Chapter 2
Adapting Marketing To The New Economy

by *Philip Kotler*

MARKETING MANAGEMENT
ELEVENTH EDITION

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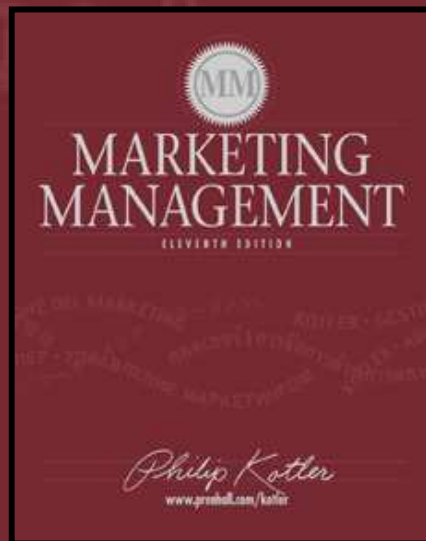
PowerPoint by

Milton M. Pressley

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Kotler on Marketing

The Internet will create new winners and bury the laggards.

Chapter Objectives

- **In this chapter, we will address the following questions:**
  - **What are the major forces driving the New Economy?**
  - **How are business and marketing practices changing as a result of the New Economy?**
  - **How are marketers using the Internet, customer databases, and customer relationship management in the New Economy?**
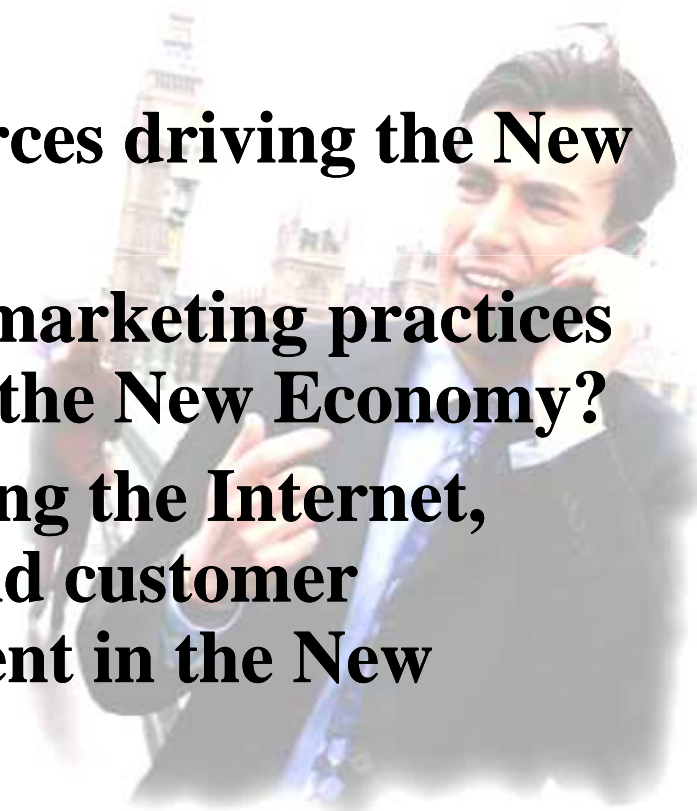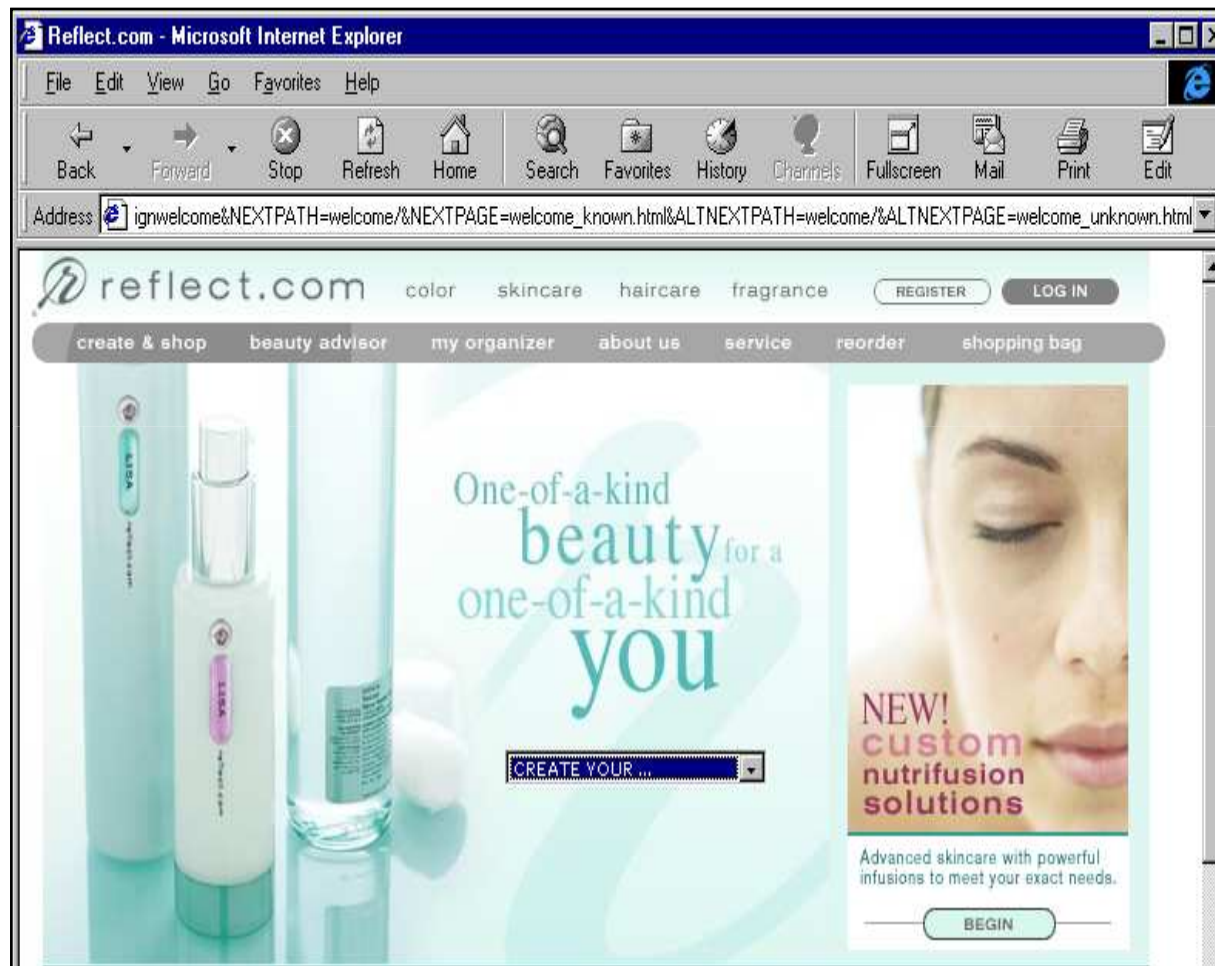
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- **Major Drivers of the New Economy**
  - **Digitization and Connectivity**
  - **Disintermediation and Reintermediation**
  - **Customization and Customerization**

Procter & Gamble's Reflect.com site allows customers to design their own beauty products

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- **Industry Convergence**

- **How Business Practices are Changing**
  - Organize by product units to organize by customer segments
  - Shift focus from profitable transactions to customer lifetime value
  - Shift focus from financial scorecard to also focusing on the marketing scorecard
  - Shift focus from shareholders to stakeholders

Table 2-1: Old Economy vs. New Economy

Old Economy	New Economy
Organize by product units	Organize by customer segments
Focus on profitable transactions	Focus on customer lifetime value
Look primarily at financial scorecard	Look also at marketing scorecard
Focus on shareholders	Focus on stakeholders
Marketing does the marketing	Everyone does the marketing
Build brands through advertising	Build brands through behavior
Focus on customer acquisition	Focus on customer retention and growth
No customer satisfaction measurement	Measure customer satisfaction and retention rate
Overpromise, underdeliver	Underpromise, overdeliver

