Marketing Strategy

Text and Cases

SIXTH EDITION

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CHAPTER 8

Ethics and Social Responsibility in Marketing Strategy

Introduction

The importance of marketing ethics and social responsibility has grown in recent years, and their role in the strategic planning process has become increasingly important. Many firms have seen their images, reputations, and marketing efforts destroyed by problems in these areas. The failure to see ethical conduct as part of strategic marketing planning can destroy the trust and customer relationships that are necessary for success. Ethics and social responsibility are also necessary in light of stakeholder demands, and many aspects of ethics can become legal issues. For example, price fixing, bribery, conflicts of interest, fraud, and deceptive advertising and sales practices all have legal implications. Marketing ethics does not just happen by hiring ethical people; it requires strategic decisions that become a part of the overall marketing strategy and culture of the firm.

The traditional view of marketing holds that ethics and social responsibility are good supplements to business activities but may not be essential. Some marketers believe that ethics and social responsibility initiatives drain resources that could be better used for other marketing activities. Yet research has shown that ethical behavior can not only enhance a company's reputation, but also contribute significantly to its bottom line.[2] As demonstrated by Salesforce.com's success in *Beyond the Pages 8.1*, social responsibility and sustainability are becoming increasingly popular among businesses as a way to reduce a company's carbon footprint and create a positive image among stakeholders. Ample evidence demonstrates that ignoring stakeholders' demands for responsible marketing can destroy customers' trust and even prompt increased government regulation. Irresponsible actions that anger customers, employees, or competitors may jeopardize a firm's financial standing and also lead to legal repercussions. For instance, GlaxoSmithKline settled with the U.S. Justice Department for $3 billion after the Justice Department accused it of defrauding Medicaid and marketing certain drugs illegally. One of the accusations levied against GlaxoSmithKline was that it marketed its drug Wellbutrin for uses not approved by the Food and Drug Administration. Such off-label marketing is illegal.[3] Today, most CEOs recognize that companies must do better. As Indra Nooyi, chairperson and CEO of PepsiCo, states: "performance without purpose is not a long-term sustainable formula."[4]

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Beyond the Pages 8.1

Salesforce.com Adopts a Stakeholder Orientation[1]

Salesforce.com truly believes in sharing the wealth. Salesforce.com is a cloud computing organization that provides software, such as customer relationship management applications, to a variety of clients including Dell, Qualcomm, NBCUniversal, and Symantec. The various applications in the Salesforce.com platform bring people and data together to provide information the sales force needs to be successful. Additionally, Salesforce.com is a known and respected leader in social responsibility.

Salesforce.com secured the number one spot in *Fortune*'s ranking of the 25 top-paying companies. Believing that employees are largely responsible for making Salesforce.com what it is today, Salesforce.com provides large bonuses to its top performers, pays for "incentive trips" to Hawaii, and allows some of its employees to own stock in the company. The average total pay at Salesforce.com exceeds $300,000.

To hold the company accountable to its investors, Salesforce.com has implemented several policies to ensure objectivity and accountability. Most of the company's board members are independent, reducing the chance that board members might experience conflicts of interest in their responsibilities. The company has also adopted an ethics code and has an ethics office to ensure that the company's ethical expectations are met.

Additionally, Salesforce.com views the environment as an important stakeholder. The company continually strives to reduce its environmental impact. Its buildings meet LEED (Leadership in Energy and Environmental Design) standards, and Salesforce.com communicates its environmental expectations throughout the company and its supply chain. Salesforce.com also creates products to help its customers measure their environmental impact. The company claims that its cloud computing model reduces greenhouse gas emissions by 95 percent compared to traditional hardware or software. Salesforce.com also discloses its carbon emissions data for independent assessment. The Carbon Disclosure Institute, which analyzes S&P 500 companies on its carbon emissions data, awarded Salesforce.com 85 percent for its disclosure. Although Salesforce.com still has many ways it can improve its efforts toward sustainability, its willingness to disclose information about the sustainability of its operations demonstrates the company's commitment toward the environment.

In 2011, for the fourth consecutive year, Salesforce.com was named as one of the "World's Most Ethical" companies by the Ethisphere Institute. Much of this has to do with Salesforce.com's 1/1/1 Model, which stands for 1 percent time (in which employees are given 1 percent time to volunteer), 1 percent equity (in which 1 percent of its capital is given to the Salesforce.com Foundation), and 1 percent product. As a result of this program, Salesforce.com has donated more than 240,000 employee-hours to community causes, has donated or discounted licenses for its software to more than 10,000 organizations (many of them nonprofits), and has awarded more than $21 million in grants. By integrating corporate social responsibility into the company culture, Salesforce.com hopes to make a positive difference in communities and nonprofit organizations.

All of these ethical initiatives have not diminished Salesforce.com's profitability. In fact, it's quite the contrary. Salesforce.com has experienced rapid growth and was added into the S&P 500 in 2008. Social responsibility has appeared to pay off for the company's bottom line.

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In this chapter, we look at the dimensions of ethics and social responsibility, sustainability issues in marketing, the role of ethics and social responsibility in connection to marketing strategy, and the challenges of ethical behavior. We also address specific ethical issues within the firm's marketing program, as well as organizational and self-regulating methods of preventing misconduct. We examine the organizational context of marketing ethics, including codes of ethics and the impact of ethical leadership. Additionally, we show the role of ethics and

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social responsibility in improving both marketing and financial performance. Finally, we discuss how ethics and social responsibility can be incorporated into strategic planning.

Ethics and Social Responsibility in Marketing Strategy

In response to customer demands, along with the threat of increased regulation, firms increasingly incorporate ethics and social responsibility into the strategic marketing planning process. Any organization's reputation can be damaged by poor performance or ethical misconduct. Obviously, stakeholders who are most directly affected by negative events will have a corresponding shift in their perceptions of a firm's reputation. However, even those indirectly connected to negative events can shift their attitudes toward the firm. Some scandals may lead to boycotts and aggressive campaigns to dampen sales and earnings. Nestlé experienced a backlash when Greenpeace revealed that the company used non-sustainable palm oil in its Kit-Kat bars. Palm oil plantations have destroyed thousands of acres of rainforests and have threatened the habitat of many native species, including orangutan populations. Consumers were outraged and posted angry messages to Nestlé's Facebook page. The backlash prompted the company to sever ties with its palm oil supplier and allow the Forest Trust to perform audits of its supply chain.[5]

Dimensions of Social Responsibility

Social responsibility is a broad concept that relates to an organization's obligation to maximize its positive impact on society while minimizing its negative impact. As shown in Exhibit 8.1, social responsibility consists of four dimensions: economic, legal, ethical, and philanthropic.[6]

Economic and Legal Responsibilities From an economic perspective, firms must be responsible to all stakeholders for financial success. The economic responsibility of making a profit serves employees and the community at large due to its impact on employment and income levels in the area that the firm calls home. Firms also have expectations, at a minimum, to obey laws and regulations. This is a challenge because the legal and regulatory environment is hard to navigate and interpretations of the law change frequently. Laws and regulations are designed to keep U.S. companies' actions within the range of acceptable conduct and fair competition. When customers, interest groups, or competitors become concerned over what they perceive as misconduct on the part of a marketing organization, they may urge their legislators to draft new laws to regulate the behavior or engage in litigation to force the organization to "play by the rules." For example, complaints from merchants about high debit card fees prompted new legislation that capped how much banks can charge for processing debit card transactions.[7] Economic and legal responsibilities are the most basic levels of social responsibility for a good reason: failure to consider them may mean that a firm is not around long enough to engage in ethical or philanthropic activities.

Ethical Responsibilities At the next level of the pyramid, marketing ethics refers to principles and standards that define acceptable marketing conduct as determined by the public, government regulators, private-interest groups, competitors, and the firm itself. The most basic of these principles have been codified as laws and regulations to induce marketers to conform to society's expectations of conduct. However, it is important to

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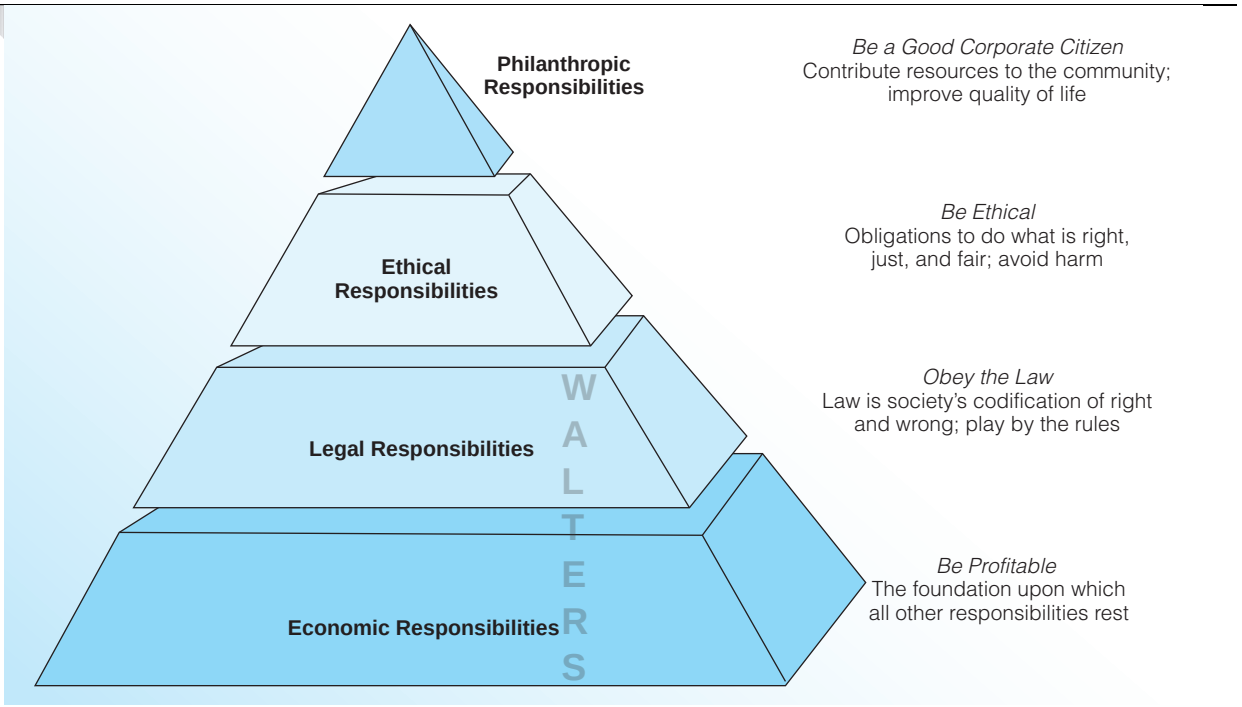
EXHIBIT 8.1 **The Pyramid of Corporate Social Responsibility**



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understand that marketing ethics go beyond legal issues: Ethical marketing decisions foster trust, which helps build long-term marketing relationships. Marketing ethics includes decisions about what is right or wrong in the organizational context of planning and implementing marketing activities in a global business environment to benefit (1) organizational performance, (2) individual achievement in a work group, (3) social acceptance and advancement in the organization, and (4) stakeholders. This definition of marketing ethics recognizes that ethical decisions occur in a complex social network within a marketing organization. Marketers are often asked by upper-level management to help make the numbers by reaching almost impossible sales targets. In fact, most marketing misconduct is done to help the organization. Being a team player and bending the rules to make targets may result in a promotion. On the other hand, it has destroyed the careers of some of those willing to do anything that they are asked to do.

Evidence shows that ignoring ethical issues can destroy stakeholder trust and prompt government intervention. When firms engage in activities that deviate from accepted principles to further their own interests, continued marketing exchanges become difficult, if not impossible. The best way to deal with such problems is during the strategic planning process, not after major problems materialize. For example, Google was forced to pay $500 million to settle allegations that it had knowingly displayed illegal advertisements from Canadian pharmacies. The Justice Department alluded to emails involving Google employees that suggested they had helped pharmacies avoid controls Google had in place to prevent such misconduct. The Justice Department claimed that the prescription drugs being advertised could be unsafe for consumers, which led to the harsh penalty levied against Google.[8]

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Discussing and addressing potential problems during the strategic planning process could save a company millions in the long term. As a result, more and more companies create extensive ethics and compliance programs to identify problems early on. For instance, Lockheed Martin, a technology aerospace manufacturer and global security company, has a comprehensive ethics program. These programs address the key ethical risks facing marketing. Every firm has unique risks based on the industry and the firm's unique marketing strategy. For example, in the direct selling industry, recruiting and compensating sales representatives requires transparent and truthful communication. Therefore, the self-regulatory Direct Selling Association has developed a code of ethics to deal with this as well as other risk areas.

Ethical and socially responsible behavior requires commitment. Some firms simply ignore these issues and focus instead on satisfying their economic and legal responsibilities, with an eye toward the overall bottom line of profits. Although the firm may do nothing wrong, it misses out on the long-term strategic benefits that can be derived from satisfying ethical and philanthropic responsibilities. Firms that choose to take these extra steps concern themselves with increasing their overall positive impact on society, their local communities, and the environment, with the bottom line of increased goodwill toward the firm, as well as increased profits. The focus on ethical and philanthropic dimensions has the potential to build trust and long-term customer loyalty. These should be the goals of every effective marketing program.

Philanthropic Responsibilities At the top of the pyramid are philanthropic responsibilities. These responsibilities, which go beyond marketing ethics, are not required of a company, but they promote human welfare or goodwill above and beyond the economic, legal, and ethical dimensions of social responsibility. Many companies demonstrate philanthropic responsibility, which is evidenced by the more than $15 billion in annual corporate donations and contributions to environmental and social causes.[9] Even small companies participate in philanthropy through donations and volunteer support of local causes and national charities, such as the Red Cross and the United Way. For example, Charlotte Street Computers in Asheville, North Carolina has developed a refurbishing center that refurbishes computers and then donates them to those in need. The small business also sponsors several community events and fundraising for charities.[10]

More companies than ever are adopting a strategic approach to corporate philanthropy. Many firms link their products to a particular social cause on an ongoing or short-term basis, a practice known as *cause-related marketing*. General Mills, for example, uses its Box Tops for Education program to raise money for schools. Consumers can raise money for their children's schools by cutting Box Top coupons found on participating products. Schools can then redeem these coupons for cash. The program has generated approximately $400 million for schools since it was implemented in 1996.[11] Such cause-related programs tend to appeal to consumers because they provide an additional reason to "feel good" about a particular purchase. Marketers like these programs because they often increase sales and create feelings of respect and admiration for the companies involved. Indeed, research suggests that 85 percent of American consumers have a more positive opinion of an organization when it supports causes that they care about.[12]

On the other hand, some companies are beginning to extend the concept of corporate philanthropy beyond financial contributions by adopting a *strategic philanthropy* approach, the synergistic use of organizational core competencies and resources to address key stakeholders' interests and achieve both organizational and social benefits. Strategic philanthropy involves employees, organizational resources and expertise, and

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Philanthropic activities are not only good for society, they can also be useful in promoting the corporation.

the ability to link those assets to the concerns of key stakeholders, including employees, customers, suppliers, and social needs. Strategic philanthropy involves both financial and nonfinancial contributions to stakeholders (employee time, goods and services, company technology and equipment, etc.), while also benefiting the company.[13] For instance, California-based apparel company Patagonia incorporates environmental concerns into its operations. Patagonia uses environmentally friendly materials such as organic cotton or recycled polyester. In addition, the company recycles garments that have reached the end of their life. Patagonia also believes it must be an active participant in preserving the environment. The company donates 1 percent of its sales toward preserving and restoring the environment.[14]

Philanthropic activities make very good marketing tools. Thinking of corporate philanthropy as a marketing tool may seem cynical, but it points out the reality that philanthropy can be very good for a firm. Coca-Cola, for example, has embarked on an initiative to research, test, and develop hygiene intervention and sustainable water solutions at schools in Kenya. As part of the initiative, teachers at the schools will learn how to treat the water supply with chlorine to help prevent illnesses. Coca-Cola's efforts indicate that it is willing to take these stakeholders' concerns seriously to improve the environment and consumer health.[15]

Sustainability

One of the more common ways marketers demonstrate social responsibility is through programs designed to protect and preserve the natural environment. Sustainability includes the assessment and improvement of business strategies, economic sectors, work practices, technologies, and lifestyles—all while maintaining the natural environment. Many companies make contributions to sustainability by adopting more eco-friendly business practices and/or supporting environmental initiatives. For instance, Walmart has taken steps to reduce waste and decrease greenhouse gas emissions in its supply chain. Walmart's example is convincing other large retailers to take similar actions.[16] Another green practice many companies adopt involves building new facilities that adhere to Leadership in Energy and Environmental Design (LEED) standards. These standards provide a framework for incorporating greener building materials and more

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efficient operations into construction.[17] Recreation Equipment, Inc. (REI) has built six facilities that are LEED certified.[18] Because buildings produce 40 percent of greenhouse gas emissions, green building construction can have a significant impact toward sustainability. Such efforts generate positive publicity and often increase sales for the companies involved.

Many products have been certified as "green" by environmental organizations such as Green Seal and carry a special logo identifying their organization as green marketers. Lumber products at Home Depot, for example, may carry a seal from the Forest Stewardship Council to indicate that they were harvested from sustainable forests using environmentally friendly methods.[19] Likewise, most Chiquita bananas are certified through the Rainforest Alliance's Better Banana Project as having been grown with more environmentally and labor-friendly practices.[20] In Europe, companies can voluntarily apply for the EU Ecolabel to indicate that their products are less harmful to the environment than competing products, based on scientifically determined criteria.

The emphasis on sustainability has led many firms to engage in green marketing, a strategic process involving stakeholder assessment to create meaningful long-term relationships with customers, while maintaining, supporting, and enhancing the natural environment. In contrast, some companies choose to engage in a deceptive marketing practice called greenwashing, which involves misleading a consumer into thinking that a good or service is more environmentally friendly than it actually is. This generally takes the form of misleading product labels, which can range from making environmental claims that are required by law and are therefore irrelevant (for example, saying that a product is CFC-free when CFCs have been banned by the government) to puffery (exaggerating environmental claims) to fraud.[21] Firms need to be careful when using words like green, sustainable, or environmentally friendly so as not to mislead consumers and face potential litigation. The federal government has taken a tougher stand on environmental issues, and as greenwashing becomes more prevalent, it is likely that legal action will increase. Since 2000, the FTC has taken legal action against three companies for greenwashing. Since one-third of consumers rely exclusively on labels to decide if a product is environmentally friendly, it is important that labels tell the truth.[22]

Some organizations have developed a certification system to help consumers make informed decisions when buying supposedly green products. For example, the Carbon Trust offers a certification that validates claims about reducing carbon output. However, certification organizations are not always trustworthy either. Some of them charge a fee and do not hold products to rigorous standards. As explained in *Beyond the Pages 8.2*, the best way for consumers to be informed about eco-friendly products is to do their research before going shopping.

Despite the problem of greenwashing, many firms take proactive steps to become more sustainable. General Motors is investigating more sustainable solutions for its vehicles partially to meet the 2025 mandate that vehicles must get 54.5 miles per gallon.[24] Other firms are choosing to experiment with alternative energy solutions as a form of social responsibility. IKEA is using geothermal energy—energy derived from the natural heat inside the Earth—to power some of its stores, while Walmart is experimenting with solar energy.[25] As support for sustainability continues to increase, companies are quickly recognizing that sustainability initiatives are a smart marketing move.

Marketing Ethics and Strategy

Marketing ethics includes the principles and standards that guide the behavior of individuals and groups in making marketing decisions. Marketing strategy must consider stakeholders—including managers, employees, customers, government regulators, suppliers, shareholders, the community, and special-interest groups—all of whom contribute to

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Beyond the Pages 8.2

Finding the Real Green Products[23]

What makes a green product green? This question is actually quite complicated. The growing popularity of eco-friendly products is encouraging businesses to create and sell more green items. However, some businesses cut corners by touting their products as green when they really aren't—a form of misconduct known as greenwashing. Greenwashers make unjustifiable "green" claims about their products to appeal to the eco-friendly consumer. One study determined that as many as 95 percent of products marketed as green were guilty of at least one form of greenwashing. As a result, many consumers claim they don't know how to ensure that a company is really eco-friendly.

One common way that companies engage in greenwashing is by sustainably sourcing one product ingredient while the other ingredients remain unsustainable. This might be akin to a company claiming that its product is green since one of the ingredients is organic cotton, while simultaneously glossing over the fact that the product also consists of nonrecyclable products or chemicals. Unfortunately, the subjective nature of greenwashing makes it harder to detect, as consumers themselves differ on what is green and what is greenwashing. For instance, some consumers feel misled by Cascade Farm's logo of a small idyllic farm when they discover that the brand is actually owned by General Mills. Others are unconcerned as long as the brand's organic claims are true. Being green often requires tradeoffs as well—some of which consumers might find to be unacceptable. Compact fluorescent light bulbs save energy, but they also contain mercury that could harm consumers if they break. The question of how far to go to create a green product can be controversial.

The issue of greenwashing has become so pervasive that it is prompting government intervention. The Federal Trade Commission (FTC) has released green guidelines to define what is acceptable in green advertising. The FTC has also begun cracking down on companies for making false claims. For example, it sent warning letters to 78 retailers including Walmart, Kohl's, and The Gap after they advertised that their rayon products were made from bamboo. However, guidelines do not have the same effect as laws, particularly as individual consumers may have their own views of what constitutes a "green" product. The best way consumers can avoid greenwashing is to investigate green claims for themselves. Such an investigation could include looking for third-party certification of a product's "greenness," paying attention to ingredient lists, and looking for information on trustworthy websites. At the same time, it is important for consumers to realize that all products have some effect on the environment. Rather than looking for a 100 percent green product, consumers could instead look for ways that companies have increased sustainability throughout its operations to decrease its negative environmental impact.

accepted standards and society's expectations. The most basic of these standards have been codified as laws and regulations to encourage companies to conform to society's expectations of business conduct. These laws were usually passed due to societal concerns about misconduct that was damaging to competition or to consumers.

The standards of conduct that determine the ethics of marketing activities require both organizations and individuals to accept responsibility for their actions and to comply with established value systems. Repeated ethical misconduct in a particular business or industry sometimes requires the government to intervene, a situation that can be expensive and inconvenient for businesses and consumers. Early in the twenty-first century, business ethics appeared to be improving after Enron, WorldCom, and the passage of the Sarbanes-Oxley Act in 2002. However, misconduct in the financial and banking sectors, as well as high-profile failures of companies like GM during the 2008–2009 financial crisis, created a dramatic erosion of consumer confidence and trust. Not surprisingly, this sentiment peaked during the height of the financial crisis. Marketing

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deceptions, such as lying or misrepresenting information, increased consumer distrust of some businesses and industries, such as the mortgage industry, and contributed to economic instability during the crisis. Misleading consumers, investors, and other stakeholders not only caused the ruin of established companies like Lehman Brothers and Countrywide Financial, but also led to the arrests of major company officials and the loss of billions of investor's dollars. Without a shared view of appropriate and acceptable business conduct, companies often fail to balance their desires for profits against the wishes and needs of society.

