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The changing face of marketing

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This article from the *McKinsey Quarterly* archive analyzes six major changes that promised to transform future marketing efforts. These forces have largely proved to be as influential as predicted and continue to shape today's challenges.

Change is the dominant fact of life in every business today. And the ability to master and exploit change has become one of the most sought-after management skills. This is particularly true in marketing, where the very tempo of change is constantly quickening.

Today's chief executive faces a baffling dilemma. Change gets costlier every day; yet not changing can be costlier still. And even while adapting to change, a company's marketing effort must reflect an internal constancy of purpose and an external consistency of image.

Not all changes in marketing, of course, are equally significant. Some are confined to particular industries. Others are broader and more functional in nature. And among these broader trends, there are six whose effects, I believe, will be felt by almost every business.

The dominance of the customer

It is nearly a truism that the needs and wants of the consumer are the critical issues today in creating new products and services, and developing the accompanying plans to merchandise them at a profit. But this trend—the first on my list—is still in process of evolution. The need to understand and anticipate future customers is bound to become even more essential than in the past, because the end users of almost every company's products are shifting in makeup, location, and number at an ever-increasing rate.

The significance of this to senior marketing executives is twofold: First, they cannot—indeed, they must not—assume that yesterday's customers will be available tomorrow. Second, they had better be certain that they have adequate sources of market information. Unless they can keep up with

what is happening to their markets, the whole company's selling effort may ultimately be directed at the wrong people with the wrong products and at the wrong time. This is what a marketing vice president I know meant when he said, "My company's sales output can't be any better than my intelligence input."

Consider a few of the changes in the nature of consumers and markets:

- Sociologists and marketers agree that people are becoming more interested in use than in ownership. One can rent or lease everything from garden tools to machine tools to cars. Annual rental income, not including car and truck rentals, is close to the \$750 million mark. The value of equipment being leased, currently about \$1 billion, may well double in five years. This trend could affect the channels of selling, pricing arrangements, sales appeals, or even the characteristics of the product line (such as the increasing sale of disposable items).
- There has been disproportionate growth in the market for personal services, including recreation, education, and travel. Depending on whose statistics you choose to believe, consumer services now account for 40 percent to 50 percent of all consumer purchases.
- A whole series of demographic changes hold significance for the producer of consumer goods—in particular, the explosive growth of the teenage and young-adult market, the migration of blue-collar workers to the suburbs, the increase in per capita income, and the ever-growing mobility of our population. To the consumer-goods manufacturer, the wholesaler, and the retailer, this means there is no such thing as stability of customers.
- People's tastes are becoming more varied, flexible, and demanding. As just one example, consider the demand for wood products. The traditional lumber manufacturer now produces and sells a multitude of products that were virtually unknown 20 years ago—and all because product research teamed up with marketing to develop products that people wanted and were willing to buy.

Another important result of this growing consumer dominance is that today nearly all sales potentials are segmented. Typically, a total market now comprises a series of submarkets, each with its own characteristics and each demanding a different sales approach. For most companies, it is a gross error to develop a marketing program aimed at the "average customer." Today such a consumer, or such a company, hardly exists. In short, the company that is not alert to the customers' needs and the changing complexities of marketplaces is inviting disaster.

The spread of marketing research

The second trend is the increased use of marketing research—in terms of both quantity and scope. To an important degree, of course, this trend is a response to the first. If knowledge about future customers is essential, and if the quality of the marketing output is materially affected by the caliber of the informational input, then marketing research is bound to increase in use and contribution as the interest in more scientific marketing grows.

The dimensions of this trend are suggested by the membership growth of the American Marketing Association (AMA) from 2,800 in 1950 to an estimated 13,000 by mid-1966. Most of the increase represents marketing research, not individuals from the academic fields. As long as seven years ago, according to a national study by the AMA, nine out of ten companies with sales of \$25 million or more had at least one marketing researcher on their staffs.

Today, the bulk of company marketing research is devoted to such activities as development of market potentials (for both existing and new products), analysis of customer buying habits and requirements, measurement of advertising effectiveness, share-of-market studies, determination of market characteristics, sales analysis, establishment of sales quotas, and development of sales territories. Beyond this value in reporting on historical and current conditions, however, I see a trend toward increased use of marketing research as a creative tool to help solve future management problems.

For example, it can be used to help management determine the most effective channels of distribution for a particular product line. By coupling distribution-cost analysis with accurate research on shifts in consumer attitudes, a marketer may uncover the need for a major shift in distribution policy. Such a sophisticated response to changed customer attitudes can be seen in the fact that Chanel No. 5, fine oil paintings, and expensive mink coats now can be purchased at Sears Roebuck, which also is the single largest retailer of diamonds in the United States.

