

Verhage

Bronis

Marketing Fundamentals

An International Perspective



Noordhoff Uitgevers

Second edition

Marketing Fundamentals
An International Perspective

To the memory of
Ed Cundiff
Mentor and long-time friend

Marketing Fundamentals

An International Perspective

Dr. Bronis Verhage

Professor of Marketing

Georgia State University

Atlanta, Georgia, USA

Second edition, 2013

Noordhoff Uitgevers

Design: G2K, Groningen / Amsterdam
Omslagbeeld: Holland Heineken House / Copyright Heineken

Comments on this or any other publication should be addressed to
Noordhoff Uitgevers bv
Higher Education Department
Antwoordnummer 13
9700 VB Groningen
The Netherlands
e-mail: info@noordhoff.nl

0 / 13

This publication is printed on FSC paper.

© 2013 Noordhoff Uitgevers bv Groningen/Houten, The Netherlands.

Subject to the exceptions provided for by or pursuant to the Copyright Act 1912, no part of this publication may be reproduced, stored in a computer data file or published, in any form or in any manner whatsoever, by any electronic or mechanical means, including photocopying and recording, without the prior written permission of the publisher. To the extent that reproduction of this publication is provided for by article 16h of the Copyright Act 1912, the appropriate fees, which are payable by law, are to be paid to Stichting Reprorecht (P. O. Box 3060, 2130 KB Hoofddorp, The Netherlands, www.reprorecht.nl). Those wishing to include a short passage or passages from this publication in anthologies, readers and other compilations (as provided for by article 16 of the Copyright 1912) should contact Stichting PRO (Stichting Publicatie- en Reproductierechten Organisatie, P.O. Box 3060, 2130 KB Hoofddorp, The Netherlands, www.stichting-pro.nl). Those wishing to use a longer passage or passages should contact the publisher directly.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the publisher.

ISBN (ebook) 978 90 01 85690 8
ISBN 978 90 01 81866 1
NUR 802

Brief Contents



Part 1 **INSIGHT INTO MARKETING**

- I What is marketing? 2
- 2 Strategy development and marketing planning 40
- 3 The marketing environment 102



Part 2 **ANALYSING THE MARKET**

- 4 Buying behaviour 146
- 5 Marketing research and marketing information 188
- 6 Market segmentation and positioning 224



Part 3 **PRODUCT DECISIONS**

- 7 Product strategy and services marketing 264
- 8 New product development 324



Part 4 **PROMOTION DECISIONS**

- 9 Marketing communication strategies 368
- 10 Advertising 414
- 11 Sales management 458



Part 5 **PRICING DECISIONS**

- 12 Pricing strategies and price determination 512



Part 6 **DISTRIBUTION DECISIONS**

- 13 Distribution 590
- 14 Retailing 640
- 15 Global marketing 690

Contents

Preface
About the author



Part 1 INSIGHT INTO MARKETING

1	WHAT IS MARKETING?	2
	<i>Marketing in Action: L'Oréal's global marketing strategy</i>	4
1.1	The meaning of marketing	7
1.1.1	Differences between selling and marketing	7
1.1.2	A definition of marketing	7
1.1.3	The marketing mix	9
1.1.4	Target market selection and the process of exchange	10
1.2	Levels of marketing systems	11
1.2.1	Macromarketing	11
1.2.2	Mesomarketing	11
1.2.3	Micromarketing	13
	<i>Marketing Mistake: The French wine industry's "Terroir"</i>	13
1.3	Development of the marketing mindset	14
1.3.1	Production- and product-oriented companies	15
1.3.2	Selling-oriented companies	16
1.3.3	Marketing-oriented companies	16
1.3.4	Relationship marketing	18
	<i>Practitioner's Perspective: Jim Stengel (Procter & Gamble)</i>	19
1.4	The marketing concept	20
1.4.1	Customer satisfaction	20
1.4.2	Integrated approach	22
1.4.3	Broad business definition	23
1.4.4	Competitive analysis	23
1.4.5	Marketing research and target market selection	23
1.4.6	Profit contribution	25
	<i>Marketing Topper: Levi's versus the Consumers' Association</i>	25
1.5	Tasks of marketing in a company	26
1.5.1	Marketing's first task	26
1.5.2	Marketing's second task	28
1.5.3	The three Rs	29
1.5.4	Customer equity	30
	<i>Professor's Perspective: Laetitia Radder (Nelson Mandela Metropolitan University)</i>	31

1.6	Marketing applications and preview of the text	32
1.6.1	Applications	32
1.6.2	Non-profit marketing	33
1.6.3	The need to study marketing	34
1.6.4	A preview of the text	35
	Summary	36
	Discussion questions	38

2 STRATEGY DEVELOPMENT AND MARKETING PLANNING 40

Marketing in Action: McDonald's global 'Plan to Win' 42

2.1	Marketing planning	44
2.1.1	Differences between strategic and tactical planning	45
2.1.2	Three levels of strategy development	46
2.1.3	Building blocks of success	50
2.1.4	A marketing planning and management model	50
	<i>Marketing Mistake: Working without strategic plan</i>	52
2.2	Business definition and mission statement	53
2.2.1	Formulating the business definition	54
2.2.2	Defining the company's mission	56
	<i>Professor's Perspective: Michael Porter (Harvard Business School, Boston, Massachusetts)</i>	57
2.3	SWOT analysis	58
2.3.1	Internal analysis	58
2.3.2	External analysis	59
2.3.3	Situation analysis	60
2.3.4	Confrontation matrix	61
	<i>Marketing Topper: Spar's retail strategy to beat Aldi</i>	62
2.4	Determining marketing objectives	63
2.4.1	How to formulate objectives	64
2.4.2	Hierarchy of objectives	66
2.5	Developing a marketing strategy	67
2.5.1	Portfolio analysis	68
2.5.2	Boston Matrix	69
2.5.3	Strategic implications	70
2.5.4	Generic strategies	72
2.5.5	Ansoff model	75
	<i>Practitioner's Perspective: Nilofer Merchant (Rubicon)</i>	76
2.6	The marketing organisation	78
2.6.1	Organisational framework	78
2.6.2	The marketing department	79
2.7	Writing the marketing plan	81
2.7.1	Why write a marketing plan?	81
2.7.2	Marketing plan components	82
2.7.3	Focus of marketing plans	90
2.8	Implementation and control	91
2.8.1	Evaluation and control	91
2.8.2	Operational marketing control	93
2.8.3	Strategic marketing control	95
2.8.4	Integrated marketing	96
	Summary	98
	Discussion questions	101

3	THE MARKETING ENVIRONMENT	102
	<i>Marketing in Action: How Nestlé fights high commodity prices</i>	104
3.1	Marketing environment	107
3.1.1	Internal environment	107
3.1.2	External environment	109
	<i>Marketing Mistake: Nokia's downfall</i>	110
3.2	Mesoenvironment	111
3.2.1	The supply chain	111
3.2.2	Customers	113
3.2.3	Suppliers	114
3.2.4	Intermediaries	115
3.2.5	Competitors	116
3.2.6	Public groups	118
	<i>Marketing Topper: Going green makes good business sense</i>	119
3.3	The macroenvironment	120
3.3.1	Demographic factors	122
3.3.2	Economic factors	124
3.3.3	Political-legal factors	124
3.3.4	Ecological factors	126
3.3.5	Technological factors	128
3.3.6	Sociocultural factors	129
	<i>Practitioner's Perspective: Paul Polman (Unilever)</i>	131
3.4	Marketing ethics and social responsibility	132
3.4.1	Legislation versus ethics	132
3.4.2	Ethics and marketing	133
3.4.3	Insight into ethical behaviour	134
3.4.4	Social responsibility	137
	<i>Professor's Perspective: Dr. Ronald Jeurissen (Nyenrode Business University, Breukelen, The Netherlands)</i>	137
	Summary	141
	Discussion questions	143



Part 2 ANALYSING THE MARKET

4	BUYING BEHAVIOUR	146
	<i>Marketing in Action: How Heinz grows in emerging markets</i>	148
4.1	The purchase decision process	151
4.1.1	Problem recognition	151
4.1.2	Information gathering	151
4.1.3	Alternative evaluation	152
4.1.4	Purchase decision	153
4.1.5	Post-purchase evaluation	153
4.2	Types of orientation and buying behaviour	155
4.2.1	Extensive problem solving	155
4.2.2	Limited problem solving	156
4.2.3	Routine problem solving	156
	<i>Marketing Topper: A Diamond is Forever</i>	157

- 4.3 Impact of personal circumstances** 157
 - 4.3.1 Demographic characteristics 158
 - 4.3.2 Lifestyle 158
 - 4.3.3 Situational influences 159
 - Professor's Perspective: Dr. Ken Bernhardt (Georgia State University)* 160
- 4.4 Psychological influences on consumer decisions** 160
 - 4.4.1 Needs and motives 161
 - 4.4.2 Perception 164
 - 4.4.3 Learning 166
 - 4.4.4 Personality 167
 - 4.4.5 Attitudes 168
 - Practitioner's Perspective: Diana Oreck (The Ritz-Carlton Hotel Co.)* 170
- 4.5 Social influences on consumer behaviour** 171
 - 4.5.1 Culture 171
 - 4.5.2 Social class 172
 - 4.5.3 Reference groups 173
 - 4.5.4 Family influences 174
 - Marketing Mistake: The B2B sales experience* 177
- 4.6 Business-to-business marketing (B2B)** 177
 - 4.6.1 Differences with consumer marketing 178
 - 4.6.2 Organisational buying behaviour 179
 - 4.6.3 Roles in the buying centre 180
 - 4.6.4 Types of buying situations 182
 - Summary 185
 - Discussion questions 187

5 MARKETING RESEARCH AND MARKETING INFORMATION 188

- Marketing in Action: How the Internet changed the music business* 190
- 5.1 Role of marketing research** 193
 - 5.1.1 What is marketing research? 193
 - 5.1.2 Objective of marketing research 194
 - Practitioner's Perspective: Finbarr O'Neill (J.D. Power and Associates)* 195
- 5.2 The marketing research process** 196
 - 5.2.1 Problem definition and research objectives 197
 - 5.2.2 Developing the research plan 198
 - 5.2.3 Secondary data research 200
 - 5.2.4 Exploratory research 200
 - 5.2.5 Refining the research design 201
 - 5.2.6 Collecting primary data: survey methods 202
 - 5.2.7 Motivation research 205
 - Professor's Perspective: Roland Rust (University of Maryland)* 207
 - 5.2.8 Observation 208
 - 5.2.9 Experiments 209
 - 5.2.10 Analysing, interpreting and presenting research results 210
 - Marketing Topper: Mining social media postings* 211
- 5.3 Marketing information system** 212
 - 5.3.1 Sources of information 212
 - 5.3.2 Processing data 215
 - Marketing Mistake: Omo Power: Unilever's dirty laundry...* 216

5.4	Test marketing	217
5.4.1	Selecting test markets	218
5.4.2	Principles of test marketing	219
5.4.3	How long to test market?	219
	Summary	221
	Discussion questions	222
6	MARKET SEGMENTATION AND POSITIONING	224
	<i>Marketing in Action: How hotels target Gen Y</i>	226
6.1	Defining the market	228
6.1.1	What is a market?	229
6.1.2	Identifying the market	230
6.1.3	Analysing market potential	231
6.1.4	Demand and market approach	231
	<i>Marketing Topper: Philips' target market: 300 million poor people</i>	233
6.2	What is market segmentation?	234
6.2.1	Emergence of market segmentation	234
6.2.2	Reasons for market segmentation	236
6.2.3	Decision criteria for effective segmentation	237
	<i>Practitioner's Perspective: Eric Paquette (Copernicus Marketing Consulting)</i>	239
6.3	Bases for segmentation	240
6.3.1	Demographic segmentation	240
6.3.2	Geographic segmentation	242
6.3.3	Psychographic segmentation	243
6.3.4	Behavioural segmentation	245
	<i>Professor's Perspective: Dr. V. Kumar (Georgia State University)</i>	246
6.4	Targeting strategies	247
6.4.1	Target marketing decisions	248
6.4.2	Target market selection	250
	<i>Marketing Mistake: Tata Nano: the world's cheapest car</i>	251
6.5	Positioning strategies	253
6.5.1	The battle for the mind	253
6.5.2	Perceptual mapping	254
6.5.3	The art of positioning	255
6.5.4	Repositioning	256
	Summary	258
	Discussion questions	260



