URBAN
6.20.10
Draft

KOTLER ON STRATEGIC MARKETING

BY

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1.0 Introduction: Philip Kotler's Contributions to the Field of Marketing

Philip Kotler's status as a major thought leader in marketing is widely recognized. By now, so much has been spoken and written about his contributions that it is a daunting task to attempt to add to the stock of insight and respect that has been already expressed for the many ideas that he has given us. Nonetheless, we welcome the opportunity to register our own appreciation for his achievements. Moreover, in order to provide background and establish context for the subset of his papers that address issue of Strategic Management included in this volume, we feel that we have an obligation to first offer our perspective on the nature of Philip Kotler's overall contributions to marketing thought and practice. To this end, we emphasize his contributions in three broad areas: conceptualizing the role and tasks of marketing management; broadening the concept of marketing, and pioneering quantitative marketing. Clearly, Phil Kotler has been an "early mover" in advancing the frontiers of marketing theory and practice and has repeatedly exhibited a keen sense of how and where the field would develop and flourish.

First, Kotler has developed numerous comprehensive frameworks that integrate insights and knowledge from diverse disciplinary sources and knowledge of practice so as to inform and enrich our understanding of marketing management. His contributions are to be found not only in numerous journal articles but also in his widely used text, *Marketing Management: Analysis, Planning, Implementation, and Control*, first published in 1971 [fact check this with Phil] and now in its 13th edition (2009). Virtually all of the foursome of us responsible for the introduction to this volume learned marketing from Kotler's text, either as students or as a faculty teaching MBA's.

Second in addition to these frameworks, Phil was present at the founding of the movement to "broaden and further the concept of marketing." Through numerous widely cited papers and dozens of books he and his co-authors have imaginatively taken marketing to new sectors, places, and organizations. In expanding the boundaries of the field, he has deepened our understanding of its essence and practice by demonstrating both the generality of the role and function of marketing and the contingent nature of marketing strategies and policies.

Finally , he was an early pioneer of quantitative marketing. He wrote a series of review articles on modeling at the formative stages of the field of marketing science and a massive volume, *Marketing Decision Making: A Model Building Approach,* first published in 1971 that became the indispensible reference work for both faculty and doctoral students. The current version, *Marketing Models* (1992), co-authored with Gary Lilien and Sridhar Moorthy, continues to occupy that position.

With this broader perspective on Phil's contributions we position our assigned six papers in a strategic marketing framework and make detailed comments about them. We close this paper with some personal observations on how Phil and his work have personally influenced each of us.

2.

2.0 Positioning Kotler's Papers on Strategic Marketing

Phil Kotler's influence as a scholar and teacher is vast and ongoing. He has a worldwide reputation as the guru of marketing with MBA's and senior executives. As is evident from the set of papers included in this volume, his work is distinguished by its innovative, integrative, interdisciplinary, and cumulative nature (the first broad contribution mentioned above). He combines a special taste for recognizing problems with sensitivity to management practice and a talent for clarity and synthesis.

Kotler's contributions to "Strategic Marketing" can be viewed from the perspective of the "Environment-Strategy-Structure" framework widely used in

Focal Environment/Context	**Marketing Strategy**	**Example of Kotler's work**
Macro Economic Conditions		
Shortages	Demarketing	Kotler (1974)
Shortages and Inflation	Remarketing	Kotler and Balachandran (1975)
Industry Competition and Market Position		
Market Leader	Optimizing Share	Bloom and Kotler (1975)
Market Follower	Growing Share	Kotler (1980)
Slow Growth	Attack & Defend Methods	Kotler and Singh (1981)
Nature of Market		
Business-to-Business Markets	Branding	Kotler and Pfoertsch (2007)

Table 1: The Nature of Kotler's Strategic Marketing Work

the Corporate Strategy literature (e.g., Miller 1988) and the "Structure-Conduct-Performance" paradigm from "old" Industrial Organization Economics literature (e.g., Porter 1981), as illustrated in Table 1.

Table 1 shows how Kotler's work on strategic marketing explicitly addresses the need to tailor strategy to the environment in which it will be implemented. Aspects of that environment include internal factors (such as market position, measured by market share) and external ones (such as macro economic conditions, and the nature of markets). This was an important and new perspective for a discipline that was looking for marketing generalizations: it is necessary to understand the environmental situation (and its effect on response functions) before optimal strategies can be determined.

