

Episode 53: Be Outstanding & Stand Out with the Father of Modern Marketing Dr. Phil Kotler

00:00 Speaker 1: Welcome to the Neon Noise podcast, your home for learning ways to attract more traffic to your website, generate more leads, convert more leads into customers and build stronger relationships with your customers. And now your hosts, Justin Johnson and Ken Franzen.

00:15 Justin Johnson: Hey, hey, hey, Neon Noise nation. Welcome to the Neon Noise podcast where we decode marketing and sales topics to help you grow your business. I am Justin Johnson and with me I have my co-host, Mr. Ken Franzen. Ken, what's going on with you today?

00:28 Ken Franzen: All is well, Justin. How are things going with you?

00:32 JJ: Everything is fantastic. I am excited to talk with our featured guest today. He has a wealth of knowledge when it comes to marketing. Today, we will be speaking with Dr. Phil Kotler. He is the SC Johnson and Son professor of International Marketing at the Kellogg School of Management at Northwestern University. Kellogg was voted the best business school for six years in Businessweek Survey of US Business Schools. Phil is the author of 57 marketing related books and has published over 150 articles in leading journals, several of which have received Best Article Awards. He has consulted for such companies as IBM, General Electric, AT&T, Honeywell, Bank of America, Merck, and others in areas of marketing strategy and planning, marketing organization and international marketing. Mr. Phil, it is exciting to have you here today. Welcome to Neon Noise.

01:30 Dr. Phil Kotler: Yes. Happy to be here and I enjoy podcasting because they allow a lot of people driving their cars or at home to hear some thoughts about subjects they're interested in.

01:44 JJ: Absolutely. Well, you have an awful lot that you've been involved with in the marketing world. Do me a favor and fill in the gaps on anything that I may have missed and share with us a little bit about your background.

01:57 DK: Yes. Well, I got into economics originally and got my PhD degree, so I am an economist, but I was trained with classical economics and I wasn't very happy about it because people just don't make decisions about buying cars or anything else by a process of maximizing their utility function. I know that's good for mathematical analysis, but that isn't how you decide whether you wanna buy a car or which car. So, I was always more behaviorally interested rather than classically interested in economics. I wanted to really understand how buyers and sellers actually make their decisions. And so, I have been very excited about a new development in economics, which is called behavioral economics which tries to explain how people actually are motivated, buy and sell things. And by the way, it happens to be the subject of marketing for the last hundred years. Marketing has always been about trying to explain the decision making process, how ads may influence you, how price may influence you, and so on.

03:17 DK: When I started Northwestern in 1962 teaching at the Kellogg School, I was given a choice: Do I want to teach classical economics in the form of micro or macroeconomics, or would I like to teach marketing? And I said, "I would like to teach marketing because that's about the real world. That's about the real marketplace, not the theoretical marketplace." And in 1967, I ended up publishing my book called Marketing Management. It was a risk. It was a risk because it's different from a lot of the other marketing textbooks. The earlier books talked about things descriptively like, "A wholesaler does this." "Advertising does that." "A salesman has five things that he must do," etcetera. It was all sort of prescriptive and descriptive, but it was not analytical. It wasn't really based on research findings.

04:20 DK: So, my book on marketing management wanted to be built on a real good logic of psychology, logic of economic theory, some mathematics and some organizational theory. And it would either be a big failure or a big success. Well it turns out, the other people surprise, it was a very big success because that book has continued as a guide to business people; small business people, medium business people and big company business people, for ever since 1967. In fact, it's in the 15th edition going on to the 16th edition and so on. Now, you might ask the question, "What has changed in marketing?" "Why write an edition every three years?" If this was really the subject called geometry, started 2,000 years ago, the book would look the same. Geometry doesn't change, but the marketplace keeps changing. It has been in an incredible amount of change.