Part 3 PRODUCT DECISIONS

7	PRODUCT STRATEGY AND SERVICES MARKETING	264
	<i>Marketing in Action: Manchester United's global brand offensive</i>	266
7.1	What is a product?	268
7.1.1	A bundle of benefits	269
7.1.2	Product levels	269
7.1.3	Implications for marketing	270
	<i>Practitioner's Perspective: Salmin Amin (PepsiCo)</i>	272

7.2	Types of consumer products	273
7.2.1	Convenience products	274
7.2.2	Shopping products	274
7.2.3	Specialty products	275
7.2.4	Unsought products	276
7.2.5	Other product classifications	277
7.3	Product assortment strategies	277
7.3.1	What is an assortment?	277
7.3.2	Dimensions of the product mix	278
7.3.3	Optimising the product portfolio	280
7.3.4	Product line extensions	282
	<i>Marketing Topper: How Mini outperforms Smart</i>	284
7.4	Managing the product life cycle	285
7.4.1	Stages in the life cycle	286
7.4.2	Usefulness of the product life cycle	290
7.4.3	Extending the life cycle	291
7.5	Product quality and customer service	292
7.5.1	Product quality	293
7.5.2	Product warranty	294
7.5.3	Customer service	295
7.5.4	Relationship marketing	297
	<i>Professor's Perspective: David Aaker (University of California at Berkeley)</i>	297
7.6	Brand management	299
7.6.1	Strategic objectives of branding	300
7.6.2	Battle of the brands	302
7.6.3	Individual or family brand name?	304
7.6.4	What makes a brand name good?	306
7.6.5	Legally protecting the brand	307
	<i>Marketing Mistake: Automobile brand names</i>	308
7.7	Product design and packaging	308
7.7.1	Design and styling	309
7.7.2	Packaging functions	309
7.8	Marketing of services	312
7.8.1	Characteristics of a service	313
7.8.2	Importance of the service sector	316
7.8.3	Increasing productivity	317
	Summary	319
	Discussion questions	322
8	NEW PRODUCT DEVELOPMENT	324
	<i>Marketing in action: Reverse innovation from emerging markets</i>	326
8.1	What is a new product?	328
8.1.1	Types of new products	329
8.1.2	How innovation affects consumers	331
8.2	Reasons for product development	332
	<i>Professor's Perspective: Albert Alos (Pan-African University, Laos, Nigeria)</i>	333
8.2.1	Why firms introduce new products	333
8.2.2	Make or buy?	336

8.3	Developing new products	338
8.3.1	New product strategy development	339
8.3.2	Idea generation	340
8.3.3	Screening and evaluation	340
8.3.4	Business analysis	341
8.3.5	Prototype development	343
8.3.6	Test marketing	343
8.3.7	Commercialisation	344
	<i>Practitioner's Perspective: Michael O'Leary (Ryanair)</i>	345
8.4	Organising new product development	346
8.4.1	Venture teams	347
8.4.2	Alternatives to venture teams	347
8.4.3	Speeding up new product development	348
	<i>Marketing Topper: Alfa Romeo: Italy's next global luxury brand?</i>	349
8.5	Why new products succeed or fail	351
8.5.1	Successful introductions	351
8.5.2	Failed introductions	352
	<i>Marketing Mistake: Size matters in global marketing</i>	354
8.6	Diffusion of innovations	356
8.6.1	The consumer adoption process	356
8.6.2	Adopter categories	357
8.6.3	Product features and rate of adoption	360
	Summary	363
	Discussion questions	365



Part 4 PROMOTION DECISIONS

9	MARKETING COMMUNICATION STRATEGIES	368
	<i>Marketing in action: Why Hyundai is targeting Europe</i>	370
9.1	What is marketing communication?	373
9.1.1	Marketing communication and promotion tools	373
9.1.2	Comparing personal and mass communication	375
9.1.3	How does communication work?	377
	<i>Professor's Perspective: Don Schultz (Northwestern University)</i>	379
9.2	Communication strategy: target audience	380
9.2.1	Pull and push strategies	381
9.2.2	Two-step flow of communication	382
	<i>Practitioner's Perspective: John Bissell (Gundersen Partners)</i>	384
9.3	Setting communication objectives	385
9.3.1	Classic response hierarchy models	387
9.3.2	Implications for promotional strategies	390
9.3.3	Non-classic response hierarchy models	391
	<i>Marketing Mistake: Benecol: failing functional food?</i>	393

9.4	Establishing the communication budget	394
9.4.1	Percentage-of-sales method	395
9.4.2	Affordable method	396
9.4.3	Competitive-parity method	396
9.4.4	Objective-and-task method	397
9.4.5	Anti-cyclical budgeting	398
	<i>Marketing Topper: Exporting the magic of London taxis</i>	399
9.5	Determining the communication mix	400
9.5.1	Guidelines for choosing an ideal mix	401
9.5.2	Intended consumer response	403
9.6	Public relations	404
9.6.1	Public relations functions	406
9.6.2	Planning the PR strategy	407
	Summary	410
	Discussion questions	412
10	ADVERTISING	414
	<i>Marketing in Action: Sesame Street in Africa</i>	416
10.1	The role of advertising	419
10.1.1	Influence on society	419
10.1.2	Place in the organisational structure	420
	<i>Practitioner's Perspective: Silvia Lagnado (Unilever)</i>	421
10.2	Types of advertising	422
10.2.1	Classified by sender	422
10.2.2	Classified by target audience	424
10.2.3	Classified by message	425
10.2.4	Classified by medium	427
	<i>Professor's Perspective: Leslie de Chernatony (University of Birmingham, U.K.)</i>	428
10.3	Advertising planning	428
10.3.1	Establishing advertising objectives	429
10.3.2	DAGMAR model	431
10.4	Advertising strategies	432
10.4.1	Introduction stage	433
10.4.2	Market growth stage	434
10.4.3	Market maturity stage	434
10.4.4	Market decline stage	435
10.5	Developing the advertising campaign	436
10.5.1	Briefing	437
10.5.2	Creative concept	439
10.5.3	Execution	440
	<i>Marketing Topper: Dos Equis: Heineken's star in the U.S.</i>	440
10.6	Media selection	441
10.6.1	The media plan	442
10.6.2	Criteria for selecting media	443
10.7	Measuring advertising effectiveness	447
10.7.1	Pretesting	447
10.7.2	Posttesting	448
	<i>Marketing Mistake: Ambush marketing: hijacking the Olympics</i>	449
10.8	Sponsorships	451
10.8.1	Objectives	452
10.8.2	Sponsorship strategies and assessment	452
	Summary	454
	Discussion questions	456

11	SALES MANAGEMENT	458
	<i>Marketing in Action: The CMO's global challenge</i>	460
11.1	Importance of personal selling	463
	11.1.1 Types of sales jobs	463
	11.1.2 Multiple roles of salespeople	465
11.2	The selling process	467
	11.2.1 Preparation	467
	11.2.2 Persuasion	468
	11.2.3 Transaction	470
	<i>Marketing Mistake: Sales versus marketing – still at war?</i>	472
11.3	Sales management and objectives	473
	11.3.1 Managing the sales effort	474
	11.3.2 Management by objectives	474
	<i>Professor's Perspective: Russell Abratt (Nova Southeastern University)</i>	477
11.4	Sales force structure	477
	11.4.1 Organising the sales force	478
	11.4.2 Sales force size	481
	11.4.3 Sales territory allocation	482
	<i>Marketing Topper: Google's Internet bus in India</i>	484
11.5	Building and managing the sales force	485
	11.5.1 Recruitment, selection and training	485
	11.5.2 Sales force motivation and compensation	487
	<i>Practitioner's Perspective: Jack and Suzy Welch</i>	489
11.6	Direct marketing	490
	11.6.1 What is direct marketing?	491
	11.6.2 Direct marketing forms	493
	11.6.3 Evolution of direct marketing	496
11.7	Sales promotion	496
	11.7.1 Objectives of sales promotion	497
	11.7.2 Consumer promotions	499
	11.7.3 Trade promotions	502
	11.7.4 Current trends in sales promotion	505
	Summary	507
	Discussion questions	509



Part 5 PRICING DECISIONS

12	PRICING STRATEGIES AND PRICE DETERMINATION	512
	<i>Marketing in Action: The value proposition in multichannel retailing</i>	514
12.1	The pricing decision	517
	12.1.1 Perceived value	518
	12.1.2 Cost of the product	519
	12.1.3 Company and marketing strategy	520
	12.1.4 Competition	520
	12.1.5 Product mix	521
	12.1.6 Resellers	521
	12.1.7 Legislation and ethics	521

- 12.2 Demand curve** 522
 - 12.2.1 Price mechanism 522
 - 12.2.2 Movement along the demand curve 523
 - 12.2.3 Shifts of the demand curve 523
 - Professor's Perspective: Dr. Ken Bernhardt (Georgia State University)* 525
- 12.3 New product pricing** 526
 - 12.3.1 Price skimming strategy 526
 - 12.3.2 Penetration price strategy 528
- 12.4 Pricing objectives** 530
 - 12.4.1 A model for pricing decisions 530
 - 12.4.2 General pricing objectives 531
 - 12.4.3 Specific pricing objectives 531
 - 12.4.4 Pricing objectives in practice 533
 - Practitioner's Perspective: Rick Wartzman (The Drucker Institute)* 536
- 12.5 Pricing methods** 537
 - 12.5.1 Base price 538
 - 12.5.2 Discounts and allowances 538
 - 12.5.3 Transfer pricing 541
- 12.6 Cost-oriented pricing** 543
 - 12.6.1 Cost-plus pricing 544
 - 12.6.2 Variable-cost pricing 547
 - 12.6.3 Break-even analysis 549
 - 12.6.4 Target-return pricing 551
 - Marketing Mistake: Buick's reintroduction in China* 552
- 12.7 Demand-oriented pricing** 554
 - 12.7.1 Price elasticity of demand 554
 - 12.7.2 Income elasticity of demand 559
 - 12.7.3 Cross elasticity of demand 561
 - 12.7.4 Price lining 562
 - 12.7.5 Price differentiation 564
 - 12.7.6 Psychological pricing 566
 - Marketing Topper: Smirnoff's pricing strategy* 569
- 12.8 Competition-oriented pricing** 570
 - 12.8.1 Competition and market structures 572
 - 12.8.2 Monopoly 574
 - 12.8.3 Oligopoly 574
 - 12.8.4 Monopolistic competition 577
 - 12.8.5 Pure competition 578
 - 12.8.6 Competitive bidding 579
 - Summary 582
 - Discussion questions 586



