Kellogg on Marketing

SECOND EDITION

THE MARKETING FACULTY OF
THE KELLOGG SCHOOL OF MANAGEMENT

EDITED BY
Alice M. Tybout and Bobby J. Calder

FOREWORD BY
PHILIP KOTLER

Kellogg
School of Management

Kellogg on Marketing

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Foreword
Thinking about Marketing

In introducing the first edition of this largely revised and expanded book, *Kellogg on Marketing,* I pointed out that a book that seriously examined marketing thinking was greatly needed because *markets* were changing faster than *marketing*. Markets are changing so fast that they hardly resemble those of the 1990s, let alone the 1950s. Yet many of the ideas and frameworks that marketers use have not kept pace.

No matter what features of markets you look at, the pace of change has increased. Advertising has exploded beyond the former mainstay of the television commercial to appear on almost anything that can serve as a medium: blogs, web sites, YouTube, Second Life, electronic billboards, even shopping bags and napkins. Distribution is not confined to one or two physical channels but increasingly takes myriad forms, including the proliferating digital channels. Pricing becomes ever more complex with the pressures of recession and international competition. Brands continue to be vital, but they are more and more difficult to establish and keep relevant to consumers.

On top of all this, the economy is awash in hypercompetition. With so many companies chasing the same markets, the role of innovation and finding new consumers has become necessary for survival. This is a time when everyone in a company, not just the marketers and salespeople, need to think about marketing and collaborate in carrying it out.

The purpose of this new book is to help managers think about marketing in ways that correspond to what is happening in markets around the world. It revisits the fundamental concepts that continue to guide sound marketing practice, updating these concepts to reflect the current market conditions. In addition, the authors discuss the many emerging opportunities and challenges for marketers, drawing on scholarly research as well as their years of experience working with leading companies around the globe. They offer important insights on topics such as marketing to consumers at the bottom of the economic pyramid, the effect of social media on branding, and strategies for effective innovation. They also discuss the connection between marketing and other functional areas, such as sales and operations, and provide strategies promoting cooperation and coordination between these areas.

Kellogg on Marketing, Second Edition, is unique. Textbooks are written by academic scholars with the goal of presenting students of marketing with a comprehensive overview of the topic. Popular business books on marketing are written by managers, consultants, and the occasional academic, typically with the goal of addressing a topical issue and offering a solution based on the authors' practical experiences. This book does both and more. It covers the basics and provides a point of view on current topics. But most important, it raises key questions and challenges readers to think about them in new ways. If you are new to marketing, this book is as good a place to begin as you will find. If you think you know all you need to know about branding, marketing research, advertising, pricing, distribution, innovation, and so on, you still must read this book. You'll likely be surprised at what you'll learn.

As markets become ever more complex, we all need to think and learn more about marketing. I have always said that "marketing takes a few weeks to learn but a lifetime to master."

Philip Kotler

Evanston, Illinois
July 2010

Preface

When *Kellogg on Marketing* was published in 2001, the goal was to share the unique perspective of the Kellogg marketing faculty with colleagues, students, alumni, and the larger business community. The initial volume was well-received and led to subsequent books in the series that address specific marketing topics in depth: *Kellogg on Integrated Marketing* (2003), *Kellogg on Branding* (2005), and *Kellogg on Advertising & Media* (2008).

A decade later, the principles of sound marketing strategy addressed in *Kellogg on Marketing* remain the same, but new challenges and opportunities exist. To illustrate with a few of the many such issues discussed in this volume:

- Savvy companies recognize that their success depends on adopting a customer focus. But exactly what does that mean in terms of specific activities for frontline employees, salespeople, those in operations, and so forth?
- Marketers contend with ever-shorter product life cycles and increased pressure to innovate in order to sustain a competitive advantage. How can firms innovate more successfully?
- Consumers "surf," "text," "tweet," and watch YouTube, allowing information to spread virally, sometimes to the benefit and sometimes to the detriment of a brand. What are the implications of these new media on managing a brand? Who's really in charge of the brand, anyway?
- There are billions of potential customers to be won in underdeveloped and developing markets. How can companies adapt their offerings and channels to accommodate these consumers' generally low incomes and the limited distribution systems that characterize these markets?