When companies deviate from the prevailing standards of industry and society, the result is customer dissatisfaction, lack of trust, and legal action. The reputation of the firm is one of the most important considerations for consumers. Marketers should be aware of stakeholders and the need to build trust. When marketing activities deviate from accepted standards, the exchange process can break down, resulting in customer dissatisfaction, lack of trust, and lawsuits. A recent study shows that only about 50 percent of U.S. consumers trust businesses today, which can significantly affect the relationship between consumers and business.[26] Trust is an important concern for marketers since it is the foundation for long-term relationships. Consumer lack of trust has increased in recent years due to the financial crisis and deep recession. The questionable conduct of high-profile financial institutions and banks has caused many consumers to critically examine the conduct of all companies. Trust must be built or restored to gain the confidence of customers. Exhibit 8.2 describes the trust Americans have for different institutions. Once trust is lost, it can take a lifetime to rebuild. The way to deal with ethical issues is proactively during the strategic planning process, not after major problems materialize.

Given that so much of a company's success depends on the public's perceptions of the firm, a firm's reputation is one of its greatest internal resources that directly affect the success of the marketing strategy. The value of a positive reputation is difficult to quantify, but it is very important and once lost can be difficult to regain. Consider that 70 percent of the market value of McDonald's is based on intangible assets such as brand

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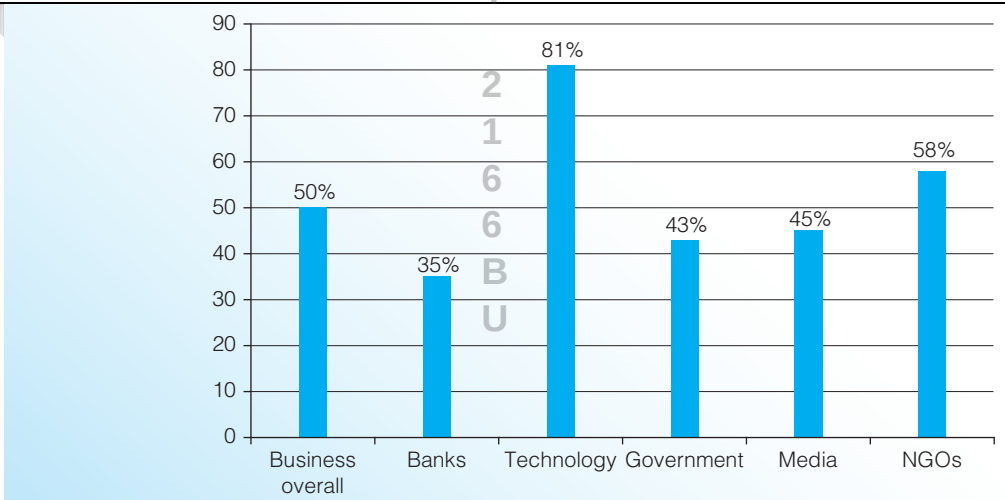
EXHIBIT 8.2 American Trust in Different Institutions



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value and goodwill.[27] A single negative incident can influence perceptions of a firm's image and reputation for years afterward. Corporate reputation, image, and branding are more important than ever and are among the most critical aspects of sustaining relationships with key stakeholders. Although an organization does not control its reputation in a direct sense, its actions, choices, behaviors, and consequences do influence its reputation. For example, BP's reputation based on sustainability and its Beyond Petroleum image was destroyed by the Gulf oil spill disaster.

The Challenges of Being Ethical and Socially Responsible

Although most consider the values of honesty, respect, and trust to be self-evident and universally accepted, business decisions involve complex and detailed discussions in which correctness may not be so apparent. Both employees and managers need experience within their specific industry to understand how to operate in gray areas or to handle close calls in evolving areas, such as Internet privacy. For example, how much personal information should be stored on a firm's website without customers' permission? In Europe, the European Union Directive on Data Protection prohibits selling or renting mailing lists—consumers' data cannot be used without their permission.[28] In the United States, firms have more freedom to decide how to collect and use customers' personal data, but advancing technology raises new questions every day. As businesses continue to push the limits of privacy, the government has begun to crack down on what it sees as privacy infringement. Facebook agreed to undergo independent privacy audits for the next 20 years after the Federal Trade Commission decided that Facebook's 2009 changes to its privacy policies were done without warning users. The FTC felt such changes violated users' rights to know what information was being made public.[29] Issues related to personal privacy, unsolicited e-mail, and misappropriation of copyrighted intellectual property cause ethical problems. Protecting trademarks and brand names becomes more difficult as digital communication and social media expands.

Individuals who have limited business experience often find themselves required to make sudden decisions about product quality, advertising, pricing, bribery, hiring practices, privacy, and pollution control. For example, how do advertisers know when they make misleading statements as opposed to simple puffery or exaggeration? Bayer claims to be "the world's best aspirin"; Hush Puppies are "the earth's most comfortable shoes"; and Firestone (before its famous recall of 6.5 million tires) promised "quality you can trust."[30] The personal values learned through socialization from family, religion, and school may not provide specific guidelines for these complex business decisions. In other words, a person's experiences and decisions at home, in school, and in the community may be quite different from the experiences and the decisions that he or she has to make at work. Moreover, the interests and values of individual employees may differ from those of the company in which they work, from industry standards, and from society in general. When personal values are inconsistent with the configuration of values held by the work group, the potential for ethical misconduct increases. Exhibit 8.3 provides an overview of the most common types of observed misconduct in organizations.

Although Exhibit 8.3 documents many types of issues that exist in organizations, due to the almost infinite number of ways that misconduct can occur, it is impossible to identify every conceivable ethical issue. It is also important to note that most of these potential issues are not clearly obvious to customers. However, any type of manipulation, deceit, or even just the absence of transparency in decision making can potentially create issues that become evident to customers, supply chain partners, or other important stakeholders. With that in mind, we now turn our attention to specific ethical issues in the marketing program.

MARKETPLACE INSIGHT

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EXHIBIT 8.3 Types of Misconduct Observed in Organizations

	2009 (%)	2011 (%)
Misuse of company time	N/A	33
Abusive behavior	22	21
Lying to employees	19	20
Company resource abuse	23	20
Violating company Internet use policies	N/A	16
Discrimination	14	15
Conflicts of interest	16	15
Inappropriate social networking	N/A	14
Health or safety violations	11	13
Lying to outside stakeholders	12	12
Stealing	9	12
Falsifying time reports or hours worked	N/A	12
Employee benefits violations	11	12
Sexual harassment	7	11
Employee privacy breach	10	11

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Ethical Issues in the Marketing Program

An *ethical issue* is an identifiable problem, situation, or opportunity that requires an individual or organization to choose from among several actions that must be evaluated as right or wrong, ethical or unethical. Any time an activity causes marketing managers or customers to feel manipulated or cheated, an ethical issue exists, regardless of the legality of that activity. It is therefore imperative that firms become familiar with many of the ethical issues that can potentially occur in the marketing program so that these issues can be identified and resolved when they occur. Some examples of potential ethical issues in the marketing program appear in Exhibit 8.4. These and other issues can develop into legal problems if they are not addressed in the strategic planning process.

While customers and other stakeholders may think a firm is engaged in unethical conduct, the final decision is usually determined by legal action or a self-regulatory body such as the Better Business Bureau (BBB). The National Advertising Division (NAD), a division of the Better Business Bureau, reviews complaints about unfair advertising and recommends whether the advertising in question should be discontinued. For instance, NAD determined that Verizon's claim that consumers rated its FiOS Internet service number one was misleading. NAD agreed with Comcast that the claims implied that Verizon's competitors were ranked lower than Verizon, which was not the case. Verizon agreed to discontinue these claims.[31]

Regardless of the reasons behind specific ethical issues, marketers must be able to identify those issues and decide how to resolve them. Doing so requires familiarity with the many kinds of ethical issues that may arise in marketing. Research suggests that the greater the consequences associated with an issue, the more likely it will be recognized as an ethics issue and the more important it will be in making an ethical decision.[32] Let's look at several potential ethical issues in more detail.

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EXHIBIT 8.4 Potential Ethical Issues in the Marketing Program

Overall

Misrepresenting the firm's capabilities
Manipulation or misuse of data or information
Exploitation of children or disadvantaged groups
Invasion of privacy
Anticompetitive activities
Abusive behavior
Misuse of firm resources

Product Issues

Misrepresentation of goods or services
Failure to disclose product defects
Counterfeit or gray market products
Misleading warranties
Reducing package contents without reducing package size

Pricing Issues

Price deception
Reference pricing claims
Price discrimination
Predatory pricing
Fraudulent refund policies

Distribution (Supply Chain) Issues

Opportunistic behavior among members of the supply chain
Exclusive distribution arrangements
Slotting fees
Tying contracts
Failure to honor product and promotional support

Promotion Issues

False or misleading advertising or selling
Bait-and-switch advertising
High-pressure sales tactics
Entertainment and gift giving
Stereotypical portrayals of women, minorities, or senior citizens
Failure to honor sales promotion promises

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Product-Related Ethical Issues

Product-related ethical issues generally arise when the firm fails to disclose risks associated with a product or information regarding the function, value, or use of a product. These issues are common in many industries, including automobiles, toys, pharmaceuticals, and

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other industries where safety or design issues come into play. For instance, Johnson & Johnson, a company long known for its high ethical standards, came under fire recently for not adequately disclosing the dangers associated with acetaminophen, the key ingredient in Tylenol. After several consumers overdosed on the drug, Johnson & Johnson was forced to pay damages after a judge determined that the company knew about the product's risks, but did not sufficiently warn consumers about them.[33]

Ethical issues can arise in product design as pressures build to substitute inferior materials or product components to reduce costs. For example, many laptop makers created and sold "Ultrabooks" in an attempt to emulate the astounding success of the MacBook Air. These ultra-light, Windows-based machines use the same type of brushed-metal casing found in the Air. However, in order to drive prices down, Ultrabook makers have turned to less expensive plastic casings, many of which look like brushed metal.[34] If Ultrabook makers do not clearly explain that the change in price is due to a significant change in product design, the switch to less expensive plastic could become an ethical issue. Similarly, ethical issues can arise when the firm fails to inform customers about changes in quality or quantity of product sold. For example, if a cereal maker reduced the amount of cereal in the package without reducing the package size or the price, the company would have a serious ethical issue on its hands.

Another common product-related ethical issue involves counterfeit products. Counterfeit products abound today, particularly in the areas of clothing, audio and video products, and computer software. Any product that can be easily copied is vulnerable to counterfeit activities. Some people argue that only manufacturers become injured when consumers purchase counterfeit products. This is clearly mistaken reasoning. For example, the loss of tax revenues has a huge impact on governments, as they can't collect both direct and indirect taxes on the sale of counterfeit products. Likewise, counterfeits leech profits necessary for ongoing product development away from the firm, as well as thousands of jobs at legitimate companies. Customers also feel the impact of counterfeit products, as their quality almost never lives up to the quality of the original. For example, faced with increasing risks associated with counterfeit drugs, the Food and Drug Administration (FDA) has strongly endorsed the use of RFID to combat the growing problem and to protect American consumers. The FDA is monitoring the use of RFID, but has yet to declare that RFID is acceptable for identifying drugs as they move through the U.S. pharmaceutical supply chain.[35]

Pricing-Related Ethical Issues

Pricing is one of the most heavily watched and regulated of all marketing activities. Given that a difference in price can create such a significant competitive advantage, any effort to artificially give one company an edge over another is subject to legal or regulatory intervention. The emotional and subjective nature of price creates many situations where misunderstandings between the seller and buyer cause ethical problems. Firms have the right to price their products to earn a reasonable profit, but ethical issues may crop up when a company seeks to earn high profits at the expense of its customers. Some pharmaceutical companies, for example, have been accused of price gouging, or pricing products at exorbitant levels, and taking advantage of customers who must purchase the medicine to survive or to maintain their quality of life. Likewise, various forms of bait and switch pricing attempt to gain consumer interest with a low-priced product, and then switch the buyer to a more expensive product or add-on service. While there is an endless potential for ethical violations in pricing strategy, four key issues garner the most attention: price discrimination, price fixing, predatory pricing, and superficial discounting.

Price discrimination occurs when firms charge different prices to different customers. This is fairly common in consumer markets, such as when cable and satellite companies

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offer lower prices to new customers, or when fast-food restaurants offer lower-priced meals for children. Price discrimination is very common in business markets where it typically occurs among different intermediaries in the supply chain. In general, price discrimination is illegal, unless the price differential has a basis in actual cost differences in selling products to one customer relative to another (such as volume discounts and competitive price matching). The overriding question in cases of price discrimination is whether the price differential injures competition. The Robinson-Patman Act and the Clayton Act both regulate discriminatory pricing. The intent of these regulations is to provide a level playing field for all competitors.

Price fixing occurs when rival firms collaborate to set prices. Although such arrangements are illegal under the Sherman Act, price fixing is exceedingly difficult to prove. Usually, one firm in an industry will be a price leader and others will be the price followers. The Justice Department has determined that, while following a competitor's lead in an upward or downward trend is acceptable, there can be no signaling of prices to competitors in this process. Sizable fines and prison terms for those convicted of price fixing are the norm. Consumer-goods manufacturers Henkel, Procter & Gamble, and Colgate Palmolive were fined $484 million by French authorities for allegedly engaging in price fixing on soap products.[36]

Predatory pricing occurs when a firm charges very low prices for a product with the intent of driving competition out of business or out of a specific market. Prices then return to normal once the competitors have been eliminated. Predatory pricing is illegal; however, like price fixing, it is extremely difficult to prove in court. The challenge in predatory pricing cases is to prove that the predatory firm had the willful intent to ruin the competition. The court must also be convinced that the low price charged by the predator is below their average variable cost. The variable cost definition of predatory pricing is a major reason why very few lawsuits for predatory pricing are successful. The reality is that large firms with lean, efficient cost structures dominate today's competitive landscape. These firms have lower variable costs that allow them to legitimately charge lower prices than the competition in many cases. This is the reason that large retailers such as Walmart, Home Depot, Lowe's, and Barnes and Noble have slowly and methodically put smaller retailers out of business. These large firms are not necessarily guilty of predatory pricing—they are only guilty of being more efficient and competitive than other firms.

Superficial discounting occurs when a firm advertises a sale price as a reduction below the normal price when it is not the case. Typically, the firm does not sell the product at the regular price in any meaningful quantities, or the sale price period is excessively long. This pricing tactic is clearly an ethical issue because most customers are not aware that they are being intentionally misled. Most of the legal activity regarding superficial discounting has taken place at the state attorney general level. To avoid legal action, a firm should offer a product at the original price, discount the price in a specified dollar amount for a specified period, and then revert to the original price at the end of that period. If the product is a discontinued item, that fact should be noted in the advertisement.

Supply Chain-Related Ethical Issues

Managing ethical issues in distribution and supply chain strategy is one of the greatest difficulties in marketing today. The reasons deal with the complexity of most supply chains and the fact that supply chains today are global. For instance, the chocolate industry has been criticized for sourcing from suppliers that use child labor on cocoa plantations. Hershey pledged that it would improve its supply chain practices and invest

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$10 million in its West African suppliers after the International Labor Rights Forum threatened to publicize the child labor used at some of the company's cocoa suppliers.[37] Supply chain issues can occur in any industry. Even Apple, the top brand in terms of both value and reputation, has experienced instances of forced overtime, underage workers, explosions, and improperly disposed waste in its supplier's factories. Although Apple has a Supplier Code of Conduct, problems at its supplier factories have continued.[38]

The issues that Hershey and Apple have faced highlight the numerous risks that occur in global supply chains. Although companies often create a Supplier Code of Conduct, they are required to conduct regular audits to ensure that factories are following compliance standards—which in turn can incur significant costs to companies in both time and finances. Countries with lax labor laws, such as China and Russia, require even more diligent monitoring. Often suppliers hire sub-contractors to do some of the work, which increases a company's network of suppliers and the costs of trying to monitor all of them. Finally, company compliance requirements may conflict with the mission of the procurement office. Because it is the procurement division's job to procure resources at the lowest price possible, the division may very well opt to source from less expensive suppliers with questionable ethical practices rather than from more expensive ethical suppliers. Nike faced this problem during the 1990s when it was highly criticized for worker abuses in its supplier factories.[39]

Managing supply chain ethics is important because many stakeholders hold the firm responsible for all ethical conduct related to product availability. This requires the company to exercise oversight over all of the suppliers used in producing a product. Developing good supply chain ethics is important because it ensures the integrity of the product and the firm's operations in serving customers. For instance, leading healthcare supply company Novation has been recognized for its strong corporate governance and reporting mechanisms in its supply chain. To encourage its suppliers to report misconduct, the company has instituted a vendor grievance and feedback system. This system allows vendors to report potential problems before they reach the next level of the supply chain, which reduces the damage such problems will cause if the products continue down the supply chain unchecked.[40]

Fortunately, organizations have developed solutions to promote ethical sourcing practices. First, it is essential for all companies who work with global suppliers to adopt a Global Supplier Code of Conduct and ensure that it is effectively communicated to its suppliers. Additionally, companies should encourage compliance and procurement employees to work together to find ethical suppliers at reasonable costs. Marketers must also work to make certain that their company's supply chains are diverse. This can be difficult because sometimes the best product manufacturers are located in a single country. Although it is expensive to diversify a company's supply chain, disasters can incapacitate a firm.[41] Companies such as Jabil Circuit and Goodyear Tire & Rubber found their supply chains at risk due to the Japanese tsunami and severe flooding in Thailand during 2011.[42] Finally, and perhaps most importantly, companies must perform regular audits on their suppliers and, if necessary, discipline those found to be in violation of company standards.

Promotion-Related Ethical Issues

Marketing practices that are false or misleading can destroy customers' trust in an organization. The Federal Trade Commission monitors businesses for deceptive practices and takes disciplinary action when needed. It fined Reebok $25 million for making unsubstantiated claims that its toning sneakers strengthen muscles and lead to a toned body.[43] The FTC also joined with the FDA in sending warning letters to companies marketing the weight-loss properties of human chorionic gonadotropin (HCG) drugs.

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Although the HCG hormone has certain medicinal properties, weight-loss has not been proven as one of them. The FTC sees such claims as deceptive marketing.[44] No matter how vigilant, it is difficult for the FTC to catch all forms of deceptive marketing, particularly in the area of promotion.

Ethical issues also arise when firms use ambiguous statements, in which claims are so weak that the viewer, reader, or listener must infer the advertiser's intended message. Because it is inherently vague, using ambiguous wording allows the firm to deny any intent to deceive. The verb "help" is a good example (as in expressions such as "helps prevent," "helps fight," or "helps make you feel"). Consumers may view such advertisements as unethical because they fail to communicate all the information needed to make a good purchasing decision or because they deceive the consumer outright. In another example, the FTC and other agencies now monitor more closely the promotions for work-at-home business ventures. Consumers lose millions of dollars each year responding to ads for phony business opportunities such as those promising $50,000 a year for doing medical billing from a home computer.

Personal selling provides many opportunities for ethical misconduct. *Bribery* occurs when an incentive (usually money or expensive gifts) is offered in exchange for an illicit advantage. Even a bribe that is offered to benefit the organization is usually considered unethical. Because it jeopardizes trust and fairness, it hurts the organization in the long run. As a result, laws have been passed to prevent bribery. The U.S. Foreign Corrupt Practices Act (FCPA) prohibits American companies from making illicit payments to foreign officials in order to obtain or keep business. Under the U.K. Bribery Act, companies can be found guilty of bribery even if the bribery did not take place within the U.K., and company officials without explicit knowledge about the misconduct can still be held accountable. The law applies to any business with operations in the U.K.[45] The U.K. Bribery Act has convinced many multinational organizations to update their ethical codes of conduct to avoid ambiguity in this area.

Fraudulent activity has dramatically increased in the area of direct marketing, in which companies use the telephone and non-personal media to communicate information to customers, who then purchase products via mail, telephone, or the Internet. Each year consumers report billions of dollars in losses resulting from fraud, many of them from direct-marketing scams. About 19 percent are associated with identity theft and 11 percent are associated with third-party and creditor debt collection. Other common types of marketing fraud include those involving prizes, sweepstakes, and lotteries; Internet auctions; credit cards; and shop-at-home and catalog sales.[46]

Managing and Controlling Ethical Issues

Given the conflicting priorities among concerned stakeholders and the nature of most marketing decisions, even the best-designed marketing programs will eventually encounter ethical issues. Since ethical issues can never be completely eliminated, most enlightened firms instead take steps to manage and control ethical issues before they arise. In this section, we look at a number of ways that firms can go about this process.

Regulating Marketing Ethics

Many firms attempt to regulate themselves in an effort to demonstrate ethical responsibility and prevent regulation by federal or state governments. In addition to complying with all relevant laws and regulations, many firms choose to join trade associations that have self-regulatory programs. Although such programs are not a direct outgrowth of laws, many became established to stop or delay the development of laws and regulations that would restrict the associations' business practices. Some trade associations establish

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The Better Business Bureau is the best known self-regulatory association in the U.S. and Canada.

codes of conduct by which their members must abide or risk rebuke or expulsion from the association.

Perhaps the best-known self-regulatory association is the Better Business Bureau. The BBB's 116 local bureaus across the United States and Canada oversee three million businesses and charities, and help resolve problems for millions of consumers each year.[47] Each bureau works to champion good business practices within a community although it usually does not have strong tools for enforcing its rules of business conduct. When a firm violates what the BBB believes to be good business practices, the bureau warns consumers through local newspapers or broadcast media. If the offending organization is a member of the BBB, it may be expelled from the local bureau. The BBB also has a website (www.bbb.org) to help consumers identify businesses that operate in an ethical manner. BBB members who use the site agree to binding arbitration with regard to online privacy issues.

Self-regulatory programs like the BBB have a number of advantages over government regulation. Establishment and implementation of such programs are usually less costly, and their guidelines or codes of conduct are generally more practical and realistic. Furthermore, effective self-regulatory programs reduce the need to expand government bureaucracy. However, self-regulation also has several limitations. Non-member firms are under no obligation to abide by a trade association's industry guidelines or codes. Moreover, most associations lack the tools or authority to enforce their guidelines. Finally, these guidelines are often less strict than the regulations established by government agencies. Still, in many cases, government oversight is essential to ensure the public's trust. *Beyond the Pages 8.3*, for example, discusses how the U.S. government is trying to maintain trust in the banking systems in light of the most recent ethical and legal lapses in the financial sector.

Codes of Conduct

To meet the public's escalating demands for ethical marketing, firms need to develop plans and structures for addressing ethical considerations. Although there are no universal standards that can be applied to organizational ethics programs, most companies develop codes, values, or policies to guide business behavior. It would be very naïve to think that simply having a code of ethics would solve any ethical dilemmas a firm might face. In fact, the majority of firms that experience ethical or legal problems usually have stated ethics codes and programs. Often, the problem is that top management, as

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Beyond the Pages 8.3

The Consumer Financial Protection Bureau Aims to Build Trust in the Banking System[48]

Financial products are often complex instruments that can be difficult to understand, not only for consumers but for businesses as well. This inability to understand the risks of financial products and lending practices contributed to the 2008–2009 financial meltdown, the massive government bailouts of companies to save them from bankruptcy, and the subsequent recession. To try to prevent similar problems in the future, the United States government has formed the Consumer Financial Protection Bureau (CFPB).

The CFPB became a reality as a component of the Dodd-Frank Act signed into law in July 2010. Established by Harvard Law Professor Elizabeth Warren, the bureau is designed to mimic the independent Consumer Product Safety Commission, which aims to keep unsafe consumer products out of the hands of individuals. Instead of consumer products, however, the CFPB's authority involves financial products and services. The CFPB has rule making authority and supervisory power over the credit market. Its goal is to make financial products and services easy to understand in terms of costs, risks, and product/service comparisons. It also aims to curtail unfair lending and credit card practices, to check the safety of financial products before they are launched into the market, and to require changes to those financial products deemed to be too risky. According to Warren, the CFPB will work proactively to supervise lenders by regularly checking their books and working together with both federal and state attorney generals and the American people. When necessary, the CFPB will step in to enforce new rules on those not complying.