Part 6 DISTRIBUTION DECISIONS

- 13 DISTRIBUTION** 590
Marketing in Action: Zara's global stretch: one size fits all? 592
- 13.1 Importance of marketing channels** 594
- 13.1.1 What is a distribution channel? 595
 - 13.1.2 Types of distribution channels 596
 - 13.1.3 Distribution channels create utility 598
 - 13.1.4 Distribution channels increase efficiency 599
 - 13.1.5 Distribution channels create a supply chain 600
 - 13.1.6 Value chain 601
- Professor's Perspective: Jagdish Sheth (Emory University)* 602
- 13.2 Target market coverage** 603
- 13.2.1 Intensive distribution 604
 - 13.2.2 Selective distribution 605
 - 13.2.3 Exclusive distribution 606
 - 13.2.4 Optimal level of distribution intensity 607
- Marketing Mistake: Benetton's colours start to fade* 608
- 13.3 Channel leadership and management** 610
- 13.3.1 Who should lead the marketing channel? 610
 - 13.3.2 Selecting channel members 614
 - 13.3.3 Channel conflict 617
 - 13.3.4 Evaluation and control of distributors 619
- Marketing Topper: Keeping up with Africa's middle class* 621
- 13.4 Wholesaling** 622
- 13.4.1 What is a wholesaler? 623
 - 13.4.2 Types of wholesaling 623
 - 13.4.3 The future of wholesaling 626
- Practitioner's Perspective: Julian Glover (6x6 Creative Ltd, UK)* 628
- 13.5 Marketing logistics** 629
- 13.5.1 Key activities in logistics 630
 - 13.5.2 Strategic issues in physical distribution 634
- Summary 636
Discussion questions 639
- 14 RETAILING** 640
Marketing in Action: How IKEA offers value for money 642
- 14.1 The role of retailing** 645
- 14.1.1 Importance of retailing 645
 - 14.1.2 The wheel of retailing 646
- Marketing Mistake: Wal-Mart flunks German* 648
- 14.2 Types of retail operations** 649
- 14.2.1 Major types of retail stores 650
 - 14.2.2 Non-store retailing 655
 - 14.2.3 Shopping centres 657
- Practitioner's Perspective: Andreas Schaaf (BMW India)* 660

14.3	Online marketing	661
14.3.1	Overview of e-commerce	662
14.3.2	Benefits of Internet retailing	663
14.3.3	Cornerstones of e-marketing	665
	<i>Marketing Topper: Abercrombie's retail theatre in Europe</i>	668
14.4	Franchising	669
14.4.1	Forms of ownership	670
14.4.2	Types of franchise arrangements	670
14.4.3	Advantages and disadvantages of franchising	671
14.5	Key account management	673
14.5.1	Dual target market approach	674
14.5.2	Low margin and service retailing strategies	675
	<i>Professor's Perspective: Nirmalya Kumar (London Business School)</i>	676
14.6	Retail marketing	676
14.6.1	Store image: positioning the retail store	677
14.6.2	Retailing mix	679
14.6.3	Recent trends in retailing	683
	Summary	686
	Discussion questions	688
15	GLOBAL MARKETING	690
	<i>Marketing in Action: Why McDonald's is going 'glocal'</i>	692
15.1	International marketing planning	695
15.1.1	What is global marketing?	696
15.1.2	Strategic planning for international expansion	697
	<i>Professor's Perspective: S. Tamer Cavusgil (Georgia State University)</i>	700
15.2	Global marketing environment	701
15.2.1	Economic environment	701
15.2.2	Political-legal climate	704
	<i>Marketing Topper: Oreo: East meets West</i>	707
15.2.3	Cultural environment	708
	<i>Practitioner's Perspective: Elizabeth L. Ward (Thought Partners Consulting)</i>	712
15.3	Market entry strategies abroad	713
15.3.1	Exporting	713
15.3.2	Joint ventures	716
15.3.3	Direct investment	717
	<i>Marketing Mistake: Cross cultural blunders</i>	718
15.4	Customisation or globalisation?	718
15.4.1	Pros and cons of standardisation	719
15.4.2	Think globally, but act locally...	720
15.4.3	Developing a global marketing strategy	721
	Summary	724
	Discussion questions	726
	Chapter Notes	728
	Credits	740
	Index	743

Preface

Introduction

We live in an exciting period of rapid changes and major challenges. In order to compete successfully, firms must continue to launch better products and services. Marketing strategies considered excellent a few years ago, might not suffice in today's dynamic markets. A company must systematically differentiate its brands and pursue an effective marketing strategy.

Never before in the history of marketing have changes in the business environment occurred so quickly and relentlessly. The corporate world has become more global and competitive. Companies have succeeded in cutting development and launch time for new products in half. Their products and services are not only of high quality, but also carefully tailored to the needs and wants of the target market. As a result of numerous innovations, distribution costs have been slashed, while customer service continues to be improved. This tremendous progress in the marketing of goods and services has been accomplished by replacing outdated business practices with new marketing insights and techniques. In executing their strategies, for example, many managers now rely on social media, guerrilla marketing and other communication methods that make effective use of the Internet. The Internet also gives small start-up companies access to the international market. By systematically applying contemporary marketing fundamentals and techniques in this progressive new domain, any firm can improve its competitive position.

Reasons for writing this book

An important goal of those who work in higher education is to help students gain useful insights and skills, preparing them for leadership positions in organisations around the world. This is a demanding task for educators. Traditional American concepts that dominate most marketing books may not be adequate in today's global market. Neither are the domestic examples and voluminous lists of definitions that comprise many US textbooks.

To be prepared for successful careers and the 21st century challenges they will face as managers in the global economy, students should not only be familiar with the principles of marketing, but must also be able to develop and implement effective marketing strategies *abroad*. Helping to equip students with a professional *attitude*, as well as the knowledge and practical skills required to take advantage of international marketing opportunities, was the driving force behind the introduction of *Marketing Fundamentals: An International Perspective*. Future managers must be able to use their skills in organisations that market in countries and cultures other than their own.

Global companies are increasingly interested in recruiting a new generation of managers who apply the marketing fundamentals in creative ways and have acquired hands-on skills. Ideally, they are ambitious yet realistic team players, who operate as flexible but results-driven managers, and can work independently in innovative and customer-focused ways.

Today's students are tomorrow's marketers and leaders who have learned to anticipate change in a turbulent global environment and to think in an analytical, multi-disciplinary fashion. *Marketing Fundamentals: An International Perspective* will make a significant contribution to cultivating this mindset. The book will prepare

students for the challenges ahead by engaging and motivating them to learn about marketing management and by encouraging them – through international marketing examples, cases and insightful perspectives – to practice making sound marketing decisions.

Positioning

This contemporary text was developed to introduce students to the fundamentals, practices and analytic techniques of marketing. It is comprehensive in scope and managerial in orientation. The book is designed to facilitate student learning from individual reading and independent study, which is increasingly important in marketing education. The main objective is to help students deepen their understanding of marketing and develop the skills to become successful, market-oriented managers, who are able to satisfy their customers – no matter where they live – in this new era of cutthroat competition.

How does this book differ from most other English-language marketing text books used in universities, colleges and business schools in Europe? Verhage's *Marketing Fundamentals* features a unique European viewpoint, embedded in a global context. With its key marketing concepts tailored to fit the international framework of the text – such as management's strategic perspective and focus on social responsibility, ethical and sustainability concerns – the book incorporates a teaching style and marketing curriculum preferred in Europe's internationally-oriented business schools.

In each of the book's 15 chapters, there are five mini-cases and professional perspectives. Featured companies include Ryanair, Philips, L'Oreal, BMW, Google, Zara, Ikea and many others. The book also analyzes marketing strategies used in the hotel industry, music business, and by Manchester United.

Pedagogical approach

Marketing Fundamentals' engaging, lively writing style enhances student learning. The use of 'easy reading' language especially appeals to non-native speakers of English. Its up-to-date, comprehensive coverage of marketing concepts and best practices helps to broaden the scope of marketing beyond the traditional marketing management paradigm, which has long dominated the field.

The revised 2nd edition of the book offers a contemporary review of new priorities in marketing, as illustrated by a fascinating selection of analyses of world-class companies' customer-focused strategies. These memorable and often provocative examples of marketing practices include large and small companies, working in both business-to-business and consumer marketing of products or services. Their strategies and performance make clear that marketing is a universal function, essential to any company that wants to achieve outstanding results in the marketplace.

Structure of the text

Marketing Fundamentals' clear structure and managerial approach are identical to the Dutch-language version, *Grondslagen van de Marketing* (8th edition). This book – the market leader in the Netherlands for three decades – has been used by hundreds of thousands of students and has created a great deal of enthusiasm about marketing.

The topics in *Marketing Fundamentals* are arranged in a straightforward, logical manner. The book begins with a discussion of foundation concepts, strategy development and changes in the marketing environment, including an overview of ethical and social responsibility issues affecting marketing. It also highlights marketing planning, organising the marketing efforts and developing a marketing

plan. The next three chapters take an in-depth look at buyer behaviour and two important marketing tools: marketing research and market segmentation. It emphasises the need for effective relationship marketing, targeting and positioning strategies.

The remaining chapters of the book address the elements of the marketing mix: product, promotion, pricing and place (including online marketing), all from a decision-making perspective. The final chapter (Chapter 15) tackles the challenges of plotting and implementing a global marketing strategy. Today, global competition is so intense that every manager should attempt to identify international marketing trends and opportunities promptly, in an effort to remain competitive. Therefore, cutting edge techniques as well as intriguing cases and illustrations of successful global marketing strategies are integrated throughout the text.

Key features of the book

The second edition of *Marketing Fundamentals* features updated content as well as new, engaging marketing cases. Each chapter opens with a brief statement of *learning goals*, an eye-opening introduction, and an inspiring *Marketing-in-Action* vignette – based on a real-world business problem – to show students how theory and principles relate to marketing as it is actually practiced. Since these vignettes are thought-provoking, they stimulate student interest in marketing challenges and can be used to start class discussion.

Other boxed features include a range of pan-European and global examples – both successes (*Marketing Toppers*) and failures (*Marketing Mistakes*) in business – encompassing the entire field of marketing. This includes services marketing, B2B and green marketing.

The *Professor's Perspectives* and *Practitioner's Perspectives* (featuring executives discussing their companies' strategies) in every chapter offer powerful ideas and insightful opinions on key issues in marketing management. They help bring the marketing fundamentals to life in a global context. Through these concise box features, students are able to reflect on current marketing challenges and techniques, making them better prepared to apply the tools they explore in the book.

Each chapter ends with a clearly presented summary which reviews the key concepts explored and a set of review and *discussion questions* that reinforce the major concepts presented. The text, in other words, sticks to the time-tested pedagogical formula of 'tell them what you're going to tell them, tell them, then tell them what you've told them.'

Online resources

The companion *website* to this book (www.verhage.noordhoff.nl) includes various teaching and learning tools to support both instructors and students. The online platform complements the text with 15 new and improved *PowerPoint* presentations for lecturers and offers relevant articles, useful links to videos and multiple choice questions to help students prepare for exams. It also includes *Verhage's Glossary*, which defines the more than one thousand bold-faced marketing terms in the book.

This glossary – both organised by order of appearance of the key terms in each chapter and, comprehensively, in alphabetical order – will help students build a solid marketing vocabulary. It is also available as *flash cards*, making it easy for students to check their understanding of marketing terms. Since these concepts are commonly used terminology in business when developing strategies or evaluating marketing plans, the *Marketing Fundamentals* package remains a great reference resource for managers and marketing practitioners.

Acknowledgments

Like most textbooks in this era of benchmarking, *Marketing Fundamentals: An International Perspective* reflects the ideas of many competent researchers, professors, writers and practitioners who have contributed to the development of the marketing discipline. As an author, I appreciate the opportunity to include and recognise their efforts in this book. I would especially like to thank my colleagues and former students of Georgia State University and the Rotterdam School of Management at Erasmus University who used the book in their marketing curriculum, and of The University of Texas at Austin for their many contributions. In particular Ken Bernhardt, Bill Cunningham, and my mentor and long-time friend Ed Cundiff – who, regrettably, passed away – were a source of inspiration in completing and revising this book. I am grateful for their valuable insights and advice.

I also want to recognise and thank my colleague Wes Johnston and his Center for Business and Industrial Marketing at Georgia State University for their support, as well as my graduate research assistants Jeff Foreman, J.P. Kill and Michael Ellers. In addition, special thanks go to Vincent Diks and the talented publishing, editing and marketing professionals at Noordhoff Uitgevers in Groningen who have made this book a reality. Their dedication and hard work are admirable.