05:27 DK: And there are a few things that haven't changed, and that is we say as marketers, you must be customer-centered. You have to define what target market you're going after, understand it fully, and decide to serve the interest and the benefits, and the values of that customer group. That hasn't changed. We've added a couple of things. We also should consider the other stakeholders. We should not ignore, there are employees and their interests. We should not ignore our suppliers who are distributors. In other words, great marketing is going to be stakeholder marketing, and not only investor-oriented marketing. The classical economist said, "Everything has to do with making profits for the owners of the firm." But we think that's short sighted, that the firm that makes the most profits benefits all the groups working together to make that firm successful. So that is just a little bit on my philosophy.

06:43 JJ: That's great.

06:45 KF: So you bring up an interesting point there with stakeholder marketing. Can you maybe dive into that topic just a little bit more on what you mean with getting the employees and the vendors involved?

06:57 DK: Okay. In the old days, companies would find a market price for employees, for example. In other words, you can easily get a new employee for X dollars an hour. So they went cheap on that and they got every average employees. And imagine a hotel that wants to be a fine hotel and that decided to pay the lowest price necessary to get someone to be at the front desk and someone to clean the rooms. Those people will became very listlessly, unenthusiastically, whether they even greet the guests enthusiastically is a question. So we know that if you pay more to employees, they feel more involved with the firm. And if you always go for the cheapest suppliers, your products will break down more often.

07:55 DK: So the logic is when you're trying to be a brand that had some meaning that says it promises to make the best car or the best detergent or whatever, you've got to reward all the actors that got together to make that possible. Now you might say, "But isn't your cost higher?" Yes, your cost is higher, but you have many more loyal customers who come back. And in fact, if that car was a terrific car, in the best case, they become advocates. They are doing your advertising for you, they're telling others how great a car it is. So don't go cheap with your other stakeholders.

08:43 KF: I like that, that makes sense. And I think countless times, there's been examples of companies, even today, operating in modern times, and even points in history where that was the case that proves the value in what you just stated.

09:04 DK: Yes, and I hope it's changing broadly, because yes, you will always find some people thinking the old way as the best, because the equation seems so apparent that if your costs are the least, then you get so many buyers, you're left with more profits. But the point is, that's a very naive view.

09:26 KF: True. At what cost does that...

09:29 DK: Sure. Look, even... What happens is you lose a lot of your low paid workers, you have to replace them. And when you think about the trouble you've gone through in training and so on, you would've been better off getting someone who was a happy employee. By the way, there's a... The Marriott company says, the hotel company says that the customer is number two in their mind, not number one. But in an interesting way. By getting the best employees and paying them well, they sort of satisfy the customers that the customers come back. So they really focus on hiring the best people they can.

10:14 KF: That's a unique approach, considering what the norm is that the customer is number one.

10:20 DK: Right.

10:22 KF: Phil, on your website, you talk about the relationship between marketing and capitalism. Capitalism, you actually wrote a book Confronting Capitalism, which is a... We can dive into that a little bit as well. But I'm really interested in the topic, the relationship between marketing and capitalism. Can you dive in a little bit and tell us what the relationship is here?

10:46 DK: Yes. There's really two forms of capitalism. Capitalism without a heart and capitalism with a heart. And I'm in the second group there. But here's what I mean. The original view was that there should be absolute freedom for the business person to set wages and design products and market them as long as it's done always legally. And that's fine, except we have some justification for regulations because what if a food producer is a little careless with the food that he's making for people? Can't we just sort of nudge him a little bit and say, "You better have better ingredients than you've been using." So we end up with the FDA with some regulations over not only food, but medicines and safety measures, and so on. So we have to be in a more regulated form of capitalism, but we don't want it to strangle the business person. Just, it's in the interest in protecting the customers.

11:58 DK: Now, the question is whether it's all about making the investors rich, and that goes back to the stakeholder issue that we really wanna make all the players rich. Otherwise, it's a lopsided economy. Let me give you an example. Right now, tax reform is in the minds of all of us because maybe our taxes are too high and reform is necessary. But the question is, will lowering the taxes actually be used in the right way? For example, much of the reform includes a big kick up in the wealth of wealthy people. It is possible that the wealthy people will set up some factories. I would wonder why they wouldn't have set up factories if there was a need for factories even before they had a lower tax rate. But let's say, it is also possible for the wealthy people to just build a mansion out of it, get another airplane.