Although the CFPB sounds like a good idea, critics point out potential problems. Banks are worried that the CFPB might increase costs and inhibit their decision-making authority to serve the market effectively. Critics believe the CFPB will create burdensome regulations, such as capping the interest rates that financial institutions can apply. This could harm borrowers because riskier applicants could be denied loans if rates are capped. Some have criticized Elizabeth Warren for what they perceive as her harsh views toward banks.

The standoff became so great that President Obama placed former attorney general Richard Cordray as the new head of the CFPB. However, the move has done little to appease critics. Some have proposed appointing a board of directors over the agency rather than a single person to keep any one person from gaining too much power. Until the conflict is settled and a director is approved, the powers of the CFPB to enact widespread change in the financial sector might be limited.

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well as the overall corporate culture, has not integrated these codes, values, and standards into daily operations.

Without ethics training and uniform standards and policies regarding conduct, it is hard for employees to determine what conduct is acceptable within the company. In the absence of such programs and standards, employees will generally make decisions based on their observations of how coworkers and superiors behave.[49] To improve ethics, many organizations have developed codes of conduct (also called *codes of ethics*) that consist of formalized rules and standards that describe what the company expects of its employees. Most large corporations have formal codes of conduct, but codes are not effective unless they are properly implemented. In addition, codes must be periodically revised to identify and eliminate weaknesses in the company's ethical standards and policies.

Most codes address specific ethical risk areas in marketing. For instance, IBM's code of conduct has a bribery policy that prohibits accepting gifts of nominal value if the gift in any way influences IBM's business relationship with the giver. However, employees are allowed to accept promotional premiums or gifts of nominal value if based upon bonus programs (such as with hotels and airlines) or if the gift is routinely offered to all other parties with similar relationships to the gift giver.[50] Codes like IBM's promote ethical

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EXHIBIT 8.5 Key Considerations in Developing and Implementing a Code of Ethical Conduct

1. Examine high-risk areas and issues.
2. State values and conduct necessary to comply with laws and regulations. Values are an important buffer in preventing serious misconduct.
3. Identify values that specifically address current ethical issues.
4. Consider values that link the organization to a stakeholder orientation. Attempt to find overlaps among organizational and stakeholder values.
5. Make the code of conduct understandable by providing examples that reflect values.
6. Communicate the code frequently and in language that employees can understand.
7. Revise the code every year with input from a wide variety of internal and external stakeholders.

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behavior by reducing opportunities for unethical behavior; however, codes of conduct do not have to be so detailed that they take every situation into account. Instead, the code should provide guidelines that enable employees to achieve organizational objectives in an ethical manner. The American Marketing Association Code of Ethics, for example, does not cover every possible ethical issue, but it provides a useful overview of what marketers believe are sound principles for guiding marketing activities.[51] This code serves as a helpful model for structuring an organization's code of conduct. Exhibit 8.5 lists the key considerations in developing and implementing a code of ethical conduct.

Research has found that corporate codes of ethics often have five to seven core values or principles in addition to more detailed descriptions and examples of appropriate conduct. Six core values are considered to be highly desirable in any code of ethical conduct: (1) trustworthiness, (2) respect, (3) responsibility, (4) fairness, (5) caring, and (6) citizenship.[52] These values will not be effective without distribution, training, and the support of top management in making them a part of the corporate culture and the ethical climate. Employees need specific examples of how these values can be implemented.

Codes of conduct will not resolve every ethical issue encountered in daily operations, but they help employees and managers deal with ethical dilemmas by prescribing or limiting specific activities. Many firms have a code of ethics, but sometimes they do not communicate their code effectively. A code placed on a website or in a training manual is useless if the company doesn't reinforce it on a daily basis. By communicating both the expectations of proper behavior to employees, as well as punishments they face if they violate the rules, codes of conduct curtail opportunities for unethical behavior and thereby improve ethical decision-making.

Ethical Leadership

There is increasing support that ethical cultures emerge from strong leadership. Many agree that the character and success of the most admired companies emanates from their leaders. The reason is simple: Employees look to the leader as a model of acceptable behavior. As a result, if a firm is to maintain ethical behavior, top management must model its policies and standards. In fact, maintaining an ethical culture is near impossible if top management does not support ethical behavior. For example, in an effort to keep earnings high and boost stock prices, many firms have engaged in falsifying revenue

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reports, sometimes involving the marketing area to overstate sales in a specific quarter. Channel stuffing involves shipping surplus inventory to wholesalers and retailers at an excessive rate, typically before the end of a quarter. The practice may conceal declining demand for a product or inflate financial statement earnings, which misleads investors.[53] Top executives in these firms may encourage the behavior because they hold stock options and can receive bonus packages tied to the company's performance. Thus, higher reported revenues mean larger executive payoffs. Marketing is often seen as the most flexible area to influence sales and earnings.

In the realm of marketing ethics, great leaders (1) create a common goal or vision for the company; (2) obtain buy-in, or support, from significant partners; (3) motivate others to be ethical; (4) use the resources that are available to them; and (5) enjoy their jobs and approach them with an almost contagious tenacity, passion, and commitment.[54] Along with strong ethical leadership, a strong corporate culture in support of ethical behavior can also play a key role in guiding employee behavior. Ninety-four percent of respondents to a survey conducted by business consulting firm LRN said it was very important for them to work for an ethical company, with 82 percent saying they would prefer to be paid less if it meant working in an ethical corporate environment.[55] Additionally, another survey revealed that the most common reason employees give for leaving a company is loss of trust, followed by lack of transparency.[56] Organizational culture, coworkers and supervisors, and the opportunity to engage in unethical behavior influence ethical decision-making. Ethics training can affect all three types of influence. Full awareness of the philosophy of management, rules, and procedures can strengthen both the organizational culture and the ethical stance of peers and supervisors. Such awareness also arms employees against opportunities for unethical behavior and lessens the likelihood of misconduct. If adequately and thoughtfully designed, ethics training can ensure that everyone in the firm (1) recognizes situations that might involve ethical decision-making, (2) understands the values and culture of the firm, and (3) can evaluate the impact of ethical decisions on the firm in the light of its value structure.[57]

Relationship to Marketing and Financial Performance

One of the most powerful arguments for including ethics and social responsibility in the strategic planning process is the evidence of a link between ethics, social responsibility, and financial performance.[58] An ethical climate calls for organizational members to incorporate the interests of all stakeholders, including customers, in their decisions and actions. Hence, employees working in an ethical climate will make an extra effort to better understand the demands and concerns of customers. One study found that ethical climate is associated with employee commitment to quality and intra-firm trust.[59] Employee commitment to the firm, customer loyalty, and profitability have also been linked to increased social responsibility. These findings emphasize the role of an ethical climate in building a strong competitive position. For example, Burgerville, a regional fast food chain from Washington State, realized significant cost savings, decreased employee turnover, and higher sales after it began to cover 90 percent of healthcare costs for all employees who work over 20 hours per week. Burgerville has found that, while initial costs can be high, being ethical and taking care of its workers does pay off in the end.[60]

As employees perceive an improvement in the ethical climate of their firm, their commitment to the achievement of high-quality standards also increases. They become more

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willing to personally support the quality initiatives of the firm. These employees often discuss quality-related issues with others both inside and outside of the firm, and gain a sense of personal accomplishment from providing quality goods and services. These employees exhibit effort beyond both expectations and requirements in order to supply quality products in their particular job or area of responsibility. Conversely, employees who work in less ethical climates have less commitment to providing such quality. These employees tend to work only for the pay, take longer breaks, and are anxious to leave work every day.

Stakeholder Orientation

A natural progress from a market orientation is to view all stakeholders as important. The degree to which a firm understands and addresses stakeholder demands can be referred to as a stakeholder orientation. This orientation contains three sets of activities: (1) the organization-wide generation of data about stakeholder groups and assessment of the firm's effects on these groups, (2) the distribution of this information throughout the firm, and (3) the organization's responsiveness as a whole to this intelligence.[61] This is very similar to the step involved in a market orientation, but the firm becomes more concerned about all stakeholders, including employees, suppliers, shareholders, regulators, and the community.

Generating data about stakeholders begins with identifying the stakeholders who are relevant to the firm. Relevant stakeholder communities should be analyzed on the basis of the power that each enjoys as well as by the ties between them. Next, the firm should characterize the concerns about the business's conduct that each relevant stakeholder group shares. This information can be derived from formal research, including surveys, focus groups, Internet searches, or press reviews. The responsiveness of the organization to stakeholder intelligence consists of the initiatives that the firm adopts to ensure that it abides by or exceeds stakeholder expectations and has a positive impact on stakeholder issues. Such activities are likely to be specific to a particular stakeholder group (for example, family-friendly work schedules) or to a particular stakeholder issue (for example, pollution-reduction programs). These processes typically involve the participation of the concerned stakeholder groups. Kraft, for example, includes special-interest groups and university representatives in its programs to become sensitized to present and future ethical issues.

A stakeholder orientation can be viewed as a continuum in that firms are likely to adopt the concept to varying degrees. To gauge a given firm's stakeholder orientation, it is necessary to evaluate the extent to which the firm adopts behaviors that typify both the generation and dissemination of stakeholder intelligence and responsiveness to it. A given organization may generate and disseminate more intelligence about certain stakeholder communities than about others and, as a result, may respond to that intelligence differently.

Marketing Financial Performance

A climate of ethics and social responsibility also creates a large measure of trust among a firm's stakeholders and enhances the reputation of the firm in a positive direction. The most important contributing factor to gaining trust is the perception that the firm and its employees will not sacrifice their standards of integrity.[62] In an ethical work climate, employees can reasonably expect to be treated with respect and consideration by their coworkers and superiors. Furthermore, trusting relationships with key external stakeholders can contribute to greater efficiencies and productivity in the supply chain, as well as a stronger sense of loyalty among the firm's customers. Customers want to

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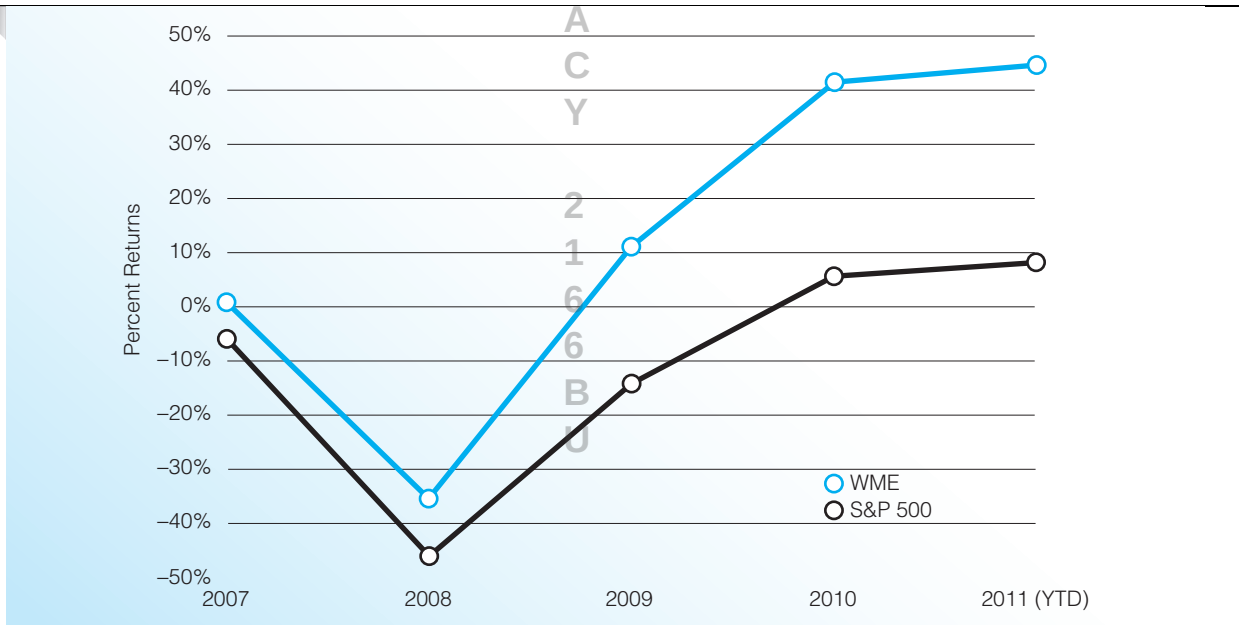
develop relationships with firms that provide quality products and engage in socially responsible conduct.[63]

Research indicates a strong association between social responsibility and customer loyalty in that customers are likely to keep buying from firms perceived as doing the right thing. Research by the brand and marketing agency BBMG revealed that about three out of four Americans prefer to buy goods and services from firms that are socially responsible and good corporate citizens.[64] Further, a direct association exists between corporate social responsibility and customer satisfaction, profits, and market value.[65] In a survey of consumers, 80 percent indicated that when quality and price are similar among competitors, they would be more likely to buy from the company associated with a particular cause. Young adults aged 18 to 25 are especially likely to take a company's citizenship efforts into account when making not only purchasing but also employment and investment decisions.[66] One explanation for these observations may be that good-citizen firms are responsive to customers' concerns and have a sense of dedication to treating them fairly. By gauging customer satisfaction, continuously improving the quality and safety of products, and by making customer information easily accessible and understandable, ethical and socially responsible firms are more likely to serve customers' needs satisfactorily.

Recognition is growing that the long-term value of conducting business in an ethical and socially responsible manner far outweighs short-term costs.[67] To demonstrate the financial benefits of ethical companies, the Ethisphere Institute compared the stock prices of the World's Most Ethical (WME) companies with companies listed on Standard & Poor's (S&P) 500 index. As Exhibit 8.6 reveals, the stock returns of WME companies surpasses those of the S&P 500.

EXHIBIT 8.6 ***Ethisphere*'s 2011 World's Most Ethical Companies versus S&P 500**



Source: "2011 World's Most Ethical Companies," *Ethisphere*, (http://ethisphere.com/past-wme-honorees/wme2011), accessed May 29, 2012.

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Incorporating Ethics and Social Responsibility into Strategic Planning

Companies that fail to incorporate ethics and social responsibility into their organizational culture may pay the price with poor marketing performance and the potential costs of legal violations, civil litigation, and damaging publicity when questionable activities are made public. Because marketing ethics and social responsibility are not always viewed as organizational performance issues, many managers do not believe they need to consider them in the strategic planning process. Individuals also have different ideas as to what is ethical or unethical, leading them to confuse the need for workplace ethics and the right to maintain their own personal values and ethics. Although the concepts are undoubtedly controversial, it is possible—and desirable—to incorporate ethics and social responsibility into the planning process.

Many firms integrate ethics and social responsibility into their strategic planning through ethics compliance programs or integrity initiatives that make legal compliance, ethics, and social responsibility an organization-wide effort. Such programs establish, communicate, and monitor a firm's ethical values and legal requirements through codes of conduct, ethics offices, training programs, and audits. One of the best examples of this process in action occurs at Texas Instruments (TI). As a large multinational firm, TI manufactures computers, calculators, and other high-technology products. Its code of ethics resembles that of many other organizations. The code addresses issues related to policies and procedures; government laws and regulations; relationships with customers, suppliers, and competitors; the acceptance of gifts, travel, and entertainment; political contributions; expense reporting; business payments; conflicts of interest; investment in TI stock; handling of proprietary information and trade secrets; use of TI employees and assets to perform personal work; relationships with government officials and agencies; and the enforcement of the code. TI's code emphasizes that ethical behavior is critical to maintaining long-term success and that each individual is responsible for upholding the integrity of the company. TI's values and ethics statement puts it this way:[68]

> *Our reputation at TI depends upon all of the decisions we make and all the actions we take each day. Our values define how we will evaluate our decisions and actions … and how we will conduct our business. We are working in a difficult and demanding, ever-changing business environment. Together we are building a work environment on the foundation of Integrity, Innovation and Commitment. Together we are moving our company into a new century…one good decision at a time. Our high standards have rewarded us with an enviable reputation in today's marketplace…a reputation of integrity, honesty and trustworthiness. That strong ethical reputation is a vital asset… and each of us shares a personal responsibility to protect, to preserve and to enhance it. Our reputation is a strong but silent partner in all business relationships.*
>
> *Integrity is the foundation on which TI is built. There is no other characteristic more essential to a TIer's makeup. It has to be present at all levels. Integrity is expected of managers and individuals when they make commitments. They are expected to stand by their commitments to the best of their ability.*

For maximum effectiveness, the marketing plan should include distinct elements of ethics and social responsibility. Marketing strategy and implementation plans should be developed that reflect an understanding of (1) the risks associated with ethical and legal misconduct, (2) the ethical and social consequences of strategic choices, and (3) the values of organizational members and stakeholders. To help ensure success, top managers must demonstrate their commitment to ethical and socially responsible behavior

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through their actions—words are simply not enough. In the end, a marketing plan that ignores social responsibility or is silent about ethical requirements leaves the guidance of ethical and socially responsible behavior to the work group, which risks ethical breakdowns and damage to the firm.

Lessons from Chapter 8

Marketing ethics and social responsibility:

- have grown in importance over the last few years because many firms have seen their image, reputation, and marketing efforts destroyed by problems in these areas.
- have become necessities in light of stakeholder demands and changes in federal law.
- improve marketing performance and profits.
- are important considerations in the development of marketing strategy.

Social responsibility:

- is a broad concept that relates to an organization's obligation to maximize its positive impact on society while minimizing its negative impact.
- includes the economic responsibility of making a profit to serve shareholders, employees, and the community at large.
- includes the legal responsibility of obeying all laws and regulations.
- includes the ethical responsibility to uphold principles and standards that define acceptable conduct as determined by the public, government regulators, private-interest groups, competitors, and the firm itself.
- includes the philanthropic responsibility to increase the firm's overall positive impact on society, the local community, and the environment.
- includes activities related to sustainability, or programs designed to protect and preserve the natural environment.
- as it relates to sustainability includes green marketing activities and avoiding the deceptive practice of greenwashing.

Marketing ethics:

- includes the principles and standards that guide the behavior of individuals and groups in making marketing decisions.
- requires that both organizations and individuals accept responsibility for their actions and comply with established value systems.
- can lead to violations of public trust when ethical standards are not upheld.
- involves complex and detailed decisions in which correctness may not be so clear cut.
- deals with experiences and decisions made at work, which may be quite different from the ethical decisions made away from work.
- comes into play any time that an activity causes managers, employees, or customers in a target market to feel manipulated or cheated.

Ethical issues in the marketing program:

- include identifiable problems, situations, or opportunities that require an individual or organization to choose from among several actions that must be evaluated as right or wrong.
- come into play any time that an activity causes managers, employees, or customers in a target market to feel manipulated or cheated.
- have the potential to become legal issues if they are not addressed in the strategic planning process.
- include product-related issues such as failure to disclose risks associated with a product, substituting inferior materials or components to reduce costs, and counterfeit products.
- include pricing-related issues such as price gouging, bait-and-switch tactics, price discrimination, price fixing, predatory pricing, and superficial discounting.
- include supply chain-related issues such as sourcing from suppliers who engage in unfair labor practices, sourcing components that damage the natural environment, lack of diversity in the supply chain, and the need to conduct regular supply chain audits.
- include promotion-related issues such as communication that deceives, manipulates, or conceals facts in order to create a false impression; exaggerated claims or statements about a product or firm that cannot be substantiated; ambiguous statements in which claims are so weak that the viewer, reader, or listener must infer the advertiser's intended message; product-labeling issues such as false or misleading claims on a product's package; and selling abuses such as intentionally misleading customers by concealing facts or bribery.

Managing and controlling ethical issues:

- is best done via self-regulatory mechanisms, such as the Better Business Bureau or an industry association, rather than waiting for government regulation to control marketing activities.

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- can be handled by establishing a code of conduct (i.e., code of ethics), but only if the code becomes integrated into daily decision making.
- depends to a great extent on the ethical leadership exhibited by top management. Great ethical leaders:
  - create a common goal or vision for the company
  - obtain buy-in, or support, from significant partners
  - motivate others to be ethical
  - use the resources that are available to them; and
  - enjoy their jobs and approach them with an almost contagious tenacity, passion, and commitment.

A code of conduct (code of ethics):

- is not truly effective unless it has the full support of top management.
- should have six core values: (1) trustworthiness, (2) respect, (3) responsibility, fairness, (5) caring, and (6) citizenship.
- will not resolve every ethical issue encountered in daily operations, but it can help employees and managers deal with ethical dilemmas by prescribing or limiting specific activities.

The connection between ethics/social responsibility and marketing performance:

- can cause employees to become more motivated to serve customers, more committed to the firm, more committed to standards of high quality, and more satisfied with their jobs.
- can cause customers to become more loyal to the firm and increase their purchases from the firm.
- can lead to increased trust among the firm's stakeholders. The most important contributing factor to gaining trust is the perception that the firm and its employees will not sacrifice their standards of integrity.

Stakeholder orientation:

- refers to the degree to which a firm understands and addresses stakeholder demands.
- is composed of three sets of activities: (1) the organization-wide generation of data about stakeholder groups and assessment of the firm's effects on these groups, (2) the distribution of this information throughout the firm, and (3) the organization's responsiveness as a whole to this intelligence.
- consists of the initiatives that the firm adopts to ensure that it abides by or exceeds stakeholder expectations and has a positive impact on stakeholder issues.

The connection between ethics/social responsibility and strategic planning:

- is so strong that firms that fail to incorporate ethics and social responsibility into their organizational cultures may pay the price with poor marketing performance and the potential costs of legal violations, civil litigation, and damaging publicity when questionable events are made public.
- is typically done through ethics compliance programs or integrity initiatives that make legal compliance, ethics, and social responsibility an organization-wide effort.
- should be vested in the marketing plan, which should include distinct elements of ethics and social responsibility.
- is based on an understanding of (1) the risks associated with ethical and legal misconduct, (2) the ethical and social consequences of strategic choices, and (3) the values of organizational members and stakeholders.

Questions for Discussion

1. Why is marketing ethics a strategic consideration in organizational decisions? Who is most important in managing marketing ethics: the individual or the firm's leadership? Explain your answer.
2. Why have we seen more evidence of widespread ethical marketing dilemmas within firms today? Is it necessary to gain the cooperation of marketing managers to overstate revenue and earnings in a corporation?
3. What is the relationship between marketing ethics and organizational performance? What are the elements of a strong ethical compliance program to support responsible marketing and a successful marketing strategy?

Exercises

1. Visit the Federal Trade Commission website (www.ftc.gov). What is the FTC's current mission? What are the primary areas for which the FTC has responsibility? Review the last two months of press releases from the FTC. Based on these releases, what appear to be the major marketing ethical issues of concern at this time?
2. Visit the Better Business Bureau website (www.bbb.org). Review the criteria for the BBB Marketplace Torch Awards. What are the most important

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marketing activities necessary for a firm to receive this award?

3. Look at several print, broadcast, online, or outdoor advertisements and try to find an ad that you believe is questionable from an ethical perspective. Defend why you believe the ad is ethically questionable.