Last but not least, I would like to thank my wife Eveline and our daughters Tiffany, Georgianna and Emily for their patience during this ‘transatlantic mission’. They were a source of inspiration on both sides of the ocean. This book could not have been written without their support.

Atlanta/Haamstede, 2013

Bronis J. Verhage

Office:

Georgia State University
Robinson College of Business
Department of Marketing
35 Broad Street, Suite 1300
Atlanta, GA 30303
USA

E-mail: bverhage@gsu.edu

Phone: 1.404.413.7650

About the author



Dr. Bronis Verhage is Professor of Marketing at Georgia State University's Robinson College of Business in Atlanta. He holds degrees from the University of Oregon, Texas Tech University and the University of Texas at Austin, where he received his Ph.D.

Verhage's primary research interests are in global marketing and cross-cultural consumer behaviour. He has authored over a hundred articles in scholarly journals, business publications and conference proceedings. His research has been published in leading academic journals,

including the *Journal of Consumer Research*, *International Journal of Research in Marketing* and *Journal of the Academy of Marketing Science*. He has written several best selling marketing text books in the Netherlands and benefited from the feedback of many of its users, a group that exceeds a quarter of a million students. His industry experience – prior to entering academia – includes a marketing management position at a multinational corporation, based in Holland. Being actively involved in global business, he has served as a marketing consultant for numerous non-profit organisations and companies, both in B2B and fast moving consumer goods.

Professor Verhage, formerly on the faculty of Erasmus University and the Rotterdam School of Management in the Netherlands, has been active in Georgia State University's Executive MBA, Flexible MBA and Global MBA programmes for three decades and enjoys teaching International Marketing and Marketing Management at the Robinson College of Business. With programmes on five continents and students from 150 countries, the College is worldwide and world-class. The Georgia State University MBA-programme is ranked among the best by *Bloomberg Businessweek* and *U.S. News & World Report*, and its Executive MBA is on the *Financial Times* list of the world's best EMBA programmes. Verhage has also held visiting appointments and taught marketing at United Arab Emirates University in Abu Dhabi, Nyenrode Business Universiteit in the Netherlands and other European business schools.

As a Dutch national and an American resident, Bronis Verhage commutes frequently between the United States and Holland, where his wife and three daughters live on the North Sea coast. As a global citizen, he is a keen observer of the latest developments in marketing and in business education on several continents. Many of his observations find their way into his teaching and his regularly updated marketing textbooks.



GUCCI
ENVY
me

The New Fragrance for Women



© Noordhoff Uitgevers

Part 1

Insight into marketing

Anticipating and satisfying the needs and wants of the buyer and making a profit in the process is the essence of marketing set out in Part 1 of this book. The first part of *Marketing Fundamentals* offers insight into the marketing discipline and profession and defines the scope of this book. Three fundamental questions will be considered. What exactly is marketing? How do successful companies plan their marketing and develop their marketing strategies? And finally, why – and to what extent – is marketing strategy influenced by

external factors? In other words, we will be looking at what, how and why. Part 1 establishes the framework for the material presented in the rest of this book. We will see that the marketing discipline presents the manager with both meaningful theoretical insights and practical techniques that enable a company to successfully compete in the market. Marketing is an intriguing field of study because, beyond its value to business operations, it explains how organisations influence us as consumers.

- 1 What is marketing?
- 2 Strategy development and marketing planning
- 3 The marketing environment



1 What is marketing?

Contents

- 1.1 The meaning of marketing
- 1.2 Levels of marketing systems
- 1.3 Development of the marketing mindset
- 1.4 The marketing concept
- 1.5 Tasks of marketing in a company
- 1.6 Marketing applications and preview of the text

Learning goals

After studying this chapter you will be able to:

- 1 Explain what marketing means.
- 2 Compare macromarketing, mesomarketing and micromarketing.
- 3 Discuss which management philosophies dominated in business over time and how they influenced the production and marketing of goods and services.
- 4 Describe the marketing concept and how it can be used in practice.
- 5 Explain the strategic importance of a company's sound reputation and its ongoing relationships with customers.
- 6 Understand different forms of marketing and how the marketing fundamentals are applied in those situations.



The first decade of the 21st century will be remembered as a time of economic upheaval unlike any since the Great Depression. As nations struggle to recover from this crisis, the business community is left to contemplate what can be expected in the years to come. The market is changing drastically, and there is considerable uncertainty about the future. Use of the Internet and e-commerce is on the rise, creating informed and demanding consumers worldwide. While consumers in Europe continue to worry about the impact of the eurozone crisis on their future, their buying power is stagnating, resulting in an increased concern with value in their purchase decisions.

Competition is steadily increasing within Europe, as well as from outside the EU. And, while the new rules in the business sector may vary from one industry or company to another, one thing is certain. In the face of extensive and rapid change, the implementation of an effective marketing strategy is more essential than ever before.

Consumers and other buyers always want higher quality, lower prices and better service. Aggressive competitors try to increase their market share through constant innovation and product improvement, and by satisfying their customers' needs and wants as effectively as possible on all fronts. To survive and to operate profitably all organisations must practice marketing, and they must adapt their marketing strategies to keep pace with market changes. Chapter 1 provides the basis for this challenge.

L'Oréal's global marketing strategy

L'Oréal has been the world's largest cosmetics and beauty products seller for over a century, marketing more than 20 global brands in 130 countries. For decades, this company built its growth on a strategy of intensive market penetration, targeting a limited number of consumers mainly in Western Europe and North America. Today, however, the European beauty giant is eyeing one billion new consumers in emerging markets – which L'Oréal calls 'New Markets' – such as India, China and Brazil. The emergence of these new foreign markets, including those in Eastern Europe, Africa and the Middle East, creates exciting marketing opportunities to reach huge numbers of potential buyers.

While the emerging markets have already overtaken L'Oréal's sales in Western Europe and North America, they will account for more than half of overall sales before the end of the decade. This will fundamentally change the company's marketing history. The spectacular rate of growth also represents a major shift in the global cosmetic market. The immense number of potential buyers in emerging markets will open up new marketing opportunities for companies worldwide.

L'Oréal is well positioned to gain one billion new consumers in emerging markets

'Our objective is to win the loyalty of one billion new consumers in these countries over the next 10 years, so doubling the number of men and women across the planet using our brands and our products', according to a L'Oréal spokesperson. In India, for example, L'Oréal plans to increase market share by focusing on territory held by competitors such as Hindustan Unilever and Procter & Gamble in product categories like hair and skin care. The company is aiming for a 'leadership position' in India and intends to increase its buyers from 30 to 150 million before 2020, according to Vismay

Sharma, director of L'Oréal's consumer products division. L'Oréal is well positioned to achieve its goal of gaining one billion new consumers in emerging markets through a customer-oriented marketing strategy that includes the following components:

Marketing research: Listening to consumers
Every year, country managers and marketers personally visit consumer homes to better understand customer needs across the world. 'You have to stay close to consumers, always,' says Sharma. Marketing research has enabled L'Oréal to successfully launch innovative skin-lightening products, some of them targeted to men. Its research centres create the most effective formulas to meet consumer needs on each continent.

Product: Brands that meet customers' needs
By staying close to consumers, L'Oréal is able to develop the right products for each country and tailor its product ranges to meet customers' expectations. Its new products generate hundreds of patents a year. Over 60,000 employees are committed to carrying out L'Oréal's mission 'to make beauty universal in a sustainable and responsible way'.

Promotion: Communication strategies that reflect lifestyles
By communicating the benefits that are important to consumers in target markets with different needs, the company is maximising customer satisfaction and creating an attractive global brand image.

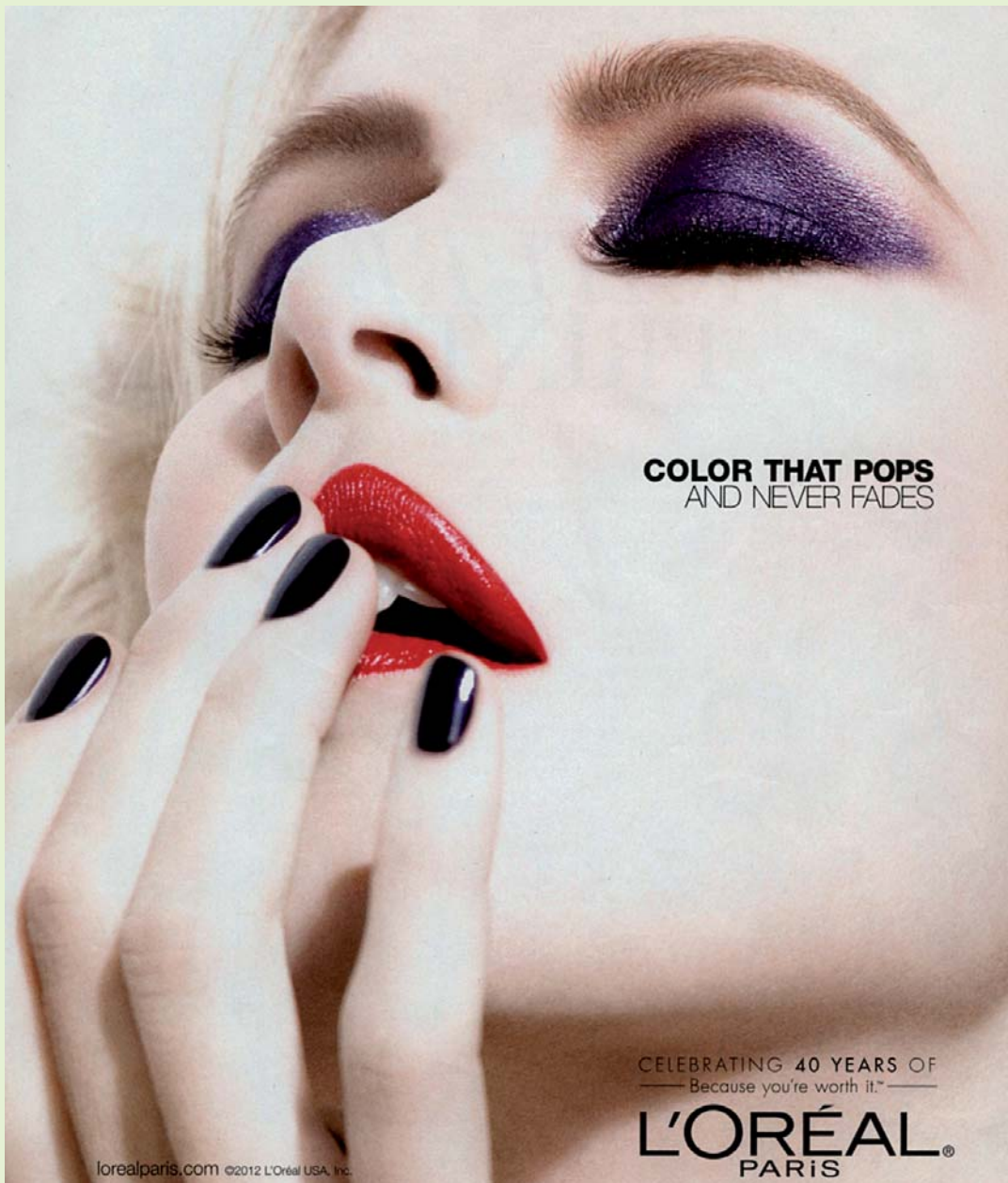
Price: Offering affordable products
By not always passing on the increasing costs of raw materials, packaging and transportation to buyers, L'Oréal is making aspirational brands affordable to the mass market. Its pricing and other marketing strategies reflect the lifestyles of less affluent consumers. In India, L'Oréal sells tubes of skincare cream for 25 rupees (€0,39) and inexpensive sachets of shampoo for those with limited access to running water. 'We offer smaller packs for consumers who want high-quality products but do not have much

money to spend,' explains Sharma. 'We realised we need to adapt to local needs.'