It is worth noting that the corporate strategy and organization economics literatures in this area (such as Miller 1998 and Porter 1981) largely followed, rather than preceded Kotler's work, suggesting that many of the Kotler's ideas concerning the contingent nature of strategy were influential in the development of thought not just in marketing, but more broadly across other areas of strategy.

While the choice of topic and content of Kotler's strategic work undoubtedly contributed to its impact, his style in approaching his subject was also important in making his work more accessible and influential. Kotler focused on topical and contemporary questions and he did so from the perspective of the marketing decision maker, making his work immediately actionable and relevant. However, his ideas were grounded in the base disciplines of marketing (economics, statistics and psychology) ensuring their rigor and reducing their vulnerability to academic criticism. Finally, Kotler demonstrated relevance by drawing on industry practice, using examples from the trade press and his personal business experience.

3.0 A Brief Overview of selected Kotler Strategy papers

We use the framework in Table 1 to provide a more detailed exposition of six of Kotler's research papers in marketing strategy in the next section, classified by the environmental aspect on which they focus. First we examine work looking at the effects of the external environment on strategy in Section 3.1 (shortages and inflation), followed by a consideration of the role of the market position of the firm in Section 3.2 (market share strategies). We close by examining the application of these methods to business to business markets (B2B) in the particularly case of branding strategies in Section 3.3

3. l Strategy Under Adverse Economic Conditions

In late 1971, Kotler and Levy published a paper in the *Harvard Business* Review that introduced the then-novel concept of "Demarketing, "defined as "that aspect of marketing that deals with discouraging customers in general or a certain class of customers in particular on either a temporary or permanent basis" (p.75). This paper continued the theme of "Broadening the Concept of Marketing" that Levy and Kotler had pioneered in their landmark 1969 article, but here they embarked on a new direction that led to Kotler's (1972) later formulation of "A Generic Concept of Marketing," Arguing that the popular conception of marketing as dealing only with "furthering or expanding demand" was overly narrow and ignored what marketers "actually do under various circumstances" (p. 74), Levy and Kotler proceeded to show that "excess demand is as much a marketing problem as excess supply" (p.75). Subsequently, Kotler (1973) refined this distinction even further, delineating eight different "demand states" and specifying the "major marketing task associated with each—one of which was "demarketing."

The stimulus for the pair of papers included in this section (Kotler 1974 and Kotler and Balachandran 1975) was the economic downturn that began in late 1973 and was followed by widespread shortages and inflation. As Kotler put it in his introduction to "Marketing During Periods of Shortage," (1974), "The Age of Demarketing had arrived with a vengeance" (p. 20). The downturn had caught many firms by surprise and often led to myopic and sub-optimal adjustments. In the first paper, Kotler (1974) addresses management's need for a framework that would facilitate a "comprehensive and balanced approach to the three major areas of marketing reprogramming" (p.22): product mix, customer mix, and marketing mix.

For each of these domains, he proposes goals, policy options, and selection criteria along with the concepts and analytical tools required to perform the evaluation advocated. Particularly noteworthy was the sophistication of the analyses prescribed. To support "product pruning," Kotler proposed that "weak products should be differentiated from "satisfactory" and "strong" products through use of a two dimensional "Product Profitability" grid on which the ROI and growth rate for each product was plotted. In the case of the customer mix, Kotler recommended that account selection be guided by estimates of long-run customer profitability and presented an expression for calculating the same that foreshadows the contemporary treatment of customer equity. With respect to adjusting the marketing mix, he provides a valuable discussion of each of the "four P's." Viewed from the perspective of the current state of marketing science, the treatment of the marketing mix is less model-based and data-driven than the product and customer mix analyses. Particularly insightful is the discussion of re-aligning the roles of the sales force in trade and customer relations during downturns.

The second paper, "Strategic Remarketing: The Preferred Response to Shortages and Inflation" (co-authored with Balachandran 1975), was an outgrowth and extension of the first.

Whereas the initial 1974 paper developed the concept of demarketing as a response to the economic shock induced by energy shortages, the second paper recognized that shortages and inflation would likely be recurring phenomena and called for "a more measured response," labeled "remarketing," that seeks to "harmonize" the interests of firms, customers, and society. The authors present ten policy options that involve "adjustments," the use of which being contingent on the "severity" and "duration" of the shortage and the short-run and long-run objectives of the firm.

