our company spent the same money on making a better product, improving company service, or creating stronger brand experiences?** I wish that companies would spend more money and time on designing an exceptional product, and less on trying to psychologically manipulate perceptions through expensive advertising campaigns. **The better the product, the less that has to be spent advertising it.** The best advertising is done by your satisfied customers.

The stronger your customer loyalty, the less you have to spend on advertising. First, most of your customers will come back without you doing any advertising. Second, most customers, because of their high satisfaction, are doing the advertising for you. In addition, advertising often attracts deal-prone customers who will flit in and out in search of a bargain.

There are legions of people who love advertising whether or not it works. And I don't mean those who need a commercial to provide a bathroom break from the soap opera. My late friend and mentor, Dr. Steuart Henderson Britt, passionately believed in advertising. **"Doing business without advertising is like winking at a girl in the dark. You know what you are doing, but nobody else does."**

The advertising agency's mantra is: "Early to bed, early to rise, work like hell, advertise."

But I still advise: Make good advertising, not bad advertising. David Ogilvy cautioned: **"Never write an advertisement which you wouldn't want your own family to read. You wouldn't tell lies to your own wife. Don't tell them to mine."**[4]

Ogilvy chided ad makers who seek awards, not sales: **"The advertising business . . . is being pulled down by the people who**

create it, who don't know how to sell anything, who have never sold anything in their lives . . . who despise selling, whose mission in life is to be clever show-offs, and con clients into giving them money to display their originality and genius."[5]

Those who love advertising can point to many cases where it worked brilliantly: Marlboro cigarettes, Absolut vodka, Volvo automobiles. It also worked in the following cases:

- A company advertised for a security guard. The next day it was robbed.
- If you think advertising doesn't pay—we understand there are 25 mountains in Colorado higher than Pikes Peak. Can you name one?

Those against too much reliance on advertising are fond of quoting John Wanamaker of department store fame: **"I know that half the money I spend on advertising is wasted; but I can never find out which half."**

How should you develop your advertising? You have to make decisions on the five Ms of advertising: *mission*, *message*, *media*, *money*, and *measurement.*

The ad's *mission* can be one of four: to **inform, persuade, remind,** or **reinforce** a purchase decision. With a new product, you want to inform and/or persuade. With an old product, like Coca-Cola, you want to remind. With some products just bought, you want to reassure the purchaser and reinforce the decision.

The *message* must communicate the brand's distinctive value in words and pictures. Any message should be tested with the target audience using a set of six questions (see box).

The *media* must be chosen for their ability to reach the target market cost-effectively. Besides the classic media of newspapers, magazines, radio, television, and billboards, there is a flurry of new media, including e-mail, faxes, telemarketers, digital magazines, in-store ad-

Advertisement Message Test

1. What is the main message you get from this ad?
2. What do you think the advertiser wants you to know, believe, or do?
3. How likely is it that this ad will influence you to undertake the implied action?
4. What works well in the ad and what works poorly?
5. How does the ad make you feel?
6. Where is the best place to reach you with this message—where would you be most likely to notice it and pay attention to it?

vertising, and advertising now popping up in skyscraper elevators and bathrooms. Media selection is becoming a major challenge.

A company works with the media department of the ad agency to define how much *reach*, *frequency*, and *impact* the ad campaign should achieve. Suppose you want your advertising campaign to deliver at least one exposure to 60 percent of the target market consisting of 1,000,000 people. This is 600,000 exposures. But you want the average person to see your ad three times during the campaign. That is 1,800,000 exposures. But it might take six exposures for the average person to notice your ad three times. Thus you need 3,600,000 exposures. And suppose you want to use a high-impact media vehicle costing \$20 per 1,000 exposures. Then the campaign should cost \$72,000 (\$20 × 3,600,000/1,000). Notice that your company could use the same budget to reach more people with less frequency or to reach more people with lower-impact media vehicles. There are trade-offs among reach, frequency, and impact.

Next is *money*. The *ad budget* is arrived at by pricing the reach, frequency, and impact decisions. This budget must take into account that the company has to pay for ad production and other costs.

A welcome trend would be that advertisers pay advertising agencies on a pay-for-performance basis. This would be reasonable because the agencies claim that their creative ad campaigns will increase the companies' sales. So pay the agency an 18 percent commission if sales increase, a normal 15 percent commission if sales remain the same, and a 13 percent commission with a warning if sales have fallen. Of course, the agency will say that other forces caused the drop in sales and even that the drop would have been deeper had it not been for the ad campaign.