Distribution: Getting the products into the buyers' hands

In India alone, L'Oréal has increased the number of outlets from 250.000 to over a million. And although it is facing different trends in Africa and the Middle East as well as major challenges in South Africa, Turkey, Lebanon and Morocco, it is still growing fast in these nations. Sharma: 'As we develop new products to meet customers' wants and needs, we are also creating distribution networks to reach them.'

In conclusion, L'Oréal's marketing strategies represent a phenomenal business opportunity for long-term growth and profitability in its new markets. Its market share and sales are growing across the world. L'Oréal China's sales revenues, for instance, now exceed one billion euros, making this the company's number three cosmetics subsidiary. L'Oréal's customer-oriented managers have developed a global vision and have clearly identified many lucrative international marketing opportunities.'



The very nature of marketing is often misinterpreted. Some think that marketing is a modern form of *selling*, or that it is simply another word for *advertising*. Selling and advertising are indeed important marketing functions, but marketing involves much more. It includes a great number of other activities that enhance an organisation's ability to satisfy the needs and wants of its customers effectively, thereby strengthening its position within the market. These other activities include market research and product development. *Market research* is conducted to identify the desires of (potential) customers, for example, or to size up the competition. *Product development* is the process of developing and launching attractive products based on an accurate insight into the market.

In all of this, one thing is clear. Marketing is not an 'exact' science that offers a standard solution to each problem. On the other hand, one cannot rely solely on intuition or business instinct. To make effective marketing decisions, we must be familiar with the principles and techniques of marketing that we will be exploring in this book.

In this chapter we start by examining the nature of marketing and the role it plays in society and in the business sector. We also look at the marketing concept and the main tasks involved in marketing. Throughout this chapter and the remainder of the book, important marketing terms are printed in **bold** in the text and are also listed in the margin. Nearly a thousand of these concisely defined key marketing terms are compiled in *Verhage's Glossary*. You will be able to review this glossary on the website that accompanies this book (www.verhage.noordhoff.nl). They are also published online with each chapter as *flash cards* to help you prepare for exams and learn the marketing vocabulary.



1.1 The meaning of marketing

Marketing is a broad subject. It includes all the activities that bring buyers and sellers together. To gain an insight into the meaning of marketing, we begin by looking at the differences between marketing and selling. Then we examine a definition of marketing, the so-called marketing mix and the exchange process between the buyer and the seller.

1.1.1 Differences between selling and marketing

Broadly speaking, companies do two things: they make products (or they provide services) and they put them on the market. In other words, they *produce* something and they are involved in *marketing*. Not long ago we would have said that they produce and ‘sell’ something. The difference between marketing and selling is the difference between a society in which consumers can *choose* from products and services designed to meet their specific needs and wants, and a society in which people have very little if any choice.

The main purpose of marketing-oriented companies is to anticipate and satisfy the needs and wants of the customer. Rather than focusing first and foremost on the product, managers of these companies constantly seek to identify with their customers. They have become accustomed to thinking from the point of view of the consumer. Furthermore, they are convinced that this is the only right way to do business. When surveyed, this is what four senior managers had to say about the role that marketing plays in their organisations:

- ‘Nothing has more influence on the success of this company than marketing. Our rapid growth is primarily due to a well-developed marketing strategy.’
- ‘Market research and marketing are indispensable in this industry, particularly since the buying behaviour of customers is constantly changing.’
- ‘We are known as a dynamic and progressive company. Our international expansion was the result of a pure marketing decision. Marketing is central in our planning.’
- ‘When I talk about marketing planning, I am talking about the selection of the right markets and products, in other words, the most fundamental, strategic choices our company has to make.’

Marketing builds a bridge between production and consumption. The types of products available in the stores and the quality of those products are both determined by the preference of the consumer. In short, *selling* is ‘trying to get rid of what you have on the shelves’, while *marketing* is ‘making sure that what you have on the shelves is what the customer wants’.

Essentially the objective of marketing is to make selling – in the sense of putting pressure on others – unnecessary. The purpose of marketing is to get to know and understand the customer so well that the product is precisely what the customer wants. Then the product will sell itself. In fact, the need to be familiar with the desires of customers and to establish an ongoing relationship with them is part of our definition of marketing.

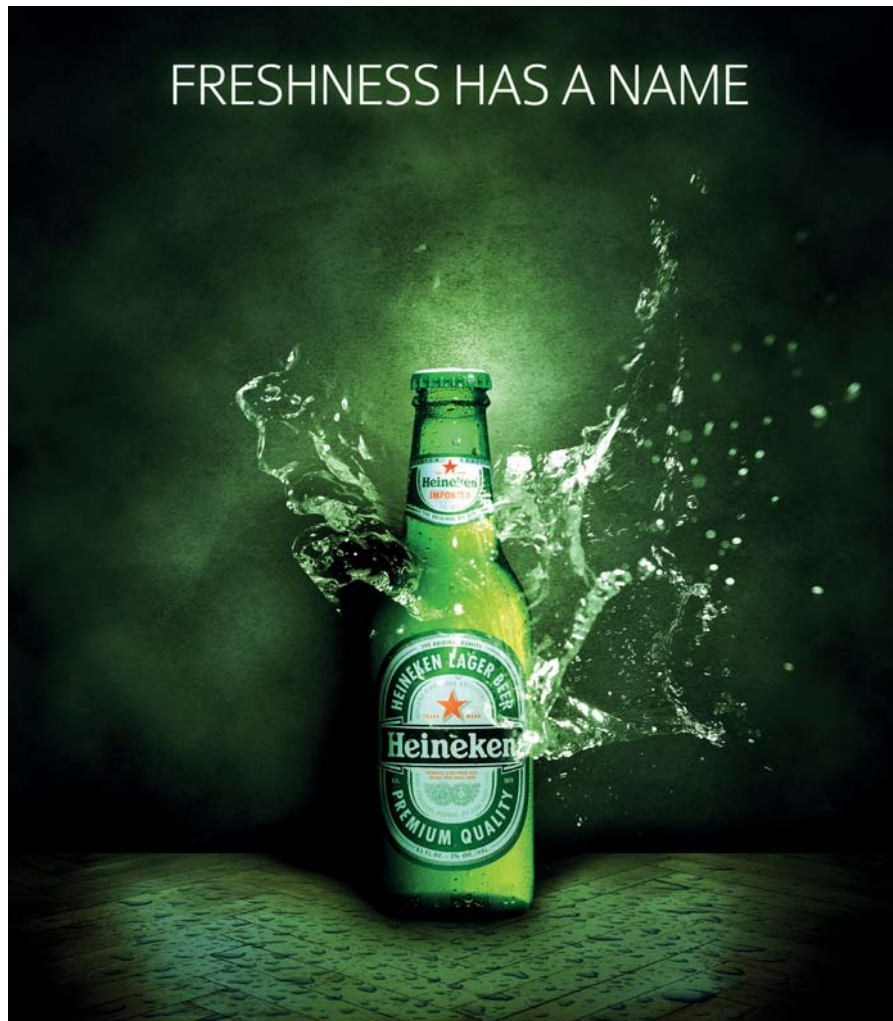
1.1.2 A definition of marketing

Thanks to the marketing function in the business sector, the development of products and services is linked to specific markets. In other words, supply is precisely tailored to meet demand. Think of Heineken for example, which markets not only lager, but also bock beer, white beer, low-calorie and other types of beer – with brand names such as Murphy’s, Wieckse Witte and Amstel Light, so consumers can always drink

their favourite beer at home and in bars. The brewery conducts marketing research to find out which outlets sell its products and what kinds of beer different groups of consumers prefer. As a marketing-oriented company Heineken also makes sure that its many products are sold in the right stores, that the prices are neither too high nor too low and that potential buyers know what kinds of specialty beers are available at different times of the year.

So marketing requires not only an appropriate product, but also the right type of distribution, the right price and the right kind of promotion. Together these factors make up the so-called *marketing mix*. If any of these four elements is lacking, a product will not achieve the sales and profit objectives as listed in its annual plan or marketing plan. Not only will the company fail to maximise sales and profits, the target market (the potential buyers for whom the product was intended) will probably be left with unsatisfied needs and wants. With this example in mind, let us now look at the – formal – definition of marketing.

A product's marketing success depends on features of the physical product – such as its quality, taste and packaging – as well as on intangible characteristics – for example, brand image – that provide benefits to consumers



Marketing

Marketing is the process of developing, pricing, promoting and distributing products, services or ideas that are tailored to the market; it includes all other activities that create value and systematically lead to increased sales or another desired response, establish a good reputation and ongoing relationships with customers, so that all stakeholders achieve their objectives.

We will come back to this definition shortly. In the meantime it is clear that marketers are not only involved in advertising and selling, but, on the basis of marketing research, marketers also decide which products are developed, for whom the products are intended and how they are introduced. By providing information about the needs and wants of both potential and current customers, marketers influence the decision making process at the very inception of the product or service. So our definition immediately dispels the misconception that marketing is a kind of 'superior selling' that starts at the end of the production line.

1.1.3 The marketing mix

An effective marketing strategy consists of a clever combination of four marketing instruments that are used to tackle the market. These marketing tools are often referred to as the **marketing mix** or the four Ps. The marketing mix variables are closely related to one another. If we change one of them, this may have consequences for the other three; essentially it creates an entirely new mix. Since each of the four Ps will be covered extensively later on in this book, we now only briefly review the main questions and decisions with respect to the marketing mix.

Marketing mix

Product

Product: goods, services or ideas that meet the wants and needs of the customer.

Besides the physical product, this P includes other factors that determine which brand a person buys, such as the warranty, packaging, brand image, product range and customer service. Hence, product strategy is concerned with, among other things, the development of new products and services, the refinement of existing products, and the decision to take products off the market when they no longer satisfy a need.

Price

Price: the amount of money exchanged for a product or service.

When developing a price strategy a company will consider not only the product's manufacturing cost, but also the prices being charged by its competitors and how an increase or reduction in the selling price is likely to affect demand. If the price is too high it will deter customers, but if the price is too low, revenues will suffer. When determining the price, several questions need to be addressed. Should pricing generate a profit in the short term or in the long term? Is a discount necessary? Are some buyers prepared to pay a higher price for a more refined product, and who are they?

Place

Place ('Distribution'): how the company gets its product into the buyers' hands.

How a product is distributed often matters more in determining its success than the product itself. Because of their contacts with the retail trade, companies such as Philips and Unilever often stand a better chance of achieving success than do smaller companies, when bringing new products onto the market.

Distribution strategy is concerned with decisions about which distribution channels and intermediaries (the wholesale and retail trade) should be used, the number of sales outlets, the necessary stock levels and best forms of transportation (physical distribution). An efficient distribution system ensures that the right products are on sale in the right place at the right time.

Promotion

Promotion: the supplier's activities to communicate with the market and to promote sales.

Very few products sell themselves. Potential buyers first have to be made aware of the product and its benefits. Effective communication is needed to inform, persuade or – in the case of established brands – remind them of a product.

Promotion or marketing communication includes advertising, sponsorship, sales promotion (such as free gifts, contests and product demonstrations), direct marketing, and personal selling and public relations activities, including free publicity. Developing a promotional strategy requires various decisions, such as establishing communication objectives, determining the advertising budget, and selecting the best combination of promotional instruments and media including social media. Other decisions involve using displays efficiently, offering special discounts, attending trade fairs and, finally, assessing the effect of these promotional activities.