With an eye to topical issues like these, we have created *Kellogg on Marketing, Second Edition*. This new edition contains significantly revised and updated chapters that address core concepts needed for the development and implementation of sound marketing strategy. In addition, we present eight entirely new chapters that offer the perspective of Kellogg faculty on emerging issues that are important for the future of marketing.

As with this book, a decade later the Kellogg marketing faculty is both similar in some ways and different in others. Many of the faculty members who authored chapters in the original edition of *Kellogg on Marketing* are still active members of the department. They have been joined by new faculty, who bring with them fresh perspectives.

Overview of the Book

The book is divided into three sections. Chapters in Section One, entitled "Developing a Marketing Strategy," cover foundational concepts and tools for building a marketing strategy. In Chapter 1, "Creating Customers and Shaping the Competitive Game," Gregory S. Carpenter sets the stage by reminding the reader of Peter Drucker's assertion that the fundamental purpose of business is to create a customer. The challenge is how to do so in the face of customers who don't always know what they want and competitors who are quick to imitate any differentiation. The answer, Carpenter argues, lies in understanding that, "Rather than a race to meet some prespecified consumer objective, competition becomes a struggle to influence what buyers know and, as a result, how they behave." He introduces the "Market Paradigm," a concept that captures the knowledge consumers acquire and the social consensus that emerges from it as a means of defining the competitive landscape. He then discusses competitive strategies, such as market pioneering, fast following, differentiation, and refining markets, that can be used to create value in the Market Paradigm.

In Chapter 2, "Identifying Market Segments and Selecting Targets," Alice M. Tybout and Kent Grayson begin with the premise that any firm's offerings are unlikely to appeal to everyone. Therefore, creating customers requires segmenting markets and selecting the most attractive targets. They recommend that companies begin by segmenting customers on the basis of their current behavior or usage patterns, then describe the resulting subgroups in terms of their distinctive demographic and psychographic characteristics, as well as their profit potential. Targets are finally prioritized on the basis of a "path-of-least-resistance" strategy, where targets that are likely to generate the highest return per marketing dollar invested receive first priority.

Once a firm has identified a target group of consumers, it then should seek insight into the motivations underlying their behavior. Because a company and its customers have inherently different perspectives, market research is employed to bridge the gap between them. In Chapter 3, "Marketing

Research and Understanding Consumers," Bobby J. Calder offers a provocative perspective on how to make effective use of marketing research. He encourages the marketer to focus less on the technique employed or the amount of data collected and more on achieving an understanding of customers and a plausible explanation for their behavior.

A deep understanding of targeted customers' beliefs and motivations serves as the foundation for developing the brand's positioning. A brand's positioning is the specific, intended meaning of the brand in the mind of targeted customers. As such, it is a guidepost for making decisions about all of the elements of the brand that consumers experience. Brand positioning is so central to an effective marketing strategy that we devote two chapters to this topic. In Chapter 4, "Developing a Compelling Brand Positioning," Alice M. Tybout and Brian Sternthal offer two complementary perspectives that can be used to build a strong position. Their competition-based approach emphasizes how a brand is similar to competitors' offerings on some dimensions and superior to these offerings on other dimensions. Their customer-based approach focuses on how the distinguishing features of a brand create abstract benefits that are related to customers' goals. In Chapter 5, "Writing a Brand Positioning Statement and Translating It into Brand Design," Bobby J. Calder then digs into the task of arriving at a single statement that succinctly summarizes the brand positioning. He discusses how a brand's positioning may evolve over time as brand meanings deepen, then recommends that positioning statements be developed in the context of designing the verbal and visual brand elements that will convey the positioning to consumers.

Section One concludes with Chapter 6, "Creating and Managing Brands." In this chapter, Alice M. Tybout and Gregory S. Carpenter discuss the process of building a brand and describe three types of brands that companies build: functional, image, and experiential brands. They then explore the unique challenges associated with managing each type of brand.