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CHAPTER 9

Marketing Implementation and Control

Introduction

Throughout the history of business, many firms and their top executives have emphasized strategic planning at the expense of strategic implementation. Historically, and even today, this emphasis on planning occurs because many executives believe that strategic planning, by itself, is the key to marketing success. This belief is logical because a firm must have a plan before it can determine where it is going. Although many firms are quite good at devising strategic marketing plans, they are often unprepared to cope with the realities of implementation.

Marketing implementation is the process of executing the marketing strategy by creating and performing specific actions that will ensure the achievement of the firm's marketing objectives. Strategic planning without effective implementation can produce unintended consequences that result in customer dissatisfaction and feelings of frustration within the firm. Likewise, poor implementation will most likely result in the firm's failure to reach its organizational and marketing objectives. Unfortunately, many firms repeatedly experience failures in marketing implementation. Out-of-stock items, overly aggressive salespeople, long checkout lines, malfunctioning websites, and unfriendly or inattentive employees are examples of implementation failure that occur all too frequently today. These and other examples illustrate that even the best-planned marketing strategies are a waste of time without effective implementation to ensure their success.

To track the implementation process, firms must have ways of evaluating and controlling marketing activities, as well as monitoring performance to determine whether marketing goals and objectives have been achieved. As illustrated in *Beyond the Pages 9.1*, implementation, evaluation, and control go hand-in-hand in determining the success or failure of the marketing strategy, and ultimately the entire firm. One of the most important considerations in implementing and controlling marketing activities involves gaining the support of employees. Because a marketing strategy cannot implement itself, all firms depend on employees to carry out marketing activities. As a result, the firm must devise a plan for implementation, just as it devises a plan for marketing strategy.

In this chapter, we examine the critical role of marketing implementation and control in the strategic planning process. First, we discuss a number of important

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Beyond the Pages 9.1

Green Mountain Coffee Gets It Done[1]

Green Mountain Coffee Roasters, Inc. is a leader in the specialty coffee industry. The company from Waterbury, VT uses a coordinated multi-channel distribution network that is designed to maximize brand recognition and product availability. Green Mountain roasts high-quality Arabica beans and offers over 100 coffee selections including single-origins, estates, certified organics, Fair Trade Certified™, proprietary blends, and flavored coffees sold under the Green Mountain Coffee Roasters® and Newman's Own® Organics brands. Its products come in a variety of packages including whole bean, fractional packages, premium one-cup coffee pods, Vue Packs, and Keurig® K-Cup® single-serving coffee cartridges. Green Mountain also sells other products including iced coffee, teas, cider, and hot chocolate. The company operates an active e-commerce business at www.GreenMountainCoffee.com.

Most of Green Mountain's revenue is derived from over 8,000 wholesale customer accounts including supermarkets, specialty food stores, convenience stores, food service companies, hotels, restaurants, universities, and office coffee services. One of the company's signature accounts is McDonald's, which sells Green Mountain's organic coffee under the Newman's Own® label. Green Mountain's K-Cup packs are available at roughly 16,000 grocery stores and its Keurig Single Cup Brewing System is available at 20,000 retail locations. The company also estimates that roughly 13 percent of all offices and 188,000 hotel rooms in the U.S. have a Keurig brewer.

In achieving its phenomenal success, Green Mountain pursued three key strategies: boosting market share, expanding into new markets, and making key acquisitions. To increase market share and expand, the company relies on direct relationships with farms, coffee estates, cooperatives, and other parties to ensure a consistent supply and price of 75 different varieties of high quality coffee beans. This, combined with a custom-roasting process, allows Green Mountain to differentiate its coffee offerings. One of Green Mountain's key acquisitions was Keurig—the company that makes its K-Cup® coffee cartridges. While Keurig had been a dominant player in the office coffee service segment, its expansion into the home market under Green Mountain has been extraordinary. Sales of Keurig brewers increased 46 percent in 2011 after triple-digit growth numbers from 2006 to 2010. Green Mountain acquired Tully's—a Seattle-based coffee company in 2009. In 2011, Green Mountain enjoyed a 95 percent revenue growth rate.

One of the major reasons for Green Mountain's success is its overall focus on implementation. The company signed a number of strategic partnerships, including agreements with Dunkin' Donuts, Swiss Miss, Starbucks, and Tazo to make their products available via the patented K-Cup system. Green Mountain also has agreements with Breville, Cuisinart, and Mr. Coffee to make branded single-cup coffee makers that use the K-Cup system. Internally, the company employs roughly 5,600 people, but has a very flat organizational structure. This promotes open communication, passion, and commitment among employees. As a part of the company's evaluation and control system, Green Mountain uses a process called the after-action review—a process adapted from the U.S. Army. The goal of the review is to answer four key questions: What did we set out to do? What happened? Why did it happen? What are we going to do about it? Most of the effort is spent on this last question to ensure that the company learns from both its successes and failures. Employees are empowered to apply these lessons and encouraged to share their views in a "constellation of communication" that ensures a collaborative style of getting things done. Green Mountain has consistently appeared on *Forbes*' list of the "200 Best Small Companies in America," *Fortune*'s list of the "100 Fastest-Growing Small Companies in America," and *Business Ethics* magazine's list of the "100 Best Corporate Citizens." In addition, the Society of Human Resource Management has recognized Green Mountain for its socially responsible business practices, including a strong focus on sustainability.

Moving ahead, Green Mountain will continue to focus on innovation and partnerships to maintain its success. Before its patent on K-Cups expired in September 2012, Green Mountain launched its new Vue brewing system that added the ability to brew café beverages, such as lattes and cappuccinos, in addition to coffees, teas, chocolate, and cider. The Vue system also allows more customization than the K-Cup system in terms of strength, temperature, and size. In addition, the new Vue packs are recyclable. The Vue strategy is designed to continue Green Mountain's dominance in the home brewing market as the K-Cup patent expires and competitors launch lower-priced K-Cup competitors into the market.

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Long waiting lines are a common symptom that can be tied to problems in strategy, implementation, or both.

strategic issues involved in implementation, including the major components of implementation that must work together in order for a strategy to be executed successfully. Then, we examine the advantages and disadvantages of major marketing implementation approaches. This discussion also describes how internal marketing can be used to motivate employees to implement marketing strategy. Finally, we look at the marketing evaluation and control process.

Strategic Issues in Marketing Implementation

Marketing implementation is critical to the success of any firm because it is responsible for putting the marketing strategy into action. Simply put, implementation refers to the "how" part of the marketing plan. Marketing implementation is a very broad concept, and for that reason it is often misunderstood. Some of this misunderstanding stems from the fact that marketing strategies almost always turn out differently than expected. In fact, all firms have two strategies: their intended strategy and a realized strategy.[2] *Intended marketing strategy* is what the firm wants to happen—it is the firm's planned strategic choices that appear in the marketing plan itself. The *realized marketing strategy*, on the other hand, is the strategy that actually takes place. More often than not, the difference between the intended and the realized strategies is a matter of the implementation of the intended strategy. This is not to say that a firm's realized marketing strategy is necessarily better or worse than the intended marketing strategy, just that it is different in execution and results. Such differences are often the result of internal or external environmental factors that change during implementation.

The Link Between Planning and Implementation

One of the most interesting aspects of marketing implementation is its relationship to the strategic planning process. Many firms assume that planning and implementation are interdependent but separate issues. In reality, planning and implementation

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intertwine within the marketing planning process. Many of the problems of marketing implementation occur because of its relationship to strategic planning. The three most common issues in this relationship are interdependency, evolution, and separation.

Interdependency Many firms assume that the planning and implementation process is a one-way street. That is, strategic planning comes first, followed by implementation. Although it is true that the content of the marketing plan determines how it will be implemented, it is also true that how the marketing strategy is to be implemented determines the content of the marketing plan.

Certain marketing strategies will define their implementation by default. For example, a firm such as Southwest Airlines with a strategy of improving customer service may turn to employee training programs as an important part of that strategy's implementation. Through profit sharing, many Southwest employees are also stockholders with a vested interest in the firm's success. Employee training and profit-sharing programs are common in firms that depend on their employees' commitment and enthusiasm to ensure quality customer service. However, employee training, as a tool of implementation, can also dictate the content of the firm's strategy. Perhaps a competitor of Southwest, who is in the process of implementing its own customer service strategy, realizes that it does not possess adequate resources to offer profit sharing and extensive training to its employees. Maybe the company simply lacks the financial resources or the staff required to implement these activities. Consequently, the company will be forced to go back to the planning stage and adjust its customer service strategy. These continual changes in marketing strategy make implementation more difficult. Clearly, a SWOT analysis and strategic thrust conducted with an eye toward what the company can reasonably implement can reduce, but not completely eliminate, this problem.

Evolution All firms face a simple truth in planning and implementation: Important environmental factors constantly change. As the needs and wants of customers change, as competitors devise new marketing strategies, and as the firm's own internal environment changes, the firm must constantly adapt. In some cases, these changes occur so rapidly that once the firm decides on a marketing strategy, it quickly becomes out-of-date. Because planning and implementation are intertwined, both must constantly evolve to fit the other. The process is never static because environmental changes require shifts in strategy, which require changes in implementation, which require shifts in strategy, and so on.

A related problem is that executives often assume there is only one correct way to implement a given strategy. This is simply not true. Just as strategy often results from trial and error, so does marketing implementation. Firms that are truly customer-oriented must be flexible enough to alter their implementation on the fly to fully embrace customer intimacy and respond to changes in customers' preferences. In the airline industry, for example, competitors quickly alter their pricing strategies when one firm announces a reduction in fares on certain routes. These rapid changes require that firms be flexible in both marketing strategy and implementation.

Separation The ineffective implementation of marketing strategy is often a self-generated problem that stems from the way that planning and implementation are carried out in most firms. As shown in Exhibit 9.1, middle- or upper-level managers often do strategic planning; however, the responsibility for implementation almost always falls on lower-level managers and frontline employees. Top executives often fall into a trap of believing that a good marketing strategy will implement itself. Because there is distance between executives and the day-to-day activities at the frontline of the firm, they often

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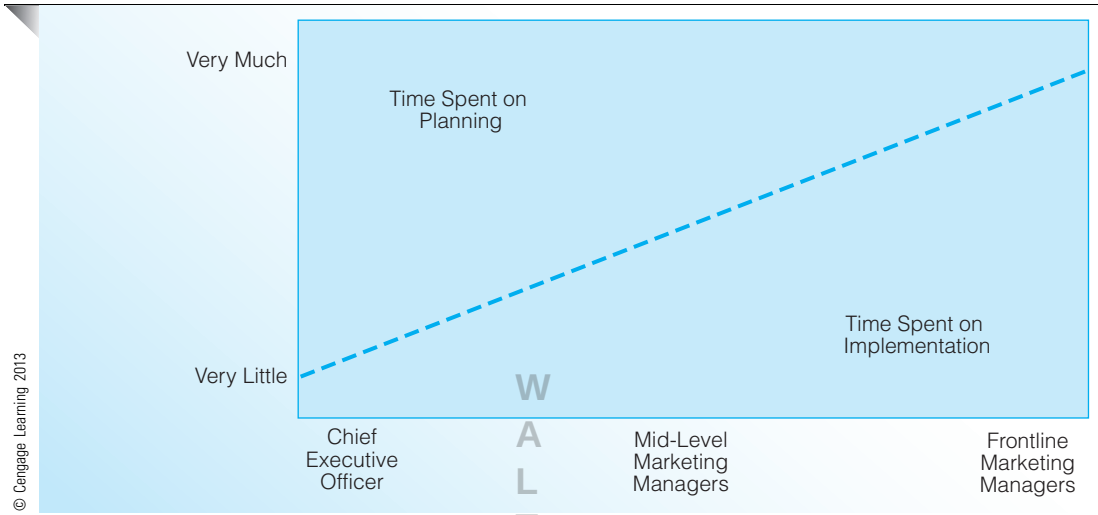
EXHIBIT 9.1 **The Separation of Planning and Implementation**



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do not understand the unique problems associated with implementing marketing strategy. Conversely, frontline employees—who do understand the challenges and hurdles of implementation—usually have a limited voice in planning the strategy.

Another trap that top executives often fall into is believing that frontline managers and employees will be excited about the marketing strategy and motivated to implement it. However, because they are separated from the planning process, these managers and employees often fail to identify with the firm's goals and objectives, and thus fail to fully understand the marketing strategy.[3] It is unrealistic for top executives to expect frontline managers and employees to be committed to a strategy they had no voice in developing, or to a strategy that they do not understand or feel is inappropriate.[4]

The Elements of Marketing Implementation

Marketing implementation involves a number of interrelated elements and activities, as shown in Exhibit 9.2. These elements must work together for strategy to be implemented effectively. Because we examined marketing strategy issues in previous chapters, we now look briefly at the remaining elements of marketing implementation.

Shared Goals and Values Shared goals and values among all employees within the firm are the "glue" of successful implementation because they bind the entire organization together as a single, functioning unit. When all employees share the firm's goals and values, all actions will be more closely aligned and directed toward the betterment of the organization. Without a common direction to hold the organization together, different areas of the firm may work toward different outcomes, thus limiting the success of the entire organization. For example, one of the reasons for the tremendous success of the New Belgium Brewery is the fact that all employees have a commitment to make excellent craft beer in ways that conserve environmental resources.[5] Other firms, such as FedEx, Google, and ESPN, are well known for their efforts to ensure that employees share and are committed to corporate goals and values.

Institutionalizing shared goals and values within a firm's culture is a long-term process. The primary means of creating shared goals and values is through employee

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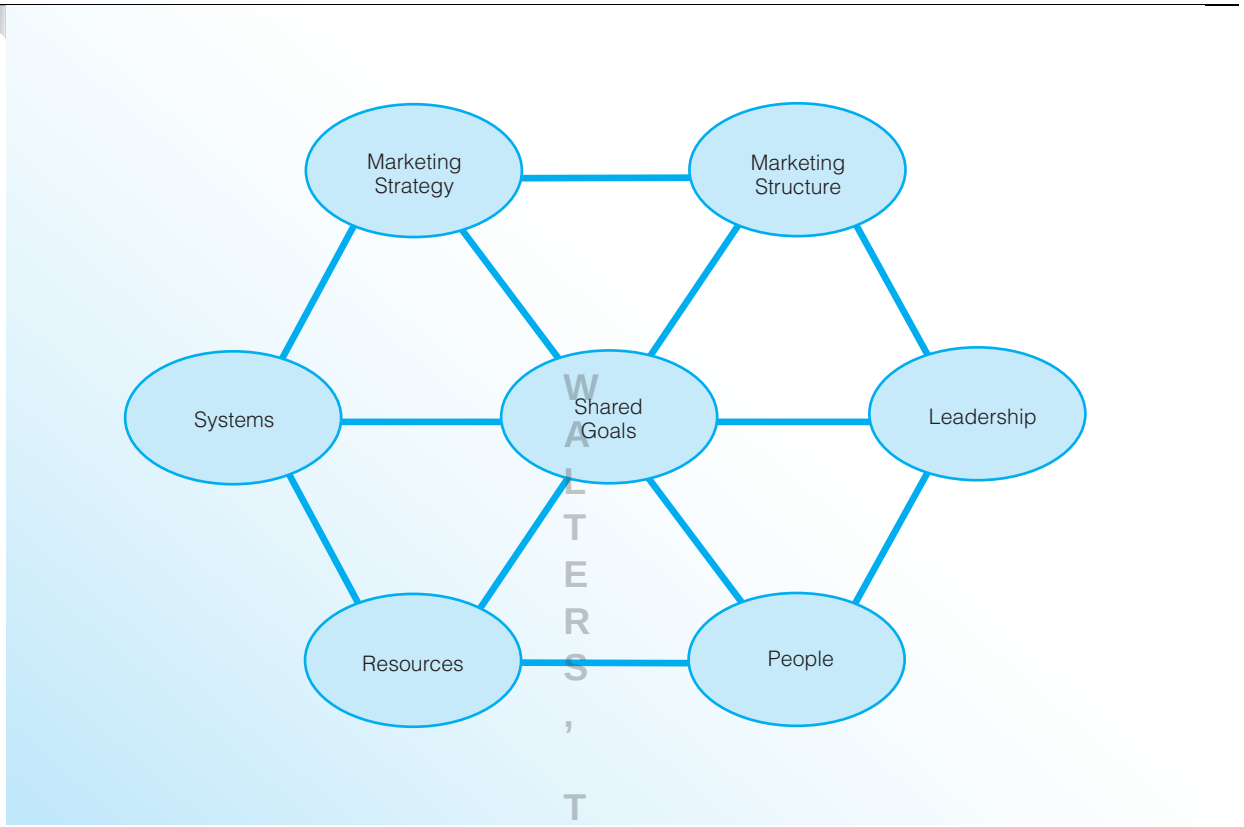
EXHIBIT 9.2 The Elements of Marketing Implementation



Source: Adapted from Lawrence R. Jaunch and William F. Glueck, *Strategic Management and Business Policy*, 3rd ed. (New York: McGraw-Hill, 1988), 305.

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training and socialization programs.[6] Although creating shared goals and values is a difficult process, the rewards are worth the effort. Some experts have argued that creating shared goals and values is the single most important element of implementation because it stimulates organizational commitment where employees become more motivated to implement the marketing strategy, to achieve the firm's goals and objectives, and to serve more fully the needs of the firm's customers.[7]

Marketing Structure Marketing structure refers to the methods of organizing a firm's marketing activities. Marketing structure establishes formal lines of authority, as well as the division of labor within the marketing function. One of the most important decisions that firms make is how to divide and integrate marketing responsibilities. This decision typically comes down to the question of centralization versus decentralization. In a centralized marketing structure, the top of the marketing hierarchy coordinates and manages all marketing activities and decisions. Conversely, in a decentralized marketing structure, the frontline of the firm coordinates and manages marketing activities and decisions. Typically, decentralization means that frontline marketing managers have the responsibility of making day-to-day marketing decisions.

Both centralized and decentralized marketing structures have advantages. Centralized structures are very cost-efficient and effective in ensuring standardization within the

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marketing program. These advantages can be particularly critical to firms whose competitiveness depends upon maintaining a tight control over marketing activities and expenses.[8] For example, firms employing a strategy of operational excellence, such as Walmart or Dell, may find a centralized structure beneficial to ensuring operational efficiency and consistency. Decentralized marketing structures have the important advantage of placing marketing decisions closer to the frontline where serving customers is the number one priority. By decentralizing marketing decisions, frontline managers can be creative and flexible, allowing them to adapt to changing market conditions.[9] For this reason, firms that employ a strategy of customer intimacy, such as Ritz-Carlton or Nordstrom, may decentralize to ensure that they can respond to customers' needs in a timely manner. The decision to centralize or decentralize marketing activities is a trade-off between reduced costs and enhanced flexibility. However, there is no one correct way to organize the marketing function. The right marketing structure will depend on the specific firm, the nature of its internal and external environments, and its chosen marketing strategy.[10]

Systems and Processes Organizational systems and processes are collections of work activities that absorb a variety of inputs to create information and communication outputs that ensure the consistent day-to-day operation of the firm.[11] Examples include information systems, strategic planning, capital budgeting, procurement, order fulfillment, manufacturing, quality control, and performance measurement. At IBM, for example, research engineers are evaluated on one- and three-year time frames. Employees receive bonuses based on the one-year evaluation, but are awarded rank and salary based on the three-year time frame. This unique system is designed to encourage innovation by minimizing the risk of failure in any single yearly evaluation.[12] As we discussed in Chapter 6, many of these systems and processes are now outsourced to other firms. However, their important role in implementation means that the firm must be very diligent in how these activities are managed.

Resources A firm's resources can include a wide variety of assets that can be brought together during marketing implementation. These assets may be tangible or intangible. Tangible resources include financial resources, manufacturing capacity, facilities, and equipment. Although not quite as obvious, intangible resources such as marketing expertise, customer loyalty, brand equity, corporate goodwill, and external relationships/strategic alliances are equally important. In Chapter 7, we addressed the importance of branding and corporate reputation in the marketing program. These issues are equally important in the implementation of the strategy, especially in leveraging strategic partnerships to ensure that marketing activities are done effectively and efficiently.

Regardless of the type of resource, the amount of resources available can make or break a marketing strategy. However, a critical and honest evaluation of available resources during the planning phase can help ensure that the marketing strategy and marketing implementation are within the realm of possibility. Upon completion of the marketing plan, the analyst or planner must seek the approval of needed resources from top executives. This makes the communication aspects of the actual marketing plan document critical to the success of the strategy. Top executives allocate scarce resources based on the ability of the plan to help the firm reach its goals and objectives.

People (Human Resources) The quality, diversity, and skill of a firm's human resources can also make or break the implementation of the marketing strategy. Consequently, human resource issues have become more important to the marketing function, especially in the areas of employee selection and training, evaluation and compensation

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policies, and employee motivation, satisfaction, and commitment. In fact, the marketing departments of many firms have taken over the human resources function to ensure that employees have a correct match to required marketing activities.[13] A number of human resource activities are vitally important to marketing implementation:

- **Employee Selection and Training**. One of the most critical aspects of marketing implementation is matching employees' skills and abilities to the marketing tasks to be performed.[14] It is no secret that some people are better at some jobs than others. We all know individuals who are natural salespeople. Some individuals are better at working with people, while others are better at working with tools or computers. The key is to match these employee skills to marketing tasks. A weakening economy and tightening job market in recent years have forced firms to become more demanding in finding the right employee skills to match their required marketing activities.

  Employee diversity is an increasingly important aspect of selection and training practices. As the U.S. population becomes more ethnically diverse, many firms take steps to ensure that the diversity of their employees matches the diversity of their customers. Many firms also face challenges with generational diversity in that most middle and upper managers are baby-boomers (born 1946–1964), whereas most entry-level positions consist of members of Generation X (born 1965–1976) or Generation Y (born after 1976). In many cases, these younger employees have better training, more technological sophistication, and fewer political inclinations than their baby-boomer bosses. Managers must recognize these issues and adapt selection and training practices accordingly.
- **Employee Evaluation and Compensation**. Employee evaluation and compensation are also important to successful marketing implementation. An important decision to be made in this area is the choice between outcome- and behavior-based systems.[15] An outcome-based system evaluates and compensates employees based on measurable, quantitative standards such as sales volume or gross margin. This type of system is fairly easy to use, requires less supervision, and works well when market demand is fairly constant, the selling cycle is relatively short, and all efforts directly affect sales or profits. Conversely, behavior-based systems evaluate and compensate employees based on subjective, qualitative standards such as effort, motivation, teamwork, and friendliness toward customers. This type of system ties directly to customer satisfaction and rewards employees for factors they can control. However, behavior-based systems are expensive and difficult to manage because of their subjective nature and the amount of supervision required. The choice between outcome- and behavior-based systems depends on the firm, and its products, markets, and customers' needs. The important point is to match the employee evaluation and compensation system to the activities that employees must perform in order to implement the marketing strategy.
- **Employee Motivation, Satisfaction, and Commitment**. Other important factors in the implementation of marketing strategy are the extent to which employees have the motivation to implement the strategy, their overall feelings of job satisfaction, and the commitment they feel toward the organization and its goals.[16] For example, one of the major contributors to Google's success is the strong social culture fostered by the company's leaders. Google provides its employees with things such as paid childcare, onsite laundry service, free transportation, gourmet food, onsite haircuts, and time off for personal activities. In return, Google's employees reward the company with exceptionally strong motivation and commitment.[17]

Though factors such as employee motivation, satisfaction, and commitment are critical to successful implementation, they are highly dependent on other elements of

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implementation, especially training, evaluation/compensation systems, and leadership. Marketing structure and processes can also have an impact on employee behaviors and attitudes. The key is to recognize the importance of these factors to successful marketing implementation and to manage them accordingly.

