

Marketing 3.0

Values-Driven Marketing



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Marketing 3.0: Values-Driven Marketing

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As the world changed over the past decades because of the technology evolution, so did marketing. Long ago during the industrial age—where the core technology was industrial machinery—marketing was about selling products to a target market without considering the needs and wants. This was Marketing 1.0 or the product-centric era. The famous saying of Henry Ford marked this era: “Any customer can have a car painted any color that he wants so long as it is black.” In Marketing 1.0, there were many misconceptions of marketing. Marketing was considered as mere selling, an art of persuasion, and even cheating.

When it comes to today’s information age—where the core is information technology— the job of marketing is no longer that simple. Consumers are well informed and can compare several value offerings of similar products. The product value is defined by the consumer. It is a must for marketers to identify unfulfilled needs and wants and convert them into profitable opportunities. This is Marketing 2.0 or the customer-centric era. Marketing continues to have a bad name in many circles because many marketers are simply after profit and carry on tricks in pricing, bait and switching, packaging, and false claims without really putting an effort to focus on the customers.

We will soon witness the rise of Marketing 3.0 or the human-centric era where consumers will be treated as human beings who are active, anxious, and creative. They will request more participation in value creation. They will demand their deepest anxieties and desires—not traditional needs and wants—identified and fulfilled. They will ask for their creativity to be appreciated.

The Age of Participation and Collaborative Value Creation

The development of computing has rolled out in five major waves.¹ The first one came in the 1960s, as mainframe computers advanced into the corporate world and became essential business tools. The 1970s saw the wide adoption of the minicomputer. This signifies the second wave. Then the personal computer came in the 1980s, as the symbol of the third wave, followed

in 1990s by networking and the internet, and the spread of distributed computing, as the symbol of the fourth wave.

The fifth wave resulted from the unprecedented coalescence of three powerful technological forces: cheap and ubiquitous computing devices, low-cost and omnipresent bandwidth, and open standards. It offers access to limitless connectivity and interactivity of not only corporations but also individuals.

It is no wonder that CEO, Scott McNealy of Sun Microsystems once argued "We have moved beyond the information age to the age of participation." The heavy growth towards technology that enables participation justifies this statement. In the age of participation, people create news, ideas, and entertainment as well as consuming them.

The growing trend towards participative customers has affected the business. Companies must now collaborate with their consumers. The initial form of collaboration is when marketing managers listen to consumer's voice to understand their minds and capture market insights. Marketing managers aren't in charge anymore. Consumers are. Across the globe, millions of insightful, passionate and creative people are helping to optimize and endorse breakthrough products and services, sometimes without the companies' buy-in.²

A report on Asian Wall Street Journal cited that U.S. companies are using new *Blogs* analysis tools to figure out what customers really think about their products.³ A minivan maker, for example, learns that little kids love minivans while teens want SUVs from a blog conversation. Also from blogosphere, a drug maker finds that poor drug trial does not necessarily have negative impact to the company's image.

A more sophisticated collaboration takes place when consumers are actually designing and making products for themselves. Starbucks locations, for example, have Hear Music media bars, a service which uses tablet-based PCs to allow customers to create their own mix CDs.

Even Kellogg School of Management, the Best Business School in Business Week's survey of U.S. business schools, applies the faculty-students collaborative approach to create the best MBA experience, as reported by the Kellogg Alumni Magazine.⁴

Globalization Paradox and Iconic Branding

Globalization has always created a world of paradox. There are three macro paradoxes that arise because of globalization. First, globalization of democracy creates the new non-democratic superpower. China, whose manufacturing industry sector is strong (with the World Bank saying around 50% of its GDP comes from that), acts as the world's manufacturing hub. Second, globalization doesn't create a convergent, but a divergent economy. Today, there are still more than 1 billion people who are in the state of extreme poverty and subsist on less than \$1 a day.