Chapters in Section Two, entitled "Implementing the Strategy," address the translation of a brand's positioning into all the things that targeted customers experience: the level of service they receive when they call the company's 800 number; the actual features of the product or service offering; the price; the representation of the product in communications such as advertising and sales force presentations; and the purchase experience. In Chapter 7, "Making the Brand Come Alive within Your Organization," Lisa Fortini-Campbell addresses the link between the intended meaning of the brand (brand positioning) and what happens inside the firm. She argues that an organization's culture *is* its brand. If people within the organization are not aware of and fully committed to the brand's position, be it one of superior product performance, hassle-free customer service, quick, reliable delivery or lowest cost, customers' experiences will fall short and the brand position will exist only in the mind of the marketing manager who developed it. To ensure that the company's culture supports the brand positioning, Fortini-Campbell recommends paying close attention to four key dimensions of the internal organization: hiring, cultural storytelling, job design, rewards and incentives, and leadership.

In Chapter 8, "The Sandwich Strategy: Managing New Products and Services for Value Creation and Value Capture," Dipak C. Jain presents a framework for launching new products and services that are a "triple win"—those that create and capture value for the company, its partners, and its customers. He argues that when a company is attacked by price competition, it should respond by creating at least two new offerings that effectively "sandwich" the competition by attacking it from opposite ends of the value chain: below and above. More generally, he offers guidelines for managing a product line horizontally (i.e., the level of variety at a particular price point) and vertically (i.e., the range of price points offered), with the goal of moving the firm's customers up the value chain.

The issue of price competition, as well as other considerations in setting price, is discussed further in Chapter 9, "Pricing for Profit." Here, Lakshman Krishnamurthi offers a strategic approach to making pricing decisions, which begins with a determination of whether gaining market share or increasing profits is the firm's top priority. Then, five key determinants of price—cost, customer value, competition, the distribution channel, and regulation—are discussed in detail. The overarching theme of the chapter is that indeed price must be set to cover the firm's costs, allow channel partners to make a profit, and comply with regulations. But ultimately the price that a firm can charge is determined by the value of the firm's offering (based on functional, economic, and emotional benefits), as perceived by targeted customers and in comparison to the competitive offerings under consideration.

In Chapter 10, "Advertising Strategy," Derek D. Rucker and Brian Sternthal address the issue of communicating a brand's position through media. First, they discuss the role of advertising and when it is appropriate to use advertising rather than other methods such as personal selling to communicate the brand message. Next, they describe the ways consumers use advertising to make decisions and outline strategies for increasing consumers' engagement with advertising through creative and media strategies. They then present alternative strategies for presenting the brand message and evaluating its effectiveness. A key insight is that mere recall of an advertising message is insufficient to gauge its effectiveness.

No matter how appealing a product or service may be, customers cannot buy it if it isn't made available through some channel of distribution. In Chapter 11, "Marketing Channel Design and Management," Anne T. Coughlan provides a framework for designing and managing channels of distribution. She argues that channel design must begin with an understanding of end-users' demands for the service outputs of the channel (i.e., their need for quick delivery, assortment and variety, bulk breaking, and the like), which typically vary by the type of customer and use occasion. This knowledge is then used to create the optimal channel structure for meeting these demands. Channel management, in turn, requires an understanding of each channel member's sources of power and dependence in order to manage any conflict among these channel members so that the goal of coordination is achieved. The framework presented is illustrated with brief case studies, including one that describes how a company developed an innovative channel to distribute its products to low-income consumers in Mexico.

In many situations (especially business-to-business), salespeople play a critical role in promoting and distributing a company's products and services. Indeed, as Andris A. Zoltners, Prabhakant Sinha, and Sally E. Lorimer note in Chapter 12, "Building a Winning Sales Force," for some such customers, the salesperson *is* the company. Yet salespeople often enjoy autonomy that makes them difficult to control, direct, and manage. The authors begin by identifying the conditions under which a company will benefit from personal selling and discuss when the sales function should be outsourced versus managed internally. They then address the challenge of motivating and managing a sales force. Five key drivers of sales force effectiveness are identified, and best practices for managing these drivers are discussed.