13:19 DK: When firms make more money, they often, management gets higher bonuses, and so on, so it's not clear that it's shared with the workers. Now, my beef on this is the following: The economy is gonna go to the extent that there's money in the hands of the average worker. And we know that the average worker would be bankrupt if he would not be able to pay a $400 bill if it came up suddenly. Half of our workers couldn't handle a $400 bill for a medical expense or something. So, we have to put more money into the pockets of our citizens in some way. Certainly, they're still at the 1980 level of living. In real terms, their incomes have not gone up. So I don't believe in supply side thinking, I believe in demand side thinking. If we want a 3% growth rate in our economy, which we have not had, you don't do it by just putting more money in the hands of wealthy people. And by the way, it's not even clear that the taxes won't go up rather than down for the middle class.

14:37 DK: There are two big, highly respected tax agencies that say that the present bill that's formulated is gonna actually raise taxes for middle class people. In any case, the problem is we have to, in some way, figure that the economy runs well when people have money in their pockets, not just the rich. By the way, eight people in the world have a wealth that is equal to half of the world's wealth. That was shown by the Oxfam people in England. So we've got a terrible distribution of income and wealth that is crippling the economy's growth, and nothing that's being done by the tax reformers in the Republican administration has acknowledged the real problems. I do not think that that reform of the tax bill is going to generate much of a dent in our low rate of growth. And as a matter of fact, they passed similar suggestions in the past. The irony is that when Clinton and one of the other Democrats passed a tax increase bill, we had the much better times following the increase and not caused by the increase but maybe by the good times. There's a lot of economic illiteracy being perpetrated on the American people. I, as a marketing person, am so interested in getting people to have the money, the means to buy what they wanna buy and finding that they don't have the means because of the bad distribution of income.

16:31 KF: That's interesting. Do you have any insights on why you think the increase in taxes would have led to stronger economic times?

16:39 DK: Well, probably because the mood was such that it actually allowed the politicians to convince people to accept the tax reforms on the increase side because it didn't make a dent in their behavior. In other words, when times are good, people are gonna spend money, even if they have a little less. But you really have to go into the literature. There are economic analyses of those in the journals, but it's a good question that you're raising, I agree on. But the tax decrease, there the whole thing is who gets that decrease and does it really put enough money in the hands of the average citizen?

17:34 KF: Absolutely. Now, when it comes to capitalism in your book, Confronting Capitalism, the 14 shortcomings that you outline.

17:42 DK: Yeah. I'm worried about a number of things there. Thanks for the question because I do something in chapter two with the income distribution issue, inequality. But I also talk about the job issue in another chapter that I am very worried about whether the economy is gonna produce enough jobs. The big change is so radical, the change toward digitalization, toward the internet, and I've been especially thinking about stores. Are we still gonna have enough retail physical outlets? My wife, as an example, has not gone into a store to buy anything for a long, long time. Anything she wants is on Amazon or on another online merchant of dresses and purses, and so on. She finds it much more easier to just buy online and the stores are always involving a cost. I have to get in my car, I've got to drive it, I've got to park somewhere. I'm gonna browse, and by the way, I probably will browse at the store, see what I like, and then order it for less money on Amazon. That phenomena itself is creating what we call showrooms rather than real stores earning money. As a matter of fact, what is the store I'm thinking of where you get electronics?

19:30 KF: We call it Best Buy?

19:30 DK: Best Buy, yeah. Best Buy has turned into a showroom. Everyone goes there to see the product they want, and then they order it on Amazon, but Best Buy finally realized what kind of business they're in. They're not in the business of actually selling physical products, they're in the business of charging the merchants who want their products to be on their shelves. Samsung gets a special corner in the Best Buy store and pays rent for the use of the shelf. It's a complete transformation of what business Best Buy is in. It is not gonna sell that much but it's gonna survive with the charges it makes to all of the people who wanna rent that shelf space.

