Business School for CLE: What is Marketing, Really?

Presented By:

Peter Berge
Minnesota CLE
St. Paul, Minnesota

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St. Paul, Minnesota

Peter H. Berge is the Web Education Director for Minnesota CLE. Following law school he clerked for Justice Lawrence Yetka of the Minnesota Supreme Court and was a litigation attorney in the Twin Cities. Drawn to the academic side of law, he authored a well-received book, Minnesota Insurance Law, which led to the gypsy life of an itinerant law professor. After teaching at the William Mitchell College of Law, Temple University School of Law and Georgetown University Law Center Peter was coaxed into the CLE fold by Frank Harris. In addition to his legal training, Peter holds an MBA from the University of Minnesota’s Carlson School of Management where he was a Carlson Scholar (highest honors). Peter plays guitar and sings in bars around the Twin Cities (www.oldsoul.us). You can see some of his photography at www.peterberge.com and www.facesofmn.com. Peter is a member the ACLEA Executive Committee, currently serving as Secretary. He is also the President-Elect of the Alumni Board for William Mitchell College of Law and a member of the Advisory Committee for William Mitchell’s new Hybrid Online JD Program and the Chair of the Fourth District Ethics Committee for the Minnesota Lawyers Board of Professional Responsibility.
Business School for CLE: What is Marketing, Really?

Peter H. Berge, JD, LL.M., MBA
Web Education Director
Minnesota Continuing Legal Education

ACLEA Annual Meeting
Seattle, Washington
August 1, 2016
What is marketing? Advertising? Selling? A Department? If you are thinking along those lines, you are thinking too narrowly. My goal is that by the end of this hour is two-fold: first, that we will all be thinking more broadly about what marketing is and second, that we will have a common language about marketing concepts, one shared with the business community.

Let us start with a definition of marketing:

“Marketing is the allocation of resources to create value.”

Notice in the delimitation that “allocation of resources” is not limited to what a department does or what advertising you buy. It encompasses all aspects of the business where resources are allocated to create value. This starts with the research you do before you even produce a product, to deciding what the product will be, to how you price that product, to how you promote that product, to getting that product into the hands of your customers and finally, to getting feedback so you can adjust the product and your strategies for approaching your customers with the product. Marketers use the following shorthand:

\[ R \rightarrow STP \rightarrow MM \rightarrow I \rightarrow C \]

Where:

\( R = \) Research – that is market research
\( STP = \) Segmentation, targeting, and positioning
\( MM = \) Marketing mix – the 4 P’s – Product, Price, Place, Promotion
\( I = \) Implementation
\( C = \) Control – feedback, evaluating results leading to revising and improving STP strategy and MM tactics

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1 Kotter, P., KOTLER ON MARKETING: HOW TO CREATE, WIN, AND DOMINATE MARKETS, at 30 (Free Press, Reprint Ed. 2014).
This gives us a framework to think about the whole marketing process.

**Research:** Without market research, we are blind. We have no idea who our customers are, what they want, how much they will buy or how much they will pay. Here is a story commonly told to MBA students to illustrate how good market research guides your business decisions:

Imagine a shoe manufacturer who wants to expand into a South Pacific island. First, they send an order taker. The order taker reported back, “Nobody wears shoes, there isn’t any market here.” Concerned that that didn’t sound right, they sent a sales person. The sales person reported back, “No one wears shoes here, there is a tremendous market here!” Concerned that this might be far too exuberant an assessment, the company sent a marketer. The marketer reported back:

- People don’t wear shoes here, but lots of people have foot problems.
- I talked with the elders and convinced them that shoes would help solve foot problems.
- They estimated that 50% of the population would buy shoes at $10 per pair.
- Our cost to produce and distribute would be $6 per pair.
- This gives us a first year gross profit of $20,000.