Chapters in Section Three, "Perspectives on Contemporary Issues in Marketing," focus on key challenges and opportunities for marketers in the current environment. The section begins with Chapter 13 by Bobby J. Calder, Richard Kolsky, and Maria Flores Letelier ("Marketing to Consumers at the Bottom of the Pyramid"), in which the authors share lessons they learned about marketing to the poor from their extensive experience with CEMEX's Patrimonio Hoy program in Mexico. This case study, which is an ongoing exercise in experimentation and learning, leads to important insights about how companies must adapt their traditional approach in order to succeed in marketing to consumers at the bottom of the pyramid.

At the other end of the income spectrum, marketers grapple with the benefits and liabilities of new social media, such as blogs, Facebook, Twitter, YouTube, web forums, and more. In Chapter 14, "The New Influence of Social Media," Lakshman Krishnamurthi and Shyam Gopinath note that such media can serve as powerful tools to gain customer feedback but can also weaken the marketer's control over the brand message. They argue that social media engagement is not for all companies and offer a list of questions for firms deciding whether to commit resources to social networking sites. In addition, they review emerging academic research that documents the impact of online word-of-mouth and online customer ratings.

Effective innovation has been a long-standing challenge for marketers. Its importance has only increased as product lifecycles have shortened. Two chapters offer perspectives on how a company can innovate effectively. In Chapter 15, "From the Wheel to Twitter: Where Do Innovations Come From?" David Gal draws on lessons from history regarding the source of successful innovations. His analysis yields three key insights: (1) The focus of innovation should be on novel applications of existing inventions rather than on creating new inventions; (2) the key to successful innovation in a marketing context is the identification of unarticulated customer needs and the envisioning of creative applications to fulfill those needs; and (3) the best sources of ideas for innovation are found by looking outside the company and the industry in which it competes. In Chapter 16, "Brand-Led Innovation," Bobby J. Calder and Edward S. Calder extend the discussion of innovation by noting that there are many paths to successful innovation. Traditionally, companies have relied on customer insight, technological advances, or some combination of these factors as the source of innovations. More recently, innovations have emerged from insights about ways to improve a business model or product design. The authors propose an additional approach to innovation: brand-led innovation. This approach uses a brand's positioning and abstract meanings in the minds of consumers as a springboard for launching new offerings in a category that might otherwise be difficult to penetrate without fresh insight or a technological advance.

Companies' efforts to address the variation in customers' needs often leads to a large assortment of options in a product category. Intuitively, it might seem that this benefits consumers by increasing the odds that they will find an option that is just right for them. However, as Ryan Hamilton and Alexander Chernev document in Chapter 17, "Managing Product Assortments: Insights from Consumer Psychology," there is a downside to offering a large assortment. Too many options can create "choice overload" for consumers, leading some to opt out of choosing altogether. The authors draw on insights from their own research as well as research of other scholars to offer strategies for addressing choice overload and making the product assortment "just right."

As noted earlier in discussing Chapter 3, "Marketing Research and Understanding Consumers," marketing research is an important tool for bridging the divide between a company's perspective and that of targeted customers. However, when times are tough and budgets must be trimmed, marketing research expenditures may be difficult to justify (and should be) if the research isn't driven by a clearly defined goal. In Chapter 18 ("Goal-Driven Marketing Research: The Answer to a Shrinking Budget"), Angela Y. Lee outlines an approach to conducting marketing research that helps ensure the research expenditure will yield answers that truly matter in making marketing decisions. This goal-driven approach to conducting research is illustrated with a case example.

