Marketing Excellence

>>Amazon.com

Founded by Jeff Bezos, Amazon.com started as the "world's largest bookstore" in July 1995. A virtual bookstore that physically owned no books, Amazon.com promised to revolutionize retailing. Although some may debate whether it accomplished that, Bezos clearly blazed a trail of e-commerce innovations that many have studied and followed.

Amazon.com set out to create personalized storefronts for each customer by providing more useful information and more choices than could be found in your typical neighborhood bookstore. Readers can review books and evaluate them on a one- to five-star rating scale, and browsers can rate the reviews for helpfulness. Amazon.com's personal recommendation service aggregates data on buying patterns to infer who might like which book. The site offers peeks into books' contents, index, and beginning pages with a "search inside the book" feature that also lets customers search the entire text of 120,000 books—about as many titles as are in a Barnes & Noble bookstore. Amazon.com's one-click shopping lets buyers make purchases with one click.

Over the years, Amazon.com has diversified its product lines into DVDs, music CDs, computer software, video games, electronics, apparel, furniture, food, toys, and more. In addition, it has established separate Web sites in Canada, the United Kingdom, Germany, France, China, and Japan. Amazon.com continued to expand its product offerings with the 2007 launch of Amazon Video On Demand, allowing consumers to rent or purchase films and television shows on their computers or televisions. Later that year, Amazon.com introduced Amazon MP3, which competes directly with Apple's iTunes and has participation from all the major music labels. The company's most successful recent product launch was the Amazon-branded Kindle, an electronic book reader that can deliver hundreds of thousands of books, magazines, blogs, and newspapers wirelessly in a matter of seconds. As thin as a magazine and light as a paperback, the device was Amazon.com's number one selling product in 2009.

To overcome the lag between purchase and delivery of product, Amazon.com offers fast, inexpensive shipping. For a $79 annual fee, Amazon.com Prime provides unlimited free express shipping for most items. While free shipping and price cuts are sometimes unpopular with investors, Bezos believes it builds customer satisfaction, loyalty, and frequency of purchase orders.

Amazon.com has established itself as an electronic marketplace by enabling merchants of all kinds to sell items on the site. It powers and operates retail Web sites for Target, the NBA, Timex, and Marks & Spencer. Amazon.com derives about 40 percent of its sales from its million-plus affiliates called "Associates," independent sellers or businesses that receive commissions for referring customers who then make a purchase at the Amazon.com site. Associates can refer consumers to Amazon.com through a variety of ways, including direct links and banner ads as well as Amazon Widgets, mini-applications that feature Amazon.com's wide selection of products.

Amazon.com also launched an affiliate product called aStore, which gives Associates the ability to create an Amazon-operated online store easily and without any programming knowledge. Amazon.com then supports these merchants by providing new tools for their Web site, offering access to Amazon.com's catalog of products, and handling all payments and payment security through its Web Services. Amazon.com can also "pick, pack and ship the products to the merchant's customers anytime and to any place" through its Fulfillment by Amazon (FBA). This essentially creates a virtual store for the third-party merchants with low risk and no additional cost.

One key to Amazon.com's success in all these different ventures was a willingness to invest in the latest Internet technology to make shopping online faster, easier, and more personally rewarding for its customers and third-party merchants. The company continues to invest in technology, is focused on the long-term, and has successfully positioned itself as a technology company with its wide range of Amazon Web Services. This growing collection of infrastructure services meets the retailing needs of companies of virtually all sizes.

From the beginning, Bezos stated that even though he started as an online bookstore, he eventually wanted to sell everything through Amazon.com. Now, with more than 600 million annual visitors, the company continues to get closer to that goal with revolutionary products like the Kindle and cloud computing Web services.