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- Everyone does the marketing
- Build brands through performance, not just advertising
- Customer retention rather than customer acquisition
- From none to in-depth customer satisfaction measurement
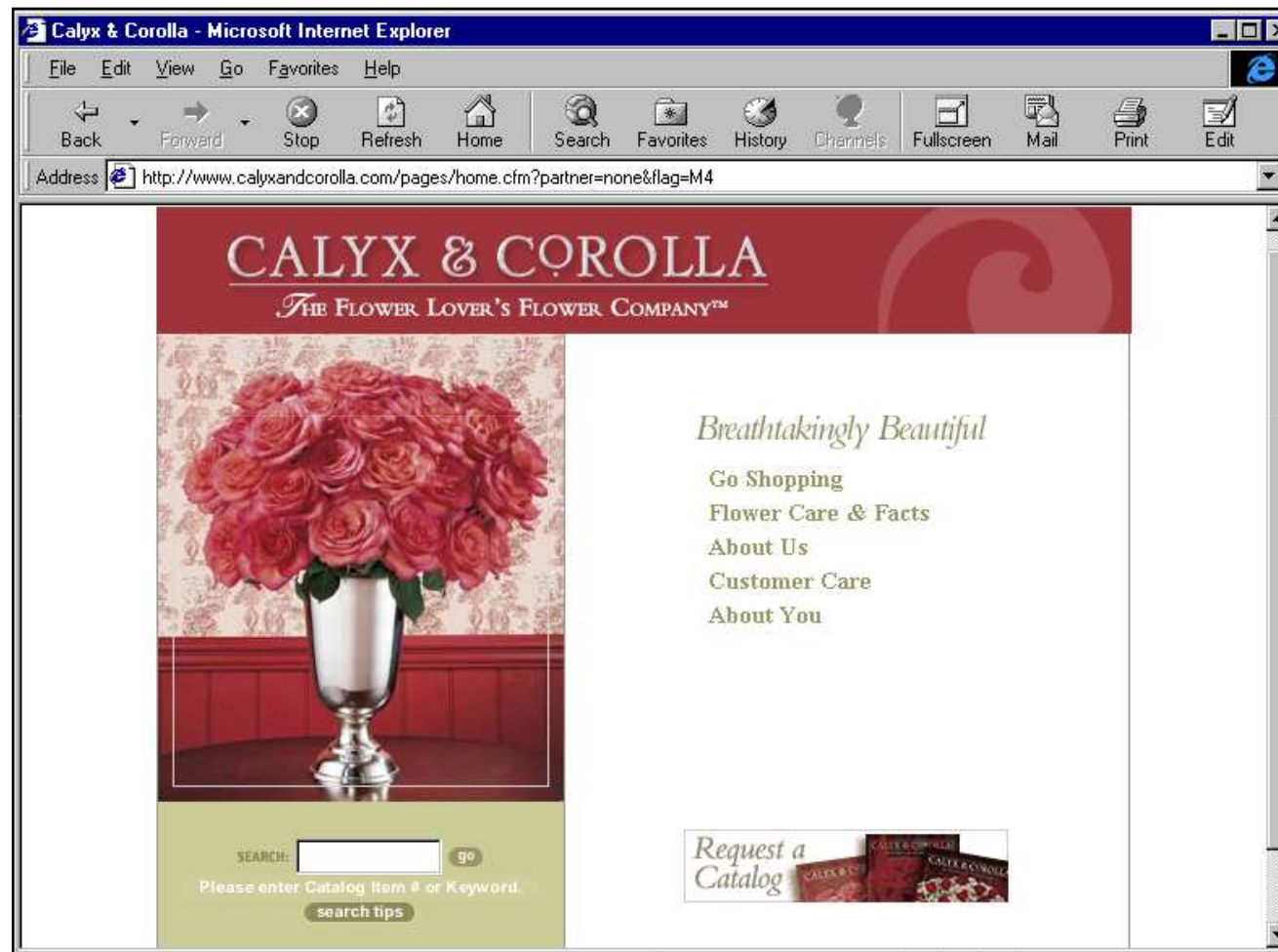- From over-promise, under-deliver to under-promise, over-deliver
- The New Hybrid