In the final chapters, attention turns to the relationship between marketing and other functional areas. It might seem obvious that sales and marketing need to work together in creating and sustaining customer relationships. However, all too often the failure to delineate the responsibilities of each area results in conflicts that undermine the company's goal of serving its customers. In Chapter 19, "Aligning Sales and Marketing to Enhance Customer Value and Company Results," Andris A. Zoltners, Prabhakant Sinha, and Sally E. Lorimer discuss ways to divide responsibilities between sales and marketing and identify four factors that facilitate successful sales-marketing alignment within an organization. In Chapter 20, "Creating Superior Value by Managing the Marketing–Operations Management Interface," Anne T. Coughlan and Jeffrey D. Shulman tackle the issue of the interface between marketing and operations. All too often, operational factors, incentives, and costs are overlooked or given insufficient weight in marketing decisions and vice-versa. Using case examples, the authors make a persuasive argument that aligning these two functional areas is essential if a firm to deliver on its brand promise and differentiate from competitors.

Using the Book

This book was written with a broad audience in mind. Each chapter is self-contained, allowing readers to use the book in a variety of ways.

An academic might assign the book for a marketing management course at either the MBA or executive level. In such a situation, the chapters in Section One and Section Two might be used as weekly reading assignments, and chapters in Section Three could supplement these readings based on the instructors' and students' interests. For example, the chapter on marketing to consumers at the bottom of the pyramid (Chapter 13) might be used in combination with the chapter on segmentation and targeting (Chapter 2) or the chapter on channels of distribution (Chapter 11). The chapter on social media (Chapter 14) might be assigned along with the chapter on advertising strategy (Chapter 10). The chapters on innovation (Chapters 15 and 16) and on product assortment (Chapter 17) combine well with the chapter on new products and services (Chapter 8). The strategy of goal-driven market research (Chapter 18) complements the overview of market research (Chapter 3). And the chapters on how marketing links with other functional areas (Chapters 19 and 20) extend the discussion of marketing channels (Chapter 11) and managing a sales force (Chapter 12).

Students of marketing not enrolled in a formal course may wish to use this book in much the same manner as an academic would assign it. They might begin by reading chapters in the first two sections to build their basic understanding of core marketing concepts, and then use chapters in the final section to deepen their insight into contemporary issues in marketing as their interest dictates.

Alumni and other more seasoned marketers may wish to skim the chapters in Sections One and Two, treating them as a review of the principles of marketing (which are easy to lose sight of in the context of day-to-day business operations), before diving into the chapters on the contemporary challenges discussed in Section Three.

However you use this book, we hope you find it informative and provocative. We found that writing the book and reading the chapters of our colleagues enriched and helped to clarify our own understanding of marketing in the twenty-first century.

Alice M. Tybout
Bobby J. Calder

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Many people contributed to this book directly and indirectly. We are indebted to those who collaborated with us for sharing their wisdom. More generally, we owe thanks to all of our colleagues in the Kellogg Marketing Department over the years. The book is a tribute to their inspiration and intellectual stimulation. We are also grateful for the support provided by the dean's office of the Kellogg School of Management and by Northwestern University.

Several people warrant special mention for the key roles that they played in completing the book. Patty Dowd Schmitz was invaluable as our copy editor. She provided insightful feedback and helpful suggestions that improved both the content and structure of the book. We also could not have completed this book without the support of the marketing department administrative assistants, James Ward and Sabin Gurung. James and Sabin worked tirelessly and with their typical good humor to ensure that the final manuscript was completed on time and in the proper format.

Finally, we thank our editor at John Wiley & Sons, Richard Narramore, for encouraging us to undertake this project and for supporting us throughout the process. Above all, we thank our families for their constant patience, support, and encouragement.