Third, globalization doesn't create a uniform, but a diverse culture. In *The Lexus and the Olive Tree: Understanding Globalization*, Thomas Friedman wrote about the clash of the globalization system symbolized by the Lexus and ancient forces of culture, geography, tradition, and community symbolized by the olive tree.⁵

The effect of these paradoxical phenomena of globalization to marketing is that companies are intensely competing to be icons of the society. As described by Douglas B. Holt, iconic brands address acute contradictions in society.

For example, McDonald's positions itself as the icons of globalization. It can be found almost anywhere in the world. In *The Lexus and the Olive Tree: Understanding Globalization*, Friedman introduced the Golden Arches Theory of Conflict Prevention that no countries with McDonald's had gone to war with each other. Later in *The World is Flat*, Friedman changed the theory into the Dell Theory of Conflict Prevention that no countries within Dell's Supply Chain had gone to war with each other. Dell is increasingly replacing McDonald's as the icon of globalization.⁶

On the other hand, The Body Shop is known as an emblem of social equality. Although sometimes considered as anti-capitalist or anti-globalization, The Body Shop philosophy is in fact in favor of global marketplaces. Nevertheless, people perceived that The Body Shop answers the anxieties and desires of social equality—something that is often forgotten in the globalized world.

Consumer Creativity and Independent Communication

Daniel Pink's *A Whole New Mind* illustrated the effects of technology advancement to human creativity evolution.⁷ The primitive hunter evolves to the farmer, then to the blue-collar worker, progresses to a white-collar executive and finally to an artist.

In *The Rise of Creative Class*, Richard Florida justified that we are beginning to work and live the way creative people like artists and scientists always have. This is important because creativity is the driving force of economic growth. Florida's research shows that the U.S. states which have the biggest population of Creative Class are the ones that have the highest growth.⁸

These creative people are the ones that will shape the future market where traditional marketing will not work. It is the market where according to *The Economist*, not only is the customer the king: he is also the market-research head, R&D chief and product-development manager.⁹

To these consumers, top-down, one-way, and mass communication is no longer effective. Today is the era of customer's independent voice. In this era, communication is build based on customer aspirations. No matter what approach that you take, advertising or PR, you must create personal conversations among the customers. To create these personal conversations, you should promote their freedom to talk about you.

A featured story on *Advertising Age* showed how Burger King, for example, tries to cater to the anxieties and desires of the creative consumer market. Like their slogan "Have It Your Way", Burger King encourages everyone to create videos about Burger King their way for video iPod. In cooperation with Heavy.com, a youth-focused broadband video site that features a heavy dose of user-created content, it gives freedom to everyone to create a video using a Burger King mask. Heavy.com sent out 25 masks to the site's frequent contributors and received a dozen videos in return.