Leadership The leadership provided by a firm's managers and the behaviors of employees go hand-in-hand in the implementation process. Leadership—often called the art of managing people—includes how managers communicate with employees, as well as how they motivate their people to implement the marketing strategy. As discussed in *Beyond the Pages 9.2*, today's business leaders must be courageous enough to take a long-term view of corporate success—one that often sacrifices short-term gains for the sake of the future.

Leaders have responsibility for establishing the corporate culture necessary for implementation success.[19] A good deal of research has shown that marketing implementation is more successful when leaders create an organizational culture characterized by open communication between employees and managers. In this way, employees are free to discuss their opinions and ideas about the marketing strategy and implementation activities. This type of leadership also creates a climate where managers and employees have full confidence and trust in each other.

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Approaches to Marketing Implementation

Whether good or bad, all leaders possess a leadership style, or way of approaching a given task. Managers can use a variety of approaches in implementing marketing strategies and motivating employees to perform implementation activities. In this section, we examine four of these approaches: implementation by command, implementation through change, implementation through consensus, and implementation as organizational cultural.[20]

Implementation by Command

Under this approach, the firm's top executives develop and select the marketing strategies, which are transmitted to lower levels where frontline managers and employees implement them. Implementation by command has two advantages: (1) it makes decision making much easier, and (2) it reduces uncertainty as to what is to be done to implement the marketing strategy. Unfortunately, this approach suffers from several disadvantages. The approach places less emphasis on the feasibility of implementing the marketing strategy. It also divides the firm into strategists and implementers: Executives who develop the marketing strategy are often far removed from the targeted customers it is intended to attract. For these reasons, implementation by command can create employee motivation problems. Many employees do not have motivation to implement strategies in which they have little confidence.

Implementation by command is quite common in franchise systems. For example, McDonald's use of this approach creates a great deal of ongoing tension between the corporate office and its franchisees around the globe. In some cases, the tensions become so hostile that franchisees have flatly refused to implement some corporate strategies, such as the company's dollar menu promotion. Other strategies, such as keeping stores open 24 hours, offering free WiFi, and adding new products such as frozen drinks and McCafé coffee stations, significantly increase costs for franchisees. Rising costs have forced many would be McDonald's franchisees to reconsider the investment.[21]

Implementation Through Change

Implementation through change is similar to the command approach except that it focuses explicitly on implementation. The basic goal of implementation through change is to modify the firm in ways that will ensure the successful implementation of the

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Beyond the Pages 9.2

The New Rules of CEO Leadership[18]

As we have discussed throughout this text, the rules of the road in marketing have changed in today's economy. Customers now hold most of the power due to increasing access to information, massive product selection and its associated competition, and increasingly mature markets characterized by commoditization. The dynamic nature of today's marketplace has touched all sectors of the global economy. Nowhere is this truer than in the executive suite of today's corporations. Many CEOs struggle with managing their monolithic organizations in an increasingly fast-paced environment.

There is a good reason for the challenges facing today's CEOs: Many of them operate using a set of rules developed in the 1980's and 1990's glory days of corporate expansion and global domination. Many of those rules were developed by the celebrity CEOs of the day such as Jack Welch (GE), Lou Gerstner (IBM), Al Dunlap (Sunbeam), and Roberto Goizueta (Coca-Cola). Of these, Jack Welch was the iconic leader. Most major corporations adopted his rules for business during the 1980s and 1990s. Welch's rules focused on corporate growth, maximizing market share, and the preeminence of quarterly earnings. However, those rules are ill suited for today's market because the rapid pace of change and increasingly relentless competition force CEOs to take a long-term view of competitiveness. That view is less about market share and stock price and more about making decisions that ensure the viability and long-term survival of the corporation. Today's problems are different than those of 10 to 25 years ago. Consequently, old solutions no longer work.

In order to highlight the importance of the issue, *Fortune* published a set of seven new rules for business that contradict virtually all of the old-school rules advocated by CEOs both past and present. These new rules argue for a dramatic shift away from short-term results in favor of long-term survival:

Old Rules	New Rules	Examples
Big dogs own the street	Agile is best; being big can bite you	Big pharmaceutical companies are losing to smaller biotech firms; the decline of major U.S. automakers such as General Motors; Samsung's rise above Sony
Be #1 or #2 in the market	Find a niche, create something new	Energy drinks are more profitable than traditional soft drinks; the growth of Starbucks from a niche player to a coffee powerhouse
Shareholders rule	The customer is king	Businesses are better at managing earnings rather than the goods and services that produce those earnings; major scandals at firms like Enron and WorldCom
Be lean and mean	Look outside, not inside	Innovation drives today's success (i.e., Apple's iPad); the drive for quality and efficiency only improves *current* processes—it does not promote innovation
Rank your players; go with the A's	Hire passionate people	Employees want purpose and meaning in their work; the growth in hiring employees with passion (Apple, ESPN, Genentech)
Hire a charismatic CEO	Hire a courageous CEO	Today's CEOs must have the fortitude to make decisions that have long-term payoffs, not the quick fixes that are rewarded by Wall Street investors
Admire my might	Admire my soul	Powerful corporations are increasingly targeted by activists on a number of fronts; it is better to be a company with a long-term vision that legitimizes its role in society

Of these rules, hiring a courageous CEO may be the most critical. CEOs who adopt *Fortune*'s new rules for business must be willing to make investments that will not pay off for years—when that CEO is no longer in charge. The old ways of doing business—such as driving down costs through efficiency, growth through mergers and acquisitions, and careful manipulation of financial and accounting decisions—are solutions that simply do not work any longer. Anne Mulcahy, former CEO of Xerox, puts it this way: "You have to change when you're at the top of your game in terms of profit. If you're not nimble, there's no advantage to size. It's like a rock."

Unfortunately, Wall Street gives today's CEOs little incentive to change. A study by Booz Allen found that CEOs become vulnerable to being fired if their company's stock price falls below the S&P 500 by an average of 2 percent. To be courageous in the face of this obstacle, today's CEOs must be willing to take risks and stand up for what they believe is in the long-term interest of their firm.

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chosen marketing strategy. For example, the firm's structure can be altered; employees can be transferred, hired, or fired; new technology can be adopted; the employee compensation plan can be changed; or the firm can merge with another firm. Mergers and acquisitions are common today in many industries, particularly in pharmaceuticals. Given the enormous expense of developing new drugs, many pharmaceutical firms have decided that it is easier and less expensive to offer new products or enter new markets by acquiring firms that already possess those capabilities.

The manager who implements through change is more of an architect and politician, skillfully crafting the organization to fit the requirements of the marketing strategy. There are many good historical examples of implementation through change: Lee Iacocca (Chrysler), Fred Smith (FedEx), and Steve Jobs (Apple) come to mind. One of the best success stories, however, is Samsung. Once recognized as a cheap, high-volume supplier of computer chips, circuit boards, and electronic components, Samsung has emerged as a dominant player in the consumer electronics market. The major change at Samsung was a shift in operational focus from production to marketing. Samsung also changed by dropping its 50-plus low-budget brands in favor of a single master Samsung brand. The shift has been so successful that Samsung has been continuously ranked as one of the world's fastest growing brands since 2000. In fact, Samsung is the top electronics manufacturer in the world by revenue and is more successful than Sony, Nokia, and other electronics manufacturers in many different product categories. For example, despite Apple's success, Samsung is actually the top mobile phone company in the world.[22]

Because many business executives are reluctant to give up even a small portion of their control (as is the case with the next two implementation approaches), they often favor implementation through change. The approach achieves a good balance between command and consensus, and its successes are quite evident in business today. However, despite these advantages, implementation through change still suffers from the separation of planning and implementation. By clinging to this power-at-the-top philosophy, employee motivation often remains an issue. Likewise, the changes called for in this approach often take a great deal of time to design and implement (for example, it took Samsung over a decade to reach the top of the electronics market). This can create a situation where the firm becomes stagnant while waiting on the strategy to take hold. As a result, the firm can become vulnerable to changes in the marketing environment.

Implementation Through Consensus

Upper- and lower-level managers work together to evaluate and develop marketing strategies in the consensus approach to implementation. The underlying premise of this approach is that managers from different areas and levels in the firm come together as a team to collaborate and develop the strategy. Each participant has different opinions as well as different perceptions of the marketing environment. The role of the top manager is that of a coordinator, pulling different opinions together to ensure the development of the best overall marketing strategy. Through this collective decision-making process, the firm agrees upon a marketing strategy and reaches a consensus as to the overall direction of the firm.

Implementation through consensus is more advantageous than the first two approaches in that it moves some of the decision-making authority closer to the frontline of the firm. For this reason, this implementation approach is used extensively in service organizations. For example, Royal Caribbean uses a team approach in developing and implementing strategy for any initiative, such as building a new ship, adding a

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new computer system, or changing the marketing program. CEO Richard Fain then gives the teams milestones to keep them on track.[23] This approach is based on the simple truth that lower-level employees have a unique perspective on the marketing activities necessary to implement the firm's strategy (in the case of Royal Caribbean, the strategy is enhanced amenities and complete customer satisfaction). These employees are also more sensitive to the needs and wants of the firm's customers. In addition, because they are involved in the strategic process, these employees often have a stronger motivation and commitment to the strategy to see that it is properly implemented.

Implementation through consensus tends to work best in complex, uncertain, and highly unstable environments. The collective strategy-making approach works well in this environment because it brings multiple viewpoints to the table. However, implementation through consensus often retains the barrier between strategists and implementers. The end result of this barrier is that the full potential of the firm's human resources is not realized. Thus, for implementation through consensus to be truly effective, managers at all levels must communicate openly about strategy on an ongoing, rather than an occasional, basis.

Implementation as Organizational Culture

Under this approach, marketing strategy and its implementation become extensions of the firm's mission, vision, and organizational culture. In some ways, this approach is similar to implementation through consensus, except that the barrier between strategists and implementers completely dissolves. When personnel see implementation as an extension of the firm's culture, employees at all levels have permission to participate in making decisions that help the firm reach its mission, goals, and objectives.

With a strong organizational culture and an overriding corporate vision, the task of implementing marketing strategy is about 90 percent complete.[24] This occurs because all employees adopt the firm's culture so completely that they instinctively know what their role is in implementing the marketing strategy. At the Ritz-Carlton, for example, the firm's culture is supported and sustained through daily 15-minute meetings among employees—called "line-ups"—where they share stories and educate each other on better ways to serve customers. Ritz-Carlton employees can design their own work procedures and can personally attend to any guest's request.[25] This extreme form of decentralization is often called empowerment. Empowering employees means allowing them to make decisions on how to best perform their jobs. The strong organizational culture and a shared corporate vision ensure that empowered employees make the right decisions.

Although creating a strong culture does not happen overnight, it is absolutely necessary before employees can be empowered to make decisions. Employees must be trained and socialized to accept the firm's mission and to become a part of the firm's culture.[26] Despite the enormous amount of time involved in developing and using this approach to implementation, its rewards of increased effectiveness, efficiency, and increased employee commitment and morale are often well worth the investment.

To summarize, firms and their managers can use any one of these four approaches to implement marketing strategy. Each approach has advantages and disadvantages as outlined in Exhibit 9.3. The choice of an approach will depend heavily on the firm's resources, its current culture, and the manager's own personal preferences. Many managers don't want to give up control over decision making. For these managers,

WALTERS PRACTICE

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EXHIBIT 9.3 Advantages and Disadvantages of Implementation Approaches

Implementation by Command

Basic Premise:	Marketing strategies are developed at the top of the organizational hierarchy and then passed to lower levels where frontline managers and employees are expected to implement them.
Advantages:	Reduces uncertainty and makes decision making easier
	Good when a powerful leader heads the firm
	Good when the strategy is simple to implement
Disadvantages:	Does not consider the feasibility of implementing the strategy
	Divides the firm into strategists and implementers
	Can create employee motivation problems

Implementation Through Change

Basic Premise:	The firm is modified in ways that will ensure the successful implementation of the chosen marketing strategy.
Advantages:	Specifically considers how the strategy will be implemented
	Considers how strategy and implementation affect each other
	Used successfully by a large number of firms
Disadvantages:	Clings to a "power-at-the-top" mentality
	Requires a skilled, persuasive leader
	Changes can take time to design and implement, leaving the firm vulnerable to changes in the marketing environment

Implementation Through Consensus

Basic Premise:	Different areas of the firm come together to "brainstorm" and develop the marketing strategy. Through collective agreement, a consensus is reached as to the overall direction of the firm.
Advantages:	Considers multiple opinions and viewpoints
	Increases firm-wide commitment to the strategy
	Moves some decision making closer to the front line of the firm
	Useful in complex, uncertain, and unstable environments
Disadvantages:	Some managers will not give up their authority
	Can lead to groupthink
	Slows down the strategy development and implementation process
	Requires open horizontal and vertical communication

Implementation as Organizational Cultural

Basic Premise:	Marketing strategy is a part of the overall mission and vision of the firm; therefore, the strategy is embedded in the firm's culture. Top executives manage the firm's culture to ensure that all employees are well versed in the firm's strategy.
Advantages:	Eliminates the barrier between strategists and implementers
	Increases employee commitment to organizational goals
	Allows for the empowerment of employees
	Can make marketing implementation much easier to accomplish
Disadvantages:	Must spend more money on employee selection and training
	Creating the necessary culture can be painful and time-consuming
	Quickly shifting to this approach can cause many internal problems

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connecting implementation and culture may be out of the question. Regardless of the approach taken, one of the most important issues that a manager must face is how to deal with the people who have responsibility for implementing the marketing strategy. To examine this issue, we now turn our attention to internal marketing—an increasingly popular approach to marketing implementation.

Internal Marketing and Marketing Implementation

As more firms come to appreciate the importance of employees to marketing implementation, they have become disenchanted with traditional implementation approaches. Several factors have caused this change: U.S. businesses losing out to foreign competitors, high rates of employee turnover and its associated costs, and continuing problems in the implementation of marketing strategy. These problems have led many firms to adopt an internal marketing approach to marketing implementation.

The practice of internal marketing comes from service industries, where it was first used as a means of making all employees aware of the need for customer satisfaction. *Internal marketing* refers to the use of a marketing-like approach to motivate, coordinate, and integrate employees toward the implementation of the firm's marketing strategy. The goals of internal marketing are to: (1) help all employees understand and accept their roles in implementing the marketing strategy, (2) create motivated and customer-oriented employees, and (3) deliver external customer satisfaction.[27] Note that internal marketing explicitly recognizes that external customer satisfaction depends on the actions of the firm's internal customers—its employees.

The Internal Marketing Approach

In the internal marketing approach, every employee has two customers: external and internal. For retail store managers, for example, the people who shop at the store are external customers, whereas the employees who work in the store are the manager's internal customers. In order for implementation to be successful, the store manager must serve the needs of both customer groups. If the internal customers do not receive proper information and training about the strategy and are not motivated to implement it, then it is unlikely that the external customers will be satisfied completely.

This same pattern of internal and external customers takes place throughout all levels of the firm. Even the CEO is responsible for serving the needs of his or her internal and external customers. Thus, unlike traditional implementation approaches where the responsibility for implementation rests with the frontline of the firm, the internal marketing approach places this responsibility on all employees regardless of their level within the firm. In the end, successful marketing implementation comes from an accumulation of individual actions where all employees have responsibility for implementing the marketing strategy. Walmart founder Sam Walton was keenly aware of the importance of internal marketing. He visited Walmart stores on a regular basis, talking with customers and employees about how he could better serve their needs. He felt so strongly about the importance of his associates (his term for store personnel), that he always allowed them the opportunity to voice their concerns about changes in marketing activities. Sam had strong convictions that if he took good care of his associates, they would take good care of Walmart's customers.

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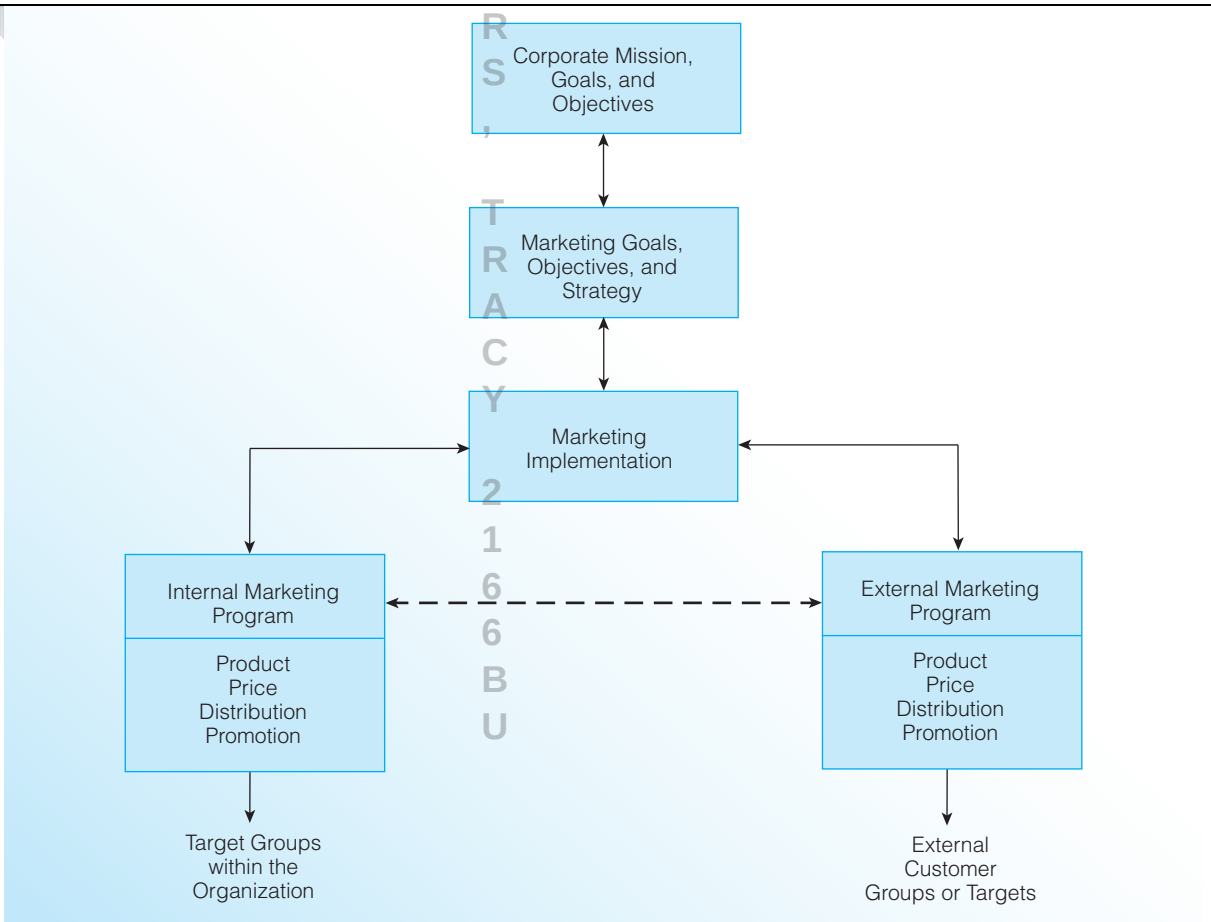
The Internal Marketing Process

The process of internal marketing is straightforward and rests on many of the same principles used in traditional external marketing. As shown in Exhibit 9.4, internal marketing is an output of and input to both marketing implementation and the external marketing program. That is, neither the marketing strategy nor its implementation can be designed without a consideration for the internal marketing program.

The product, price, distribution, and promotion elements of the internal marketing program are similar to the elements in the external marketing program. Internal products refer generally to marketing strategies that must be "sold" internally. More specifically, however, internal products refer to any employee tasks, behaviors, attitudes, or values necessary to ensure implementation of the marketing strategy.[28] Implementation of a marketing strategy, particularly a new strategy, typically requires changes on the part of employees. They may have to work harder, change job assignments, or even change their attitudes and expand their abilities. The increased effort and changes that employees must exhibit in implementing the strategy are equivalent to internal prices. Employees pay these prices through what they must do, change, or give up when implementing the marketing strategy.

EXHIBIT 9.4 **The Internal Marketing Process**



Source: Adapted from Nigel F. Piercy, *Market-Led Strategic Change* (Stoneham, MA: Butterworth-Heinemann, 2008), pp. 496–501.

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Internal distribution refers to the internal interactions that disseminate the marketing strategy throughout the firm. Planning sessions, workshops, formal reports, and personal conversations are all examples of internal distribution. Internal distribution also includes employee education, training, and socialization programs designed to assist in the transition to a new marketing strategy. Finally, all communication aimed at informing and persuading employees about the merits of the marketing strategy comprise internal promotion. Internal promotion can take the form of executive speeches, video presentations, blogs, podcasts, or internal company newsletters. Given the growing diversity of today's employees, it is unlikely that any one medium will communicate with all employees successfully. Firms must realize that telling employees important information once in a single format is not good communication. Until the employees "get the strategy," communication has not taken place.

Successfully using an internal marketing approach requires an integration of many factors already discussed in this chapter. First, the recruitment, selection, and training of employees must be considered an important element of marketing implementation, with marketing having input to these human resource and personnel activities as necessary.[29] This ensures that employees will be matched to the marketing tasks to be performed. Second, top executives must be completely committed to the strategy and the overall marketing plan. It is naïve to expect employees to be committed when top executives are not. Simply put, the best-planned strategy in the world cannot succeed if the employees responsible for its implementation do not believe in it or have a commitment to it.[30]

Third, employee compensation programs must be linked to the implementation of the marketing strategy. This means that employees should be rewarded on the basis of behaviors consistent with the marketing strategy. Fourth, the firm should be characterized by open communication among all employees, regardless of their level in the firm. Through open, interactive communication, employees come to understand the support and commitment of top executives, and how their jobs fit into the overall marketing implementation process. Finally, the firm's structure, policies, and processes should match the marketing strategy to ensure that the strategy can be implemented in the first place. On some occasions, the firm's structure and policies constrain the ability of employees to implement the strategy effectively. Although eliminating these constraints may mean that employees should be empowered to creatively fine-tune the strategy or its implementation, empowerment should be used only if the firm's culture can support it. However, if a company uses empowerment correctly as a part of the internal marketing approach, the firm can experience more motivated, satisfied, and committed employees, as well as enhanced customer satisfaction and improved marketing performance.[31]

Evaluating and Controlling Marketing Activities

A marketing strategy can achieve its desired results only if implemented properly. *Properly* is the key word. It is important to remember that a firm's intended marketing strategy often differs from the realized strategy (the one that actually takes place). This also means that actual performance is often different from expectations. Typically, there are four possible causes for this difference:

1. The marketing strategy was inappropriate or unrealistic.
2. The implementation was inappropriate for the strategy.
3. The implementation process was mismanaged.
4. The internal and/or external environments changed substantially between the development of the marketing strategy and its implementation.