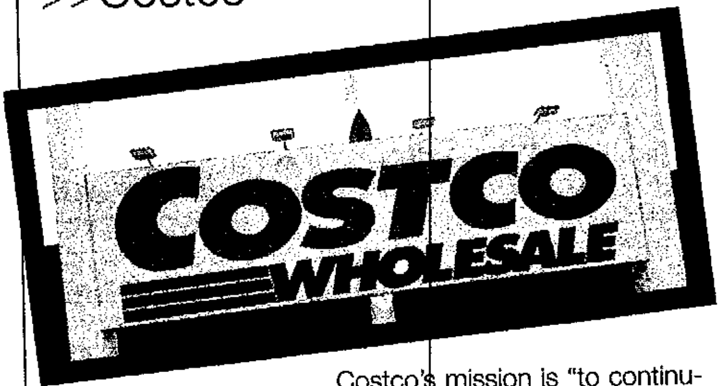
Questions

1. Why has Amazon.com succeeded online when so many other companies have failed?
2. Will the Kindle revolutionize the book industry? Why or why not?
3. What's next for Amazon.com? Is cloud computing the right direction for the company? Where else can it grow?

Sources: "Click to Download," *Economist*, August 19, 2006, pp. 57–58; Robert D. Hof, "Jeff Bezos' Risky Bet," *BusinessWeek*, November 13, 2006; Erick Schonfield, "The Great Giveaway," *Business 2.0*, April 2005, pp. 80–86; Elizabeth West, "Who's Next?" *Potentials*, February 2004, pp. 7–8; Robert D. Hof, "The Wizard of Web Retailing," *BusinessWeek*, December 20, 2004, p. 18; Chris Taylor, "Smart Library," *Time*, November 17, 2003, p. 68; Deborah Solomon, "Questions for Jeffrey P. Bezos," *New York Times*, December 2, 2009; Patrick Seitz, "Amazon.com Whiz Jeff Bezos Keeps Kindling Hot Concepts," *Investors' Daily Business*, December 31, 2009; Amazon.com, Amazon.com 2009 Annual Report.

Marketing Excellence

>>Costco



Costco's mission is "to continually provide our members with quality goods and services at the lowest possible prices." With nearly 60 million card-carrying members and over $71 billion in sales, Costco is now the largest warehouse club chain in the United States, the third largest retailer in the United States, and the ninth largest retailer in the world. Costco's success comes from years of building consumer loyalty through its dedicated merchandising and pricing strategy combined with no-frills, cost-cutting policies.

Costco's merchandising strategy focuses on offering a broad range of brand name and private label merchandise at extremely low prices. But unlike a grocery store that carries 40,000 SKUs or a Walmart that can carry up to 150,000, Costco carries approximately 4,000 SKUs—only the fastest-selling flavors, sizes, models, and colors from a single vendor in each category. This efficient product sourcing results in several outcomes: high volume of sales, rapid inventory turnover, extremely low prices, and better product manageability.

Costco buys its merchandise directly from the manufacturer. Products are shipped directly to Costco warehouses or to a depot, which reallocates the shipments to Costco warehouses within 24 hours. This process eliminates several steps such as using a distributor and other intermediaries, eliminating costs associated with storage, additional freight, and handling. At the warehouse, shipments are often taken directly to the floor, unwrapped, and left on the pallet, ready to sell.

Over the years, Costco has expanded its products and services from simple boxed items such as cereal and paper products to more complex items such as fresh produce and flowers, which must be displayed attractively and managed more closely. Today, it sells dairy, baked goods, seafood, clothing, books, computer software, vacuums, home appliances, electronics, jewelry, tires, and wine, liquor, hot tubs, and furniture. Costco's services include pharmacies, optometrists, photo processors, food courts, and gas stations. The company's private label, Kirkland Signature, provides consumers with high-quality products at even more discounted prices than the comparable branded item. Kirkland Signature products range from diapers to bed sheets to coffee and makeup.

Of the 4,000 products sold, 3,000 are staples, found at Costco week after week, while the remaining 1,000 rotate as part of Costco's "treasure hunt." These specials items are offered only temporarily and can be as exotic as Coach bags, Waterford crystal, and expensive jewelry. Costco believes its treasure hunt items create excitement and increase consumer loyalty, bringing back bargain hunters again and again.