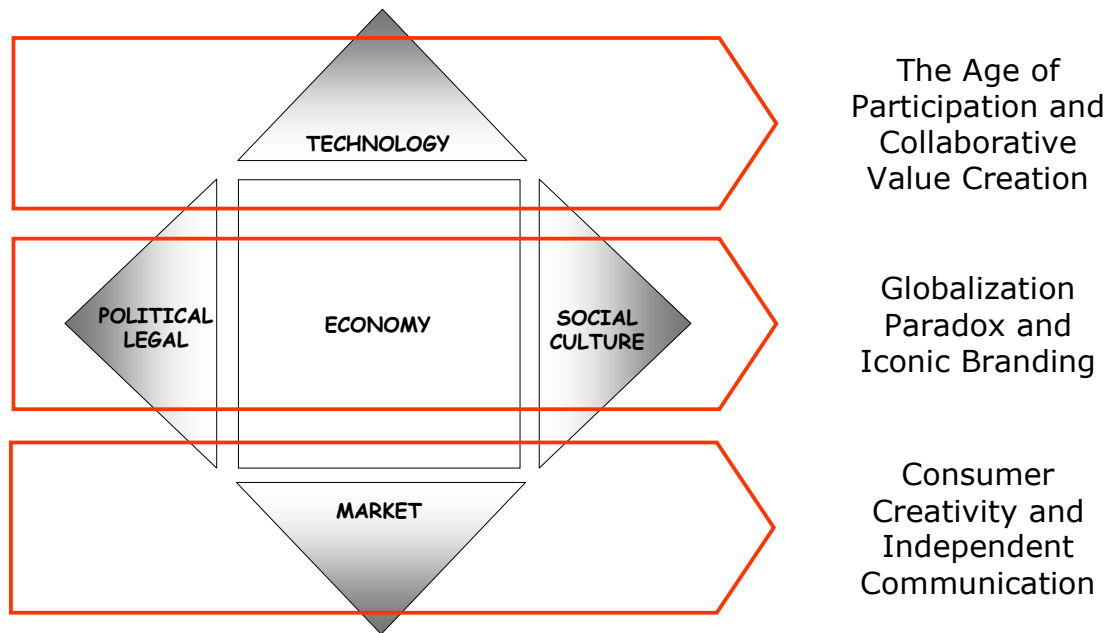
The most phenomenal video is the one that shows a woman doing a striptease. The woman performing seducing acts in the video suddenly changes into a man wearing a King mask. Can you imagine? Burger King icon was used for striptease viral video. Is this initiative a bad PR for Burger King?

Not really. The racy video has invited over 4.1 million downloads by Heavy.com users, which mostly are males ages 18 to 34, the sweet spot of Burger King's marketing target. The initiatives turn up to be a good "advertising" and "PR" for Burger King. *Advertising Age* even dubbed Burger King as the "King" of marketing communication.

Consider also the LEGO case. The company enlists influential consumers as online evangelists. Following the launch of its new locomotive kit which was shown to 250 LEGO train fans, their word-of-mouth helped the first 10,000 unit sell out in 10 days with no other marketing.

Marketing 3.0: Collaborative, Iconic, and Independent

In summary, Marketing 3.0 will be very much influenced by the customer. It is the more sophisticated form of customer-centric era where the customer demands collaborative, iconic, and independent marketing approaches.



Three Characteristics of Marketing 3.0

Technology which facilitates the widespread dissemination of information, ideas and public opinion enables customers to collaborate in value creation. The technology also drives globalization of political and legal, economy, and social culture landscape which will create paradoxes. The iconic brands which address the anxiety and desire of the customers will win the competition in this world of paradox. Consumers' sophistication generates the future market: the creative consumer market.

In order to stay relevant in Marketing 3.0, companies should always target the consumers as human beings. According to Stephen Covey, a whole human has four basic components: a physical body, a mind capable of independent thought and analysis, a heart which can feel emotion, and a spirit—your soul or philosophical center.¹⁰

In marketing, the concept of being relevant began with targeting the mind. Al Ries and Jack Trout argued in their classic book *Positioning*, that the battle is in the consumer's mind.¹¹ That is, how you position the product in the mind of the prospect relevantly is what matters.

The concept evolved because the world became more emotional. Targeting the mind is no longer enough. Marketers should also target the hearts of the consumers. The concept of emotional marketing in various terms emerged. Some of those works include *Experiential Marketing* of Bernd Schmitt, *Emotional Branding* of Marc Gobé, and *Lovemarks* of Kevin Roberts, to name a few.¹²

Marketers such as Howard Schultz of Starbucks, Richard Branson of Virgin, and Steve Jobs of Apple, apply more emotional approach to their companies. Starbucks' concept of "third place for drinking coffee", Virgin's "unconventional marketing", and Apple "creative imagination" are the implementations of emotionally relevant marketing. These aimed at our emotional hearts which bear feelings.

The concept will need to evolve once more to embrace the spirit of the consumers. Marketers should discover the anxieties and desires of the consumers and do what Stephen Covey calls "unlocking the soul's code" in order to stay relevant.