To reduce the difference between what actually happened and what the company expected—and to correct any of these four problems—marketing activities must be

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EXHIBIT 9.5 A Framework for Marketing Control

Formal Controls: Control Activities Initiated by Management

Input controls—actions taken prior to implementation of the strategy

- Employee recruitment, selection, and training processes
- Human resource allocations
- Allocation of financial resources
- Capital outlays
- Research and development expenditures

Process controls—actions taken during implementation of the strategy

- Employee evaluation and compensation systems
- Employee authority and empowerment
- Internal communication programs
- Lines of authority/structure (organizational chart)
- Management commitment to the marketing plan
- Management commitment to employees

Output controls—evaluated after implementation of the strategy

- Formal performance standards (for example, sales, market share, and profitability)
- Marketing audits

Informal Controls: Unwritten Control Activities Initiated by Employees

Employee self-control—control based on personal expectations and goals

- Job satisfaction
- Organizational commitment
- Employee effort
- Commitment to the marketing plan

Social control—small-group control based on group norms and expectations

- Shared organizational values
- Social and behavioral norms in work groups

Cultural control—cultural control based on organizational norms and expectations

- Organizational culture
- Organizational stories, rituals, and legends
- Cultural change

Source: Adapted from Bernard J. Jaworski, "Toward a Theory of Marketing Control: Environmental Context, Control Types, and Consequences," *Journal of Marketing*, 52 (July 1988), pp. 23–39.

evaluated and controlled on an ongoing basis. Although the best way to handle implementation problems is to recognize them in advance, no manager can successfully recognize all of the subtle and unpredictable warning signs of implementation failure.

With that in mind, it is important that the potential for implementation failures be managed strategically by having a system of marketing controls in place that allows the firm to spot potential problems before they cause real trouble. Exhibit 9.5 outlines a framework for marketing control that includes two major types of control: formal controls and informal controls.[32] Although we discuss each type of marketing control separately, most firms use combinations of these control types to monitor strategy implementation.

Formal Marketing Controls

Formal marketing controls are activities, mechanisms, or processes designed by the firm to help ensure the successful implementation of the marketing strategy. The elements of formal control influence the behaviors of employees before and during implementation,

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and to assess performance outcomes at the completion of the implementation process. These elements are referred to as input, process, and output controls respectively.

Input Controls Actions taken prior to the implementation of the marketing strategy are input controls. The premise of input control is that the marketing strategy cannot be implemented correctly unless the proper tools and resources are in place for it to succeed. Recruiting, selecting, and training employees are among the most important input controls. Another critical input control deals with financial resources. These control activities include resource allocation decisions (manpower and financial), capital outlays for needed facilities and equipment, and increased expenditures on research and development. Financial resources can make or break a marketing strategy or its implementation. For example, General Motors was quite slow to infuse additional capital into its Saturn division after it was first launched. For years, Saturn was unable to compete effectively due to constrained resources that limited its ability to develop and market new vehicles. A case in point: Saturn did not enter the highly profitable SUV market until 2002—long after its competitors. By the time GM did give Saturn additional resources, it was too late to repair the brand's tarnished image. General Motors later closed the Saturn division as a part of its corporate restructuring.

Process Controls Process controls include activities that occur during implementation, designed to influence the behavior of employees so they will support the strategy and its objectives. Although the number of process controls is potentially limitless and will vary from one firm to the next, Exhibit 9.5 provides some examples of universal process controls that all firms must employ and manage well.

The process control that stands out above all others is management commitment to the strategy. Several research studies have confirmed that management commitment to the marketing strategy is the single most important determinant of whether the strategy will succeed or fail.[33] This commitment is critical because employees learn to model the behavior of their managers. If management is committed to the marketing strategy, it is more likely that employees will be committed to it as well. Commitment to the marketing strategy also means that managers must be committed to employees and support them in their efforts to implement the strategy.

Another important process control is the system used to evaluate and compensate employees. In general, employees should be evaluated and compensated based on criteria relevant to the marketing strategy.[34] For example, if the strategy requires that salespeople increase their efforts at customer service, they should be rewarded on the basis of this effort, not on other criteria such as sales volume or the number of new accounts created. Further, the degree of authority and empowerment granted to employees is another important process control. Although some degree of empowerment can lead to increased performance, employees given too much authority often become confused and dissatisfied with their jobs.[35] Having good internal communication programs—another type of process control—can help to alleviate these problems.

Output Controls Output controls ensure that marketing outcomes are in line with anticipated results. The primary means of output control involves setting performance standards against which actual performance can be compared. To ensure an accurate assessment of marketing activities, all performance standards should be based on the firm's marketing objectives. Some performance standards are broad, such as those based on sales, profits, or expenses. We say these are broad standards because many different marketing activities can affect them. Other performance standards are quite specific, such as many customer service standards (e.g., number of customer complaints,

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Time-based performance measures are commonly used in evaluating and controlling marketing activities.

repair service within 24 hours, overnight delivery by 10:00 A.M., on-time airline arrivals). In most cases, how the firm performs relative to these specific standards will determine how well it performs relative to broader standards.

But how specific should performance standards be? Standards should reflect the uniqueness of the firm and its resources, as well as the critical activities needed to implement the marketing strategy. In setting performance standards, it is important to remember that employees are always responsible for implementing marketing activities, and ultimately the marketing strategy. For example, if an important part of increasing customer service requires that employees answer the telephone by the second ring, then a performance standard should be set for this activity. Standards for the performance of marketing personnel are typically the most difficult to establish and enforce.

One of the best methods of evaluating whether performance standards have been achieved is to use a marketing audit to examine systematically the firm's marketing objectives, strategy, and performance.[36] The primary purpose of a marketing audit is to identify problems in ongoing marketing activities and to plan the necessary steps to correct these problems. A marketing audit can be long and elaborate, or it can be short and simple. Exhibit 9.6 displays a sample marketing audit. In practice, the elements of the audit must match the elements of the marketing strategy. The marketing audit should also be used to gauge the success of ongoing implementation activities—not just when problems arise.

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EXHIBIT 9.6 A Sample Marketing Audit

Marketing Activities

1. In what specific marketing activities is the company currently engaged?
   - Product activities: research, concept testing, test marketing, quality control, etc.
   - Customer service activities: installation, training, maintenance, technical support, complaint handling, etc.
   - Pricing activities: financing, billing, cost control, discounting, etc.
   - Distribution activities: availability, channels used, customer convenience, etc.
   - Promotion activities: media, sales promotion, personal selling, public relations, etc.
2. Are these activities conducted solely by the company, or are some provided by outside contractors (either domestically or offshore)? If outside contractors are used, how are they performing? Should any of these outside activities be brought in-house?
3. What marketing activities do our competitors conduct that we do not offer? What additional marketing activities do customers want, need, or expect?

Standard Procedures for Each Marketing Activity

1. Do written procedures (manuals) exist for each marketing activity? If so, are these procedures (manuals) up to date? Do employees fully understand and follow these procedures (manuals)?
2. What oral or unwritten procedures exist for each marketing activity? Should these procedures be formally included in the written procedures or should they be eliminated?
3. Do marketing personnel regularly interact with other functional areas to establish standard procedures for each activity?

Performance Standards for Each Marketing Activity

1. What specific quantitative standards exist for each activity?
2. What qualitative standards exist for each activity?
3. How does each activity contribute to customer satisfaction within each marketing program element (i.e., product, pricing, distribution, promotion)?
4. How does each activity contribute to marketing goals and objectives?
5. How does each activity contribute to the goals and objectives of the company?

Performance Metrics for Each Marketing Activity

1. What are the internal, profit-based measures for each marketing activity?
2. What are the internal, time-based measures for each marketing activity?
3. How is performance monitored and evaluated internally by management?
4. How is performance monitored and evaluated externally by customers?

Evaluation of Marketing Personnel

1. Are the company's current recruiting, selection, and retention efforts consistent (matched) with the requirements of the marketing activities?
2. What are the nature and content of employee training activities? Are these activities consistent with the requirements of the marketing activities?
3. How are customer-contact personnel supervised, evaluated, and rewarded? Are these procedures consistent with customer requirements?
4. What effect do employee evaluation and reward policies have on employee attitudes, satisfaction, and motivation?
5. Are current levels of employee attitudes, satisfaction, and motivation adequate?

continued

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EXHIBIT 9.6 (*continued*)

Evaluation of Customer Support Systems

1. Are the quality and accuracy of customer service materials (e.g., instruction manuals, brochures, letters, etc.) consistent with the image of the company and its products?
2. Are the quality and appearance of physical facilities (e.g., offices, furnishings, layout, store decor, etc.) consistent with the image of the company and its products?
3. Are the quality and appearance of customer service equipment (e.g., repair tools, telephones, computers, delivery vehicles, etc.) consistent with the image of the company and its products?
4. Is the record keeping system accurate? Is the information always readily available when it is needed? What technology could be acquired to enhance record keeping abilities (e.g., bar code scanners, RFID, notebook computers, wireless telephones or smartphones)?

Regardless of the organization of the marketing audit, it should aid the firm in evaluating marketing activities by:

1. Describing current marketing activities and their performance outcomes;
2. Gathering information about changes in the external or internal environments that may affect ongoing marketing activities;
3. Exploring different alternatives for improving the ongoing implementation of marketing activities;
4. Providing a framework to evaluate the attainment of performance standards, as well as marketing goals and objectives.

The information in a marketing audit is often obtained through a series of questionnaires that are given to employees, managers, customers, and/or suppliers. In some cases, outside consultants perform this ongoing evaluation. Using outside auditors has the advantages of being more objective and less time consuming for the firm. However, outside auditors are typically quite expensive. A marketing audit can also be very disruptive, especially if employees are fearful of the scrutiny.

Despite their drawbacks, marketing audits are usually quite beneficial for the firms that use them. They are flexible in that the scope of the audit can be broad (to evaluate the entire marketing strategy) or narrow (to evaluate only a specific element of the marketing program). The results of the audit can be used to reallocate marketing efforts, correct implementation problems, or even to identify new opportunities. The end results of a well-executed marketing audit are usually better marketing performance and increased customer satisfaction.

Informal Marketing Controls

Formal marketing controls are overt in their attempt to influence employee behavior and marketing performance. Informal controls, on the other hand, are more subtle. *Informal marketing controls* are unwritten, employee-based mechanisms that subtly affect the behaviors of employees, both as individuals and in groups.[37] Here, we deal with personal objectives and behaviors, as well as group-based norms and expectations. There are three types of informal control: employee self-control, social control, and cultural control.

Employee Self-Control Through employee self-control, employees manage their own behaviors (and thus the implementation of the marketing strategy) by establishing personal objectives and monitoring their results. The type of personal objectives that employees set depends on how they feel about their jobs. If they have high job

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satisfaction and a strong commitment to the firm, they are more likely to establish personal objectives that are consistent with the aims of the firm, the marketing strategy, and the firm's goals and objectives. Employee self-control also depends on the rewards employees receive. Some employees prefer the intrinsic rewards of doing a good job rather than the extrinsic rewards of pay and recognition. Intrinsically rewarded employees are likely to exhibit more self-control by managing their behaviors in ways that are consistent with the marketing strategy.

Social Control Social, or small group, control deals with the standards, norms, and ethics found in workgroups within the firm.[38] The social interaction that occurs within these workgroups can be a powerful motivator of employee behavior. The social and behavioral norms of workgroups provide the "peer pressure" that causes employees to conform to expected standards of performance. If employees fall short of these standards, the group will pressure them to align with group norms. This pressure can be both positive and negative. Positive group influence can encourage employees to increase their effort and performance in ways consistent with the firm's goals and objectives. However, the opposite is also true. If the workgroup's norms encourage slacking or shirking of job responsibilities, employees will feel pressured to conform, or risk being ostracized for good work.

Cultural Control Cultural control is very similar to social control, only on a much broader scale. Here, we are interested in the behavioral and social norms of the entire firm. One of the most important outcomes of cultural control is the establishment of shared values among all members of the firm. Marketing implementation is most effective and efficient when every employee, guided by the same organizational values or beliefs, has a commitment to the same organizational goals.[39] Companies such as Lockheed Martin and Lexmark have strong organizational cultures that guide employee behavior. Unfortunately, cultural control is very difficult to master, in that it takes a great deal of time to create the appropriate organizational culture to ensure implementation success.

It is important to note that the formal controls employed by the firm affect, to a great extent, the informal controls that occur within an organization. However, the premise of informal control is that some aspects of employee behavior cannot be influenced by formal mechanisms, and therefore must be controlled informally through individual and group actions. *Beyond the Pages 9.3* describes how formal and informal controls overlap to promote risk management principles in today's astute organizations.

Scheduling Marketing Activities

Through good planning and organization, marketing managers can provide purpose, direction, and structure to all marketing activities. However, the manager must understand the problems associated with implementation, understand the coordination of the various components of implementation, and select an overall approach to implementation before actually executing marketing activities. Upon taking these steps, the marketing manager with the responsibility for executing the plan must establish a timetable for the completion of each marketing activity.

Successful implementation requires that employees know the specific activities for which they are responsible and the timetable for completing each activity. Creating a master schedule of marketing activities can be a challenging task because of the wide variety of activities required to execute the plan, the sequential nature of many activities (some take precedence over others and must be performed first), and the fact that time is of the essence in implementing the plan.[41] The basic steps involved in creating a schedule and timeline for implementation include:

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Beyond the Pages 9.3

Managing Risk Through Culture[40]

Given the many examples of corporate misconduct and lapses in managerial judgment over the past five to ten years, top executives have become keenly aware of the importance of managing corporate risk. The risks that today's organizations face come in many forms: financial risk, insurance risk, operational risk, product liability risk, strategic risks, reputational risks, etc. As top executives try to better understand the stakes in enterprise risk management, they are beginning to realize that managing risk involves more than making the right decisions in the boardroom. True risk management involves assessing the risk culture of the entire firm.

Experts define risk culture as a system of values and behaviors within an organization that shape risk decisions. An organization's risk culture influences everyone, whether they are aware of it or not. It is this lack of awareness that creates potential problems. Even seemingly small decisions can have implications for corporate risk. The key is to ensure that all employees have a common understanding of risk, and how it is potentially connected to their day-to-day activities.

Sadly, the evidence suggests that most organizations do a poor job of nurturing their risk cultures. While 84 percent of firms include risk management in C-suite discussions, 58 percent of top executives stated that their middle- and lower-level employees had little to no understanding of their company's risk exposure. One-third said that even top managers had no formal risk training. Without training and an open dialogue about risk, organizations cannot ensure that well-informed and consistent decisions about risk occur throughout the firm.

How can an organization inspire a risk culture? Some suggested guidelines include:

- **Set the Tone at the Top and the Middle**. A key axiom of management is that leaders communicate their priorities through what they measure, discuss, praise and criticize. These aspects of "setting the tone" are important because they provide examples for other employees to follow. However, this tone must emanate from all managers, not just those in the boardroom. The organization and its leaders must have a clearly articulated risk policy, as well as clear penalties for non-compliant behavior.
- **Understand the Difference Between Good and Bad Risk**. Risk management has the potential to stifle an organization's creativity. Thus, it is critical that all employees understand the difference between acceptable risk based on innovation and reckless behavior that jeopardizes the organization. The firm must also encourage and be willing to tolerate mistakes, and then learn from them.
- **Promote Open Communication About Risk**. Creating the proper risk culture requires consistent messages to employees about risk, and the importance of managing risk as a part of daily operations. This means that collaboration is essential in order to mitigate the ambiguity and competitiveness that typically lead to overly risky decisions.
- **Give Employees Incentives to Manage Risk**. Giving proper incentives to manage risk is important. However, it is often more important to eliminate any incentives that reward reckless behavior. This applies to everyone in the organization—from the boardroom to the mailroom.
- **Consider the Risk Cultures of Potential Partners**. To manage risk fully, an organization must ensure that its vendors, suppliers, and strategic partners share its risk tolerances. Risk should always be a consideration in choosing new partners or suppliers. Note that this also applies to the company's most important partners—its employees. Risk should always be a consideration in the hiring process.

Having a strong risk culture means that everyone knows the principles and boundaries within which the organization operates. It means that risk is openly discussed and weighed in all decisions. It ensures that everyone stays on the right path. However, creating this type of culture takes a great deal of patience and time. But then again, the crises that result from poor risk management are often far more costly in terms of time, money, and corporate reputation.

1. **Identify the Specific Activities to Be Performed**. These activities include all marketing program elements contained within the marketing plan. Specific implementation activities, such as employee training, structural changes, or the acquisition of financial resources, should be included as well.

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2. **Determine the Time Required to Complete Each Activity**. Some activities require planning and time before they can come to fruition. Others can occur rather quickly after the initiation of the plan.
3. **Determine Which Activities Must Precede Others**. Many marketing activities must be performed in a predetermined sequence (such as creating an advertising campaign from copywriting, to production, to delivery). These activities must be identified and separated from any activities that can be performed concurrently with other activities.
4. **Arrange the Proper Sequence and Timing of All Activities**. In this step, the manager plans the master schedule by sequencing all activities and determining when each activity must occur.
5. **Assign Responsibility**. The manager must assign one or more employees, teams, managers, or departments to each activity and charge them with the responsibility of executing the activity.

A simple, but effective way to create a master implementation schedule is to incorporate all marketing activities into a spreadsheet, like the one shown in Exhibit 9.7. A master schedule such as this can be simple or complex depending on the level of detail

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EXHIBIT 9.7 **A Hypothetical Three-Month Marketing Implementation Schedule**

Month	March				April				May			
Activities / ***Week***	1	2	3	4	1	2	3	4	1	2	3	4
Product Activities												
Finalize package changes	•											
Production runs	•	•			•	•			•	•		
Pricing Activities												
Hold 10% off sale at retail						•						
Hold 25% off sale at retail											•	
Distribution Activities												
Shipments to warehouses	•		•		•		•		•		•	
Shipments to retail stores		•		•		•		•		•		•
10% quantity discount to the trade	•	•	•	•	•	•	•	•	•	•	•	•
Promotion Activities												
Website operational	•											
Ongoing sponsorship	•	•	•	•	•	•	•	•	•	•	•	•
Television advertising		•	•			•	•			•	•	
Online advertising	•		•		•		•		•		•	
Mobile coupon				•					•			
In-store displays		•	•		•	•		•	•		•	•
Product placement	•	•	•	•	•	•	•	•	•	•	•	•

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included within each activity. The master schedule will also be unique to the specific marketing plan tied to it. As a result, a universal template for creating a master schedule does not truly exist.

Although some activities must be performed before others, other activities can be performed concurrently with other activities or later in the implementation process. This requires tight coordination between departments—marketing, production, advertising, sales, and so on—to ensure the completion of all marketing activities on schedule. Pinpointing those activities that can be performed concurrently can greatly reduce the total amount of time needed to execute a given marketing plan. Because scheduling can be a complicated task, most firms use sophisticated project management techniques, such as PERT (program evaluation and review technique), CPM (critical path method), or computerized planning programs, to schedule the timing of marketing activities.

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Lessons from Chapter 9

Marketing implementation:

- is critical to the success of any firm because it is responsible for putting the marketing strategy into action.
- has been somewhat ignored throughout the history of business as most firms have emphasized strategic planning rather than strategic implementation.
- is the process of executing the marketing strategy by creating and performing specific actions that will ensure the achievement of the firm's marketing objectives.
- goes hand-in-hand with evaluation and control in determining the success or failure of the marketing strategy, and ultimately for the entire firm.
- is usually the cause for the difference between intended marketing strategy—what the firm wants to happen—and realized marketing strategy—the strategy that actually takes place.
- maintains a relationship with strategic planning that causes three major problems: interdependency, evolution, and separation.

The elements of marketing implementation include:

- Marketing strategy—the firm's planned product, pricing, distribution, and promotion activities.
- Shared goals and values—the glue of implementation that holds the entire firm together as a single, functioning unit.
- Marketing structure—how the firm's marketing activities are organized.
- Systems and processes—collections of work activities that absorb a variety of inputs to create information and communication outputs that ensure the consistent day-to-day operation of the firm.
- Resources—include a wide variety of tangible and intangible assets that can be brought together during marketing implementation.
- People—the quality, diversity, and skill of a firm's human resources. The people element also includes employee selection and training, evaluation and compensation, motivation, satisfaction, and commitment.
- Leadership—how managers communicate with employees, as well as how they motivate their employees to implement the marketing strategy.

Approaches to implementing marketing strategy include:

- Implementation by command—marketing strategies are developed and selected by the firm's top executives, then transmitted to lower levels where frontline managers and employees are expected to implement them.
- Implementation through change—focuses explicitly on implementation by modifying the firm in ways that will ensure the successful implementation of the chosen marketing strategy.
- Implementation through consensus—upper- and lower-level managers from different areas of the firm work together to evaluate and develop marketing strategies.
- Implementation as organizational culture—marketing strategy and implementation are seen as extensions of the firm's mission, vision, and organizational culture. Employees at all levels can participate in making decisions that help the firm reach its mission, goals, and objectives.

Internal marketing:

- refers to the use of a marketing-like approach to motivate, coordinate, and integrate employees toward the implementation of the firm's marketing strategy.
- explicitly recognizes that external customer satisfaction depends on the actions of the firm's internal customers—its employees. If the internal customers are not properly educated about the strategy and motivated to implement

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it, then it is unlikely that the external customers will be satisfied completely.
- places the responsibility for implementation on all employees regardless of their level within the firm.
- is based on many of the same principles used in traditional external marketing. The product, price, distribution, and promotion elements of the internal marketing program are similar to the elements in the external marketing program.

In evaluating and controlling marketing activities:

- the firm's intended marketing strategy often differs from the realized strategy for four potential reasons: (1) the marketing strategy was inappropriate or unrealistic, (2) the implementation was inappropriate for the strategy, (3) the implementation process was mismanaged, or (4) the internal and/or external environments changed substantially between the development of the marketing strategy and its implementation.
- it is important that the potential for implementation failures be managed strategically by having a system of marketing controls in place.
- firms design and use formal input, process, and output controls to help ensure the successful implementation of the marketing strategy.
- firms use output controls, or performance standards, extensively to ensure that marketing outcomes are in line with anticipated results.
- employees individually (self-control), in workgroups (social control), and throughout the firm (cultural control) use personal objectives and group-based norms and expectations to informally control their behaviors.

Scheduling marketing activities:

- requires that employees know the specific activities for which they are responsible and the timetable for completing each activity.
- can be a challenging task because of the wide variety of activities required to execute the plan, the sequential nature of many marketing activities, and the fact that time is of the essence in implementing the plan.
- involves five basic steps: (1) identifying the specific activities to be performed, (2) determining the time required to complete each activity, (3) determining which activities must precede others, (4) arranging the proper sequence and timing of all activities, and (5) assigning responsibility to employees, managers, teams, or departments.

Questions for Discussion

1. Forget for a moment that planning the marketing strategy is equally as important as implementing the marketing strategy. What arguments can you make for one being more important than the other? Explain your answers.
2. If you were personally responsible for implementing a particular marketing strategy, which implementation approach would you be most comfortable using, given your personality and personal preferences? Why? Would your chosen approach be universally applicable to any given situation? If not, what would cause you to change or adapt your approach? Remember, adapting your basic approach means stepping out of your personal comfort zone to match the situation at hand.
3. What do you see as the major stumbling blocks to the successful use of the internal marketing approach? Given the hierarchical structure of employees in most organizations (e.g., CEO, middle management, staff employees), is internal marketing a viable approach for most organizations? Why or why not?

Exercises

1. Find a recent news article about an organization that changed its marketing strategy. What were the reasons for the change? How did the organization approach the development and implementation of the new strategy?
2. One of the best sources for shared goals and values to guide implementation is the firm's own mission or values statement. Find the mission or values statement for the organization you identified in Exercise 1. Do you see evidence of the mission or values in the way the organization handled its change in marketing strategy? Explain.
3. Think about the unwritten, informal controls in your life. Develop a list of the controls that exist at work, at home, or at school (or substitute another context such as church, social gatherings, or public activities). Are these controls similar or different? Why?