Costco's pricing strategy is transparent: The company limits the markup of any branded item to 14 percent and any private-label item to 15 percent. (Supermarkets and department stores mark up items anywhere from 25 percent to 50 percent.) If a manufacturer's price is too high, the company will not restock the item. Costco's CEO, Jim Sinegal, explained, "The traditional retailer will say: 'I'm selling this for $10. I wonder whether I can get $10.50 or $11.' We say: 'We're selling it for $9. How can we get it down to $8?'"

Costco's cost savings tactics extend to its 560+ warehouse locations around the world. Most average 143,000 square feet with floor plans designed to optimize selling space, the handling of merchandise, and the control of inventory. Decor is simple: concrete floors, bare-bones signage, and product displays that consist of pallets right off the

Despite its unprecedented success over the years, Coke is not perfect. In 1985, in perhaps the worst product launch ever, Coca-Cola introduced New Coke—a sweeter concoction of the original secret formula. Consumers instantly rejected it and sales plummeted. Three months later, Coca-Cola retracted New Coke and relaunched the original formula under the name Coca-Cola Classic, to the delight of customers everywhere. Then-CEO Roberto Goizueta stated, "The simple fact is that all the time and money and skill poured into consumer research on the new Coca-Cola could not measure or reveal the deep and abiding emotional attachment to original Coca-Cola felt by so many people."

Coca-Cola's success at marketing a product on such a global, massive scale is unique. No other product is so universally available, universally accepted, and universally loved. As the company continues to grow, it seeks out new ways to better connect with even more individuals. Referring to itself as a "Happiness Factory," it is optimistic that it will succeed.

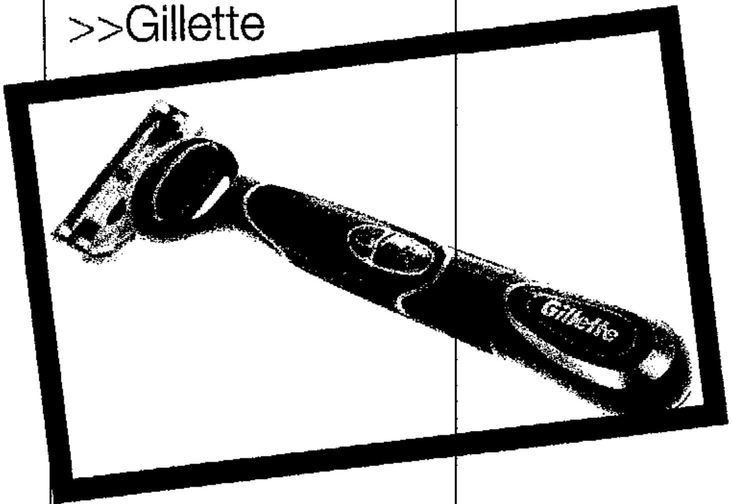
Questions

1. What does Coca-Cola stand for? Is it the same for everyone? Explain.
2. Coca-Cola has successfully marketed to billions of people around the world. Why is it so successful?
3. Can Pepsi or any other company ever surpass Coca-Cola? Why or why not? What are Coca-Cola's greatest risks?

Sources: Natalie Zmuda, "Coca-Cola Lays Out Its Vision for the Future at 2010 Meeting." *Advertising Age,* November 22, 2009; Natalie Zmuda, "Coke's 'Open Happiness' Keeps It Simple for Global Audience," *Advertising Age,* January 21, 2009; John Greenwald, "Will Teens Buy It?" *Time,* June 24, 2001; "Coca-Cola Still Viewed as Most Valuable Brand." *USA Today,* September 18, 2009; Edward Rothstein, "Ingredients: Carbonated Water, High-Fructose Corniness. . ." *New York Times,* July 30, 2007; Brad Cook, "Coca-Cola: A Classic," *Brandchannel,* December 2, 2002; Coca-Cola, *Annual Report.*

Marketing Excellence

>>Gillette



Gillette knows men. Not only does the company understand what products men desire for their grooming needs, it also knows how to market to men all around the world. Since the invention of the safety razor by King C. Gillette in 1901, Gillette has had a number of breakthrough product innovations. These include the first twin-blade shaving system in 1971 named the Trac II, a razor with a pivoting head in 1977 called the Atra, and the first razor with spring-mounted twin blades in 1989 dubbed the Sensor. In 1998, Gillette introduced the first triple-blade system, Mach3, which became a billion-dollar brand surpassed only by the 2006 launch of the "best shave on the planet"—the six-bladed Fusion, with five blades in the front for regular shaving and one in the back for trimming.

