Philip Kotler

Reinventing Marketing to Manage the Environmental Imperative

Marketers in the past have based their strategies on the assumption of infinite resources and zero environmental impact. With the growing recognition of finite resources and high environmental costs, marketers need to reexamine their theory and practices. They need to revise their policies on product development, pricing, distribution, and branding. The recent financial meltdown has added another layer of concern as consumers adjust their lifestyles to a lower level of income and spending. Companies must balance more carefully their growth goals with the need to pursue sustainability. Increased attention will be paid to employing demarketing and social marketing thinking to meet the new challenges.

Keywords: environment, sustainability, externality costs, financial meltdown, consumer lifestyles, demarketing, social marketing

On this occasion to celebrate the 75th anniversary of *Journal of Marketing*, it is important to recognize its many contributions to the theory and practice of marketing. *Journal of Marketing* has carried articles advancing new marketing concepts, theories, practices, and empirical findings, and it has had to overcome old views of marketing. As late as 1997, *Random House Webster's Dictionary of American English* defined marketing as "act or practice of advertising and selling a product." Fortunately, we have broadened our view of marketing, as captured in the latest American Marketing Association (2008) definition: "Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for consumers, clients, partners, and society at large" (see http://www.marketingpower.com). Furthermore, over the years, marketing has broadened its compass beyond products to include other offerings, such as services, experiences, places, persons, ideas, and causes.

Looking ahead, we see the emergence of a whole new marketing environment that will affect the science and practice of marketing in the coming years. Marketers have had to recognize such forces as globalization, cultural differences, the Internet, social media, brand proliferation, retail concentration, recession, and environmental issues.

The Environmental Imperative and What Companies Are Doing Today

Of these forces, I would like to comment on the profound influence that the environmental agenda is likely to have on marketing theory and practice. Companies must address the issue of sustainability. Sustainability raises the question whether this generation can leave future generations with the same or a larger basket of resources than we have now (see World Commission on Environment and Development 1987). It would be easy for this generation to use up more of our resource endowments and leave future generations with less, and this would be unconscionable.

According to Professor Walter Georgio Scott (2005), we face not one but several environmental challenges:

- A change (probably irreversible) in the composition of the atmosphere and consequently of the climate;
- A depletion of the ozone layer, the shield protecting the Earth from ultraviolet radiation;
- Soil degradation and increased desertification;
- Increased air and water pollution;
- A reduction in the availability of fresh water; and
- Increasing depletion of physical and natural resources, from oil to copper, to timber, and so forth.

Companies need to make drastic changes in their research-and-development, production, financial, and marketing practices if sustainability is to be achieved.

With regard to marketing, companies and their marketers have operated on the assumption of an endless supply of resources and, furthermore, that production, distribution, and consumption do not add to pollution, water shortage, and other costs, or at least that companies do not have to bear these costs. Once we begin to acknowledge resource limitations and externality costs, marketing will have to reinvent its practices to be environmentally responsible.

We need to recognize a major difference in the mindsets of firms and consumers in the presustainability versus the sustainability world. Consider the largely unexamined assumptions of marketers in the past:

- Wants are natural and infinite, and encouraging unlimited consumption is good.
- The planet's resources are infinite.
- The earth's carrying capacity for waste and pollution is infinite.
- Quality of life and personal happiness increase with increased consumption and want satisfaction.

Philip Kotler is the S.C. Johnson & Son Distinguished Professor of International Marketing, Kellogg School of Management, Northwestern University (e-mail: p-kotler@kellogg.northwestern.edu).

ISSN: 0022-2429 (print), 1547-7185 (electronic)

In contrast, those who press for sustainable practices hold the following principles:

- Wants are culturally influenced and strongly shaped by marketing and other forces.
- The earth's resources are finite and fragile.
- The earth's carrying capacity for waste and pollution is very limited.
- Quality of life and personal happiness do not always increase with more consumption and want satisfaction.

Companies that embrace sustainability need to make some basic changes in their production and marketing practices. Paul Polman, chief executive officer (CEO) of Unilever, is one of several strong advocates of sustainability in business (Stern 2010): "Our ambitions are to double our business, but to do that while reducing our environmental impact and footprint.... But the road to well-being doesn't go via reduced consumption. It has to be done via more responsible consumption."

This poses a difficult challenge, however. If every company such as Unilever was to succeed in doubling its business, sustainability will be impossible to achieve. We have heard many times that if less developed countries would by some miracle achieve the living standards of more advanced countries, pollution, road and air traffic, and energy power outages would smother our quality of life. Something between a zero-growth goal and a modest-growth goal would make more sense.