Each of the policy alternatives is represented as a linkage between adjacent "mixes," ordered from customer to product to resources. The product and customer mixes that constituted the core of the 1974 paper were retained, essentially unchanged. However, the "resources mix" was an important addition to the earlier analyses and encompasses the factors of production. Where the product and customer mixes were treated as more or less independent in the 1974 paper; in Kotler and Balachandran (1975) the ordering of the three mixes recognizes that they are interdependent and captures a key consideration: "a market-oriented view of the business mission is to start with the customer mix, then work backward to the product mix, and finally end with the needed resource mix" (p. 4). The difference between "demarketing" and "remarketing" is evident in the richer set of policy options offered; e .g,, consideration of opportunities to <u>add</u> "strong" customers and products as well as <u>discontinuing</u> "weak" customers and products; <u>re-allocating</u> products to customers; and modifying the purchasing of inputs by price bidding and substitution policies.

Taken together this pair of papers deserves high marks for their conceptual and managerial breadth, depth, sophistication, and continued relevance. Given the quality of the problem formulation, attention to inter-functional and implementation issues, the papers can be recommended to anyone concerned with the problems of coping with shortages today. The availability of richer cost and customer data, advances in consumer behavior and marketing mix modeling, optimization and decision support technology all facilitate current applications of these ideas. The relevance of their underlying ideas remains undiminished.

3.2 Strategies for Managing Market Share

Kotler (1975) first turned his mind to how optimal marketing strategy might depend on a firm's market share by looking at market leaders. At the time, conventional wisdom suggested that a higher market share was better. Work on the experience curve (e.g., Boston Consulting Group 1972) suggested that one way to get a sustainable cost advantage was to race down the experience curve by gaining an early high market share. The benefits of a higher market share seemed to be supported at the time by empirical evidence from the PIMS (Profit Impact of Market Share) study (Buzzell and Gale 1987). Kotler pointed out that rewards in terms of earnings may decrease with increased share, depending on the cost of obtaining that share. Moreover, risk was also likely to grow with higher share due to external competitive factors (possible entry), regulatory factors (monopoly controls), and consumer factors (consumer lobby groups). This led him to propose a methodology to determine optimal share in a given situation (based on returns to increased share, cost of share realization, and changes in risk). Given the resultant strategy that emerged from this analysis, Kotler proposed a range of strategies to maximize returns for share enhancement, share maintenance, and share shedding strategies.

Kotler proceeded to consider strategies for market followers; that is, firms with the second largest share in the market. Kotler (1980) considered the circumstances under which it is optimal for a follower to attempt to take share from the market leader ("direct attack") and when targeting smaller firms makes more sense (a "guppy" strategy). The third type of strategy he proposed is a "backdoor strategy" in which the follower attempts to redefine the rules of the category (an approach that has subsequently gained popularity in the strategy literature under the title of a "breakout strategy"). Kotler (1980) suggested an analysis of the firm's relative strengths and weaknesses in comparison to all competitors in terms of both cost structures (and thus price) and quality. In suggesting a trade off between quality and price (in his Figure 2), Kotler stands in contrast to Porter's (1980) admonition not be get "stuck in the middle" and he foreshadows the later popularity of value curves as a means to trade off consumer utility (differentiation) against cost of provision (low cost) (e.g., Kim and Mauborgne 2004).

Kotler's final work in the area of strategies relating to market share proposed a typology of methods to defend share and to grow it (Kotler and Singh 1981). Drawing heavily on analogies to military warfare, Kotler and Singh outlined techniques of attack and defense, as well as gave a description of the situations in which each is likely to be successful. Attack can be direct ("Frontal"), lateral ("Flanking"), on multiple fronts ("Encirclement"), opportunistic ("Guerrilla") or in a different arena ("Bypass"). Somewhat analogously, defense may be by a set piece ("Position defense"), adaptive ("Mobile"), by first strike ("Preemptive"), lateral ("Flanking"), counter attack ("Counteroffensive") or by partial retreat ("Strategic withdrawal"). In considering the likely efficacy of these strategies, Kotler and Singh discussed not only the internal capabilities required for their execution, but also the environments and likely competition reactions that would favor each.

In common with much of Kotler's work, these papers not only influenced the development of academic thought in the area of market share strategies, but because of their clarity and applicability, they also became widely adopted in industry by market leaders and firms aspiring to improve their positions in their industries.