20:23 KF: How sustainable a model is that for a brick and mortar though? If we're looking at... Best Buy has a giant footprint, they have a brand well-known throughout the nation. You just said electronics, and I took a stab at Best Buy and felt confident I was right and you confirmed that. They have a brand. But I look at some of these smaller brick and mortar main street businesses who are feeling this Amazon effect. I was just at a client meeting two days ago. It's a client in the seasonal business, they had three locations, they closed one last year, they were thinking about closing a second one. It is entirely due to Amazon moving into town and offering two-hour delivery for the very same products that they're providing. And they talked about people doing that very same thing; coming in using their brick and mortar as a showroom, and then leaving, on the way out the door, saying, "No, I'm just gonna buy it on Amazon." And it's crushing to a small business owner. The model you just explained for Best Buy, is that a model that is available or feasible for a small brick and mortar or is there other alternatives for these brick and mortars to take in, stay alive in this very transformative time that we're in?

21:52 DK: Yes, that's the key question. I wanna help them to survive. Here's the first problem is we are over merchandised in the country anyways. There are so many dress shops and so many places to go and buy things. You could know this by just shopping in a mall, and you'll look in through the window and you'll see a clerk there, but no one shopping. You'll see that we are over capacity and so on. Some of these stores can't survive. We've already seen that Sears is gonna collapse. We know that Penney's have terrible problems. There's some big, big chains that are in deep, deep trouble. So the answer we generally give is this, look at your store. First of all, let's say you're a small store selling... With a loyal following of people who have come in to buy... Women to buy your kinds of dresses, clothing. Okay. Make sure, first of all, that you've gone online as well. You may be selling purses and a bunch of other things, why not also try to be both store based and online based?

23:12 DK: Secondly, when they do come in, make sure your service people are trained very professionally, very much not pushing the selling, but understanding the customer well, each customer being a different customer and make the experience more intimate. Maybe you might wanna work with the concept of experiential marketing. Experiential marketing means what brings anyone to your store, what do they expect? Can you make the experience more special in some way? And so on.

23:52 KF: In my research for our interview today, I came across one of your quotes, and I loved this quote, but I wanna know more about it. Your quote is, "The future isn't ahead of us, it has already happened." So I wanted to talk a little bit about that in maybe the marketing world for our listening audience who... They're always trying... They tune into the Neon Noise podcast. We try to bring things to light that are "cutting edge" or help them decode and understand the complexities there as best we can. But to give some insight on maybe what we think today is the future, but you would say, "Nope, Ken, that's already happened." Or what you would look towards or recommendations you might give them to say, "This is something that you should have on your radar coming down the line."

24:45 DK: Alright. Let me say, first of all, your business listeners should really consider boning up on digital and understanding it pretty much. And that may really boil down to understanding Facebook and Instagram, and Pinterest and some of these other platforms as possible sales tools. Is that businessman's goods and services... Does he have a blog or a site on Facebook? By the way, or has he set up a blog anyways where his thoughts, his... Whatever you're selling has a history, has interesting items. What can the business person do to share the intelligence, the exciting world of tuna fish, the exciting world of skin care products? A way to use online. So that's one suggestion. Secondly, I think that they have to ask the basic question: Are they offering real customer value? This is the central concept in my books. The central concept is, you have to have the ability to create, communicate, and deliver real value. Now, maybe you can create value but you haven't communicated it well. You're just not expert enough to know how to encode the words about your product and benefit. Maybe you can encode it and you can deliver it, but you're missing the third, which is actually to deliver it so that I know where to go for it, the service is very good, it's very... Promises are met.