Sustainability-driven companies need to explain how they would revise their goals and operations to pursue sustainability. They need to introduce new and broader criteria to direct their new product development programs, invest more in reuse and recycling, and convince all their stakeholders—employees, channels, suppliers, and investors—to accept many difficult changes.

Can we expect the C-level executives and company investors to accept a more moderate rate of growth? Companies would have to change the compensation package to encourage their decision makers to set a better balance between the goals of growth and sustainability. It would make sense for the CEO to earn a payout based on achieving the planned growth rate while having reduced environmental costs by a planned percentage.

Some companies have adopted the environmental credo with zest, and we need to find out more about their policies for balancing profitable growth and sustainability. General Electric, under the leadership of Jeff Immelt, has launched the Ecoimagination program, looking for ways to make profit out of solving social problems. DuPont has done a great job of finding ways to reduce pollution and produce materials that are sustainability appropriate. Wal-Mart has built its truck fleet to be more fuel efficient and is also goading its suppliers to change their truck fleets to be more fuel efficient and less polluting. By 2012, Wal-Mart will require more than 60,000 of its suppliers to source 95% of their production from highly ranked "environmentally oriented" companies. The march toward marrying good business practice with sustainability is going forward in a number of notable companies.

What marketing practices will have to change? Consider the four Ps:

- *Product*: Companies will have to consider more questions in the course of developing new products. Designers will have to consider the materials more carefully and their sources and carbon footprints. They will have to develop the packaging more carefully in terms of being biodegradable and disposable. Service firms that do not produce a physical product (e.g., professional firms, hospitals, colleges, airlines) have a chance to compete better by demonstrating their environmental concerns in their use of energy and physical supplies and to contribute to conservation causes.
- *Price*: Companies can create a menu of offerings that differ in their level of environmental friendliness and price them accordingly. Environmentally involved customers may be willing to pay more. Companies will also need to consider how their pricing will be affected by possible new regulations requiring them to cover more of the externality costs they create.
- *Place*: Companies will need to consider where to locate their production and distribution facilities. Environmentalists advocate more locally based production, which would call for more decentralized production. Marketers pursuing sustainability may want to rate the different potential distribution channels for their commitment to sustainable practices. Companies can make greater use of online selling of their products to reduce the amount of consumer driving to outlets.
- *Promotion*: Companies will need to consider how much to shift their promotion from print to online, based on the notion that print uses up paper, ink, and other resources. They will want to communicate their commitment to sustainability (i.e., being a good citizen) in more of their advertisements. Their product labeling might need to be more specific about the ingredients and their carbon footprints. Virtually all companies seek growth, but they need to put more emphasis on sustainable paths to growth.

The Consumer Pressure: Why Companies Will Need to Change Their Marketing Practices

Major pressure for changing marketing practices may come from consumers themselves. Consumers are the ultimate power brokers. Marketers have viewed consumers as choosing among brands on the basis of functional (Marketing 1.0) and emotional (Marketing 2.0) criteria. But many of today's consumers are adding a third dimension—namely, how the company meets its social responsibilities (Marketing 3.0). Consumers today carry new concerns, doubts, and fears. Will they keep their jobs? Can they save enough for retirement? Will the road traffic get much worse? Will the air get more polluted? Will products be made in ways that are environmentally clean?

My conclusion is that increasing numbers of people will prefer to buy from companies that care. Companies will need to add an environmental dimension to their profile. They do not want to appear indifferent to larger economic, social, and political concerns. Word of mouth is becoming a growing force in shaping consumer decisions. Consumers can be e-mailing, blogging, and tweeting to their friends and acquaintances good things or bad things about a com-

pany. Companies are increasingly swimming in a highly transparent fishbowl.

Will consumers be willing to buy offerings that are more environmentally friendly? Yes, if the price is the same. But there is also evidence that some consumers will be willing to pay more. Jared Diamond (2004) describes Home Depot stores that set up two bins of plywood next to each other. One bin contained plywood carrying the Forest Stewardship Council (FSC) label guaranteeing that the tree was taken from a forest managed in accordance with FSC guidelines. When the price of the wood was the same in both bins, nearly all the customers chose the plywood with the FSC label. When the FSC labeled plywood was priced 2% higher, still 37% of the customers chose the FSC-labeled plywood.

There are also electricity companies that charge a little more per kilowatt-hour than their competitors because their energy is sourced more from solar and wind. More research is needed on how many people will pay more and how much more they will pay for more environmentally sound offerings.