3.3 Strategies for B2B markets: The Case of Branding

The "Being known or being one of many: The need for brand management for business-to-business companies" (2007) is a wonderful example for Kotler's

Contributions to the B2B marketing strategy literature, and the importance of market context (in this case the B2B market) to marketing strategy. At the same time this paper is also a compelling example of the three domains to which Kotler has contributed – conceptualizing the role and tasks of marketing management(in this case in the B2B world), broadening the concept of marketing and recognizing the importance of quantitative marketing. In doing so this short paper offers 10 timeless marketing "rules" :

1. Branding ,even in the B2B world, is critical – " ..The future of brands is the future of business – probably the only major sustainable competitive advantage"

2. Holistic approach is a must – " To be successful in the B2B world, a holistic branding approach is required that covers everything from the development and design to the implementation of marketing programs, processes and activities that are intersecting and interdependent"

3. Frameworks are critical –as illustrated by the proposed guiding principles for B2B brand development

4. Strategy has to be linked to the economic conditions – as illustrated by the conclusion that “weak brands particularly suffer in difficult times and do not recover as quickly as strong brands”

5. Technological advances are part of the new reality as illustrated in this article with the reference on the importance of the internet to branding

6. Challenge conventional myths and misconceptions As the article does by relying on data and compelling examples in stating for example “companies that once measured their worth strictly in terms of tangibles such as factories, Inventory and cash have to revise their point of view and embrace brands as the valuable and equally important assets they actually are(along with customers ,patents, distribution, and human capital).”

7. The power of data and simple and clear quantitative analysis. This is clearly illustrated by showing (graphically) that “B2B brands with above average brand development have significantly higher market capitalization than brands below average brand development”

8. Globalization is the new reality. By both presenting data not only on the DOW companies but also on the German DAX 30 companies and by bringing examples on branding in China Kotler firmly demonstrate that marketing strategy in today’s environment has to be global in its orientation.

9. Focus on the financial impact of branding. By illustrating that a “vibrant brand and its implicit promise of quality..can provide the power to command a premium price among customers and a premium stock price among investors” Kotler provides the needed evidence on the power of branding.

10. Communicate effectively. A beautifully written short paper with a lot of compelling examples communicates a complex message in a memorable way

The paper(which never once mention “rules”) does by its implicit rules (a) expand our conceptualization and understanding of B2B marketing strategy and branding, (b) broadens the concept of marketing to reflect its link to business and corporate strategy and (c) illustrates the value and power of relevant quantitative analysis. It is a classic Kotler article that is a must read for every manager ,scholar and student of marketing and business.