Alice M. Tybout
Bobby J. Calder

SECTION ONE

Developing a Marketing Strategy

CHAPTER 1

Creating Customers and Shaping the Competitive Game

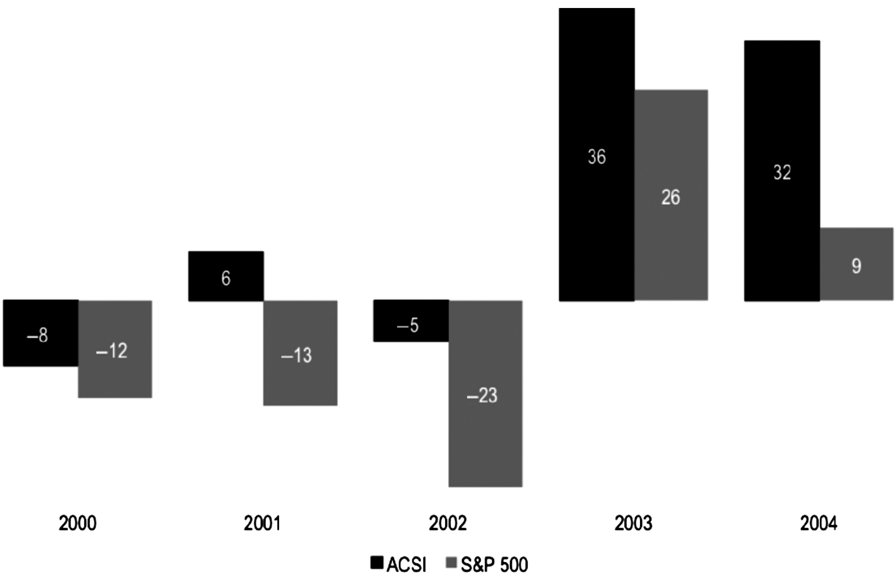
GREGORY S. CARPENTER

Introduction

In his landmark, *Management*, Peter Drucker wrote about the purpose of business—not *a* business, but *business*. Contrary to the commonly held view that the only meaningful purpose of business is profit, Drucker articulated what we recognize today as the marketing concept: "There is only one valid definition of business purpose: *to create a customer*. . . . The customer is the foundation of a business."[1] According to this view, products, technology, or brands do not, per se, produce profits. Products, technology, and brands are all devices through which an organization creates value for its customers. Profit and success are *outcomes* of creating customers and of successfully managing that process, which is not simply the responsibility of a marketing function. "Marketing is so basic that it cannot be considered a separate function," Drucker continues. . . . "It is the whole business seen from the point of view of its final result, that is, from the customer's point of view. Concern and responsibility for marketing must, therefore, permeate all areas of the enterprise."[2] In Drucker's view, only marketing and innovation generate revenue; all other activities are simply costs.

The concept Drucker advanced has become *the* central concept of marketing and, as originally envisioned, it has moved beyond its functional limits to become increasingly important as a central concept of management.[3] The diffusion of the marketing concept has been fueled by mounting evidence of its value. Leading scholars and consultants have written for years about how a market orientation is central to organizational success.[4] But much of

Figure 1.1
Customer Satisfaction and Return on Investment



the evidence they cited was anecdotal. More recently, however, empirical evidence is demonstrating what others suspected but were unable to state with more conviction. Some of that evidence appears in Figure 1.1, which shows the return on investment of the S&P 500 over five years compared to the return on investment of the top 25 percent of firms with respect to customer satisfaction, as measured by the American Customer Satisfaction Index. The data show that firms with more satisfied customers have higher returns—beating market averages over five years—with lower variability over time.[5] Mounting evidence suggests that creating satisfied customers appears associated with higher return on investment and reduced risk.[6]

As the power of the marketing concept has been recognized, a growing number of organizations have begun to transform their businesses to become more market-oriented. Procter & Gamble, Unilever, and others that have long embraced the marketing concept have worked to continually transform their organizations to remain at the forefront. But other firms in industries where marketing has played a less central role—usually as a distinct function rather than as a guiding principle—have begun to embrace the concept more fully. These firms can be found in every corner of the economy, from rapidly growing, high-technology companies to mature, established industrial businesses.