Now for *measurement*. Ad campaigns require premeasurement and postmeasurement. Ad mock-ups can be tested for communication effectiveness using recall, recognition, or persuasion measures. Postmeasurements strive to calculate the communication or sales impact of the ad campaign. This is difficult to do, though, particularly with image ads.

For example, how can Coca-Cola measure the impact of a picture of a Coke bottle on the back page of a magazine on which the company spent $70,000 to influence purchases? At 70 cents a bottle and 10 cents of profit per bottle, Coke would have to sell 700,000 additional bottles to cover the $70,000 cost of the ad. I just don't believe that ad will sell 700,000 extra bottles of Coke.

Companies must try, of course, to measure results of each ad medium and vehicle. If online promotions are drawing in more prospects than TV ads, adapt your budget in favor of the former. Don't maintain a fixed allocation of your advertising budget. Move ad money into the media that are producing the best response.

One thing is certain: Advertising dollars are wasted when spent to advertise inferior or indistinct products. Pepsi-Cola spent $100 million to launch Pepsi One, and it failed. In fact, the quickest way to kill a poor product is to advertise it. More people will try the product sooner and tell others faster how bad or irrelevant it is.

How much should you spend on advertising? If you spend too little, you are spending too much because no one notices it. A million dollars of TV advertising will hardly be noticed. And if you spend too many millions, your profits will suffer. Most ad agencies push for a "big bang" budget and while this may be noticed, it hardly moves sales.

It is hard to measure something that can't be measured. Stan Rapp and Thomas Collins put their finger on the problem in the book *Beyond MaxiMarketing.* **"We are simply emphasizing that research often goes to great lengths to measure irrelevant things, including people's *opinions* about advertising or their *memories* of it rather than their *actions* as a result of it."**[6]

Will mass advertising diminish in its influence and use? I think so. People are increasingly cynical about and increasingly inattentive to advertising. One of its former major spenders, Sergio Zyman, ex-vice president of Coca-Cola, said recently, **"Advertising, as you know it, is dead."** He then redefined advertising: **"Advertising is a lot more than just television commercials—it includes branding, packaging, celebrity spokespeople, sponsorships, publicity, customer service, the way you treat your employees, and even the way your secretary answers the phone."**[7] What he is really doing is defining marketing.

A major limitation of advertising is that it constitutes a monologue. As evidence, most ads do not contain a telephone number or e-mail address to enable the customer to respond. What a lost opportunity for the company to learn something from a customer! Marketing consultant Regis McKenna observed: **"We are witnessing the obsolescence of advertising. The new marketing requires a feedback loop; it is this element that is missing from the monologue of advertising."**[8]

Brands

Everything is a brand: Coca-Cola, FedEx, Porsche, New York City, the United States, Madonna, and you—yes, you! A brand is any label that carries meaning and associations. **A great brand does more: It lends coloration and resonance to a product or service.**

Russell Hanlin, the CEO of Sunkist Growers, observed: **"An orange is an orange . . . is an orange. Unless . . . that orange happens to be Sunkist, a name 80 percent of consumers know and trust."** We can say the same about Starbucks: "There is coffee and there is Starbucks coffee."

Are brands important? Roberto Goizueta, the late CEO of Coca-Cola, commented: **"All our factories and facilities could burn down tomorrow but you'd hardly touch the value of the company; all that actually lies in the goodwill of our brand franchise and the collective knowledge in the company."** And a booklet by Johnson & Johnson reaffirms this: **"Our company's name and trademark are by far our most valuable assets."**

Companies must work hard to build brands. David Ogilvy insisted: **"Any damn fool can put on a deal, but it takes genius, faith and perseverance to create a brand."**

The sign of a great brand is how much loyalty or preference it commands. Harley Davidson is a great brand because Harley Davidson motorcycle owners rarely switch to another brand. Nor do Apple Macintosh users want to switch to Microsoft.

A well-known brand fetches extra pennies. The aim of branding, according to one cynic, "is to get more money for a product than it is worth." But this is a narrow view of the benefits that a trusted brand confers on users. The user knows by the brand name the product quality and features to expect and the services that will be rendered, and this is worth extra pennies.