26:56 DK: Too many companies are just selling a common product and doing what we call commodity marketing, which means that only the lowest priced seller will win in that marketplace. They've just not done any differentiation. That's a key concept in marketing. But not just that, you can be different and irrelevant. Differentiation and relevance are the key tribal words of the marketer. And I think a lot of business people have to think about that... Realize they've been coasting on a market that maybe had some growth and growth means that all boats rise. And now there's so many competitors, undifferentiated as they are, that unless you have figured out how to do the job better and cheaper, and those are the code words, by the way. Try to do both if possible or be so much better that you can charge much more. But the question becomes, should you stay in business, are you creating, communicating and distributing relevant and superior value to your target customers? Maybe you're aiming at the wrong customers. Whatever it is, it's gonna be a losing battle if you are not outstanding and standing out.

28:37 KF: I couldn't agree more with that approach and just seeing that the conversations we have so often, someone will have Justin and I come and do an assessment on their marketing, and Neon Goldfish, our company, is a very digital focused, primarily practicing inbound marketing, inbound sales services. And one of the things we identify right away is that they haven't differentiated themselves, one, nor do they really understand who their target customer buyer personas are. And we have some exercises we go through with them, and it's amazing to see how excited they get once they identify this. I just think it's a lack of not knowing what you don't know. And following that suit and so many businesses are doing that. And so, they, the commoditized marketing that you mentioned, where price does become the... And if you're not the cheapest then you're up against it, right?

29:48 DK: Yeah. I was reading a, yesterday, an article by Al Ries who's the one who started positioning and focusing as code words in a sense for good marketing. And the article was entitled Marketers Without Borders. And the idea was, you know Doctors Without Borders, they're volunteers who go to help people who have health problems. So Al Ries was suggesting the need for Marketers Without Borders, guys who go around and help a company or a businessman or a person realize that they've got a good potential but they're not utilizing it. They're not doing both relevance and not offering something that is superior. So in a sense, you and your partner you come in to a business person and you see them doing commodity marketing and not winning, and you're Marketers Without Borders. You say, "We can help you." Actually, if you were gonna do it right, you should say, "We just wanna participate in the gains that are created by our suggestions that you use."

31:12 DK: That leads me to an interesting story. When one consultant said to the company that invited him, he says, "No, I don't want a fee. I just want stock in your business, so many shares. Because I'm so convinced that I can help you differentiate and be more relevant to your customers, that your stock price will go up, and I'm happy just getting some shares of your stock initially." So whether you're Marketers Without Borders or what, I just think that there's a lot of people who run businesses who have not understood marketing in a deep sense.

31:57 KF: Yeah. And for a while there, I think it's the confusion beyond how quickly all the new shiny objects in the marketing world that are constantly created and positioned in front of us, and we think about the latest and greatest, and newest social media platform and the complexities that they present themselves in. The majority of us out there in the business world aren't overly tech savvy, at least from what I've experienced. That is changing and continuing to change, but the comfort level there in understanding when marketing's getting more and more technical, I think that it's easier to tune it out or be more intimidated by it, and lose less focus. But what it really boils down to, the fundamentals in understanding your customer, your buyer persona and how you differentiate yourself, that probably hasn't changed a lot since you started teaching in 1962, right?

33:00 DK: Right, right. I think we made a lot of progress, but there's still a lot of people who haven't been touched by it enough and I think that I'm hopeful that more of us get the message out. But at the same time, I would like business people to indulge in a little of the internet world by hiring, if their budget allows, a young person who's very much a digital native, and give them a little budget and say, "Look, if you think you can enhance our business by either identifying better customers for us that we didn't know about, or sending messages that are on these platforms that we haven't been using, let's see what happens. And if we've identified that there's been a return on investment, we'll give you twice as much money. So play around and you know more than we do. We are ignoring the tech side. We're hiring you to see what that could do." Now, that took place right into the hands of what happened at Proctor and Gamble. You know that Proctor and Gamble, what's ahead of most companies in moving toward digital tools, and went up to about 35% for some of their brands.