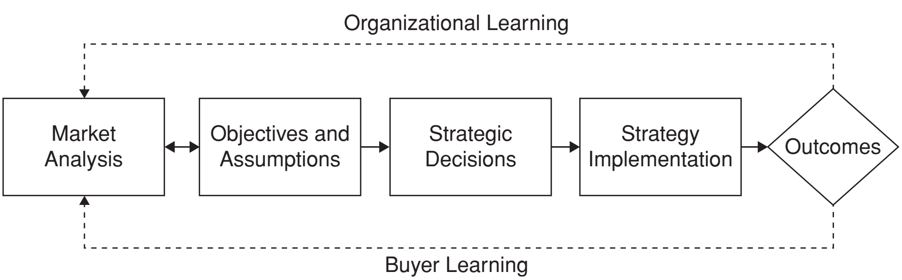
For example, in the mid-2000s, Intel's CEO announced plans to transform the company so that "every idea and technical solution should be focused on meeting customers' need from the outset."[7]

Although the concept of marketing appears straightforward—focus the organization on creating a customer—two challenges are central to implementing it. First, customers are complex, fascinating, and not always easy to understand. Customers often seek value they can articulate, but they are unaware of what they don't know, and they are largely blind to their subconscious desires. Therefore, understanding customers *holistically* is necessary to be an excellent marketing organization. Second, creating competitive advantage by creating customers requires a deep understanding of the role of consumers in the process of competition. The traditional view is that marketing is essentially about responding to buyer needs, and doing so will create competitive advantage. Mounting evidence, however, suggests that marketing does much more. It educates buyers and significantly shapes the nature of competition. Successful competitive strategy helps define and redefine the competitive game. Understanding that role is important to understand more fully the role of marketing strategy in creating competitive advantage.

Developing Marketing Strategy to Create Customers

The process of developing marketing strategy to create customers is shown in Figure 1.2. It shows that, based on an understanding of the markets (customers and competitors), organizations establish objectives. These are the outcomes they hope to achieve through the application of resources and typically include market outcomes (e.g., sales), financial metrics (return on investments), and

Figure 1.2
Developing Marketing Strategy



measures of customer knowledge (e.g., brand awareness or perception). Based on these objectives, organizations make key strategic decisions, implement strategy, and observe results. Buyers learn as a result of their experience in the market, and organizations learn about how to produce the outcomes they desire. And so it continues. Here, we focus on the overall process, with emphasis on market analysis and the process of creating customer value.

Market Analysis

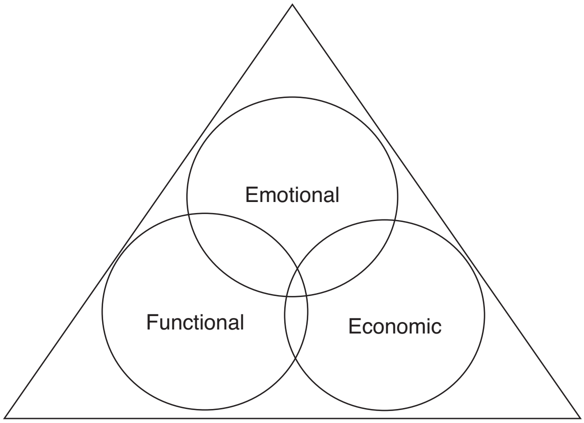
The foundation of a successful competitive marketing strategy is a deep and holistic understanding of buyers, their motivation, what they value, and how they choose. Many times, individuals and organizations lack sufficient knowledge about buyers to create a solid foundation for a competitive marketing strategy. Lacking that information, they substitute plausible assumptions. Those assumptions are often widely shared views about buyers and individuals more generally. We often assume, for instance, that buyers know what they want, that they are rational about seeking it, that offering more options is preferable to fewer, that a lower price is preferred to a higher price, and that more information improves choice. In some cases, these assumptions are accurate summaries of buyer behavior. In other cases, as mounting research shows, they are seriously misleading, despite their intuitive appeal. Buyers are much more complex than we might imagine; they are much more sophisticated in some ways and much simpler in others.

For example, we do not always know what we want, nor do we choose rationally. Knowing what we want in any product category—motor oil, a family physician, or life insurance—requires data, time, expertise, and experience. We often lack one or more of these in making choices. Moreover, humans are emotional beings, driven by forces that we do not always understand or even recognize. As a result, we are unable or unwilling to articulate the full range of our needs or wants. Crafting a solid foundation for competitive strategy requires deeper understanding of buyers to capture the essence of behavior when buyers make choices without time, data, or expertise, and when buyers are driven by forces they do not recognize.