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- **How Marketing Practices are Changing: E-Business**
  - **E-business**
  - **E-commerce**
  - **E-purchasing**
  - **E-marketing**
- **Internet Domains: B2C (Business to Customer)**

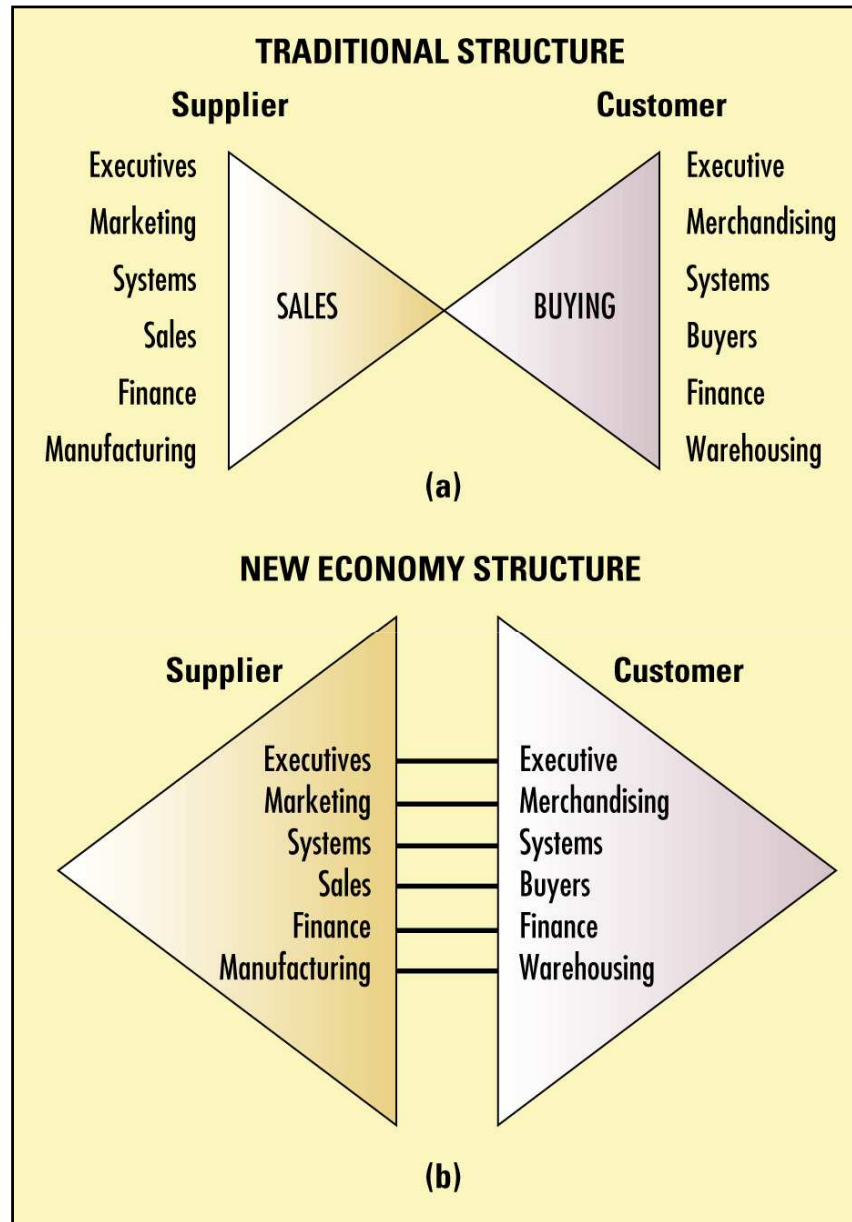# Customers can shop online at Calyx and Corolla or ask for a catalog and shop by phone

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- **Internet Domains: B2B (Business to Business)**