Figure 1.1 The marketing mix



1.1.4 Target market selection and the process of exchange

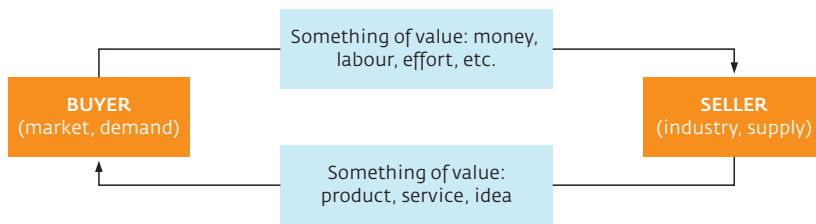
A well thought-out marketing mix increases the chance of success. However, because it is impossible to devise and implement a marketing strategy satisfying the needs of all consumers, companies must concentrate on the desires of a specific group of potential buyers, as illustrated in Figure 1.1. This group of consumers is known as the **target market**, the part of the market that an organisation concentrates on and wants to turn into customers. *Customers*, after all, are loyal consumers who will make repeat purchases. Once a company has divided the market into market segments on the basis of certain criteria, it will then select one or more target markets. With these groups the organisation tries to bring about an *exchange*, in which the two parties agree to exchange *something* of value so that both parties' needs are met.

This **exchange transaction** underlies all marketing activities. In fact, organisations develop a marketing strategy to stimulate this process of exchange. **Exchange transactions** are items of worth. Often they are products that are exchanged for money, but they can also be something less tangible, such as a *service*, an *idea*, *labour* or even *status* (see Figure 1.2). For instance, in exchange for their tuition fees and perseverance, students get a meaningful education; in exchange for voting for a political party, voters are given certain promises by the party leader regarding the policy to be pursued. So the process of exchange is also a process that creates, communicates and delivers value. Both parties involved in the transaction gain something of value in exchange for something they are prepared to part with and – because their needs are satisfied – as a result of the transaction they are better off.

Target market

Exchange transaction

Figure 1.2 Exchange process between buyer and seller



1.2 Levels of marketing systems

The origins of marketing date back to the era of **bartering**, when goods were exchanged for other goods. This practice was widespread in primitive societies. Bartering was an exchange ‘in kind’. That is to say, no money changed hands, and those involved in the exchange were only interested in products they wanted. Bartering remained popular even when currency, travelling salesmen and shops simplified the process of exchange. In the 21st century bartering is still an important form of (international) trade in many countries and one that calls for a market-oriented approach.

Bartering

Marketing can be conducted and studied on different levels. If we are considering those who make the marketing decisions in a company, we are referring to *micromarketing*. However, because marketing at the societal level and at the sector or branch of industry level offers important leads for marketers in an organisation, we will first consider macromarketing and mesomarketing.

1.2.1 Macromarketing

If, rather than looking at marketing from the point of view of the individual company, we see it – at a broader level – as a *process* that must function effectively for a society as a whole to realise its economic objectives, we are talking about **macromarketing**. At this level the role of marketing is described only in general terms. After all, when it comes to macromarketing, we are primarily interested in the system that a society has developed to arrange the exchange of goods and services to ensure that its scarce resources will meet its needs as effectively as possible. Today, because of new media, satellite connections and means of transport, marketing functions are implemented more efficiently than ever. Improved communication systems, transaction possibilities through the Internet and methods of distribution simplify the marketing process at a macro level. Yet these tools and techniques are also important for marketers, for the less they cost, the more efficient the organisation’s marketing strategy.

Macromarketing

1.2.2 Mesomarketing

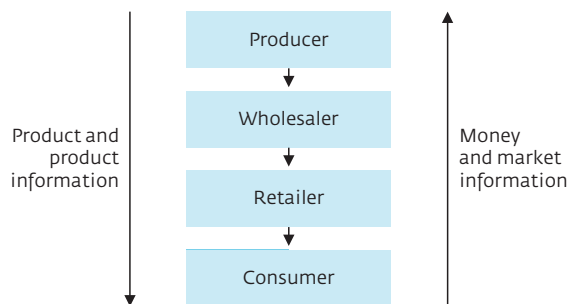
So far we have distinguished two different approaches to the study of marketing: macromarketing and – what is commonly referred to as – micromarketing. *Mesomarketing* occurs at a level that lies between the two. This form of marketing is best analysed within the framework of the supply chain.

The supply chain

Historically, people produced things largely to meet their own needs. This system of 'direct production' was later replaced by a more efficient approach in line with the *economic principle*. Division of labour, specialisation and the principle of exchange gave rise to a system of production and trade in which different parties within society were dependent on one another. We can depict this system by referring to the **supply chain**: the series of persons and organisations – from the original manufacturer to the consumer – involved in the production, distribution and consumption of products and services. If these individuals and organisations in the supply chain organise marketing activities, they do so at the level of *mesomarketing*.

Figure 1.3 shows – in a simplified form – the elements that make up a supply chain. This marketing system consists of various horizontal sections or links. One such link, which is made up of companies that perform the same function in the production or trade of a certain product, is known as a **sector**. Within such a sector, a group of organisations that is similar in its production techniques and end products is known as a **branch of industry**. The book industry within the graphic sector is one example. The food industry within the retail sector is another.

Figure 1.3 Simplified supply chain for consumer products



In Figure 1.3 we can see two different flows. The product moves from the manufacturer – via intermediaries who distribute the product – to the consumer (with the aid of advertising and other promotional activities). The money flows in the other direction together with an *information flow* that moves from the buyer to the manufacturer. Because retailers and wholesalers are in proximity to the consumer, they are able to give the producer an accurate insight into the needs and wants of the market and the reactions of the customers.

In practice, each link adds value to the products or services. If the *added value* that a certain link contributes is too small, it will eventually lose its function in the chain. Wholesalers, for instance, are constantly threatened with the prospect of losing their place in the chain. The party that adds the least value is also the weakest link in the chain.

Sometimes a product will skip some of the links in the supply chain. In some distribution channels the manufacturer (or importer) delivers products directly to the consumer, as is the case in purchases made via the Internet. We will return to the subject of the supply chain in paragraph 3.2.

Definition of mesomarketing

Marketing activities – designed to meet a certain need – that parties in the supply chain carry out jointly fall within the domain of mesomarketing. One example is the collective advertising campaign for milk, which is financed by organisations operating at different levels in the supply chain, united within a branch organisation. In other words, mesomarketing is generally confined to a certain sector of society.

We can now define **mesomarketing** as all activities developed by several collaborating organisations within a supply chain or sector to match supply and demand and meet a certain need, in order to realise their shared marketing objectives. The term ‘mesomarketing’ can be used for the collective activities of organisations in a specific sector (such as insurance companies) or of companies with a common interest (such as retailers in the same shopping centre). It is also used to refer to the collective marketing of certain types of products (such as flowers or meat).

Mesomarketing

1.2.3 Micromarketing

While macromarketing refers to society as a whole and mesomarketing refers to collaborating organisations in the supply chain, the focus of **micromarketing** is the *individual firm*. What we are concerned with in this book is *marketing management* – in the sense that we will be analysing problems from the point of view of the manager who makes the decisions.

Marketing management is the analysis, planning, implementation and constant evaluation of all activities designed to ensure that the products and services produced and provided by an organisation are tailored to meet the needs and wants of potential customers as effectively as possible. In practice this means formulating and implementing a product, promotion, price and distribution strategy that enables the company to approach the market successfully and accomplish its marketing objectives.

Marketing management

A marketing manager always tries to see his company from the viewpoint of his customers. He begins by conducting market research to identify the needs, wants and ideas of potential buyers, which, in turn, helps him develop products and services that meet the desires of the target group. Then, ensuring that the target audience is well informed by promotion, he can offer these products and services to the target market for the right price, and through the best sales channels. Finally he stays in touch with his customers to make sure that they are indeed satisfied. This process of strategy development and business decision-making, which does not always occur in this order, should be based on the *marketing concept*. We will come back to this in section 1.4.

The French wine industry’s ‘Terroir’

France is a country famed for its rich cultural heritage, as the birthplace of a wealth of fine art and literature. This is coupled with a proud gastronomic tradition spanning many centuries, which includes one of France’s greatest exports – wine. Historically, French wines have been identified by the region from which they originated, for example Champagne, Bordeaux or Médoc. However, today’s marketing trend in the wine industry is to identify a wine by its grape type (such as Merlot), rather than its region of origin. For French winemakers, it seems that changing their marketing strategy in the global marketplace is a challenge, involving a complex tradition of *appellation* that accentuates ‘terroir.’

Terroir is a French concept that refers to the unique features of a terrain, including its geology, geography, climate and soil type. These factors impact the wine’s taste. It implies that even if all conditions of the grape-

growing process are perfectly reproduced elsewhere on the globe, the wine still cannot be duplicated. Some French winemakers even argue that their main role is to *facilitate* the ability of a wine to express its unique ‘terroir.’

The typical foreign consumer has no clue of the meaning of a region or vineyard

For a long time, regional characteristics in France were important to help distinguish the produce of one particular province from that of neighboring

ones, especially when selling wines in other regions. The tradition of naming wines by region of production also stems from an emotional connection invoking issues of identity and loyalty: a 'badge of pride and honour.' To a wine connoisseur, this may be important. In the words of Philippe Chaumont, a merchant from Toulouse, 'When I'm drinking a Tuscan wine, I don't want it to taste like a Beaujolais.' Returning to the changing global market, since the average consumer looking for a decent but affordable wine is not a wine connoisseur, there needs to be a way that he can differentiate between a €10 and a €50 bottle of wine. The current marketing trend to identify wine by grape type ('varietal wine') and even brand name (e.g. Mondavi) helps to accomplish this. Winemakers in other nations, including South Africa, Chile, Australia, and the United States usually market their 'New World' wines as a Chardonnay, Merlot, Malbec, or Cabernet Sauvignon, reflecting the types of grape used to produce the wine. French winemakers, however, have traditionally left the grape type off their labels altogether. Why does this even matter, when France and the French wine industry enjoy a long-standing favorable impression among numerous wine consumers? The answer is simple: the changing global marketplace. In the last 25 years, sales of New World wines rose dramatically, from three percent to thirty percent of the global market. Now, research shows that the majority of wine importers in Europe, Asia and North America expect a further increase in demand for *varietal wines*.

It is understandable why French wine producers may not want to betray their heritage. Yet, by failing to adapt to changing preferences and buying behaviour of today's wine drinkers (who are less preoccupied with regional distinctions or the merits of specific vineyards), France may be missing out on a huge marketing opportunity. In the words of the president of the Confederation of French Wine Cooperatives, Denis Verdier, 'I think France was sleeping on the laurels of its past success.' This statement is especially troubling, now that France has recently been overtaken by Italy as the world's largest producer of wine.

Fortunately, a new generation of French winemakers is beginning to recognise the need for a shift in marketing strategy, by looking at fresh and innovative ways to sell wines. Some are poking fun at old traditions, while breaking down notions of



elitism and snobbery. Successful French exports now include the rock-and-roll-inspired 'Rhönig Stones' and 'Le Freak Shiraz-Viognier'. Meanwhile, the cheekily-named 'Arrogant Frog', from Domaine Paul Mas, sells a million bottles per year in Australia, suggesting that important lessons have been learnt.

Wine purists might look at these changes in horror, arguing that this represents a 'dumbing-down' in the wine industry. However, approaching the issue from a marketing perspective, it is unwise to ignore key shifts in the wine marketplace. Especially where it concerns the need to boost flagging wine sales in a globalised market, in which more marketing-oriented wine-makers must appeal to a growing segment of young, less wine-savvy customers.²

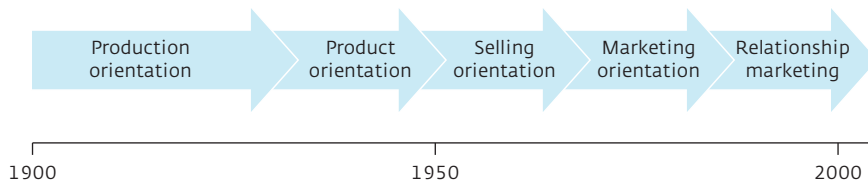
1.3 Development of the marketing mindset

Focusing on the customer when developing a strategy seems so logical that we might wonder why companies ever did anything else. Until shortly after the Second World War, however, most products were so scarce that there was no major competition. So there was no real incentive to adapt products to the wants of the consumer. Most manufacturers sold everything they were able to make and put forth no effort to offer products that the consumer might prefer.