Again, consider the function of marketing research in the evaluation of a major acquisition. Recently, a maker of industrial-machinery components became interested in acquiring a somewhat smaller company in a different but related business. On paper, and particularly from a financial viewpoint, the proposed acquisition looked desirable. But a careful research effort in the field revealed that two competitors of the company under review had considerably better reputations for customer service and, more important, much superior research-and-development capabilities. Thus a potentially disastrous purchase was avoided.

Salespeople's compensation is another area where a creative marketing-research group can make helpful contributions. Today, many companies are trying to orient salespeople's efforts toward profitable sales rather than volume alone. But before a compensation plan can be geared to this

objective, careful thought must be given to identifying and measuring the profitability of customers, the profit relationships among the various products, the costs of carrying out the various selling activities, and the feasibility of any new sales-control system that may be required. Marketing research can help to provide revealing analyses and reliable recommendations on each of these factors. Other management problems calling for inputs from marketing research include pricing decisions, test marketing of new and/or revised products, and estimates of future personnel requirements.

Obviously, the broadening scope of marketing research should materially increase the efficiency of the total marketing function. In some companies today, it is worth noting, the head of marketing research is a member of a product-planning committee, a marketing-strategy committee, or even a company-wide long-range planning committee—clear evidence of top management's growing realization that marketing-research people can make a vital contribution to planning decisions and marketing strategies.

The rise of the computer

The third major trend marketing must consider is the emergence of electronic data-processing equipment as a major tool of scientific marketing not only for reporting data but also, more importantly, for planning and control by management.

Generally speaking, I think it must be conceded that companies have dragged their feet in taking advantage of electronic data-processing analyses, online communications, and information-retrieval systems as tools to help make marketing more efficient. But the computerization of many areas of marketing is only a matter of time. Consider a few current applications of these techniques:

- A major insurance company analyzes sales performance daily, weekly, monthly, and yearly, comparing current figures with last year's performance and this year's goals. The input information is fed into 15 satellite computers at 15 regional headquarters. After processing the sales data (a complex task in the insurance industry, since so many pertinent details are routinely involved for every policy sold) these machines feed back the essential sales information to two master computers at headquarters. There the data are summarized and printouts are made on Friday night. By Monday morning, the reports are on the manager's desk.
- A West Coast apparel manufacturer now adjusts the initial merchandising forecasts in light of salespeople's bookings, then develops the cutting orders for three plants day by day in relation to inventories on hand. Salespeople and management are kept abreast of trends daily

during the key selling periods and weekly thereafter. Major merchandising decisions are made on the basis of current information that was not available before the installation of electronic data processing.

- One of the largest industrial distributors in the West has set up an online electronic data-processing system that enables its key customers to place purchase orders for major products by using prepunched cards that bear the price and quantity information. These purchase orders are automatically transmitted to the distribution center for processing, billing, and shipping—freeing the salespeople from much routine order taking and permitting them to spend more time on individual customer problems.
- There are, of course, many other possible applications of electronic equipment as an aid to the marketing function. And in the years to come, the use of electronic equipment by marketing management will certainly increase.

Expanded use of test marketing

A fourth important trend, in my opinion, will be toward more controlled experimentation to narrow the odds of an error in making marketing changes.

Two major influences emphasize the need for further expansion of test marketing. The first is the rising cost of marketing changes: the costs, for example, of introducing new products and packaging, of developing new advertising and promotional programs, and of retraining salespeople.

The second influence is the mounting investment in product research and development. About half of all corporate research-and-development activity in the United States today is concerned with the creation of new commercial products. The resulting outpouring of new products may measurably shorten the product life cycle and reduce the payout time correspondingly. This is one reason so many innovations in consumer goods are test-marketed before being placed in national distribution, even though the product may have been checked out in the laboratory and its sales potential assessed through marketing research.

What kind of projects should be considered for test marketing? Here are a few examples:

- *Evaluating new products and new product features or services in relation to market potentials.* This kind of application, accepted in the food industry for many years, has only recently been used to determine whether customers would support further processing and fabrication of sheet and plate products by industrial distributors.
- *Assessing the advantages and disadvantages of new packaging.* New frozen-food containers for berry products went through regional market tests on the West Coast before national introduction.
- *Evaluating the effects of a new sales-incentive plan.* A shift from individual incentives to a group plan was tested by a pharmaceutical manufacturer in San Diego, St. Louis, and Atlanta before being installed nationwide.
- *Determining the advantages, if any, of new delivery and service practices.* A machinery manufacturer used test marketing to determine whether to expand its customer-service program. When the results indicated that customers would not pay the added cost when faced with the reality of signing up for the added service, the proposal was dropped.
- *Evaluating the effectiveness of alternative advertising media and approaches.* Here again, an established technique in many consumer-goods industries is being more widely applied in testing alternative media and promotional approaches for the marketing of industrial products.