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- Therefore, I recommend we go ahead.
Obviously this is a highly simplified example, but notice there were a number of things the marketer did that the others did not. The marketer met with the customers and gathered information. The information allowed the marketer to estimate the size of the market. The size of the market gave a means of estimating how many pairs could be sold. Putting that together with the known cost structure, one can estimate profit margin. Here are the steps that a prudent marketer takes:

2. *Exclusions*: who cannot adopt?
3. *Segments*: what differentiates groups in the market?
4. *Adoption*: what percentage are likely to adopt? (this is often overestimated).
5. *Frequency*: how often will the product be purchased? (e.g., durable goods v. consumables).
6. *Initial Estimates*: the information above forms the basis for the initial estimates but needs to be revised as more information comes in.

There are two themes that I will continue to emphasize: 1) you are getting to know your customer better – Customer Intimacy and 2) you are getting to actual numbers – Quantitative Analysis. Granted these estimates are never going to give a perfect prediction, but they give an educated guess with quantitative analysis. That is a far cry better than making decisions with your gut. Good data is always going to give you better results than guessing.

*STP – Segmentation, Targeting, and Positioning:* Your research will likely show a number of customer segments, that is, groups of consumers who share characteristics and respond similarly. Good segmentation provides tangible benefits:

- Identifies products to create, messages that will be effective,
- Makes efficient use of limited resources,
- Trades off standardization and customization,
- Creates a quasi-monopoly.
How we segment, and the tools available for segmentation, have evolved over the years.

- Demographics: Demographic segmentation relies on statistics of the person – age, race, gender – things not changeable.

- Psychographics: Interests, hobbies, what you care about, personality, profession, things that interest you – run surveys and sell information.

- Behavioral: tailor segmentation to strategic decisions, define segments based on consumers actual purchasing behavior, and redefine segments as market conditions change.

- Business Analytics: data driven segmentation.

Demographic segmentation is the bluntest of the instruments – it is better than guessing, but not by a lot. Psychographics was an attempt, in the 1960s, to build more nuance and, hopefully, predictability into segmenting.

Instead of just demographics, it tries to build a psychological profile based on such things as social class, lifestyle, and personality in order to target their messages to group. For example, instead of age, city, income level, the market is segmented into “types” such as “High-Tech Harry” and “Joe Six-Pack.”\(^2\) To the right, for example, is the Young & Rubican “Cross Cultural Consumer Characterization.”

Psychographic segmentation never lived up to its promise which led marketing professionals to ask questions like “What are we trying to do?” “Which customers drive profits?” “Which attitudes matter to buying decisions?” and “What are my customers actually doing?” In 2006 Daniel Yankelovich (who originally pioneered psychographics) and David Meer proposed:

1. Tailoring segmentation to strategic decisions (e.g., are you seeking to prevent customer defections or extend a brand or enter a new market.);
2. Defining those segments on the basis of actual purchasing behavior and likely future behavior (not statistics about them, character traits, or attitudes); and
3. Redefining segments as market conditions change (as opposed to the rigidity of demographic and even psychographic measures).³

Data analytics tools have strengthened the ability to do this sort of segmentation. Even taking simple customer purchasing data and using clustering algorithms (e.g., decision trees, k-means clustering) has vastly improved the ability to create meaningful segmentations based on actual purchasing decisions.⁴

As an aside, you may have noticed I have not mentioned anything about generational marketing approaches. This posits using “generation as archetypes; a model of which all things are considered of the same type, copy or representation.”⁵ The thesis is that Millennials, Gen Xers, Yers, Boomers, and the Greatest Generation have distinct and identifiable buying

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⁵ E.g., Mighty Call, Generational Marketing and Millennial Mindset, https://www.mightycall.com/blog/generational-marketing/.
preferences based on their year of birth. This should sound familiar. It is basically a rehash demographic approach (age) with a dash of pop-psychographics (generational attitudes). By and large, this is old snake oil simply packaged in a newer, shinier bottle with a hipster logo.

Not all segments of the market can or should be pursued. Deciding which segments to pursue is a fundamental strategic decision from which great consequences follow. Some segments of the market are simply better than others for a company. Target the right markets and business is easy; target the wrong markets and it is hard. Deciding which markets to target informs how to position the company so the target customers know the value proposition being offered. Thus, if you are Volvo and you decide to target the safety conscious driver, you position yourself not for style, luxury, or speed but rather as the company designing roomy, durable, and safe automobiles.