The shift to a marketing orientation in the business sector in Europe was stimulated by several multinationals, such as Unilever, that were exposed to marketing in the United States. The American ‘invasion’ of the European market in the sixties simply accelerated this development, because American organisations brought their own market research bureaus and advertising agencies with them. This led many European companies to become increasingly interested in marketing.

In fact, since the industrial revolution, most sectors have gone through a series of phases. Figure 1.4 shows the main orientation in each stage. Over time emphasis has shifted from production, to the product, to selling, to marketing. Still, many companies have not yet reached the last phase of marketing-oriented management with its emphasis on relationship marketing.

Figure 1.4 The evolution of marketing



Manufacturers of consumer products were the pioneers in this process. Producers of industrial goods, service providers, retailers and not-for-profit organisations – roughly in that order – followed them. Unfortunately, some organisations are still production-oriented or selling-oriented. However, an increasing number of managers are clearly aware of the importance of a *market-oriented* approach. They now think in terms of markets and people, rather than seeing the product as the point of departure. Before exploring this mindset, let’s examine the management philosophies that originally dominated the business sector: a production- or product-orientation and a selling-orientation.

1.3.1 Production- and product-oriented companies

A production-oriented company does everything possible to make its production process highly efficient. At the beginning of the 20th century, when the consumer’s disposable income was low and mass production technology still in its infancy, the **production concept** was the most common business philosophy. By concentrating on mechanising and increasing production, entrepreneurs were able to greatly reduce the cost of their products. They reasoned that if a product was inexpensive and widely available, it was bound to sell.

Production concept

In the aftermath of World War II, with an acute shortage of raw materials, machinery and production facilities, there was little change in the managerial mindset. Production and distribution of reasonably priced, mass-produced goods was still the priority. One difference, though, was that manufacturers shifted their attention from the production process to the product itself. Once the **product concept** was adopted in this era, the main objective became to improve quality. Managers assumed that ‘a good product will sell itself’ and regarded marketing as a superfluous activity.

Product concept

Despite this *product-oriented* market approach, sales flourished, primarily because demand exceeded the limited supply. It was a typical **sellers’ market**, in which the suppliers or sellers had the upper hand – to the detriment of the customers.

Sellers’ market

1.3.2 Selling-oriented companies

In most industries the production- and product-oriented phases of management philosophy lasted only for a brief period after World War II. With technological progress and huge investment in the post-war economy, production capacity grew so fast that products were no longer in short supply. Greater prosperity gave rise to a **buyers' market**, in which the buyers were in a stronger position than the suppliers because supply exceeded demand. This, in turn, resulted in a battle for winning over the consumer. Entrepreneurs then tightened their focus on selling and began to use aggressive techniques to dispose of their products.

Buyers' market

Although the sales department became more important, little else changed in the business philosophy. Even with the shift to the **selling concept**, the company itself was still seen as the point of departure. Its technical knowledge and experience determined what was produced, while the sales staff tried to stimulate sales simply by making a huge sales effort. Customers' needs and wants still held only marginal influence over the company's product offerings.

Selling concept

1.3.3 Marketing-oriented companies

Faced with greater consumer **buying power** and greater competition, companies finally learned that they had to tailor their products and services to meet the needs and wants of the buyers more effectively. And, with prospects of amassing a glut of unsalable products looming on the horizon, managers adopted a **customer-oriented** mode of thought and put the marketing concept – the basic idea of marketing – into practice. In short, they started implementing a market-oriented approach.

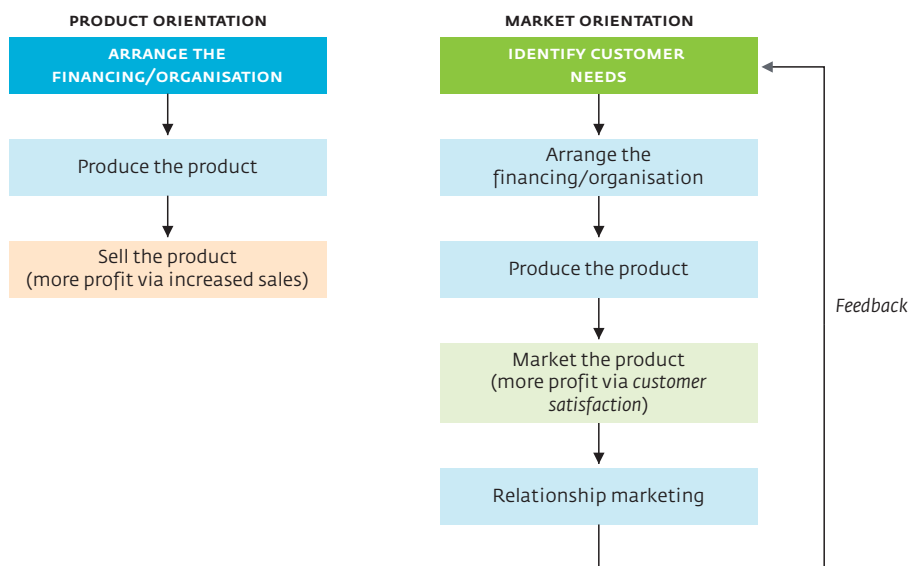
Buying power

Market orientation

More than ever before, the business sector is characterised by a high degree of **market orientation**. Market-oriented companies consider not only customers, but also intermediaries and competitors, in making business decisions at all levels of the organisation. This is the crucial distinction between a market-oriented and a product- or selling-oriented market approach. As we can see in Figure 1.5, a product-oriented

Market orientation

Figure 1.5 Comparison of a product and a market orientation



approach (and also a selling-oriented approach) consists of three stages: setting up the financing and organisation, making the product, and selling the product.

A market-oriented entrepreneur, on the other hand, starts by conducting marketing research to identify the needs of the buyers (within the context of products offered by competitors). This enables him to select a target market on which to concentrate. Only then does he contemplate the organisation and financing, the development of products or services that meet the needs and, of course, the marketing of those products or services. He is also well aware that increases in profits are closely tied to his customers' level of satisfaction – so he prefers to concentrate on customer satisfaction instead of sheer sales efforts.

Note that we are referring to *marketing* the product rather than *selling* the product. The difference between the two is that marketing entails an *integrated plan*. Selling is but a component of this overall marketing plan. Other elements of the marketing plan encompass the product, distribution, communication and pricing strategy. Finally, a firm practicing the marketing concept continually monitors the market and seeks *feedback*, to determine not only how well the product is selling in different market segments, but also to learn the degree to which it satisfies the needs and wants of the customers. This allows the firm to quickly develop new or improved products that are in line with new trends and customer preferences. Also, this approach helps the marketer establish and maintain an ongoing relationship with his customers, and thus to engage in *relationship marketing*. Figure 1.6 summarises the main differences between selling- and marketing-oriented organisations.³

Figure 1.6 Differences between a selling and a marketing orientation

	WHAT IS THE ORGANISATION'S FOCUS?	WHAT BUSINESS ARE WE IN?	WHO ARE WE TARGETING?	WHAT IS OUR PRIMARY GOAL?	HOW DO WE INTEND TO ACHIEVE OUR GOAL?
SELLING ORIENTATION	Inward on the company's problems	Selling the products we make	Everybody	Profit through maximising sales volume	Mainly through intensive selling and promotion
MARKETING ORIENTATION	Outward on the customers' needs and wants	Satisfying the needs and wants of the target market and delivering superior value	Specific groups of buyers	Profit through satisfying customers and building relationships with them	Through integrated marketing and cooperation with other departments

The societal marketing concept

Widespread concern about the undesirable side effects of marketing for third parties has recently led to a renewed interest in *macromarketing* (in the sense of socially responsible marketing). The increasing preoccupation with the long-term interest of society has led to an extension of the marketing concept known as the **societal marketing concept**. The underlying principle is that, since the production and marketing of certain products (for example, packaging) may – in the long term – have damaging consequences (such as deforestation) for society as a whole, every effort must be made to prevent harming the interests of buyers and non-buyers.⁴

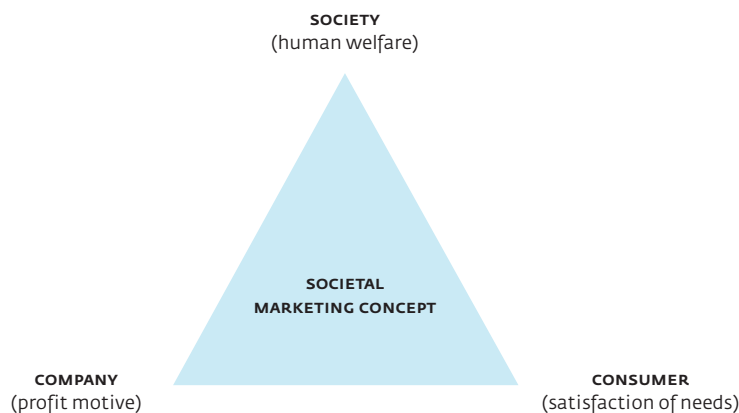
Marketers should balance the interests of the consumer, the producer and society. As is illustrated in Figure 1.7, consumers are often driven by their needs and

Societal marketing concept



wants in the short term, while companies are driven by their objective to make a profit. However, society as a whole has to consider human wellbeing in the long run and must make it a priority. When developing a societal marketing-oriented strategy, firms with a sense of responsibility consider the impact of marketing activities on various groups within society (including children), social issues such as environmental protection and, often, the views of activists like the Amsterdam-based Greenpeace organisation. The combined efforts of consumers and corporations have resulted in positive trends in the development and acceptance of safer products including environmentally friendly detergents and hybrid cars.

Figure 1.7 The societal marketing concept: balanced interests



1.3.4 Relationship marketing

One of the most recent developments in the changing orientation of companies is the rise in **relationship marketing**. A need to retain valued customers has driven an increasing number of firms to take customer-orientation one step further, to actively cultivate good customer relationships. Similarly, companies are working to strengthen long-term relationships with suppliers.

Relationship marketing

Relationship marketing involves a strategy completely different from simply creating an exchange process between the supplier and the buyer. The emphasis is on developing long-term relationships with customers and suppliers who add value to the collaboration for all parties involved. Therefore we are also seeing more and more *strategic alliances* and other forms of cooperation within the market.

Table 1.1 clarifies the differences between transaction-oriented marketing and relationship marketing.⁵ Although in relationship marketing each transaction is only one of the links in the chain between the company and its customers, this can considerably strengthen the relationship between the two parties. This underlines the need for a systematic and well thought-out strategy when it comes to implementing the marketing concept.

Table 1.1 Transactional marketing versus relationship marketing

TRANSACTIONAL MARKETING	RELATIONSHIP MARKETING
1 Emphasis on getting new customers	1 Emphasis on keeping customers as well as getting new ones
2 Short-term orientation	2 Long-term orientation
3 Interest in making a single sale	3 Interest in repeat purchases and ongoing relationships
4 Limited commitment to customers	4 High level of customer involvement
5 Success means making a sale	5 Success means customer loyalty, word-of-mouth communication and low customer turnover
6 Quality is a production concern	6 Quality is every employee's concern
7 Limited customer service	7 High degree of service commitment

Jim Stengel (Procter & Gamble)

Jim Stengel is the former Global Marketing Officer of Procter & Gamble, the world's largest brand manufacturer, where he oversaw an \$8 billion advertising budget. He is now President/CEO of the Jim Stengel Company – both think tank and consultancy – and Adjunct Professor at the UCLA Anderson School of Management.