Today, Gillette holds a commanding lead in the shaving and razor business with a 70 percent global market share and $7.5 billion in annual sales. Six hundred million men use a Gillette product every day, and the Fusion razor accounts for 45 percent of the men's razors sold in the United States. Gillette's mass appeal is a result of several factors, including extensive consumer research, quality product innovations, and successful mass communications.

While Gillette's product launches have improved male grooming, it's the company's impressive marketing knowledge and campaigns that have helped it reach this international level of success. Traditionally, Gillette uses one global marketing message rather than individual targeted messages for each country or region. This message is backed by a wide spectrum of advertising support, including athletic sponsorships, television campaigns, in-store promotions, print ads, online advertising, and direct marketing.

Gillette's most recent global marketing effort, "The Moment," launched in 2009, is an extension of its well-recognized campaign, "The Best a Man Can Get." The campaign features everyday men as well as the Gillette Champions—baseball star Derek Jeter, tennis champion Roger Federer, and soccer great Thierry Henry—experiencing moments of doubt and Gillette's grooming products helping them gain confidence. The campaign was designed to help Gillette expand beyond razors and shaving and increase sales of its entire line of grooming products. The massive marketing effort launched around the globe and included television, print, online, and point-of-sale advertising.

Another crucial element in Gillette's marketing strategy is sports marketing. Gillette's natural fit with baseball and tradition has helped the company connect emotionally with its core audience, and its sponsorship with Major League Baseball dates to 1939. Tim Brosnan, EVP for Major League Baseball, explained, "Gillette is a sports marketing pioneer that paved the way for modern day sports sponsorship and endorsements." Gillette ads have featured baseball heroes such as Hank Aaron, Mickey Mantle, and Honus Wagner from as early as 1910.

Gillette also has ties to football. The company sponsors Gillette Stadium, home of the New England Patriots, and is a corporate sponsor of the NFL, making four of its products, Gillette, Old Spice, Head & Shoulders, and Febreze, "Official Locker Room Products of the NFL." Gillette's partnership includes sweepstakes to win NFL game tickets, Web site promotions, and ties to the NFL, such as the presence of some NFL players in its commercials. Gillette also sponsors several NASCAR races and drivers and the UK Tri-Nations rugby tournament. It even created a Zamboni at the Boston Bruins game that looked like a huge Fusion razor shaving the ice.

While sports marketing is a critical element of Gillette's marketing strategy, the brand aims to reach all men and therefore aligns itself with musicians, video games, and movies—in one James Bond film, *Goldfinger*, a Gillette razor contained a homing device.

When Procter & Gamble acquired Gillette in 2005 for $57 billion (a record five times sales), it aimed for more than sales and profit. P&G, an expert on marketing to women, wanted to learn about marketing to men on a global scale, and no one tops Gillette.

Questions

1. Gillette has successfully convinced the world that "more is better" in terms of number of blades and other razor features. Why has that worked in the past? What's next?
2. Some of Gillette's spokespeople such as Tiger Woods have run into controversy after becoming endorsers for the brand. Does this hurt Gillette's brand equity or marketing message? Explain.
3. Can Gillette ever become as successful at marketing to women? Why or why not?