Some marketing projects can be tested quickly and relatively inexpensively through computer simulation. For example, a leading US pharmaceutical company has used simulation to determine the sales and profit impact of servicing small orders and/or small customers by using jobbers and/or parcel post and/or not selling them at all—and all this under a variety of assumed reactions by competitors.

With or without computers, however, I believe that increased use of test marketing under controlled conditions will be an important future trend in marketing.

Metamorphosis of field selling

The fifth trend I foresee is a shift in the nature of the field-selling job toward a more integrated, profit-oriented marketing effort.

A typical salesperson today represents a major investment of company funds. A 1964 survey by the Sales Executives Club of New York placed average training costs at \$8,731 per person, excluding pay. Keeping a typical salesperson on the road may easily average \$15,000 to \$17,000 of direct costs per year, including compensation. To achieve a satisfactory return on this investment, the salesperson must sell profitably—not just bring in volume. The job is becoming less and less the presentation of the company's product line, more and more the marketing of integrated systems.

Consider some of the ways an apparel salesperson now works with retailers:

- selecting the products for the coming selling season and establishing inventory standards
- maintaining stocks at proper levels and reordering as necessary (frequently utilizing electronic data processing)
- helping to train retail clerks
- establishing advertising schedules and assuring proper in-store tie-ins
- executing in-store promotions
- counseling on style trends and helping to move or shift slow-moving merchandise

In other words, such a salesperson is carrying out a field-marketing effort that involves products, market analysis, advertising, promotion, and inventory control.

In another case, a sales representative for chemical fertilizers helps distributors sell to their customers, the dealers, through financing services and marketing-research assistance. The sales rep may even have to set up merchandising programs to help select and train salespeople for the distributors. Thus, the emphasis is on helping customers increase their profits so that the company, in turn, can prosper.

Another important continuing trend in the field-sales job is the ever-increasing impact of key-account, or selective, selling. In most industries, a limited number of customers have a growing profit importance. In grocery retailing, for example, there are 20 percent fewer outlets today than in 1958. In industrial manufacturing, 10 to 20 percent of the customers may account for as much as 80 percent of sales, and an even bigger share of profits.

Thus, key-account selling is becoming an increasingly crucial feature of the field-sales job—a trend with important implications. In many companies, a key-account selling program may entail special analysis of present and potential customers, and the establishment of related control reports to measure profit results with particular accounts. It may include assigning these accounts to senior salespeople and developing special selling programs and promotional materials for these key customers. And it may call for special attention from the home office, such as periodic field calls and review by key executives or even establishment of an executive responsible solely for the key-account selling program.

In the net, there is little doubt that tomorrow's salespeople will be different from yesterday's breed. They are going to be more highly trained and better paid; they are going to be planning oriented, service oriented, and technically skilled—in short, sophisticated marketers.

Global market planning

An ever-broadening application of the marketing concept to worldwide markets is the last of the six broad trends that I believe will change the face of marketing in the next few years. Over the past decade, the marketing concept has become widely accepted in the United States—perhaps, in some situations, too enthusiastically accepted and too indiscriminately applied. Nevertheless, I believe the concept of a completely integrated marketing effort is valid and will be increasingly adopted. In many companies operating worldwide, it will stimulate the development of global market planning.

Expenditures by US companies on plant and equipment abroad, which were \$5.1 billion in 1963, \$6 billion in 1964, and \$7.5 billion in 1965, may well exceed \$9 billion in 1966. For manufacturing operations alone (excluding petroleum refining), expenditures abroad rose by 30.5 percent last year, while domestic plant and equipment expenditures advanced 15.7 percent. And mergers, licensing agreements, joint ventures, and the establishment of wholly owned foreign subsidiaries by US companies overseas are continually on the rise.

For the smaller company, this trend may emphasize the need to establish or strengthen export relationships so that it too may market on a worldwide basis. For many larger companies, it points to a day when the United States may be merely a domestic division within the worldwide corporation.

This means that top management must think through how best to coordinate a multinational selling effort to assure adequate corporate control over a worldwide marketing plan—yet without unduly restricting initiative and responsibility within each national segment. An important part of this problem is determining how to provide most efficiently the marketing services needed—services that in many companies today are directed, if not executed outright, by a central corporate staff.

But this matter of becoming a worldwide company is only one of the major pressures in the changing complexities of business today. To keep pace with these changes, and to play the strong role in the future that I believe to be the key challenge to marketing executives, the face of the marketing function will have to change accordingly. □

John D. Louth was a principal in McKinsey's San Francisco office and specialized in problems of organization, marketing, and sales management. This article, which was based on a presentation he made to a West Coast marketing-executives group in 1964, appeared in the autumn 1966 issue of *McKinsey Quarterly*. It was adapted for the *Quarterly* with permission from *Dun's Review*, which had published an earlier version in April 1966.

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