This does not mean that companies should only target the spirit of the consumers. Companies should target consumer as a whole human who consists of mind, heart, and spirit. The point is not to overlook the spirit.

The Meaning of Marketing

Marketing should be redefined to its root as a triangle of Positioning, Differentiation, and Brand. A brand should be clearly positioned in the consumer's mind to give it a clear Brand Identity. To give Brand Integrity to your positioning, it must be supported by strong differentiation. Positioning supported by strong differentiation will in turn lead to strong Brand Image (Figure 2.1).¹³



Positioning-Differentiation-Brand Triangle

Brand Identity is about positioning your brand in the minds of the consumers. The positioning should be unique for your brand to be heard and noticed in the cluttered marketplace. It should also be relevant to the rational needs and wants of the consumers.

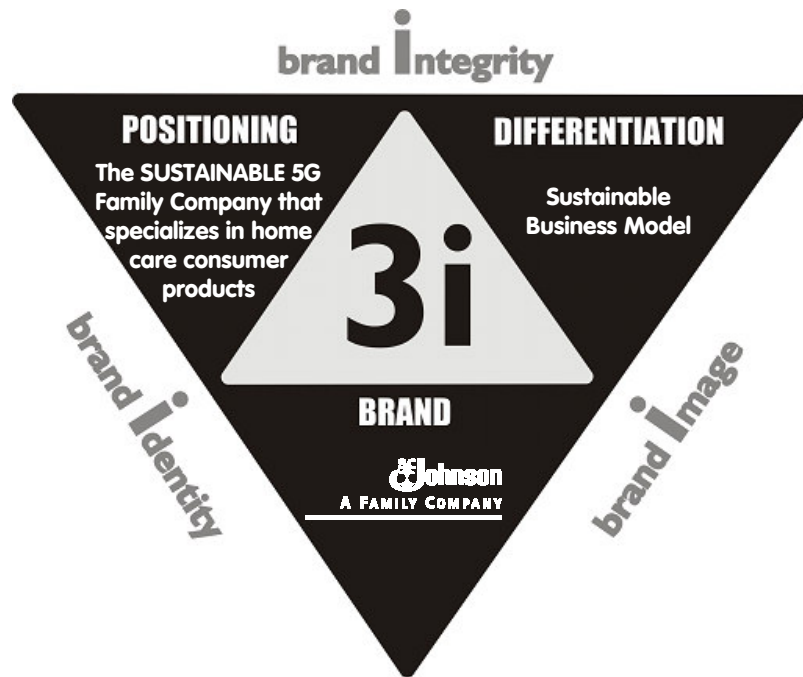
Brand Image is about acquiring the consumer's mind share. Your brand value should appeal to consumer's emotional needs and wants beyond product functionalities and features.

Brand Integrity is about fulfilling what is claimed through the positioning and brand value through solid differentiation. It is about being credible to your promise and establishing the trust of the consumers to your brand. The target of Brand Integrity is the spirit of the consumers.

It is the main message of this triangle: marketing shall not be regarded as telling lies for selling purposes; instead it should be regarded as keeping the promise to your customers.

For example, S.C. Johnson & Sons, Inc. positioned itself as "the SUSTAINABLE five-generation family company that specializes in home care consumer products". The differentiation lies in the sustainable business model. The company is an early pioneer of targeting the "bottom of the pyramid"—people earning less than \$1 a day—in some markets such as Kenya. The term "bottom of the pyramid" has been very popular since C.K. Prahalad released *Fortune at the Bottom of the Pyramid*, a book about serving the poor as a profitable and sustainable business.¹⁴

For the last few years, S.C. Johnson & Sons, Inc. has been a key partner in the development of the “bottom of the pyramid” protocol with Stuart L. Hart, author of *Capitalism at the Crossroads*. Therefore, the corporate brand has the integrity to be positioned as the sustainable five-generation family company.