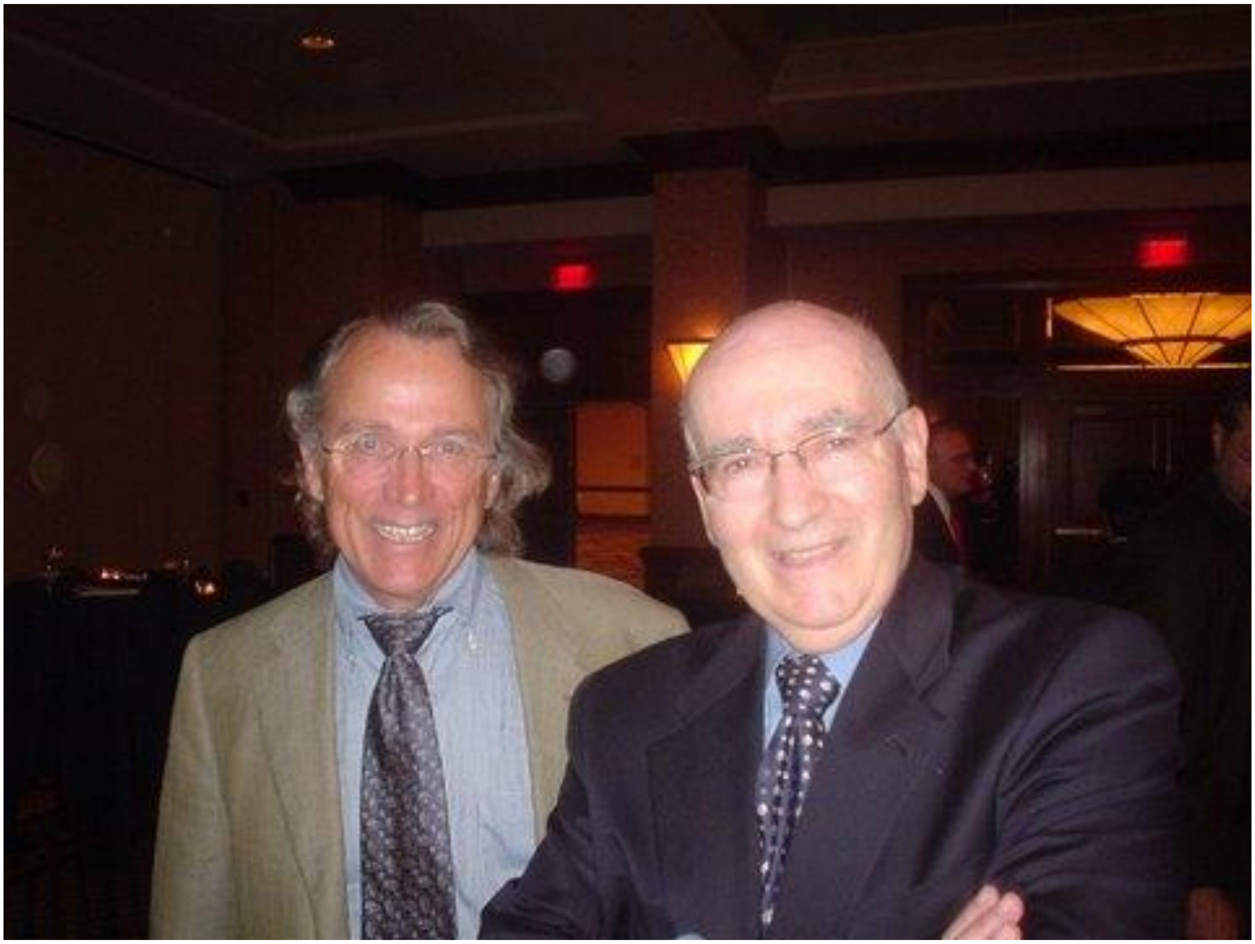
4.0 Summary

The six papers reviewed here are individually valuable, but also generate cumulative knowledge on the effect of environmental context on marketing strategy. They are examples of Phil’s propensity to develop frameworks that generate insights are useful to both managers and academics. Phil is now a senior scholar in marketing, but despite having celebrated his 75th birthday several years ago, he continues to generate innovative strategic frameworks and we predict he will be making major contributions over the coming years. A forthcoming Harvard Business Review paper “Must Marketing be Reinvented to Achieve Sustainability” is proof of the continuing contributions Phil will make in the field. He describes how managers can respond to the current environmental context of sustainability (Kotler 2010). Phil can now add 50 years of wisdom to his analytic structures to increase his legend in marketing.

5.0 On A Personal Note

Each of the commentators to this volume has personally experienced the Kotler magic. Here we close this paper with a few personal notes on impact and thanks:

Glen: Phil was my Ph. D. advisor at Northwestern University from 1965-66 so I really benefited from his creative ability to structure complex problems. We were working on forecasting new product sales of industrial products when there are product line interactions. The model I built borrowed heavily from Phil's marketing mix models (particularly the Cobb Douglas function to model cross elasticities) and traditional diffusion of innovation theory. Phil not only provided insight on structuring the model, he provided me with the corporate setting where I could apply the model (Union Carbide Corporation). This thesis went on to win the AMA thesis award for 1966 and is a testament to Phil's ability to guide a young (and naive) Ph.D. student to a successful thesis submission. The final step for a mentor is helping to find their student a job. Thanks to Phil's contacts I was able to get an interview at MIT's Sloan School of Management and subsequently with his enthusiastic recommendation I was hired. Because I am still at MIT after 40 some years, I must say I owe a big debt to Phil for getting me into MIT and providing a rigorous and relevant methodological framework for my research over the years based on finding real problems and solving them with models. When I was 25 and a Ph.D. student, I saw Phil as much older and senior and at that time he was only 34 -- a relatively new faculty member at Northwestern (but 34% older than me). Phil has been an inspiration to me and I have followed his work consistently over the last 40 plus years. At the 75th birthday party for Phil in 2007 at Northwestern I realized he was not so old after all (see Photo). Although the proportional difference in our ages has declined to 14% (and will continue to decline), my view of him as a senior scholar persists and I treat him with great respect an "elder" deserves. He is indeed a legend and I can say I have benefited a great deal from his help and wisdom. Thanks Phil!!



Al:

John:

Jerry:

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