A brand saves people time, and this is worth money. Niall Fitzgerald, chairman of Unilever, observed: **"A brand is a storehouse of trust that matters more and more as choices multiply. People want to simplify their lives."**

The brand amounts to a contract with the customer regarding how the brand will perform. The brand contract must be honest. Motel 6, for example, offers clean rooms, low prices, and good service but does not imply that the furnishings are luxurious or the bathroom is large.

How are brands built? It's a mistake to think that advertising builds the brand. Advertising only calls attention to the brand; it might even create brand interest and brand talk. Brands are built *holistically*, through the orchestration of a variety of tools, including *advertising*, *public relations (PR)*, *sponsorships*, *events*, *social causes*, *clubs*, *spokespersons*, and so on.

The real challenge is not in placing an ad but to get the media talking about the brand. Media journalists are on the lookout for interesting products or services, such as Palm, Viagra, Starbucks, eBay. A new brand should strive to establish a new category, have an interesting name, and tell a fascinating story. If print and TV will pick up the story, people will hear about it and tell their friends. Learning about a brand from others creates credibility. Learning about it only through paid advertising is easy to dismiss because of the biased nature of advertising.

Don't advertise the brand, live it. Ultimately the brand is built by your employees who deliver a positive experience to the customers. Did the *brand experience* live up to the *brand promise*? This is why companies must orchestrate the brand experience with the brand promise.

Choosing a good brand name helps. A consumer panel was shown the pictures of two beautiful women and asked who was more beautiful. The vote split 50–50. Then the experimenter named one woman Jennifer and the other Gertrude. The woman named Jennifer subsequently received 80 percent of the votes.

Great brands are the only route to sustained, above-average profitability. And great brands present emotional benefits, not just rational benefits. Too many brand managers focus on rational incentives such as the brand's features, price, and sales promotion, which contribute little to growing the brand-customer relationship. Great brands work more on emotions. And in the future, great brands will show social responsibility—a caring concern for people and the state of the world.

A company needs to think through what its brand is supposed to mean. What should Sony mean, Burger King mean, Cadillac

Richard Branson's Virgin brand is about fun and creativity. These attributes are projected in all of Virgin's marketing activities. Some of Virgin Atlantic's Airways' flights include massages, live rock bands, and casinos. Flight attendants are fun-loving and enjoy joking with the passengers. Branson uses public relations to project his daring, such as attempting to fly around the world in a hot-air balloon. To launch Virgin Bride (bridal wear), Branson dressed up in drag as a bride.

mean? A brand must be given a personality. It must thrive on some trait(s). And the traits must percolate through all of the company's marketing activities.

Once you define the attribute(s) of your brand, you need to express them in every marketing activity. Your people must live out the brand spirit at the corporate level and at the job-specific level. Thus if your company brands itself as innovative, then you must hire, train, and reward people for being innovative. And being innovative must be defined for every job position, including the production supervisor, the van driver, the accountant, and the salesperson.

The brand personality must be carried out by the company's partners as well. The company cannot allow its dealers to compromise the brand by engaging in price-cutting against other dealers. They must represent the brand properly and deliver the expected brand experience.

When a brand is successful, the company will want to put the brand name on additional products. The brand name may be put on products launched in the same category (*line extension*), in a new category (*brand extension*), or even in a new industry (*brand stretch*).

Line extension makes sense in that the company can coast on the goodwill that it has built up in the category and save the money that it would otherwise have to spend to create brand awareness of a new name and offering. Thus we see Campbell Soup introducing new soups under its widely recognized red label. But this requires the discipline of adding new soups while subtracting unprofitable soups from the line. The new soups can cannibalize the sales of the core soups without bringing in much additional revenue to cover the additional costs. They can reduce operational efficiency, increase distribution costs, confuse consumers, and reduce overall profitability. Some line extensions are clearly worth adding, but overuse of line extensions must be avoided.

Brand extension is riskier: I buy Campbell's soup but I might be less interested in Campbell's popcorn. *Brand stretch* is even more risky: Would you buy a Coca-Cola car?

Well-known companies tend to assume that their great name can carry them successfully into another category. Yet whatever happened to Xerox computers or Heinz salsa? Did the Hewlett-Packard/Compaq iPAQ Pocket PC overtake the Palm handheld or did Bayer acetaminophen overtake Tylenol? Is Amazon electronics as successful as Amazon books? Too often the company is introducing a me-too version of the product that ultimately loses to the existing category leaders.