*Marketing Mix – The Four P’s:* Strategy then moves to the tactics. The marketing mix provides the tools that support delivery of the product, better known as the Four Ps:

1. Product
2. Price
3. Place
4. Promotion

The segments of the market identified and chosen as strategic guide what the products should be. This is closely allied with the entrepreneurial process because in doing the market research, you are determining where the customer’s “pain point” is – that is, what is the problem they
have so you can develop a product to solve it.⁶ How much value is given by salving the customers’ problem gives a sense of where pricing should be.

Pricing is a subject of considerable complexity and unending speculation.⁷ At heart, though, what one is attempting to do with pricing is to cover variable costs, fixed costs, the profit normally expected in the industry, and any extra value added over that expected industry profit:

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<tr>
<th>Extra Value Added Profit</th>
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<tr>
<td>Fixed Costs / unit</td>
<td>Variable Costs / unit</td>
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Fixed and variable costs relate to the company; expected industry profits to competition; and extra value added to the customer.

Place is shorthand for distribution, or how to make the product readily available and accessible in the target market. This is perhaps not as big an issues in CLE as other industries that use sales channels and are selling in a broader market. However, there are many such decisions for organizations. For example, where one holds conferences, whether to have a conference center for programs, whether to sell publications directly or through a channel like Amazon.

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Promotions are the communications used to inform or persuade those in the target market of the product’s availability. This includes advertising, sales, promotions, direct mail, publicity, and other means. In my experience, promotion, and in particular advertising, is what organizations consider as their “marketing.” I hope that it is now obvious what a mistake it is to conflate marketing into advertising. To be effective, advertising and promotions in general must be the culmination of and supportive of all the market research, market segmentation, and product design and pricing. If you do not get those right, no amount of advertising will save you.

**Implementation:** Up to this point, we have been discussing strategy. A strategy is nothing without implementation and a sound strategy can be sabotaged by poor implementation. One should not automatically assume that a marketing failure is the result of bad strategy. In an influential Harvard Business Review article, Thomas Bonoma argued that more often the problem is failed implementation of a good strategy.\(^8\) Failures in implementation can happen at a variety of levels: product management, sales, customer service,\(^9\) and failure to deliver value promised,\(^10\) for example.

**Control:** The final step is control. This is the process of evaluating the results of the whole marketing effort and learning from the process. Most CLE organizations do program evaluations, but control goes beyond mere evaluations. Evaluation and feedback needs to be

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both substantive and financial. This becomes something like a biofeedback loop. If goals are not met, the fault may lie in one of the four-p’s of the marketing mix or even more fundamentally with the market segmentation, targeting, or positioning. The point is to keep the marketing goal in mind and make sure the entirety of the marketing plan is working to direct the organization toward the goal.

**Conclusion:** My hope is that this gives all a broader view of the scope of marketing. It certainly includes advertising, but it is so much more. Indeed, at every level, from initially picking the right strategic markets, to developing a marketing mix, to implementing and learning from that implementation to recalibrate. A comprehensive view of marketing will allow you and your organization to, in the immortal words of Spock, “Go forth and prosper.”
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- \( C \) = Control – feedback, evaluating results leading to revising and improving STP strategy and MM tactics

Research

\[
R \rightarrow STP \rightarrow MM \rightarrow I \rightarrow C
\]
Shoe Manufacturer in South Sea Island

• Order Taker
  “Nobody wears shoes, there isn’t any market here.”

• Salesperson
  “No one wears shoes here, there is a tremendous market here!”