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	Controls at Work	Controls at Home	Controls at School
Self Control (personal norms and expectations for behavior)			
Social Control (norms and expectations in small groups)			
Cultural Control (norms and expectations in the entire organization)			

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End Notes

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Text and Cases

SIXTH EDITION

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CASE 14

Sigma Marketing: Strategic Marketing Adaptation*

Synopsis: This case reviews the growth of a small, family-owned business, from a regional provider of generic printing services to a global provider of specialty advertising products. Throughout its history, Sigma Marketing has exhibited the uncanny ability to understand market opportunities and to adapt its strategic focus accordingly. As its marketing environment changes, Sigma Marketing gathers information from existing and potential customers to develop the most effective marketing strategy possible. Even in the face of changing technology, communication, and advertising methods, Sigma Marketing has managed to reinvent its mindset and strategies in order to remain successful.

Themes: Changing marketing environments, market opportunities, strategic focus, product strategy, direct marketing, promotion, personal selling, implementation, customer relationships, family-owned business

In 1967, Don Sapit purchased a small printing company in Streator, Illinois, as a hands-off personal investment that would later grow into what is today a successful specialty advertising business located in Orange Park (Jacksonville), Florida. Sigma Marketing has a unique identity that has evolved over the past 45 years from a small-town printing company to a marketing services company with a diverse, multinational clientele. Sigma's marketing history is an excellent example of the strategic shift from a production orientation to a market orientation.

Don Sapit was president of Weston Laboratories, a small research facility in Ottawa, 80 miles southwest of Chicago, when he had an opportunity to acquire Dayne Printing Company. Sapit had been a Dayne client for several years. When Dayne was on the verge of bankruptcy, Don bought the company as an investment while still focusing most of his day-to-day efforts on Weston Labs. The managers of Dayne at the time were willing to stay on and handle the operations with little outside help. Don felt that with the increased volume that Weston would provide, the operation could become profitable within a 12-month period. To enhance the corporate image, the name was changed to Sigma Press, Inc. A new sales manager was hired to focus on the sales aspect of the business, while Sapit took the position of absentee owner. Over the next few years, their efforts provided only minimal increases in sales volume. The business survived, but made little progress—typical

*Mike Sapit, President, Sigma Marketing (http://www.sigmamktg.com), with assistance from O.C. Ferrell and Jennifer Sawayda, University of New Mexico, prepared this case for classroom discussion rather than to illustrate effective or ineffective handling of an administrative situation.

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results for an absentee-owned business. In addition, Sigma mainly focused on the production process and selling generic printing services.

In spite of the slow progress, Sapit saw the potential for turning Sigma into a quality-oriented printing business that could make substantial gains against its local competition. The area served by the shop covered a radius of approximately 30 miles around the city of Streator and had a number of major manufacturing plants that were potential users of substantial quantities of printing. Unfortunately, most of these plants were headquartered in other cities and did not have authority for local purchasing of anything beyond the basic necessities required for daily plant operations. Although Sigma could do custom printing, the small firm did not have a unique niche other than its quality and service.

The Desk Calendar: A Strategic Opportunity

In seeking alternatives to improve sales, Sapit and Sigma's staff developed an advertising desk pad calendar for distribution as a customer gift. Its purpose was to keep the Sigma name, phone number, and list of services in front of the customer as a constant reminder of its existence. It was freely offered to any customer thought to have sufficient volume potential to justify the expense of the calendar and its distribution costs. At the time, Sigma thought of the calendar as a promotional tool for its own business and did not consider the calendar as a product that could potentially differentiate the company and give it a competitive edge.

One of the customers that received the calendar, Oak State Products, an Archway Cookie Bakery, asked whether Sigma could produce similar calendars for them with the Archway advertisement printed at the top. Sigma filled this initial order, and it proved popular with Archway's customers. The next year, Archway asked whether the calendars could be produced with a color photo of the plant in the ad space. This version was so well received that Oak State recommended the use of the calendar as a marketing tool to other Archway Bakeries around the country. Sigma recognized that the opportunity for a new marketing strategy was developing. The small printer with a generic product identified an opportunity to expand its market beyond its small geographic service area.

The sales volume realized from the calendar was not substantial, but Sapit saw in it a good possibility for a totally new marketing strategy, removed from the limitations imposed by Sigma's present sales territory. Furthermore, he conceived a direct marketing effort that would permit sales penetration into a much larger geographical area than was practical to serve with Sigma's limited sales staff.

At this time, Weston Laboratories was sold and Sapit was forced to make a decision to leave the company due to philosophical differences with the new owners. Although Sigma was starting to show potential for very modest profitability and good growth, it was still just barely able to support itself. After a family council meeting in 1971, the decision was made to "tough it out." Sapit chose to enter the Sigma operation on a full-time basis and to prove that it really could become a first-class operation based on a new marketing strategy.

After coming aboard full time, Sapit assumed all marketing and management responsibilities himself. Previously, sales representatives had been making calls on a hit-or-miss basis with no real continuity. Sapit developed a general marketing strategy, which included defining specific sales territories, and developing target markets and sales prospect databases. He also implemented a scheduled mailing program as part of the strategy. On the commercial printing side, a sample "job of the month" was sent to customers and prospects at regular intervals. On the calendar side, direct mail materials promoting the desk calendar to specific target markets were utilized. At that time, direct mail

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promotion of printing services was relatively unheard of in the printing industry. Most of Sigma's competitors performed custom printing based on the needs and projects that the customer desired, and did not promote specific products.

The advertising desk calendar was marketed on the theme of "constant exposure advertising." It was given the product name "Salesbuilder," which moved Sigma into the specialty advertising business. Each customer was offered a standard calendar format with an individual ad imprint customized to fit the needs of the company's business. The imprint could contain line drawings, photos, product lists, or any special information necessary to convey the company's message to customers. Sigma's willingness to encourage attractive and creative designs received immediate attention and acceptance by customers. It set the company apart from the competition, which allowed only "four lines of block type, not to exceed 32 letters." In effect, Sigma was at the forefront of a new specialty-advertising product.

Within a year of Sapit's entry into the business, total volume was up 50 percent; even more important, the response to the calendar marketing effort was starting to show real promise. As a result, Sigma was experiencing the need for additional capital to finance the growth. Capital was obtained through the private sale of one-third of the company to Sapit's friend and colleague, who was a local attorney. The new investor was not involved in the daily operations of the business, but served as corporate secretary, legal counsel, board member, and advisor. The cash raised from the stock was used to help fund the day-to-day operations and expand accounts receivable resulting from the increased volume.

By late 1972, Sigma's commercial printing sales were gaining at a modest rate of increase, but calendar sales were increasing at a rate of 40 percent per year. It was becoming apparent that larger manufacturing facilities would be required in the immediate future or the sales efforts would have to be scaled back. The company purchased a more visible and accessible 5-acre site in Ottawa, Illinois, and constructed a new facility with a focus on improved production as well as image. Sapit decided to capitalize on the new visibility and image by changing the strategic emphasis of the business.

Sigma Expands Its Strategy

Over the next few years, Sigma's strategy was oriented toward building a reputation for producing the most creative and highest quality printing in its service area, which had a 35- to 40-mile radius around Ottawa. Sapit anticipated that this new direction would give his firm a solid reputation as a quality printer, one that fully justified the higher prices it charged. Several of the larger local companies obtained permission from their corporate offices to procure their printing locally. The downstate division of Carson Pirie Scott & Company, a large department store chain, chose Sigma for the production of its catalogs. The new marketing strategy paid off, and total sales volume had increased 220 percent by 1976.

Calendar sales increased slowly but steadily. Management wanted growth, but in an orderly and controlled manner. Management also wanted its growth to be more profitable than the industry average of approximately 5 percent on sales. It was becoming obvious that to be successful in the printing business, Sigma needed to specialize. After long and deliberate discussion during 1976, company management wrote a three-year corporate plan.

The corporate plan emphasized marketing, which at this time was considered unique for a small commercial printer. The marketing plan focused a major share of the sales and marketing effort on building a market for the "Salesbuilder" desk calendar. The target market consisted primarily of smaller corporate accounts; while the marketing program emphasized a quality product and advertising with an internal sales staff, direct marketing distribution, and a superior price point. Space advertising in sales and marketing-oriented publications created substantial numbers of inquiries, but sales levels did not follow. Direct mail,

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primarily to manufacturers, produced a much higher response and return on investment. Sigma had created a unique product that was very flexible in terms of unique designs, advertising messages, photographic techniques, and other special requirements. In short, "Salesbuilder" became a highly effective marketing tool.

Within the next few calendar seasons, large accounts such as Serta Mattress, Domino Sugar, and Borden, Inc., were added to the list of satisfied customers. Reorder rates were very high, usually in the 88 to 90 percent range. Quantities ordered by individual companies tended to increase annually for three or four years and then level off. Total calendar sales had increased at a rate of approximately 40 percent per year during the 1976–1980 period, during which time commercial printing sales increased at a rate of about 15 percent annually.

A Strategic Shift

Because of the success of the new strategy, production capacity was being taxed. In 1979–1980, major capital commitments were made to add a new high-speed two-color press and to purchase, redesign, and rebuild a specialized collating machine to further automate calendar assembly, previously assembled by hand. This opened the way to mass marketing of the "Salesbuilder" calendar line. Direct mail techniques were improved to allow selection of prospects by SIC number and sales volume. A toll-free 1-800 number encouraged direct response by interested parties. Whenever possible, Sigma responded to inquiries by sending a sample calendar that contained advertising ideas related to the respondent's line of business. The sample would be followed up with a personal phone call within two to three weeks. Calendar sales continued to improve until, by 1983, they represented 50 percent of total sales and approximately 75 percent of net profit.

In spite of the success of the calendar marketing programs and attractive profit levels, Sapit was disturbed by trends in the printing industry that pointed toward a diminishing market and increased competition for the commercial segment, particularly in Sigma's local Rust Belt area. Rapid development of new technology and high-speed equipment had caused industry-wide investments in new equipment well beyond immediate need, creating excess capacity. The result was cost cutting and reduced margins.

Sigma's management had for some time been considering selling the commercial portion of its business in favor of becoming an exclusive marketer of calendar products. Through its membership in the Printing Industry of Illinois, a buyer was found for the plant, equipment, and the goodwill of the commercial portion of the business. The buyer agreed to enter into a long-term contract to handle the majority of calendar production for Sigma, using the same plant and staff that had been handling the production for the previous 10 years. The sale was completed in June 1983. This signaled the strategic move from a company based on production to one based on marketing.

Sigma's management now found itself free of the daily problems of production and plant management and able to commit all its efforts to creating and marketing new calendar products. Sapit had a long-standing personal desire to move the business to the Sun Belt for the better weather and, more importantly, for the better business climate. In May 1985, Sigma's corporate offices were moved to Orange Park, Florida. Concurrently, Sapit's son, Mike, a graduate of Illinois State University in graphic arts management, joined the business.

Strategic Refinements

To take advantage of Sigma's marketing expertise, the company took actions to expand its product line to include several additional personalized calendar items. The new items included a year-at-a-glance wall planning calendar, desk diary, pocket diary, and a smaller version of the original desk calendar.

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Sigma had built its calendar business on products that were basically "off-the-shelf" formats that could be imprinted with the customer's advertising message. In the late 1980s and into the 1990s, Sigma began to see a growing demand for products that were totally customized not only in graphic design but in product specifications as well. Sigma's management saw a market for a new line of "super customized" calendars targeted to medium-to-large corporations with a substantial customer base. These companies were service oriented with large advertising budgets, thus creating the potential for very large orders. The market was relatively small in terms of number of companies, but very large with respect to total sales potential. It would require a totally different marketing approach than previously utilized.

Test advertisements for custom-designed calendars were run in *Advertising Age* and in several marketing trade journals. These advertisements appealed to larger corporate accounts. In addition, the Sigma sales staff became much more aggressive in searching out individual accounts that appeared to have high potential as customized calendar customers. Prospects were researched, and contacted by phone and mail, to determine the individual with the responsibility to specify and authorize this type of purchase. Unsolicited samples of several different customized products were sent via FedEx in order to attract attention. Each prospect was followed up by a phone call within a few days to confirm interest and provide additional information.

The goal was to establish Sigma as a publisher of high quality, creatively designed custom calendars. Initial response to the new marketing strategy was good, with indications that the blue chip companies could, in fact, be reached through this approach. To reach its growth goals, Sigma felt it had to be successful in this marketing strategy. This type of highly customized product design was very demanding on the creative staff. Because only 10 to 15 new accounts of this type could be handled each year, it was important that creative time be spent on high-potential accounts. The new strategy was successful in landing substantial orders from Nabisco, Fidelity Investments, and FedEx. Realizing that these blue chip companies were consumers, Sigma focused the entire organization on meeting five customer needs: (1) flexibility, (2) production of a quality product consistent with the client's image and marketing goals, (3) personal service and attention from beginning to end, (4) fair pricing, and (5) timely, efficient fulfillment.

Sigma's Total Service Package

With the blue chip accounts, Sigma realized that it had to be able to offer its products on a turnkey, or concept-through-fulfillment, basis. Many of these corporations wanted to use a calendar program, but were not able to devote staff, time, or expertise to such a project. Sigma offered the solution—handling the entire calendar promotion, including conception, design, production, and delivery—so that customers could devote their time to more productive efforts, confident that their calendar program was running smoothly and efficiently. They dubbed this the "Total Service Package."

In order to provide total service effectively, Sigma installed new computer equipment and programs to enable comprehensive order fulfillment for a variety of programs. Special shipping manifest programs were developed to simplify the handling of large quantities of drop shipments. From established customer lists or those generated through Sigma's direct order programs, calendars could be shipped to as many as 20,000 locations for a single account. This was particularly helpful to accounts that had dealers or customers scattered across the country.

The business grew rapidly from 1985 to 1990, and by 1991, Don and Mike Sapit saw a new opportunity to expand the business again. After carefully analyzing the characteristics of its buyers and their buying decisions, Sigma found new market opportunities.

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During its first 15 years in the promotional calendar business, Sigma focused on large companies that usually distributed their promotional calendars through their sales forces to customers. These companies usually supplied Sigma with the basic idea for their calendar promotion, including an imprint or art design for the firm's individualized calendar.

With its own computer order tracking and manifest system in place, Sigma was able to offer its customers and prospects an efficient and cost-saving order and distribution system. With a customer-supplied list, Sigma began marketing the calendars directly to the customer's distributors. Flyers and samples were produced and mailed by Sigma. Orders were then returned directly to Sigma. This process allowed individual distributors or a single branch to include its own imprint on the calendar. A customer list may have over 10,000 names, and a single order may consist of over 1,000 different imprints. Because each customer has its own requirements, a staff member dedicated to personalized service is assigned to each customer. Sigma learned how its customers made decisions about specialty advertising purchases such as promotional calendars and then developed a program to satisfy the needs of purchasing agents and buyers in large organizations. The strategy was very successful, and during the 1990s, the company added prime accounts such as Milwaukee Electric Tool Corporation, Hoffman LaRoche, Inc., International Paper Company, and Nabisco Brands, Inc.

An Emphasis on Implementation

After focusing on the "Total Service Package" approach as its primary marketing strategy, Sigma experienced a large increase in corporate clientele with very specialized product and service requirements. The "Salesbuilder" orders that were the foundation of the business became secondary to "programs"—larger corporate accounts with networks of dealers, franchises, or sales representatives to place orders—as well as multiple products and services offered as part of their calendar promotion. Sigma's reputation was bolstered by strong clientele references and testimonials. Companies were drawn to the custom calendar vendor known for high-quality products and a staff with tremendous flexibility and creativity. In an effort to distance itself from competitors, Sigma improved on the "Total Service Package," which had become an important part of its marketing strategy. Customers were surveyed before and after they received the product, and large corporate account contacts received a visit from their account representative early in the year to review the previous year's program and begin laying groundwork on the upcoming promotion. In addition, international promotions and shipping became important aspects of several large accounts. Account representatives began developing large corporate accounts by promoting multiple products, while some promotional items beyond calendars were produced in an effort to maintain exclusivity with a client.

The company continued to add to its list of satisfied customers such prime accounts as Unisource, xpedx, Volvo Cars, Volvo Trucks, Ditch Witch, and Enterprise Leasing. Mega-accounts also came on board, such as Yellow Freight Systems (including all of its subsidiaries) and CNH, the parent company that brought along the business of its multiple operating divisions including Case IH/Case Construction and New Holland Agricultural/New Holland Construction.

After many instances of being asked by corporate clients to include additional advertising products as companion pieces to their calendar program, management began to consider the viability of becoming an ASI (Advertising Specialty Institute) dealer distributor. The annual cost was acceptable, considering the cost savings to be realized in

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purchasing specialty items and specialized printing products wholesale through ASI vendors. Sigma became an ASI distributor in March of 2000, providing new and useful resources to enhance the calendar programs and meet specific needs of established customers. The ASI resources opened up new markets for additional business from many of their existing customers, without the need to aggressively sell the specialty promotions segment of business and without diluting the focus on calendar programs.

Customer demand led to changes and the expansion of the sales and administrative areas, as well as the graphics department. A stronger focus on the service aspect of the business was a strategic move for the sales and administrative areas, resulting in the creation of a dedicated customer service department. Sigma also saw tremendous growth in its graphics capabilities—a response to the major technical changes in the printing industry itself, as well as the needs of its customers.

Despite the additional staff and resources, the demand from program accounts was so great that the company was in danger of overselling its production capabilities. Recognizing that possibility, Sigma became more selective in its marketing efforts for program accounts. The company also began to reevaluate the potential of smaller, easy-to-produce and profitable "Salesbuilder" calendar orders as a product to be marketed on their corporate e-commerce website, suitable for smaller companies that could not support a completely customized program.

Linking Technology to the Marketing Program

In the late 1980s and early 1990s, Sigma offered limited in-house design/layout services. Prior to desktop publishing, type was set, paste-ups were created, and film was shot manually on a camera. Graphic needs beyond the company's capabilities were outsourced to service bureaus. Even though Sigma's capabilities were limited, very few of its customers had complex needs or technologically capable marketing departments.

With the onset of the digital age, Sigma's technology was forced to change. Sigma's pre-press capabilities were transformed over a 10-year period. Graphics workstations became an integral part of the business, with increasing storage capacity and applications to handle larger and more complex files. In the mid 1990s, a digital image setter replaced the old camera and film technology. That evolved in less than 10 years to a direct-to-plate workflow with color management, digital color proofing, and multiplatform capability. Photos are now almost completely digital—scanning is becoming a thing of the past—and many customers have their own in-house design and graphics staff that work closely with Sigma's graphics department. The sophisticated technology created the need for advanced training and continued education and upgrades. Sigma's management has maintained a commitment to stay in the forefront of graphics technology through strong staffing and investment in equipment and software applications.

The mid-1990s also ushered in the company's Internet presence and online capabilities. A corporate identity on the Internet is absolutely essential in today's marketplace, and Sigma has taken the additional steps to utilize the Internet for e-commerce, namely product promotion and ordering capabilities. Many of the company's larger clients demand online ordering and communications with their networks in order to maintain their accounts.

Upgrading technology on the administrative side has allowed the company to better serve its customers. A centralized file and information system has integrated many previously separate functions and increased flexibility among the staff. Sigma is now online with several transportation companies, making package tracking an easy task. The company has added many features with the improved technology, such as direct invoicing, credit card sales, digital faxing, and proofing online or via e-mail.

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Sigma's Current and Future Marketing Strategy

During Sigma's expansion period, Don began to turn over the daily operations of the business to his son Mike. In early 1996, the transition was complete, with Mike in full charge of the business. Don has retired but remains chairman of the board, acting in an advisory capacity. Stock was purchased back from Don's attorney/colleague who had invested in the company many years ago, and Sigma issued stock to key employees, creating a greater sense of ownership and commitment to the business. A major concern was to develop personnel strategies and a succession plan in the event of Mike's death or disability. Key employees with long tenure will soon be considering retirement, and the skills held by management and key employees would need to be taught and transferred to newer employees. In 2007, a succession plan was developed for the company to ensure its continuation.

In 2009, Jeff Sapit joined Sigma as marketing production manager, the third-generation of his family to become involved in the business. Jeff has a different educational background focusing more on management and marketing. While his father Mike Sapit's college education was in graphic arts—and initially he was much more concerned with operations and production—Jeff brings a perspective to the firm that differs from both his father and grandfather. Mike's goal is to allow his son considerable freedom in contributing to the strategic plans on Sigma. Mike wants to allow Jeff to apply his education and experience in developing new products and expanding Sigma's markets.

Annual marketing meetings have been scheduled each year since 1991 for staff members to meet and review the past year, addressing and solving both internal and external problems. The meetings encourage teamwork, foster company loyalty, and increase employee's knowledge about Sigma's status in the marketplace. In addition to the business meetings, the company has also conducted a number of pleasure trips for employees (sometimes with their spouses and/or families) to promote stronger personal relationships and interaction. The employees have visited a number of resort complexes and major cities, and even sailed together on a cruise ship to the Caribbean. These events have contributed to a strong sense of community and teamwork among the employees. Sigma has constructed a diverse team of people with a wide range of skills, each playing a key role in the overall success of the company. Sapit believes that the knowledge and skills of his employees are an important part of what gives Sigma its edge.

One of Sigma's many strengths is the ability to understand market opportunities and to develop and continue to adapt its strategic focus. This ability has enabled the company to maintain a 90 percent repeat customer rate. As the environment changes, Sigma gathers information from existing and potential customers to develop the most effective marketing strategy. For example, as more companies become concerned about sustainability issues, particularly renewable resources, Sigma has responded. In 2008, Sigma became a Chain-of-Custody (CoC) certified company with the Forest Stewardship Council (FSC)—a designation that ensures the integrity of the paper supply chain (forest to mill) by certifying that the paper used by Sigma comes from responsibly managed forests. The following year, the company became certified with the Sustainable Forestry Initiative (SFI) and the Program for the Endorsement of Forest Certification (PEFC). Chain-of-Custody certification is a response to the demands of Sigma's customers and the company's own desires to reduce their environmental impact.

In the future, there will be new challenges, including the changing environment related to technology, communication, and methods of advertising. So far, potential competitors like Google or other specialty advertising methods have not replaced the printed calendar. However, Sigma's team is aware that the industry is constantly changing, and that to survive, the company must adapt.

WALTER CRONKITE SCHOOL

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The latest recession led to changes for both Sigma and its competitors. Sigma's rivals consist mainly of other specialty advertising companies. Many of these companies began outsourcing certain functions during the recession, which has enabled them to expand into selling other customized products such as pens. Businesses also began to desire more economical customized products during the recession. All of these factors created a more competitive environment, leading Sigma to develop cost-effective products for their customers. This allowed the company to maintain existing customers and even bring back customers that had purchased from its new competitors. Sigma changed its sales focus from a custom calendar company to a customer calendar "solutions" company. This change has allowed the firm to tap into an asset that does not equate to a price tag but that offers clients exceptional value. It also emphasizes Sigma's ability to develop solutions to meet customers' unique specialty advertising needs.

Another adaptation has led to a new opportunity for maximizing resources and increasing revenue. While much of Sigma's printing and bindery work is done at its partner production facilities in Ottawa, Illinois, Sigma has recently purchased and installed several pieces of equipment in its corporate office in Orange Park, Florida, to aid in the production of promotional materials and specific calendar projects with smaller quantities. This equipment consists of color digital laser production printers and small bindery equipment, such as a cutter, folder, punch, and other binding equipment. By producing most of its calendar promotional materials (such as brochures, flyers, order forms, and envelopes for direct mail) in its Orange Park office, as well as some of the actual calendar products or components themselves, Sigma is able to realize substantial savings in production costs. Sigma is also able to better control the quality and timely distribution of materials produced in-house.

