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THE EXTRA KNOWLEDGE

THE LEGACY OF LEVITT

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SYNOPSIS

In an age of cloud computing and social media, it seems difficult to believe that an article from the Harvard Business Review in 1960 remains one of the most important texts on marketing. Yet 'Marketing Myopia', written by American economist Theodore Levitt, has as much relevance to the modern era as it did to the heavy industries of the 1960's. Peter Domican, committee member of The Levitt Group and editor of 'The Knowledge' explores the enduring appeal of 'Marketing Myopia' and argues that 21st century businesses ignore Levitt at their peril.

INTRODUCTION

It seems odd that a marketing article, written even before John F Kennedy outlined his vision to put a man on the moon, could have any relevance today. It is all too easy to look back at Levitt's paper as a fascinating but historical contribution to the history of marketing. After all, much of the paper is concerned with manufacturing, which plays a much lower part in the modern global economy. Indeed the term 'globalisation' itself was not even in popular use (until an article 'Globalisation of Markets' by Levitt appeared in 1983). However the concepts outlined by Levitt in 'Marketing Myopia' have endured far beyond the original business landscape of 1960's America and modern businesses are as vulnerable as ever to the 'failures of management' highlighted by Levitt.

FAILURES OF MANAGEMENT

In Marketing Myopia, Levitt argues that growth businesses stop growing not through a lack of growth but through a 'failure of management' to recognise that the basic needs of customers are no longer being met by the company or its current competitors.

Levitt contends that 'there is no such thing as a growth industry...only companies organised and operated to create and capitalise on growth opportunities' Levitt goes on to explain that railroads in the USA declined not because the needs for passenger travel and freight declined but that those needs were better satisfied by other forms of transport such as cars, planes etc. The same issues of failing to identify growth opportunities continue to this day, perhaps one of the most prominent examples being Kodak.

Although one of its own engineers invented the digital camera, Kodak failed to make full use of its early advantage and continued to invest in and support its traditional businesses in which Kodak enjoyed upwards of 90% of the US domestic market. Camera manufacturers and new entrants from the consumer goods area entered the digital market with ever increasing image quality. As a result, Kodak was left behind as the ease and convenience of digital photography brought in new consumers who found photography difficult and the process of waiting for film to be processed to be frustrating.

Kodak had failed to recognise that the overall market for photography was still growing but that the needs of a large percentage of the population were simply not being met by the existing technology. Despite its great brand heritage, Kodak was forced into niche markets and went into Chapter 11 bankruptcy protection in January 2012 with around \$6bn in liabilities.

Other companies have been more successful at recognising the changing environment and reinventing themselves accordingly. IBM's management recognised that its traditional position in computer manufacturing, although it was a growth market, would be threatened by low cost Far East manufacturing and repositioned itself as a business and technology consulting company.

Levitt explains why companies fall into decline by exploring four myths that form a 'self deceiving cycle' whereby companies come to believe that growth is assured and in doing so put their businesses at risk.



AN EXPANDING AND MORE AFFLUENT POPULATION

Western economies have, until recently, enjoyed virtually continuous economic growth. Levitt believed that market growth encourages companies to concentrate on efficiency rather than value.

Now that Western economies are failing to recover quickly from the financial crisis, developing countries such as India and China are seen as the engine of growth under the assumption that they will want identical products to those enjoyed by the West.

However, as Prof Hang Chang Chieh discussed in his Knowledge article on Disruptive Innovation, this can prove to be a costly error and quotes the example of GE Medical, which failed to sell many ultrasonic scanners in China from its existing product range. Only when a local GE team looked at the market needs i.e. portability, ease of use and reduced the target price bracket from US\$100k to US\$15K, did they begin to make significant sales into rural clinics, the mainstay of the Chinese domestic market.

LACK OF COMPETITIVE SUBSTITUTES

Believing that products have no (or a limited number of) industry rivals makes companies vulnerable to innovation from outside the industry. Nokia lost its dominant position in the handset market by failing to capitalise on the need for mobile information, in whatever format that took, not just on the need for telephone calls and texts.

Companies such as Apple and Samsung have moved into the market with both smartphones and tablets leaving Nokia in catch up mode. These new devices also threaten other traditional industries through the use of 'apps'. The growth of mobile technology is backed by the ability to publish and distribute any piece of information digitally at low cost, which in turn is leading to the restructuring of entire industries. Books, music and TV are just three examples where demand for content anytime, anywhere at reasonable cost is challenging traditional business models e.g. publishing and high street retail stores.

FAITH IN MASS PRODUCTION

Since the original article, the pivotal role of manufacturing in Western economies has been replaced to a considerable extent by service industries, However the concept, outlined by Levitt, of relying too much on the advantages of declining unit costs as output rises persists in management thinking.

Offshore servicing, automation e.g. in underwriting loans and 'lean six sigma' principles have all being applied to financial services with vigour. Whilst transaction costs for the companies have decreased, this has resulted in high numbers of service complaints and more crucially, poor judgement in lending criteria e.g. sub-prime mortgages in the US which sparked the current financial crisis.

RESEARCH AND DEVELOPMENT

Levitt argues that the idea that technical research and development ensures growth is also misguided as it leads companies to organise their companies around the technology rather than the customer.

Microchip manufacturers have enjoyed growth based on creating more powerful chips with more memory, which in turn created new applications, which in turn made old computers obsolete.

However the advent of cloud computing and the growth of mobile devices have started to disrupt that model. With the device becoming less critical to the running of the application, manufacturers will need to consider how their current markets will be affected and respond accordingly. Intel has recognised this and is adapting its strategy to address graphics capabilities and power management as well as just chip speed.

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The lessons of Marketing Myopia seem almost so self evident and simple yet Levitt's attempt to get companies to think about customers needs rather than the physical products and services they produce seems to have made limited impact on corporate thinking and modern marketing.

Companies too often remain focussed on their immediate competitors and short-term profitability whilst marketers continue to be fixated by the myths identified by Levitt and the latest form of promotion e.g. social media rather than seeking to satisfying underlying customer needs.

There are no more fundamental questions that a business can ask itself than 'what business am I really in?' and 'what do my customers really want?' especially as new cheap disruptive technology and increasingly globalised markets can render products and services obsolete within months rather than years. Businesses that fail to ask themselves these questions frequently will only continue to add to the list of company and product failures that back Levitt's arguments.

FURTHER READING

1. Levitt, T. "Marketing Myopia". Harvard Business Review 1960.
2. Hang C C, Chen J "Game changing: disruptive innovation as a strategy for business growth". The Knowledge, March 2012.

ABOUT THE AUTHOR

Peter Domican is a Chartered Marketer and a Committee Member of The Levitt Group, the special interest group for senior marketers (Chartered and Fellows) within the Chartered Institute of Marketing. He is the editor of The Knowledge, issued six times a year, which is designed to provide informed comment from influential academics and practitioners on current issues in marketing in a succinct style. Peter has an MBA from Cranfield School of Management and works as an independent consultant specialising in marketing, marketing systems and customer experience. He can be contacted at PDomican@icloud.com