• Marketer?
People don’t wear shoes here, but lots of people have foot problems.
I talked with the elders and convinced them that shoes would help solve foot problems.
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Market Research Basics

- **Population**: start with the population – think at the decision level (ex: flat screen TV Market: households not individuals).
- **Exclusions**: who cannot adopt?
- **Segments**: what differentiates groups in the market?
- **Adoption**: what percentage are likely to adopt? (this is often overestimated).
- **Frequency**: how often will the product be purchased? (e.g., durable goods v. consumables).
- **Initial Estimates**: the information above forms the basis for the initial estimates but needs to be revised as more information comes in.
A CLE Example

Attorney’s 26,000
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<tbody>
<tr>
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<td>21,000</td>
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<td>Active</td>
<td>21,000</td>
</tr>
<tr>
<td>Req CLE Hrs/yr</td>
<td>15</td>
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</tbody>
</table>
A CLE Example

Attorney’s 26,000
Active 21,000
Req CLE Hrs/yr + Extra 18
A CLE Example

Attorney’s 26,000
Active 21,000
Req CLE Hrs/yr + Extra 18
CLE Hrs/yr 378,000
A CLE Example

Attorney’s 26,000
Active 21,000
Req CLE Hrs/yr + Extra 18
CLE Hrs/yr 378,000

Avg Cost/Credit Hr $37.50
A CLE Example

Attorney’s 26,000
Active 21,000
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CLE Hrs/yr 378,000

Avg Cost/Credit Hr $37.50
Market Size $14,175,000
Segmentation, targeting, and positioning

\[ R \rightarrow STP \rightarrow MM \rightarrow I \rightarrow C \]
Segmentation

• Demographics: Demographic segmentation relies on statistics of the person – age, race, gender – things not changeable.
Segmentation

• Demographics: Demographic segmentation relies on statistics of the person – age, race, gender – things not changeable. Quantitative.

• Psychographics: Qualitative
  • Traditional demographic traits such as age, sex, education levels, and income no longer said enough to serve as a basis for marketing strategy.
  • Nondemographic traits such as values, tastes, and preferences were more likely to influence consumers’ purchases than their demographic traits were.
  • Sound marketing strategy depended on identifying segments that were potentially receptive to a particular brand and product category.

(Daniel Yankelovich, “New Criteria for Market Segmentation,” HBR 1964)
Psychographics

THE ASPIRER
Materialistic, acquisitive people, who are driven by others’ perceptions of them rather than by their own values. As a result, they respond to what others perceive as superficial: image, appearance, persona, charisma and fashion. An attractive pack is as important to them as its contents. Their core need in life is for status.

THE REFORMER
“Don’t tell me what to do or what to think” says the Reformer, valuing their own independent judgement. Reformers are the most anti-materialistic of the seven groups, and are often perceived as intellectual. They are socially aware, and pride themselves on tolerance. Reformers seek out the authentic and the harmonious, and are often at the leading edge of society. However, unlike Explorers, they will not buy things just because they are new. Their core need in life is for enlightenment.

THE MAINSTREAM
These are people who live in the world of the domestic and the everyday. A daily routine is fundamental to the way they live their lives. Their lifestyle choices are “we” rather than “me”. As their name implies, they are the mainstream of society. They are the largest group of people within 4Cs across the world. They respond to big established brands, in “family” brands and to offers of value for money. Their core need in life is for security.

THE EXPLORER
These people are driven by a need for discovery, change and new frontiers. Young in nature, but not reality. Explorers are the first to try out new ideas and experiences. They tend to brands that offer new sensations, indulgence and instant effects. In short, difference is what they seek out. Their core need in life is for discovery.

THE SUCCEEDER
Succeeders possess self-confidence, have a strong goal orientation and tend to be very organised. As a result, they tend to occupy positions of responsibility in society. Their investment in the status quo means they tend to support it. When it comes to brands, they seek reward and prestige, and will often seek out the best, because that is what they feel they deserve. On the other hand, they also seek out caring and protective brands - their aggressive attitude to life means they need to relax occasionally. Their core need in life is for control.

THE STRUGGLER
Strugglers live for today, and make few plans for tomorrow. Others often see them as victims, losers and wasters - aimless, disorganised people with few resources apart from their own physical skills. If they get on in life, it will depend more on a winning lottery ticket than anything they do themselves. They are heavy consumers of alcohol and junk food. Visual impact and physical sensation are an important element of their brand choices. In essence, they seek escape.