With the expansion of its internal production capabilities has come the opportunity to more fully utilize this new equipment and to increase production. Plans are underway to sell other color digital printing and graphic design services to Sigma's established calendar customers as well as the local business market. By targeting specific customers who have regular projects that are well suited for Sigma's equipment (such as newsletters, brochures, flyers, reports, business cards, booklets, and postcards), Sigma hopes to maximize the production value of the equipment and staff, particularly during the time of year when calendar production is paused. This is a swing back to Sigma's commercial printing roots with a twist: using digital technology and targeting a specific market with compatible printing needs.

Additionally, Sigma's ASI sales have been expanded over the past couple of years to new markets as well as to select calendar customers. One of Sigma's new sales reps brought specific expertise in the local school markets, and the company was able to dovetail on this expertise by focusing its ASI efforts to that client base. Those efforts brought Sigma increased experience and sales in the apparel market, which it was then able to use in expanding services offered to other corporate clients. In 2011, one of Sigma's mid-sized calendar program clients, E-ONE, awarded Sigma an additional contract for managing its corporate web store and supplying promotional items and corporate apparel for its Welcome Center store, as well as for awards, dealer promotions, trade shows, and conference support. The expanded ASI-related sales, along with the digital printing services, should give Sigma the cushion it needs to continue its corporate calendar promotions as a more integrated product line.

Conclusion

Throughout its history, Sigma Marketing has exhibited the uncanny ability to understand market opportunities and to adapt its strategic focus accordingly. As its marketing environment changes, Sigma Marketing gathers information from existing and potential

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customers to develop the most effective marketing strategy possible. Even in the face of changing technology, communication, and advertising methods, Sigma Marketing has managed to reinvent its mindset and strategies in order to remain successful. Sigma's long-held philosophy is "always be prepared." In the words of Mike Sapit, "The future is bright."

Questions for Discussion

1. Discuss potential key changes in technology, communications, and competition that Sigma will face in the future. Which will have the most impact on Sigma's future marketing strategies?
2. Prepare a SWOT analysis for long-term strategic planning at Sigma Marketing.
3. Suggest some possible strategic initiatives that Sigma could pursue to continue its growth.

Sources

The facts of this case are from the personal knowledge of the author; Sigma Marketing website (http://www.sigmamktg.com), accessed August 9, 2012; and "Up Close with Mike Sapit, President of Sigma Marketing," *HPxpressions*, pp. 14–15.

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Marketing Strategy

Text and Cases

SIXTH EDITION

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CASE 17

IKEA Slowly Expands Its U.S. Market Presence*

Synopsis: IKEA is known around the world for its stylish, quality, and low-cost furniture and home furnishings. The company's success is based on a strategy of operational excellence in production, supply chain operations, and marketing. IKEA—wildly popular in Europe—has leveraged its brand reputation to penetrate markets in other countries. However, its penetration of the U.S. market has been hampered by a weakened economy and the inconsistency between the traditional U.S furniture market and IKEA's low-cost operating philosophy. IKEA must find a balance between its operational excellence strategy and U.S. consumers' demands for customization, good service, convenience, and quality.

Themes: Operational excellence, target marketing, product design, branding strategy, positioning, global marketing, pricing strategy, supply chain strategy, retailing, implementation, customer relationships, SWOT analysis, strategic focus

When 17-year-old Ingvar Kamprad founded IKEA in 1943, he could not have imagined that his company would become one of the world's most popular and iconic brands or the world's largest home furnishings retailer. The IKEA name is a combination of Kamprad's initials (IK) and the first letters of the farm (Elmtaryd) and village (Agunnaryd) in southern Sweden where he grew up. From the beginning, IKEA was founded on different principles—namely, frugality and low cost. Most furniture companies offer personalized service and advice in lavish showrooms where salespeople compete for sales commissions. Kamprad, however, recognized that customers are willing to trade off typical amenities to save money. Today, the no-frills frugality is the cornerstone of the IKEA caché and one of the reasons for its immense popularity.

IKEA operates under a unique corporate structure. When Kamprad founded the company, he wanted to create an independent organization that would be sustainable for the long term. Since 1982, the Stichting INGKA Foundation, a Netherlands-based charitable foundation, has owned the IKEA Group. Many estimates peg the foundation as one of the world's wealthiest charities—worth an estimated $36 billion. INGKA Holding B.V., also based in the Netherlands, is the parent company for all IKEA Group companies. The IKEA Group includes IKEA of Sweden (which designs and develops all IKEA products), Swedspan (which makes environmentally friendly wood panels), Swedwood (which makes all IKEA furniture), the sales companies that operate IKEA stores, and all purchasing and supply chain functions. This type of ownership is unique in that the foundation is a nonprofit organization designed to promote innovation in architectural

*Christin Copeland and Michael D. Hartline, Florida State University, prepared this case for classroom discussion rather than to illustrate effective or ineffective handling of an administrative situation.

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and interior design. Some criticize IKEA's ownership as an arrangement that leverages the uniqueness of Dutch law to avoid taxes and prevent a hostile takeover attempt.

Today, IKEA is Sweden's best-known export. The company had 2011 worldwide sales totaling EUR 25.2 billion and an average annual growth rate of almost 7 percent. Roughly 79 percent of IKEA's sales come from operations in Europe, with North America and Russia/Asia/Australia contributing 14 percent and 7 percent, respectively. The company has 131,000 employees and more than 325 IKEA stores in 38 countries, with 287 stores in 26 countries belonging to the IKEA Group. The remaining stores are owned and operated by franchisees. The first U.S. IKEA store opened in Philadelphia in 1985. Today, there are 38 U.S. stores, with 11 stores in Canada. IKEA had originally planned to have 50 stores operating in the United States by 2010, but the 2008–2009 worldwide economic recession slowed IKEA's plans.

The IKEA Concept

The backbone of IKEA's success is "The IKEA Concept," which serves as both the company's vision and core operating philosophy:

> *The IKEA Concept: Provide functional, well-designed furniture at prices so low that as many people as possible will be able to afford them. Creating a better everyday life for the many people.*

The IKEA Concept guides every aspect of how the company's products are designed, manufactured, transported, sold, and assembled. To transform the IKEA Concept into reality, the company provides stylish, functional, low-cost home furnishings that customers must assemble themselves. Furniture products are shipped in flat packs to save money on manufacturing and distribution, which IKEA then passes on to customers in the form of lower prices at retail. To compensate for the customer having to "do it yourself," IKEA offers other services that make this proposition a little more attractive. These extra services include in-store child-care and play areas, restaurants, and longer store hours. To help visitors prepare for this experience, IKEA provides its customers with pencils, paper, tape measures, store guides, catalogs, strollers, and shopping bags. IKEA even offers delivery for the bulky items that customers cannot carry themselves. For those who want to carry their own bulky furniture home, IKEA rents carracks for convenience. IKEA stores are designed as a circle so that everything can be seen no matter in what direction the customer is headed. The aisles are wide to reduce traffic congestion that could occur when customers stop to look at different showrooms and displays.

Production

IKEA's key objective regarding production is to establish and maintain long-term supplier relationships. When designing new products, IKEA actually begins with a target retail price in mind, and then works with thousands of suppliers in over 50 countries to find the lowest cost way to manufacture that product. Its oldest suppliers are Swedish; however, other major suppliers are located in China (22 percent), Poland (18 percent), Italy (8 percent), and Germany (4 percent). IKEA accounts for approximately 10 percent of the furniture market in each country where its products are manufactured.

One strategy that IKEA has implemented is to place its trading offices in countries around the world to localize operations. This gives IKEA leverage to increase production capacity (that is, labor hours and purchasing materials) when needed. The strategy also allows IKEA to closely monitor manufacturing performance. Producing high-quality products at the lowest possible cost drives IKEA's production mentality. In addition to local

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trading offices, IKEA also manages production through long-term contractual relationships based on bulk buying. Committing to high-volume purchases over a longer time frame allows IKEA to dramatically cut costs. Additionally, IKEA is in a position to offer its suppliers financial assistance if necessary. This optimization is key to achieving the low-cost business model that IKEA wants to maintain.

Cost consciousness dominates all aspects of IKEA's operations. In land acquisition, IKEA locates stores on property just outside of target cities. In production, the remnants of fabric and wood used for products are used to create more products. IKEA uses natural colors to cut production costs and increase social responsibility to the environment through the manufacturing process. Across its distribution centers, flat packages are used to efficiently transport the large bulk of products from suppliers to IKEA stores. The use of flat packages lowers warehousing and distribution costs and the environmental impact throughout the supply chain.

IKEA's production goals also include a strong sustainability component. The company has partnered with the World Wildlife Federation and the Forestry Stewardship Council to ensure that raw materials (primarily wood and cotton) come from responsibly managed and sustainable sources. IKEA helps educate cotton farmers in India, China, Pakistan, and Turkey to use sustainable methods, such as reducing water, pesticides, and fertilizers. Currently, 16 percent of wood materials and 24 percent of cotton materials come from sustainable sources. In addition, IKEA has a goal to obtain 100 percent of its energy from renewable resources. The company operates its own wind turbines and solar systems to power both stores and distribution centers. Today, 51 percent of IKEA's energy comes from sustainable sources.

Marketing

IKEA's marketing program has four focal areas: product design, catalogs, advertising, and public relations/promotions. IKEA's product designs are arguably the most important part of its brand image. Customers love the clean lines, frugal styling, and caché that ownership affords. IKEA admits that creating stylish and inexpensive products is a challenging task. To fulfill its vision, the company's full-time and freelance designers work closely with in-house production teams to pair the appropriate materials with the least costly suppliers. Though the work is tedious, IKEA is well known for its product innovation.

IKEA's main marketing focus is its printed catalog, where the company spends the majority of its annual marketing budget. The 300- to 400-page catalog is produced in 59 different editions in 30 languages. In 2012, 211 million copies were put into circulation. New for 2013, the IKEA catalog featured special symbols that are readable by IKEA's iPhone and Android apps. When users scan the symbols, they are presented with an augmented reality experience that allows customers to see the company's products more in depth. The apps also offer 3D models of products and how-to videos. A similar experience is available online where customers can view products and download free programs to help redesign kitchens, bathrooms, and bedrooms. The website also provides information about each store's local events and promotions, services, and product specials. Because the website offers limited online purchasing capabilities, customers are often forced to visit the stores to buy products. Approximately 30 percent of IKEA's product line is available for online purchase.

In addition to the catalog, IKEA also uses television, radio, and Internet-based communication to reach its target customers. The company's advertising is intended to increase both brand awareness and store traffic. Some of the company's advertising is controversial, especially ads that portray gay customers or sexually suggestive storylines. IKEA has even taken its advertising to the streets in Italy (with a graffiti campaign) and in Paris (where a complete IKEA furnished apartment was installed in the Paris

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underground). Advertising, however, is not a major focus of IKEA's promotional efforts. The company prefers to rely on word-of-mouth communication. This is reflected in its use of social media. For example, IKEA's Facebook pages provide up-to-date information on company activities, sales, and local store events. IKEA's U.S. Facebook page boasts over 1 million fans, while its international pages have several hundred thousand fans each. Several thousand fans typically follow each local store page.

Local store events are another key marketing focus for IKEA. The San Diego, California, store offers birthday parties for children on the first Tuesday of every month. The Atlanta, Georgia, store features activities such as culinary tasting events, face painting, college student activities, and fundraising events for local charities. In a unique promotion prior to the grand opening of the Atlanta store, IKEA managers invited locals to apply for the post of Ambassador of Kul (Swedish for "fun"). The five winners of an essay contest received $2,000 in vouchers, had to live in the store for three days, sleep in the bedding department, and participate in contests. Finally, the entire IKEA family holds "Antibureaucracy Weeks" on a regular basis. These are times when executives work on the shop floor or stockroom, operate cash registers, and even load trucks and cars for IKEA customers. This simple step goes a long way in upholding the IKEA culture and maintaining employee morale.

IKEA's marketing program is designed to be thrifty but still effective. In fact, all of IKEA's marketing activities are designed to maintain a downward pressure on operating expenses. For example, in most stores, IKEA does not accept checks—only cash or credit cards, including its own "IKEA Card." This helps to reduce IKEA's accounts receivable and eliminates the need to maintain an expensive collections operation. With policies like these, it is not surprising the company's operating margin of 10 percent is among the best in the home furnishings industry. And, despite its low cost and price model, IKEA aims to cut prices by an average of 2 to 3 percent every year.

The Future of IKEA's U.S. Expansion

IKEA considers the United States an important part of its plans for global expansion. The U.S. standard of living is higher than most countries; however, most American consumers actively buy into the cost-conscious mentality. The value of the U.S. dollar is stable and not prone to wide exchange rate fluctuations. The United States has very high Internet usage, and IKEA's sustainability efforts are welcomed by a wide margin of the consuming public. Another factor that makes the United States favorable to IKEA is its melting pot of cultures. The IKEA Concept can appeal to the different lifestyles and ways of life found in the United States.

Despite these advantages, IKEA must address two key issues regarding U.S. expansion. The first is the need to adapt to the preferences of U.S. consumers. American consumers are very demanding and tend to reward marketers that go out of their way to address individual tastes and needs. Further expansion into the U.S. market will require IKEA to adapt its offerings and stores to local tastes—a marketing strategy that is much more expensive to deliver and contrary to IKEA's cost-conscious operating philosophy. IKEA's franchised structure is well suited to this task. This allows IKEA to get closer to customers by hiring local employees that represent the same values, cultures, and lifestyles of the local area. Another adaptation issue involves IKEA's promotional strategy, which must be tailored to U.S. standards. For example, most of IKEA's television commercials are considered too "edgy" for American viewers.

The second key issue is quality. Although American consumers are increasingly value-driven, they also demand quality products. In this regard, IKEA's low-cost, do-it-yourself concept misses the mark for many potential furniture consumers. Many Americans view

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self-assembled furniture as being lower in quality, and similar to the types of furniture one might buy at Walmart or Target. The particleboard construction often used in these products has tarnished consumers' perceptions of do-it-yourself furniture.

Facing these challenges, IKEA's U.S. expansion has moved slowly. The company opened only three U.S. stores from 2009 to 2012 and does not plan to open any new U.S. stores in 2013. IKEA's low-cost, do-it-yourself marketing strategy is not a perfect match for U.S. tastes in furniture retailing, nor does the company have the financial resources and marketing experience to roll out a large number of products and stores simultaneously. The most recent economic conditions have not helped either. As the company looks toward further expansion into the U.S. market, it must consider a number of relevant issues in both its internal and external environments.

IKEA's Strengths

Low Cost Structure IKEA's low cost structure has been the very essence of its success. Being that low cost measures are ingrained into IKEA's corporate DNA, the company does not have a hard time tailoring its operations around this business model. This model also pairs nicely with customers who appreciate IKEA's operating style. Furthermore, IKEA's low cost structure has kept the company profitable while competitors, such as Pier 1 in the United States, are struggling. Despite the state of the economy, IKEA has continued to see positive revenue growth. IKEA has continued to use every possible avenue to maintain its low cost structure and competitiveness without compromising customer value.

Corporate Culture IKEA values antibureaucracy in its operations, and strongly follows worker and environmental protection rules. These tenets are codified in the company's code of conduct know as "The IKEA Way." The company's culture is based on the core values of togetherness, cost consciousness, respect, and simplicity. Kamprad once said, "Work should always be fun for all colleagues. We all only have one life; a third of life is work. Without desire and fun, work becomes hell." To ensure the company culture is upheld, the company looks for very specific traits in potential employees. IKEA's managers look for people who "display a desire to learn, motivation to do things better, common sense, and the ability to lead by example." The company believes in keeping employees happy by engaging in activities throughout the year that promote well being and job satisfaction. These are all reasons that IKEA has been ranked in *Fortune* magazine's annual list of "100 Best Companies to Work For" on many occasions.

Do-It-Yourself Approach IKEA maintains its low-cost business model by creating a different furniture shopping experience. IKEA supplies customers with all possible materials needed to complete their shopping when they enter the store (that is, measuring tape, paper, and pencils). The floor has showrooms displaying IKEA furniture with multiple accessories that will accentuate the style. With this approach, customers do not have to be bothered with salespeople who work on commission. Customers can pick and choose among the different options of accessories that they would like to use with furniture. Many customers appreciate the feeling of accomplishment that comes from doing things for themselves. For those customer who do not like the DIY approach, IKEA offers assembly services and home delivery options.

Added Amenities Although IKEA is not set up as a traditional furniture store, the company does provide several added amenities. IKEA rents car racks that customers can use to get bulky items to their homes. IKEA also provides child-care services to

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give parents time to shop. Once their children are in a safe place, parents will delegate more time to browsing and purchasing IKEA furniture and accessories. The company also provides restaurants in some of its stores to encourage customers to stay a little longer. Offering breakfast, lunch, and dinner, the restaurants also generate strong profits for the company each year. Customers can also schedule consultations with professional designers. In sum, the IKEA experience is designed to make the stores destinations in themselves. IKEA wants the customer to feel as if there is not a rush to leave the store and customers can do more than just shop for furniture.

Brand Image There is no denying that brand image is a key strength for IKEA. Even if they have not been in a store, most people around the globe recognize the blue and yellow logo as a symbolic representation of trendy, modern, and fashionable furniture. Customers flock to the furniture giant to experience what *BusinessWeek* has referred to as "IKEA world, a state of mind which revolves around contemporary design, low prices, wacky promotions, and an enthusiasm that few institutions can muster."

Part of IKEA's brand strength comes from its wide array of products that exude a high-quality, low-cost focus. The company offers home furnishings and appliances for the bedroom, bathroom, and kitchen, as well as furniture for business offices. In addition to home furnishings, the company sells accent pieces and everyday products such as rugs, linens, and kitchen utensils. Some of the company's newest ventures include home building materials. Customers can build an IKEA home with reasonably priced, environmentally friendly materials.

Strong Focus on Sustainability IKEA considers the environmental impact of every step in its business processes by making products that are environmentally conscientious and cost-effective. Suppliers are required to comply with strict environmental standards and to use as much renewable, reusable, and recycled materials as possible. With wood as a primary source of material, IKEA also employs field specialists to ensure the wood obtained comes from responsibly managed forests. From product design to disposal, the organization truly practices what it preaches in terms of its environmental responsibilities.

IKEA's Weaknesses

Do-It-Yourself Approach Some customers may not appreciate IKEA's do-it-yourself approach. IKEA targets young, cost-conscious customers who want stylish furniture. However, these same consumers also like convenience and usually have the money to pay for it. For them, the time and effort involved in shopping for furniture, bringing it home, and assembling it may not be worth it. Furthermore, some customers enjoy having a conversation with a salesperson and getting individual ideas and advice from employees. These customers may continue to buy furniture from traditional retailers.

Limited Customization To ensure alignment with its low cost structure and easy-assembly promise, IKEA's products are very basic and simple in terms of both structure and design. The ability for individualized customization is limited. Many American consumers prefer items with more style, accent, and color options.

Limited Promotional Expenditures IKEA does not spend an enormous amount of money on promotion. Instead, the company depends on word of mouth and catalogs to generate a buzz among customers. Sadly, most U.S. consumers are not highly responsive to catalog marketing, making IKEA's bread-and-butter promotion less efficient and

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cost-effective for the U.S. market. American consumers also watch television and use the Internet more often than consumers in other countries. However, most of IKEA's television commercials are unknown outside of the United Kingdom. Further, many of the company's ads are controversial and not suitable for a U.S. audience. As a result of these issues, IKEA may be missing out on a larger potential customer base.

Weak Online Support Many aspects of the company's website leave much to be desired. Although product descriptions are available, many of the items shown cannot be ordered online. IKEA basically forces consumers to shop at their nearest brick-and-mortar locations. Because IKEA's physical presence in the U.S. market is small, the company is losing valuable sales due to its lack of online buying options.

IKEA's Market Opportunities

Economic Conditions IKEA's low-cost, high-quality strategy fits with the relatively weak state of the U.S. economy. As many consumers look for ways to cut personal spending, IKEA is well positioned to be a logical choice for home furnishings for the cost-conscious customer. Most American consumers still ascribe to a value-dominant logic when it comes to purchasing goods and services. However, these customers want not only high quality at a good price but also convenient access and timesaving services. IKEA can play into this buying logic but may have to expand its service offerings to increase customer convenience.

Demand for Convenience The number of consumers shopping online continues to rise. With the average schedule getting busier, technically savvy consumers increasingly enjoy the convenience and ease of online shopping. Comparison shopping is also a convenience afforded by the Internet that could allow IKEA to dominate the low-cost, quality furnishing sector. Offering convenient online shopping experiences would fit well with IKEA's low cost structure because it would allow them to sell items using a distribution network instead of a complete reliance on physical stores and their higher overhead costs. Convenience factors within IKEA's stores, such as restaurants and daycare, are already well suited to customer needs.

Popularity of Stylish, but Sustainable, Products Swedish design—the simple, futuristic, edgy, and fashionable designs offered by IKEA—is popular among consumers overall. In addition to style, consumers are also interested in "green" products that enhance the sustainability of natural resources. The recent corporate movement toward "green" practices is becoming more prevalent, and consumers are becoming more aware of a company's carbon footprint. IKEA is well positioned to take advantage of this trend.

IKEA's Market Threats

Competition Several other large retailers are vying for the do-it-yourself furniture segment. As consumers become more cost conscious in today's economy, the offerings of traditional bricks-and-mortar stores such as Home Depot, Target, and Walmart become more acceptable. IKEA also faces online competitors such as BluDot.com and Furniture.com. BluDot is a direct IKEA brand competitor that also claims to offer quality, unassembled furniture at low prices. It too offers simply designed and modern furniture. Furniture.com is a product competitor that uses the traditional furniture store concept but offers the ease and convenience of online price and product comparison.

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Changing Customer Needs/Tastes Customers' needs and tastes constantly change. At some point, customer interest in Swedish design and do-it-yourself furniture will wane. This is especially true as the U.S. population continues to age. The typical baby-boomer consumer demands quality, values his or her time, and appreciates convenience more than saving a few dollars. Overall, there are relatively fewer younger customers—IKEA's main target market—as compared to baby boomers. The end result is a likely decline in demand for trendy, low-cost furniture. IKEA's low-cost and high-quality designs might appeal to some baby boomers, but the inconveniences associated with the company's DIY approach probably send them looking elsewhere.

Mature Market Preferences Most American consumers have preconceived notions of what the "best of the best" is when it comes to specialty furniture and furnishings purchases. For example, the average consumer may not purchase a mattress from IKEA because it is not a Select Comfort, Sealy, or Simmons mattress. Although IKEA focuses strongly on high-quality products, in the U.S. market the company must compete with well-established companies that have earned significant brand awareness.

Questions for Discussion

1. Given the SWOT analysis presented in the case, what are IKEA's key competitive advantages? What strategic focus should the company take as it looks to further expand into the U.S. market?
2. What factor is the biggest reason for IKEA's growth and popularity: value or image? Which is more important in the U.S. market? Why?
3. What strategic alternatives would you suggest IKEA employ to further penetrate the U.S. market?
4. Speculate on what will happen at IKEA stores as they are adapted to fit local tastes. Is the company's trade-off of service for low cost sustainable in the long term?

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