An effect of the recent financial meltdown has been to drive people to think more reflectively about their lives as consumers. At one time, we called them "citizens"; now we call them "consumers." But these citizens are asking new questions:

- Are we eating too much food? Is it the wrong kind of food? Can we give up beef, which is such an inefficient way to meet our protein needs? Are we consuming too much sugar and salt and butter? Are family members following a healthy diet?
- Are we driving a fuel-efficient car? Do we even need to own a car?
- Can we save more energy in the running of our home by more efficient lighting, solar panels, and other steps?
- Can we sort trash more efficiently into paper, cans and bottles, and waste?

Periodically, there are reports of households that have chosen to move to a "less is more" lifestyle, sometimes as a result of income loss and other times as a family environmental commitment. Living a more balanced lifestyle, one not overcharacterized by materialism, does not necessarily mean living a less happy life. To quote William Wordsworth, "The world is too much with us; getting and spending, we lay waste our power."

John Gerzema (2010) of Young & Rubicam reports the following recent findings:

> In light of the "Great Recession," there are new data to suggest Americans are less apt to equate materialism with overall happiness. In a study on post-crisis consumerism using data from BrandAsset® Valuator, 77% of people agreed that "Since the recession, I realize that how many possessions I have does not have much to do with how happy I am." And both the Millenials (those with the least assets) and the Baby Boomers (those with the most assets) both believed this the most strongly. The study also showed that 62% of Americans agree that "Since the recession, I realize I am happier with a simpler, more down to basics lifestyle" [and] 77% of people agreed that "How I spend my time is more important than how much money I make." The research suggests that "mindless consumption" is becoming more "mindful" and that brands and marketing can play a greater role in connecting with the values shifts of the post-crisis consumer: 72% of people agreed that "I make it a point now to buy brands from companies whose values are similar to my own." And two-thirds of all people agreed that "I make it a point to avoid buying brands whose values contradict my own."

Some consumers have recently been labeled "LOHAS," an acronym standing for "lifestyles of health and sustainability" (Environmental Leader 2009). One estimate placed 19% of the adults in the United States, or 41 million people, in the LOHAS or "cultural creatives" category. The market for LOHAS products is growing and encompasses organic foods, energy-efficient appliances and solar panels, alternative medicine, yoga tapes, and ecotourism. Taken together, these account for an estimated $209 billion market.

If a sufficient number of families begin adopting a more LOHAS-oriented lifestyle, this will directly affect the marketing consciousness and practices of producers. The media will be more alert to report stories of energy and material waste, harmful ingredients, and damage to the planet's sustainability. Producers will have to decide more carefully what to produce, how to produce it, how to distribute it, and how to promote it. They will not want to be exposed by watchdog consumers and employee whistleblowers who spotlight bad practices. With the continued growth of social media, no company can safely avoid negative word of mouth when it crosses into irresponsible production and marketing.

We have emphasized how sustainability concerns might affect the consumer market. Will sustainability have as much of an impact on business-to-business (B2B) product and service companies? Most B2B companies will take "green" steps when they promise to yield strong economic savings. If they can save on energy or replace one ingredient or component with an environmentally better one *and* save money, they will make the change. But B2B companies are further removed from consumer pressure. However, they may receive pressure from their distributors and customers to adopt more environmentally friendly practices even if immediate savings are not evident.

There will also be influence from environmental organizations, social media, and concerned citizens about sustainability and from a greater recognition that happiness is not all about practicing greater consumption. Governments at the federal, state, and local levels may also play a stronger role if consumers and voters push them to use legislation, regulation taxation, and incentives to support sustainability and the health and safety of citizens. Government could go further by pushing for companies to bear more of the costs of negative externalities, although this would create a political hailstorm as big or bigger than the health care debate.

The Rise of Demarketing and Social Marketing

From a marketing point of view, there is likely to be a ramping up of two marketing perspectives that will affect the quality of our future environment. The first is "demarketing," defined as the practice of demand reduction (Kotler and Levy 1971). Demarketing uses the same four Ps (product, price, place, and promotion) of marketing but in a

reverse way. A vivid example is available from California communities that have faced a chronic water shortage. Local governments have had to adopt a demarketing strategy to reduce industries and consumers' water consumption. Today, there are more targets for demand reduction than there have been in the past. We need to combat overfishing, energy waste, overeating, and obesity, among other issues. Governments, as well as some industries, will need to develop more effective tools and skills in demand reduction. Marketing has traditionally been about demand expansion, and this will remain the dominant pursuit; however, there are times and resources that will demand conservation and reduction. Electricity companies today are trying to educate people to turn off their lights and even unplug their computers when not in use to save electricity, even though their revenue will fall.