34:29 DK: The budget was 35% digital, and 65% TV, 30-second commercial. I was predicting 50/50, that eventually when you're gonna be both selling in a store and online or something, it would be 50/50, the digital and the TV. However, I heard recently they cut back the digital. Now I'm not surprised. What happened is, they found out what works and what doesn't work. They found that some digital stuff wasn't working, and I don't know if they went, cut the 35 in half and just released the money for TV instead. But if we don't do any digital work, we're likely not to learn, and suffer. If we do digital work, we might overdo it too. Initially, it may work and then we put more money and maybe we have to go back a little. But we oughta try it anyway. We ought to hire someone who can train us to think a little more technically.

35:40 KF: Sure. Now Phil, you're known as the father of modern marketing and one of the greatest marketing minds ever. You just published your autobiography, My Adventures in Marketing: The Autobiography of Philip Kotler. What's next? What are you working on now? What do you have coming down the line that has you really excited as far as your work goes?

36:02 DK: Well, thank you. Yeah, the autobiography, incidentally, it's just 60 stories in my adventures in marketing. And it all started when I was asked in Japan to write a bunch of columns that their readers wanted to hear about me and so on. And then, I wrote 30 but I expanded it to 60. And each is a short read but I think leaving a good thought for someone on the beach who has my book [chuckle] and wants to just open a book, read something, close it, open, close it. What I'm working on now is the 16th edition of Marketing Management because new things are always happening. We think that we want to slim down the number of stories. We're gonna have lots of stories, but we want the logic of marketing to be crystal clear. Our book tends to have so many stories and pictures that you see the trees, but miss the forest. So the 16th edition might have quite a new look in being so clear about how to handle marketing challenges and so on. We also wanna make it very clear, there's a big difference between tactics and strategy. The old marketing, when you mention marketing to people, they say, "Oh, isn't that the sales promotion, advertising and sales force?" Yes it is, those are... And price, yes, those are marketing kinds of things, but the CMO of today is a new animal, chief marketing officer, not the vice president of marketing, the old title. We talk about the chief marketing officer.

38:03 DK: And by that, we mean a person who not only runs the marketing groups and tools, but actually, is essential to the firm's growth. We postulate that his or her job is not simply to sell more of the existing products, that's the old idea. His job is to find products that they ought to be making and selling. In other words, who else in the company is in the best position to know where to move next and to expand? Well, the sales people and the advertising people and the consumer guys are so close to customers, they should be trained to recognize the trends. They should be futurists in their thinking. And the marketing department is the one that should sensitize the company, not only to how to sell more of what they make, but how to make more of that will sell. And that's a new concept for the marketing position, we believe.

39:13 KF: Exciting.

39:16 JJ: Very, very interesting. Hey, Phil, if you have one piece of parting advice for our listening audience, what would that be?

39:22 DK: Well, I would say, you might want to connect more with a local chapter of the American Marketing Association, because the people belonging to these marketing or AMA divisions are people like yourselves that are interested in making marketing work better for you and they audit their audiences to see what topics are missing from... That are key to future in better marketing. And I would just say get connected with other marketers in... Don't just stay connected to those in your type of business. An auto marketer can learn a lot from a dress marketer, I'm sure. And so, that would be my suggestion, connect with the community of marketers and you'll learn a lot.

40:22 JJ: Beautiful. What is the best way for our listeners to get in touch with you, Phil?

40:27 DK: My email is pkotler, with no dash or anything, P-K-O-T-L-E-R@aol.com. I can also be looked up at pkotler.org. I enjoyed very much your questions and having this opportunity to talk to your audience.

40:52 KF: Well, the pleasure was all ours, Phil. We thank you.

[chuckle]

40:56 DK: Thank you.

40:57 JJ: We enjoyed the conversation today with you very much so, Phil. We will go ahead and publish all that information in the show notes, which will be available at neongoldfish.com/podcast. Until next time, this is Justin, Ken and Phil signing off. Neon Noise nation, we will see you again next week.

[music]

41:19 S1: Thank you for listening to this episode of the Neon Noise podcast. Did you enjoy the podcast? If so, please subscribe, share with a friend, or write a review. We wanna cover the topics you wanna hear. If you have an idea for a topic you'd like Justin and Ken to cover, connect with us on Twitter @neongoldfish, or through our website at neongoldfish.com.