The better choice would be to establish a new name for a new product rather than carry the company's name and all of its baggage. The company name creates a feeling of more of the same, rather than something new. Some companies know this. Toyota chose not to call its upscale car Toyota Upscale but rather Lexus; Apple Computer didn't call its new computer Apple IV but Macintosh; Levi's didn't call its new pants Levi's Cottons but Dockers; Sony didn't call its new videogame Sony Videogame but PlayStation; and Black & Decker didn't call its upgraded tools Black & Decker Plus but DeWalt. Creating a new brand name gives more opportunity to establish and circulate a fresh public relations story to gain valuable media attention and talk. A new brand needs credibility, and PR is much better than advertising in establishing credibility.

Yet every rule has its exceptions. Richard Branson has put the name Virgin on several dozen businesses, including Virgin Atlantic Airways, Virgin Holidays, Virgin Hotels, Virgin Trains, Virgin Limousines, Virgin Radio, Virgin Publishing, and Virgin Cola. Ralph Lauren's name is found on numerous clothing products and home furnishings. Still a company has to ask: How far can the brand name be stretched before it loses its meaning?

Al Ries and Jack Trout, two keen marketing thinkers, are against most line and brand extensions; they see it as diluting the brand. To them, a Coke should mean an eight-ounce soft drink in the famous Coke bottle. But ask today for a Coke and you will have to answer whether you want Coca-Cola Classic, Caffeine Free Coca-Cola Classic, Diet Coke, Diet Coke with Lemon, Vanilla Coke, or

Cherry Coke—and do you want it in a can or a bottle? Vendors used to know what you wanted when you asked for a Coke.

Brand pricing is a challenge. When Lexus started to make inroads against Mercedes in the United States, Mercedes wasn't going to lower its price to match Lexus' lower price. No, some Mercedes managers even proposed raising Mercedes' price to establish that Mercedes is selling prestige that the buyer can't get from a Lexus.

But brand price premiums today are shrinking. A leading brand in the past could safely charge 15 to 40 percent more than the average brand; today it would be lucky to get 5 to 15 percent more. When product quality was uneven, we would pay more for the better brand. Now all brands are pretty good. Even the store's brand is good. In fact, it probably is made by the national brand to the same standards. So why pay more (except for show-off brands like Mercedes) to impress others?

In recessionary times, price loyalty is greater than brand loyalty. Customer loyalty may reflect nothing more than inertia or the absence of something better. As someone observed, "There is nothing that a 20 percent discount won't cure."

A company handles its brands through brand managers. But Larry Light, a brand expert, doesn't think that brands are well managed. Here is his plaint: **"Brands do not have to die. They can be murdered. And the marketing Draculas are draining the very lifeblood away from brands. Brands are being bargained, belittled, bartered and battered. Instead of being brand-asset managers, we are committing brand suicide through self-inflicted wounds of excessive emphasis on prices and deals."**

Another concern is that brand management structures may militate against carrying out effective customer relationship management (CRM) practices. Companies tend to overfocus and overorganize on the basis of their products and brands, and underfocus on managing their customers well. Call it *brand management myopia*.

Heidi and Don Schultz, marketing authors, believe that the consumer packaged goods (CPG) model for brand building is increasingly inappropriate, especially for service firms, technology firms, financial organizations, business-to-business brands, and even smaller CPG companies.[9] They charge that the proliferation of media and message delivery systems has eroded mass advertising's power. They urge companies to use a different paradigm to build their brands in the New Economy.

- Companies should clarify the corporation's basic values and build the corporate brand. Companies such as Starbucks, Sony, Cisco Systems, Marriott, Hewlett-Packard, General Electric, and American Express have built strong corporate brands; their name on a product or service creates an image of quality and value.
- Companies should use brand managers to carry out the tactical work. But the brand's ultimate success will depend on everyone in the company accepting and living the brand's value proposition. Prominent CEOs—such as Charles Schwab or Jeff Bezos—are playing a growing role in shaping brand strategies.
- Companies need to develop a more comprehensive brand-building plan to create positive customer experiences at every touch point—events, seminars, news, telephone, e-mail, person-to-person contact.
- Companies need to define the brand's basic essence to be delivered wherever it is sold. Local executions can be varied as long as they deliver the feel of the brand.
- Companies must use the brand value proposition as the key driver of the company's strategy, operations, services, and product development.
- Companies must measure their brand-building effectiveness not by the old measures of awareness, recognition, and recall, but by a more comprehensive set of measures including customer perceived value, customer satisfaction, customer share of wallet, customer retention, and customer advocacy.