Sources: Gillette press release, "Gillette Launches New Global Brand Marketing Campaign," July 1, 2009; Major League Baseball press release, "Major League Baseball Announces Extension of Historic Sponsorship with Gillette Dating Back to 1939," April 16, 2009; Gillette, *2009 Annual Report*; Jeremy Mullman and Rich Thomaselli, "Why Tiger Is Still the Best Gillette Can Get," *Advertising Age*, December 7, 2009; Louise Story, "Procter and Gillette Learn from Each Other's Marketing Ways," *New York Times*, April 12, 2007; Dan Beucke, "A Blade Too Far," *BusinessWeek*, August 14, 2006; Jenn Abelson, "And Then There Were Five," *Boston Globe*, September 15, 2005; Jack Neff, "Six-Blade Blitz," *Advertising Age*, September 19, 2005, pp. 3, 53; Editorial, "Gillette Spends Smart on Fusion," *Advertising Age*, September 26, 2005, p. 24.

Summary

1. The modern marketing department has evolved through the years from a simple sales department to an organizational structure where marketers work mainly on cross-disciplinary teams.
2. Some companies are organized by functional specialization; others focus on geography and regionalization, product and brand management, or market-segment management. Some companies establish a matrix organization consisting of both product and market managers.
3. Effective modern marketing organizations are marked by customer focus within and strong cooperation among marketing, R&D, engineering, purchasing, manufacturing, operations, finance, accounting, and credit.
4. Companies must practice social responsibility through their legal, ethical, and social words and actions. Cause marketing can be a means for companies to productively link social responsibility to consumer marketing programs. Social marketing is done by a nonprofit or government organization to directly address a social problem or cause.
5. A brilliant strategic marketing plan counts for little unless implemented properly, including recognizing and diagnosing a problem, assessing where the problem exists, and evaluating results.
6. The marketing department must monitor and control marketing activities continuously. Marketing plan control ensures the company achieves the sales, profits, and other goals in its annual plan. The main tools are sales analysis, market share analysis, marketing expense-to-sales analysis, and financial analysis of the marketing plan. Profitability control measures and controls the profitability of products, territories, customer groups, trade channels, and order sizes. Efficiency control finds ways to increase the efficiency of the sales force, advertising, sales promotion, and distribution. Strategic control periodically reassesses the company's strategic approach to the marketplace using marketing effectiveness and marketing excellence reviews, as well as marketing audits.
7. Achieving marketing excellence in the future will require a new set of skills and competencies.

Applications

Marketing Debate

Is Marketing Management an Art or a Science?

Some observers maintain that good marketing is mostly an art and does not lend itself to rigorous analysis and deliberation. Others contend it is a highly disciplined enterprise that shares much with other business disciplines.

Take a position: Marketing management is largely an artistic exercise and therefore highly subjective *versus* Marketing management is largely a scientific exercise with well-established guidelines and criteria.

Marketing Discussion

Cause Marketing

How does cause or corporate societal marketing affect your personal consumer behavior? Do you ever buy or not buy any products or services from a company because of its environmental policies or programs? Why or why not?

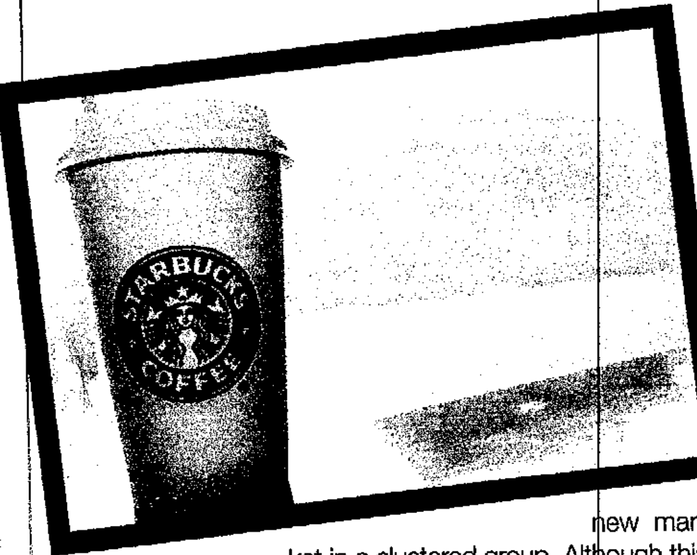
Marketing Excellence

>>Starbucks

Starbucks opened in Seattle in 1971 at a time when coffee consumption in the United States had been declining for a decade and rival brands used cheaper coffee beans to compete on price. Starbucks's founders decided to experiment with a new concept: a store that would sell only the finest imported coffee beans and coffee-brewing equipment. (The original store didn't sell coffee by the cup, only beans.)