Positioning-Differentiation-Brand Triangle of S.C. Johnson

Timberland is another good example of having solid brand integrity. It is positioned as “the GOOD outdoor-inspired footwear and apparel company” (Figure 2.3). The company supports the positioning by a solid differentiation. It is well-known for its “Path of Service”, the community volunteer service which involves employees of Timberland. The differentiation is already proven since it is maintained even during tough times.

In 1994, the net profits fell from \$22.5 million to \$17.7 million. The following year, sales remained flat, and the company posted an earnings loss for the first time. Many people predicted that the “Path of Service” will be eliminated. But, Timberland’s leaders believed that the community volunteer service is an integral part of the company’s long-term strategy. Therefore, the program is sustained until now.¹⁵



Positioning-Differentiation-Brand Triangle of Timberland

Marketing of the Meaning

It is clear that marketers should identify the anxieties and desires of the consumers to be able to target their minds, hearts, and spirit. In the globalization paradox, the “generic” anxiety and desire of the consumers is to make their society—and the world at large—a better and ideal place to live in. Therefore, companies that intend to be the icons should share the same dream with them and make a difference.

Some companies are making a difference by means of corporate philanthropy for a social or environmental cause. At most companies, corporate philanthropy typically gets started in one of two ways. The first way occurs when the CEO gets passionate about a particular cause and decides to donate personal and/or corporate money to it. The second way is when the company decides that it needs to do philanthropy for PR/marketing reasons and begins making grants, either through a corporate giving program or a foundation.¹⁶

However, as discussed in *Compassionate Capitalism*, these two approaches often failed. The companies that take the first approach usually failed to incorporate philanthropy as part of the corporate culture. The ones that take the second approach usually have difficulty to maintain commitment, especially during difficult times.

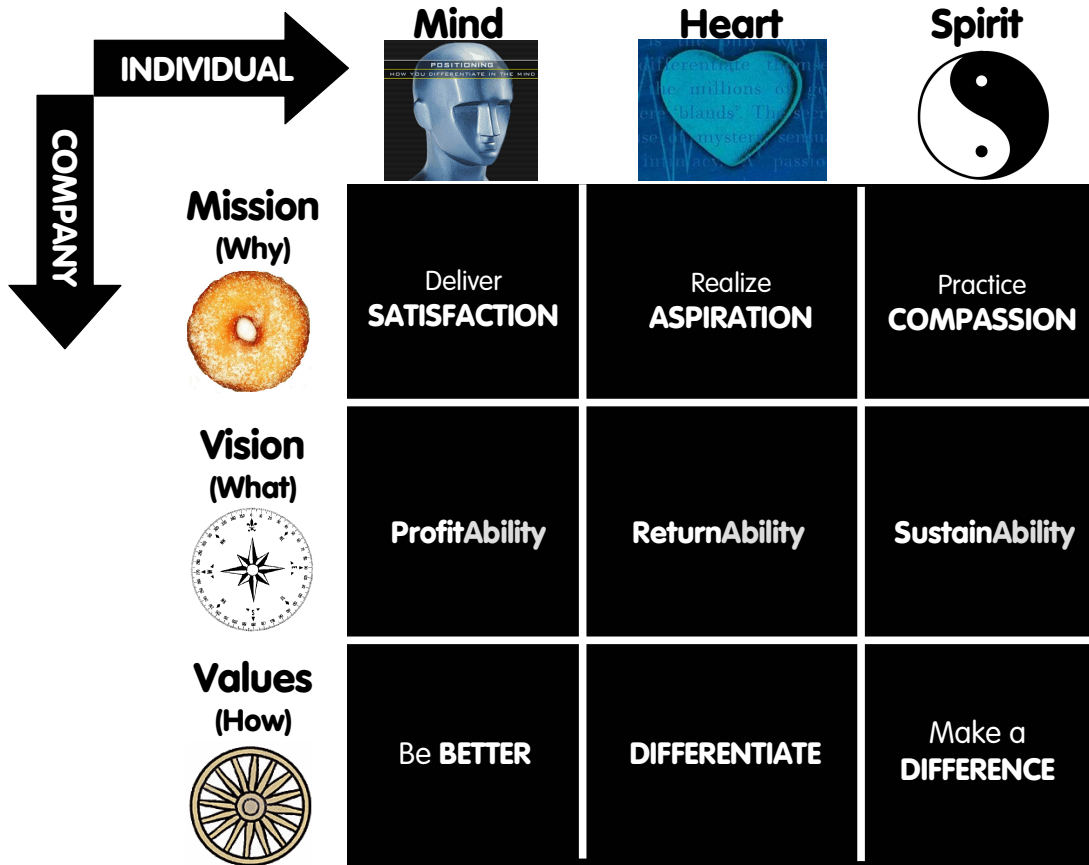
To include social responsibility in a corporate culture and maintain commitment, the best approach is to embed it into the company's vision, mission, and values. The mission, vision, and values do not need to be written as long as they are understood by employees of the company. The realization that organizations are part of a much larger system i.e. the society and the environment; needs to start at the top, so that employees take it seriously.¹⁷