**Figure 2-1:
The Supplier-
Customer
Relationship:
Traditional and
New Economy
Structures**

TRADITIONAL STRUCTURE

Supplier — Customer

Executives — Executive
Marketing — Merchandising
Systems — Systems
SALES — BUYING
Sales — Buyers
Finance — Finance
Manufacturing — Warehousing

(a)

NEW ECONOMY STRUCTURE

Supplier — Customer

Executives — Executive
Marketing — Merchandising
Systems — Systems
Sales — Buyers
Finance — Finance
Manufacturing — Warehousing

(b)

www.transora.com: global online marketplace for the consumer packaged goods industry

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- **Internet Domains: C2C (Consumer to Consumer)**
- **Internet Domains: C2B (Customer to Business)**
- **Pure Click vs. Brick and Click Companies**
  - **Pure-click companies**

CarPoint, leading metamediary for car buying, is a pure click company: It exists only on the Web.

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- **Brick and Click companies**

Discussion Question

Which is more important for developing an e-presence: the agility of a pure click company, or the well defined and readily identifiable resources of a traditional brick and mortar company?

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- **How Marketing Practices are Changing: Setting Up Web Sites**
  - **Designing an Attractive Website**
    - **Seven elements of effective sites**
      - Context
      - Content
      - Community
      - Customization
      - Communication
      - Connection
      - Commerce

Discussion Question

Would you be willing to give up one or more of the seven elements of an effective web site in order to speed the deployment of a new company e-commerce site? What would the expected trade-offs be between an effective site and an early web presence?

Table 2-2: Setting Up a Dot-com Presence

Attracting and Keeping Visitors

How can we get more prospects to know and visit our site?

How can we use marketing to spread word-of-mouth?

How can we convert visitors into repeaters?

How do we make our site more experiential and real?

How can we build a strong relationship with our customers?

How can we build a customer community?

How can we capture and exploit customer data for up-selling and cross-selling?

How much should we spend on building and marketing our site?

Advertising on the Internet

What are the various ways that we can advertise on the Internet?

How do we choose the right sites for placing our ads or sponsorship?

See text for complete table

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- **Context factors**
- **Content factors**
- **Getting feedback**

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- **Placing Ads and Promotions Online**
  - **Banner ads**
  - **Sponsorships**
  - **Microsite**
  - **Interstitials**
  - **Browser ads**
  - **Alliances and affiliate programs**
  - **Push**

Infogate.com "pushes" targeted content and ads to those who are interested in a product or product category

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- **Building a Revenue and Profit Model**
  - **Advertising income**
  - **Sponsorship income**
  - **Membership and subscriptions**
  - **Profile income**
  - **Product and service sales**
  - **Transaction commission and fees**
  - **Market research/information**
  - **Referral income**

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- **How Marketing Practices are Changing: Customer Relationship Marketing**
  - **Reduce rate of customer defection**
  - **Increase longevity of customer relationship**
  - **Enhance growth potential through cross-selling and up-selling**
  - **Make low profit customers more profitable or terminate them**

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- **Focus disproportionate effort on high value customers**

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Table 2-3: Mass Marketing vs. One-to-One Marketing

Mass Marketing	One-to-One Marketing
Average customer	Individual customer
Customer anonymity	Customer profile
Standard product	Customized market offering
Mass production	Customized production
Mass distribution	Individualized distribution
Mass advertising	Individualized message
Mass promotion	Individualized incentives
One-way message	Two-way messages
Economies of scale	Economies of scope
Share of market	Share of customer
All customers	Profitable customers
Customer attraction	Customer retention

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- **Four steps for One-to-One Marketing**
  - **Don't go after everyone, identify prospects.**
  - **Define customers by their needs and their value to the company.**
  - **Individual interaction with customers builds stronger relationships.**
  - **Customize messages, services, and products for each customer.**

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- **Customer Databases and Database Marketing**
  - **Customer mailing list**
  - **Business database**

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- **Data Warehouses and Data Mining**
  - **Using the database**
    - **To identify prospects**
    - **To determine target market**
    - **To deepen customer loyalty**
    - **To reactivate customer purchases**
    - **To avoid serious customer mistakes**
  - **The Downside of Database Marketing**