The second perspective is "social marketing," defined as the theory and practice of marketing an idea, cause, or behavior (Kotler and Zaltman 1971). Social marketing has an almost 40-year history and many successes in influencing more positive awareness and behavior through campaigns such as "stop smoking," "say no to drugs," "exercise more," and "eat healthier foods" (Kotler 2008). It is not to be confused with one P, promotion; it requires the full use of segmentation, targeting, and positioning and the four P's (product, price, place, and promotion) to influence positive behavior.

There are thousands of professionals working around the world in governmental agencies (e.g., the Environmental Protection Agency) and nongovernmental organizations (e.g., Nature Conservancy, the Sierra Club) responsible for influencing behaviors that protect the environment. They work in government agencies, utility companies, energy departments, fish and wildlife industries, and natural resources. Nancy Lee, Doug McKenzie-Mohr, Wesley Schultz, and I are in the process of collecting cases of successful applications of social marketing to reduce waste, protect water quality, reduce water usage, reduce emissions, reduce energy use, and protect forests and fisheries and wildlife for a book called *Social Marketing for the Environment*. One such example (Nancy Lee 2012) is the Natural Yard Care Neighborhoods program, which offers two-hour neighborhood workshops to help residents learn about and implement 24 environmentally responsible gardening behaviors, including smart watering and less use of pesticides. Free and conveniently located workshops were promoted, and over the next few years, an estimated 1200 people participated, with an average of 60 in each workshop. The application of a four Ps social marketing approach resulted in substantial numbers of participants using less water and pesticides and adopting other environmentally friendly gardening behaviors.

The Research Imperatives

The need for sustainable marketing practices means new challenges for marketing scholars and, in particular, for marketing practitioners. We need to carry out research on several important issues:

- What factors lead consumers to give more weight to sustainability? Which segments of consumers are likely to give more weight to sustainability?
- What factors lead companies to compete on the basis of sustainability? What changes in marketing practice does sustainability seem to require?
- What arguments can a company make to its investors to get their agreement to accept sustainability as yielding a positive return on investment?
- Are companies in danger of losing some dynamism as a result of environmental regulations and taxes? Have "green" companies had more or less growth than their "nongreen" competitors? What factors have operated?
- What opportunities has sustainability opened up? What kinds of companies have been most successful in exploiting these opportunities? What factors have contributed to their success?
- What government legislation, regulation, taxes, and incentives are likely to be enacted? Which are likely to have a major impact on product development, pricing, distribution, and promotion?

No one has the answers, but these questions are important to ask. We can look forward to many future articles in *Journal of Marketing* that address these questions.

Whenever major changes occur in a society and we must decide what to do, recall Peter Drucker's (1958, p. 252) view of the purpose of marketing: "Marketing is ... the process through which economy is integrated into society to serve human needs."

REFERENCES

Diamond, Jared (2004), *Collapse: How Societies Choose to Fail or Succeed*. New York: Penguin Audio.

Drucker, Peter (1958), "Marketing and Economic Development," *Journal of Marketing*, 22 (January), 252–59.

Environmental Leader (2009), "LOHAS Forum Attracts Fortune 500 Companies," (June 22), (accessed April 11, 2011), [available at http://www.environmentalleader.com/2009/06/22/green-forum-attracts-fortune-500-companies/].

Gerzema, John (2010), *Spend Shift: How the Post Crisis Values Revolution Is Changing the Way We Live, Shop and Buy*. San Francisco: Jossey-Bass.

Kotler, Philip and Nancy R. Lee (2008), *Social Marketing: Influencing Behaviors for Good*, 3d ed. Thousand Oaks, CA: Sage Publications.

—— and Sidney J. Levy (1971), "Demarketing, Yes, Demarketing," *Harvard Business Review*, 49 (6), 74–80.

—— and Gerald Zaltman (1971), "Social Marketing: An Approach to Planned Social Change," *Journal of Marketing*, 35 (July), 3–12.

Lee, Nancy (2012), "Protecting Water Quality" in *Social Marketing to Protect the Environment: What Works*, Doug McKenzie-Mohr, Nancy R. Lee, P. Wesley Schultz, and Philip Kotler, eds. Sage Publications, forthcoming.

Scott, Walter Georgio (2005), "An Introduction to Sustainable Marketing," in *Etica Pubblica, Finanza, Globalizzazione*. Milan: Medusa.

Stern, Stefan (2010), "The Outsider in a Hurry to Shake Up His Company," *Financial Times*, (April 5), (accessed April 21, 2011), [available at http://www.ft.com/cms/s/0/942c64a6-404a-11df-8d23-00144feabdc0.html#axzz1KAaGiZ3u].

World Commission on Environment and Development (1987), *Our Common Future*. Oxford: Oxford University Press.