Howard Schultz came to Starbucks in 1982. While in Milan on business, he had walked into an Italian coffee bar and had an epiphany: "There was nothing like this in America. It was an extension of people's front porch. It was an emotional experience." To bring this concept to the United States, Schultz set about creating an environment for Starbucks coffeehouses that would reflect Italian elegance melded with U.S. informality. He envisioned Starbucks as a "personal treat" for its customers, a "Third Place"—a comfortable, sociable gathering spot bridging the workplace and home.

Starbucks's expansion throughout the United States was carefully planned. All stores were company-owned and operated, ensuring complete control over an unparalleled image of quality. In a "hub" strategy, coffeehouses entered a



new market in a clustered group. Although this deliberate saturation often cannibalized 30 percent of one store's sales by introducing a store nearby, any drop in revenue was offset by efficiencies in marketing and distribution costs, and the enhanced image of convenience. A typical customer would stop by Starbucks 18 times a month. No U.S. retailer has had a higher frequency of customer visits.

Part of Starbucks's success undoubtedly lies in its products and services, and its relentless commitment to providing the richest possible sensory experiences. But another key is its enlightened sense of responsibility, manifested in a number of different ways. Schultz believed that to exceed customers' expectations it is first necessary to exceed employees'. Since 1990, Starbucks has provided comprehensive health care to all employees, including part-timers. Health insurance now costs the company more each year than coffee. A stock option plan called Bean Stock allows employees also to participate in its financial success.

Schultz also believed Starbucks's operations should run in a respectful, ethical manner, making decisions with a positive impact on communities and the planet.

Community: The Starbucks Foundation, created in 1997 with proceeds from the sale of Schultz's book, aims to "create hope, discovery, and opportunity in communities where Starbucks partners [employees] live and work." Its primary focus is supporting literacy programs for children and families in the United States and Canada; expanded, it has now donated millions of dollars to charities and communities worldwide.

Starbucks's employees volunteer community service donated 5 cents from every sale of its Ethos bottled water to improving the quality of water in poor countries, part of a five-year, $10 million pledge.

Ethical Sourcing: Starbucks has partnered with Conservation International to ensure that coffee it purchases is not only of the highest quality but also "responsibly grown and ethically traded." Starbucks is the world's biggest buyer of fair-trade coffee and pays an average of 23 percent above market price for 40 million pounds a year. It works continuously with farmers on responsible methods such as planting trees along rivers and using shade-growing techniques to help preserve forests.

The Environment: It took Starbucks 10 years of development to create the world's first recycled beverage cup made of 10 percent postconsumer fiber, conserving 5 million pounds of paper or approximately 78,000 trees a year. Now the team is working to ensure that customers recycle. Jim Hanna, Starbucks's director of environmental impact, explained, "[Starbucks] defines a recyclable cup not by what the cup is made out of but by our customers actually having access to recycling services." Starbucks's goal: make 100 percent of its cups recycled or reused by 2015. The firm also emphasizes energy and water conservation and building green, LEED-certified buildings around the world.

Howard Schultz stepped down as CEO in 2000 but returned as CEO, president, and chairman in 2008 to help restore growth and excitement to the powerhouse chain. Today, Starbucks has over 16,700 stores worldwide, approximately 142,000 employees, $9.8 billion in revenue, and plans to expand worldwide. To achieve its international growth goals, Schultz believes Starbucks must retain a passion for coffee and a sense of humanity, to remain small even as it gets big, and to be a responsible company.

Questions

1. Starbucks has worked hard to act ethically and responsibly. Has it done a good job communicating its efforts to consumers? Do consumers believe Starbucks is a responsible company? Why or why not?
2. Where does a company like Starbucks draw the line on supporting socially responsible programs? For example, how much of its annual budget should go toward these programs? How much time should employees focus on them? Which programs should it support?
3. How do you measure the results of Starbucks's so-