Starting with mission and its requirement may be the first lesson business can learn from successful nonprofits. As a rule, nonprofits are more money-conscious than business enterprises are. They talk and worry about money much of the time because it is hard to raise funds and because they always have so much less of it than they need. But nonprofits do not base their strategy on money, nor they make it the center of their plans, as so many corporate executives do. The businesses start their planning with financial returns. The nonprofits start with the performance of their mission.¹⁸

Mission can be defined in simple terms as your company's reason for being, that expresses the business your company is in, and second, your company's basic purpose. The first dimension is relatively dynamic, while the second is more enduring. A company that determines its mission broadly and fundamentally can endure for decades, or even hundreds of years.¹⁹ The act of defining, understanding, and communicating your mission is critical to the success of your brand, both internally and externally.²⁰

Inspired by a famous principle of Charles Handy, we symbolize a company's mission with a doughnut.²¹ The doughnut principle basically says that life is like an inverted doughnut, in which the hole is on the outside and the dough is in the middle. In the doughnut view of life, the core is fixed and the bounded space around the core is flexible. The company's mission is the core which cannot be changed. The operations of the company are flexible but should be aligned with the core.



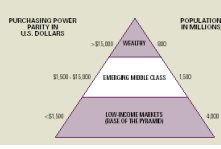



While mission is firmly rooted in the present, vision is about inventing the future. Vision simply defined is a picture of the desirable future state of the organization. A vision explains what you aspire to become, to achieve, to create. When you aspire to be at a future place that you have not previously reached, the first and most important thing you should do is to have a "mental picture" of how the place should look. This picture is your vision.²² It is symbolized by a compass that guides you to the future state of the organization.



Values-based Matrix

In summary, a new matrix should also be introduced where, on one axis, company strives to occupy the minds, hearts and then spirit of current and future customers. The other axis takes into account the company's mission, vision and values.

While delivering satisfaction to the customers at the product level is essential, at the highest level, a brand ought to be seen as realizing aspirations and practicing compassion in some form. It must not only promise ProfitAbility and ReturnAbility to current and future shareholders, but also SustainAbility. It must also become a brand that is better, different, and that makes a difference to current and future employees.

| | Mind | Heart | Spirit |
|--|--|---|---|
| <p>Mission</p> <p><i>Contributing to the community well-being as well as sustaining and protecting the environment.</i></p> |  |  <p>Promoting reusable shopping bags</p> |  <p>Base of the Pyramid</p> |
| <p>Vision</p> <p><i>To be a world leader in delivering innovative solutions to meet human needs through sustainability principles.</i></p> | <p><i>For SC Johnson, creating sustainable economic value means helping communities prosper while achieving profitable growth for the company.</i></p> |  <p>THE RON BROWN AWARD FOR CORPORATE LEADERSHIP</p> | <p>Sustaining Values: SC Johnson Public Report</p> |
| <p>Values</p> <p>Sustainability</p> <p><i>We create economic value We strive for environmental health We advance social progress</i></p> | <p><i>We believe our fundamental strength lies in our people.</i></p> |  |  <p>doing what's right.</p> |