THE RESIGNED
These are predominantly older people with constant, unchanging values built up over time. For them, the past is bathed in a warm nostalgic glow. They respect institutions and enjoy acting in traditional roles. Their brand choices are driven by a need for safety and for economy. They choose above all what is familiar to them. In life, their aim is basic: it is to survive.

Young & Rubicam, http://www.yr.com/
Psychographics

• The Belonger (attracted to community)
• The Achiever (likes short messages that focus on profit)
• The Wannabe (likely to buy imitation products)
• The Socially Conscious (read: environmentally friendly)
• The Balanced/Integrated (basically, socially conscious achievers)
• The Needs Driven (impulse buyers who respond to urgency)
“Psychographics may capture some truth about real people’s lifestyles, attitudes, self-image, and aspirations, but it is very weak at predicting what any of these people is likely to purchase in any given product category.” – Yankolovich, HBR 2006

“How to Get Valid, Useless Results”
Segmentation

- Demographics: Demographic segmentation relies on statistics of the person – age, race, gender – things not changeable.

- Psychographics: Qualitative

- Behavioral: tailor segmentation to strategic decisions, define segments based on consumers actual purchasing behavior, and redefine segments as market conditions change.
Behavioral

1. Tailoring segmentation to strategic decisions (e.g., are you seeking to prevent customer defections or extend a brand or enter a new market.);

2. Defining those segments on the basis of actual purchasing behavior and likely future behavior (not statistics about them, character traits, or attitudes); and

3. Redefining segments as market conditions change (as opposed to the rigidity of demographic and even psychographic measures)

Generational Marketing
Marketing mix

$R \rightarrow STP \rightarrow MM \rightarrow I \rightarrow C$
4 P’s

• Product
• Price
• Place
• Promotion
4 P’s: Product
THE LEAN STARTUP

How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses

ERIC RIES
Product Development

• Identify Customer’s Problem: ”Pain Point”
• Envision a Product/Service That Would Solve Customer’s Problem
• Build a Minimally Viable Product (MVP)
• Test the MVP
• Gather and Evaluate Data from Test of MVP
• Pivot?
  • Yes – Incorporate New Knowledge into New MVP....
  • No – Go to market

Ideas → Build → Product → Measure → Data → Learn
Design Thinking

- Empathize
- Define
- Ideate
- Prototype
- Test
4 P’s: Price

- Extra Value
- Added Profit
- Expected Industry Profit
- Fixed Costs/Unit
- Variable Costs/Unit
4 P’s: Place (Channels/Distribution)

• Direct Field Sales
• Corporate Resellers
• Master & Local Distributors
• Integrators
• Value-Added Resellers
• Manufacturer’s Agents
• Brokers
• Franchises
• Telemarketers

• Internet Sites
• Extranets
• Direct Mail
• E-mail
• OEM’s
• Retail
• Strategic Alliances
• Agents
4P’s: Promotion

- Sales
- Promotions
- Direct mail
- Publicity
- Advertising
Implementation

\[ R \rightarrow STP \rightarrow MM \rightarrow I \rightarrow C \]
Marketing problems are often failed implementation of a good strategy.

Marketing strategy and implementation problem diagnosis

<table>
<thead>
<tr>
<th>Marketing implementation</th>
<th>Strategy</th>
<th>Inappropriate</th>
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</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>Appropriate</td>
<td>Success</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Targets for growth, share, profits are met</td>
</tr>
<tr>
<td>Poor</td>
<td></td>
<td>Poor execution hampers appropriate strategy; management may conclude that its strategy is inappropriate</td>
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<tr>
<td></td>
<td></td>
<td>Failure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cause of failure is hard to diagnose because poor strategy is masked by inability to execute</td>
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</tbody>
</table>

Rescue or ruin
Good execution may mitigate poor strategy and give management time to correct it, but good execution of poor strategy may hasten failure.
Control

\[ R \rightarrow STP \rightarrow MM \rightarrow I \rightarrow C \]
Control

\[ R \rightarrow STP \rightarrow MM \rightarrow I \rightarrow C \]
Conclusion
everything is marketing