Buyer Goals

An enduring principle of human behavior is that individuals and groups are motivated by the goals they seek. A goal is simply a desired state of being. Simple as that sounds, desired human states of being can be complex. Goals reflect the full richness of the future we desire—our aspirations, our dreams,

Figure 1.3
Buyer Goal Hierarchy



our hopes, and our economic ambitions. Simply put, goals are our hopes and dreams. Individuals seek a vast range of goals—to be good parents, to be successful professionally, to be at peace, to make a positive contribution to the world, and to have fun. The range and number of goals an individual seeks over a lifetime is virtually unlimited and evolves over time.

The existence of such a vast number and range of goals, each with multiple dimensions, creates a fundamental dilemma for individuals. Time is too limited to pursue them all, so we must prioritize. One buyer's goal hierarchy, shown in Figure 1.3, suggests that as buyers we seek value on at least three dimensions: emotional, functional, and economic. Emotional goals are higher-order goals such as self-image, power, control, and affiliation. We pursue these over a long period of time; they are complex and important to us. These goals change slowly, are limited in number, and are pursued consciously but also subconsciously—the concept of our self-image, for instance, in a multidimensional goal. Lower in the hierarchy are functional and economic goals. These do not exist independently of higher-order goals. Selecting a vehicle with four-wheel drive and rugged features serves obvious functional goals but also conveys a particular image to others. Functional and economic goals tend to be less complex than emotional goals, are pursued over a shorter time horizon, and are less important than emotional goals.[8]

The full range of goals—emotional, functional, and economic—are sought in both business-to-consumer and business-to-business settings, although the mix of goals can differ. For consumers, self-image and affiliation can be important in the categories such as beer, athletic shoes, or automobiles. In business settings, buyers are thought to be more "rational," focusing on functional and economic to the exclusion of emotion. Humans are, however, fundamentally emotional beings. Our emotions are a part of a system of reasoning—our subconscious—produced over thousands of years of evolution. Our emotional systems are impossible to switch off, even for the most expert buyer. When American Airlines buys aircraft engines, when Google goes public, or when a university invests its endowment, these organizations bring much expertise to bear on the decisions, but the risk associated with each is high, making sure that emotions are central to each decision.

Creating Value, Focusing Resources, and Competitive Positioning

Goals create a problem for an individual or organization to solve. How can we achieve greater social status? How can we have more financial security? How can we have a relaxing and exciting vacation? Each of these is a problem reflecting an important individual goal. Organizations have goals as well. Corporations seek faster growth, recognition among peers, and, of course, financial success. Each of these goals creates a *problem* for the organization to solve. Individuals and organizations create value by solving such problems.

The value we attach to the solutions varies greatly by the importance of the problem being solved. Although many factors influence a goal's importance, the position in the hierarchy is the single most important factor. Higher-order, emotional goals are difficult to achieve, are sought over a long time period, are complex and multidimensional, and require considerable personal or organizational commitment. Achieving a higher-order goal requires a greater personal commitment, making it more important than a more easily achieved goal. Emotional goals are often pursued subconsciously. Instead, buyers focus on a more concrete or *focal* goal, such as *losing weight* versus the more abstract *live a healthier life*. Although buyers are more aware of focal goals, they are less important than higher-order goals because they fall in the middle of the goal hierarchy. Subgoals in each of these categories are specific and considered over a short time period. These lower-order goals are subordinate to the focal goals they serve and ultimately to the smaller number of higher-order goals.

Competitive marketing strategies propose solutions to buyer problems—they propose means for buyers to achieve their goals. Successful marketing strategies, however, must do more than simply create value for buyers. Successful strategies create *unique* solutions for *the most important problems* buyers confront. Doing so requires focusing resources. Although all buyers have goals, different buyers seek solutions to different problems. These differences create