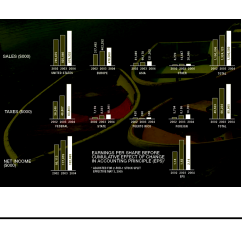
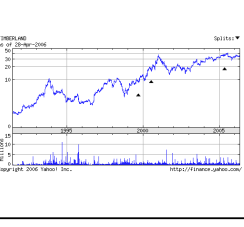

Values-based Matrix of S.C. Johnson

For example, S.C. Johnson & Sons, Inc. embeds its commitment to social and environmental sustainability in the mission, vision, and values of the company. With the mission of “contributing to the community well-being as well as sustaining and protecting the environment”, S.C. Johnson & Sons, Inc. satisfies the consumers by providing various products, realizes aspiration by inviting consumer’s participation in sustaining the environment, and practices compassion by targeting “base of the pyramid” market.

The company has the vision to be the world leader in delivering innovative solutions to meet human needs through sustainability principles. The achievement of the vision is marked by a profitable growth and several awards obtained by the company. It also releases a public report to measure its achievement in the area of sustainability.

The values of S.C. Johnson & Sons, Inc. lie on the concept of triple bottom line: economic value, environmental health, and social progress. To target the minds, hearts, and spirit of current and future employees, the company uses the triple bottom line concept. By saying that the company’s fundamental strength lies in our people, it targets the mind. To target the heart, the company hires working mothers and was dubbed as one of 100 best companies for working mothers. By

offering the opportunity to do what's right for the environment and social sustainability, the company targets the spirit.

| | Mind | Heart | Spirit |
|--|--|--|---|
| <p>Mission <i>Make it better</i></p> |  |  |  |
| <p>Vision <i>To be a twenty-first century example for socially responsible corporations around the world.</i></p> |  |  |  |
| <p>Values <i>Humanity Humility Integrity Excellence</i></p> | <p><i>At our corporate headquarters, employees work hard to make some of the world's most innovative products.</i></p> | <p>FORTUNE® 100 BEST COMPANIES TO WORK FOR 2002</p> | <p>Path of Service™</p> |

Values-based Matrix of Timberland

Timberland has a simple mission of making "it" better. It delivers customer satisfaction through its quality products and stages emotional experiences through store design, for example. To target the spirit, it includes the mission as a tagline.

Timberland has the vision to be the twenty-first century example of socially responsible corporations around the world. It shows a remarkable achievement for its vision over the past years and can use the achievement to market the company to shareholders. Rationally, it is shown by the profit growth the company is enjoying. Emotionally, it is shown by the impressive stock performance. Spiritually, it is shown by the Sustainability Key Performance Indicators.

For its employee, Timberland builds the values of Humanity, Humility, Integrity, and Excellence. It shows the values to the employee through various efforts. The most important one is the "Path of Service" to provide the opportunity for employees to practice the values.

Putting It All Together

Values-Driven Marketing is the best model for Marketing 3.0 era. It is about combining the efforts to show the true meaning of marketing and market the meaning itself. Companies that can implement the model will win the competition in Marketing 3.0.

This whitepaper was prepared by Philip Kotler (S.C. Johnson Distinguished Professor of International Marketing, Kellogg School of Management) and Hermawan Kartajaya (Founder and CEO, MarkPlus Inc.) as a draft manuscript for an international book with the same title published by Gramedia. Iwan Setiawan (Consultant, MarkPlus&Co) played a significant role in the original conceptualization and his assistance is gratefully acknowledged.

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