When asked about the secret of Procter & Gamble's marketing strategy, Jim Stengel gives a sobering answer: 'Focusing on the consumer. That's all. The consumer is our boss. And while I would be the first to admit that the phrase has become something of a cliché, what I say still stands. Because every time we focused on the consumer, we were successful. And every time we took a different approach, we were much less successful.'

I demand passion from my staff. I want them to have both feet in society. I want them to work together with consumers, to observe, to show dedication. Only then does brand development result in magic. If we really want to achieve something in this market, if we have ambitions for the future, that is the only way. Not dreaming things up in an ivory tower. Not producing products simply because we are able to make them, but because they satisfy a huge need.

The consumer is our boss

The danger of being a market leader is becoming arrogant. And that is something we cannot afford. We have to listen to our customers as much as possible. It might seem simple. But putting theory into practice is far from simple. We operate all over the world and there are great cultural differences. When I visit P&G employees abroad, no matter in what country, I always start by visiting them at home and by going to a few shops. That immediately changes the nature of the meeting. It makes my visit less formal, and, as a result, people are less concerned about what they should say to Jim Stengel. At the same time I also get straight to the crux of the matter. Why is that particular product there, how is it used, how is the kitchen set up, what products do you have in the bathroom, how do those who live in the house use the different rooms and what kinds of problems do they experience? And above all, what can Procter & Gamble do to make improvements?⁶



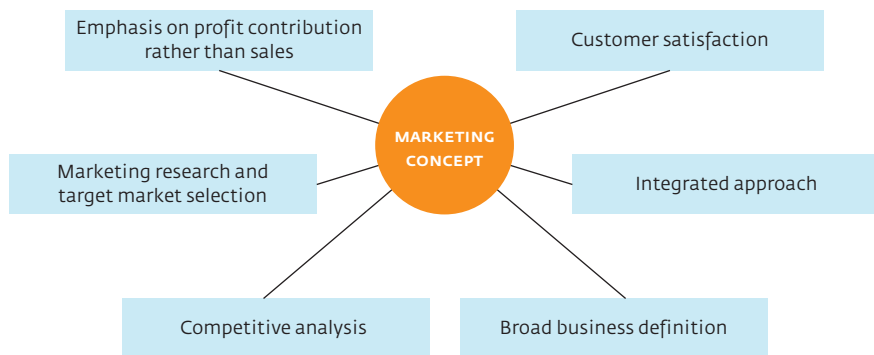
1.4 The marketing concept

Marketing concept

In the final analysis the **marketing concept** is a business philosophy. It is an attitude or mindset in which the needs and wants of customers are factored into virtually every decision. This market-oriented management style should be actively supported by senior management. The chief executive officer (CEO) does not necessarily need much marketing expertise or need to be a marketing professional; however he must understand the importance of marketing to the organisation. If senior management focuses solely on the product or operational considerations, overlooking customer needs, the marketing concept will be very difficult to implement.

What are the main features of the marketing concept? As illustrated in Figure 1.8, the marketing concept is based on six principles.

Figure 1.8 The marketing concept



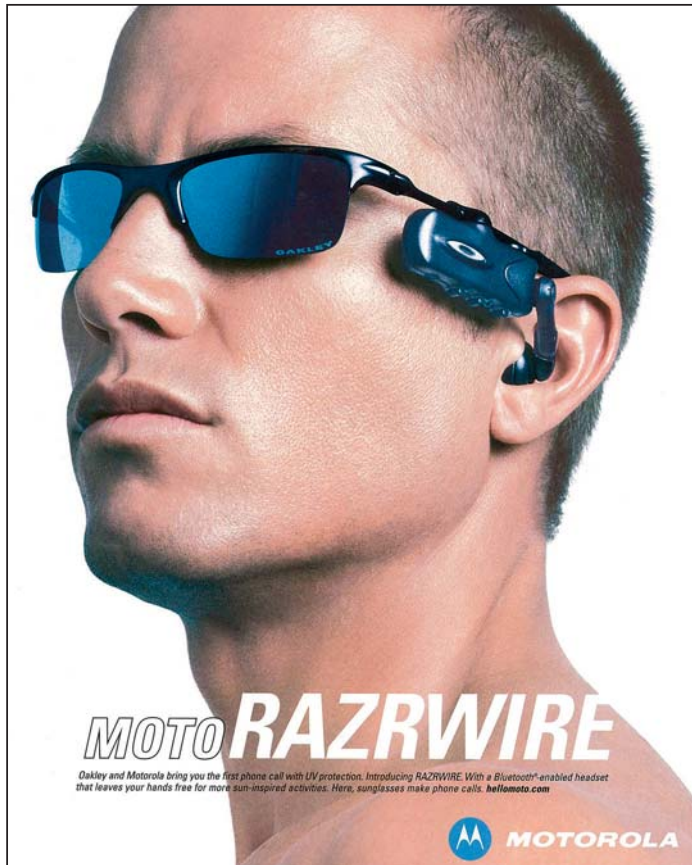
1.4.1 Customer satisfaction

The customer is always right. The firm must be dedicated to satisfying customer needs. If maximising profit is the ultimate goal, a company will not prosper in the long run. A customer-orientation is crucial in decision-making, with the objective of developing ongoing relationships. This line of thought should be followed not only by the marketing department, but by all individuals in the organisation.

To make sure that customers are satisfied, we have to make choices. Given that no company can be all things to all people, it must choose between offering a very wide range of products, and concentrating on certain groups of customers. There may be consumers, for instance, that a company would prefer not to have as customers. An upscale restaurant that appeals primarily to business people would rather not reserve tables for a noisy soccer team, out of fear it will lose regular customers. In such cases a strategy of *demarketing* (which we will come back to later) may be the solution.

Marketing-oriented companies make sure that they provide great customer service and that they handle customer complaints well. They pay as much attention to *customer affairs* (another term for customer service) as they do, for example, to public relations.

What does customer affairs involve beyond a 'money back' guarantee or a polite letter in response to a complaint? It is everything an organisation does to maintain good relations with its customers. The customer affairs or customer service department should:

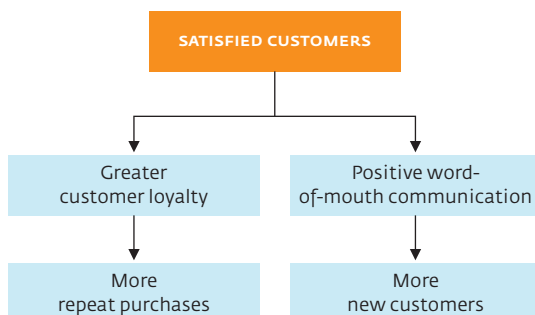


Thanks to its strategic alliance with Oakley, Motorola has been able to develop innovative products, such as these Razwire 'sunglasses making phonecalls'...

- Anticipate the wants and needs of customers.
- Provide useful information about the products and services.
- Assure that the product or service is easy for customers to use.
- Determine how satisfied customers are with their purchases.
- Maintain contact and develop relationships with buyers.
- Deal with complaints and solve customer problems in the best possible way.

Because customer service is the external face of the company's quality standards, it is often regarded as one of the most important marketing instruments. The essence of great customer service is that each customer is taken seriously and must be satisfied. The importance of customer satisfaction in the fight for market share is shown in Figure 1.9.

Figure 1.9 Importance of customer satisfaction



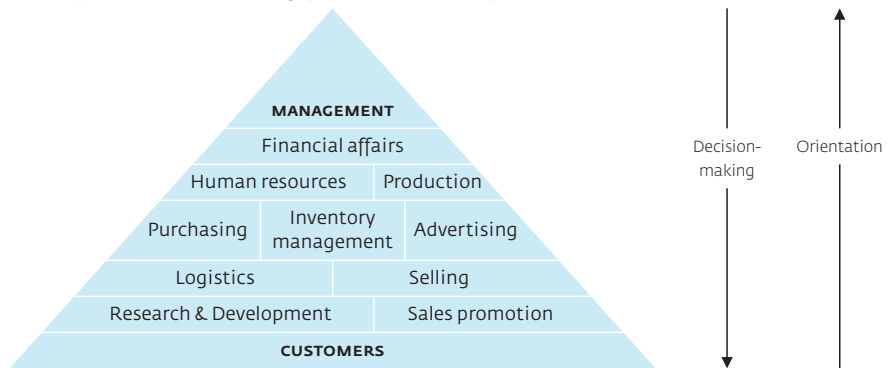
1.4.2 Integrated approach

The difference between a product- and a marketing-oriented approach is the extent to which the various activities are systematically *integrated* into the overall marketing policy. In a product-oriented company most activities are performed in isolation. The production manager, for example, keeps the machines running, the engineer improves the quality of the products, the accountant calculates the selling prices and the sales representatives try to secure lucrative orders. The departments operate independently from one another, without paying attention to the interest of the company as a whole. Coordination is lacking and the customer is no more than a minor consideration. This compartmentalised approach is illustrated in Figure 1.10A.

Figure 1.10A and B Organisations with different management philosophies

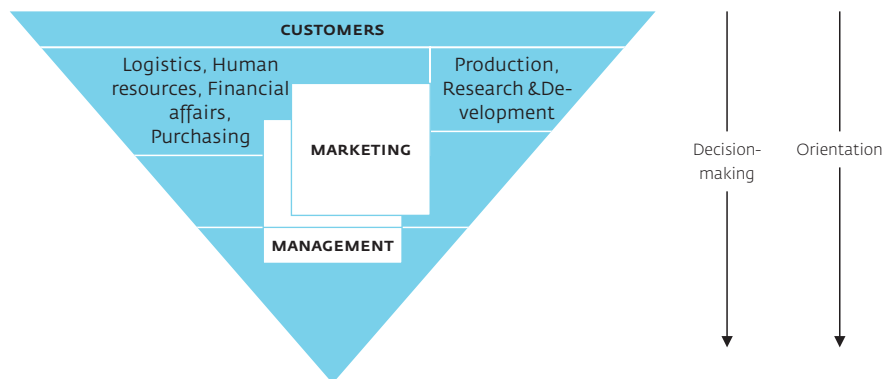
A. AN IVORY TOWER ORGANISATION

Compartmentalised thinking, product-oriented, top down



B. A CUSTOMER-ORIENTED ORGANISATION

Coordination, external orientation, bottom up



A marketing-oriented company follows a different approach. Its strategy is highly dependent on the needs and wants of customers identified through market research. The departments still exist, but their tasks are partly defined by incorporating measures designed to create customer satisfaction. The organisation operates as a unified system driven by the marketing concept. Although some departments are primarily concerned with internal affairs and others with external affairs, their decision-making process centres on the customer.

Figure 1.10B illustrates the coordinating role of the marketing department in a customer-oriented organisation. Marketers are actively involved in decisions about production strategy, stock planning and service policy – or anything else where customer satisfaction is at stake. Thus, marketing is integrated in nearly every aspect of management.

To stimulate this kind of collaboration in the company, management should not just focus on stakeholders outside of the firm, but also be committed to **internal marketing**. Regardless of their departmental assignments, all employees – including the receptionist and cashiers – have to be well-trained and motivated to satisfy the customers. It goes without saying that effective internal communication is required to coordinate these activities.

Internal marketing

1.4.3 Broad business definition

Companies that do not implement the marketing concept tend to describe their business in terms of the products they make (‘we produce laptops’ or ‘we make frames for glasses’). Such self-limiting definitions can lead to **marketing myopia**. What these companies fail to recognise is that their cherished products may fall out of favour (in this case as a result of the increased use of tablets and contact lenses).

Marketing myopia

To facilitate a rapid adjustment to the changing needs of the market, many companies now choose to formulate a *business definition* as well as a **mission** (the role and ambitions of the organisation within its chosen field of activity) in broad, customer-oriented terms. Marketing-oriented companies describe their activities comprehensively) – focusing on the *needs* of their customers. They also like to describe their *role* in their chosen field of activity in ambitious terms. The founder of Revlon once described the mission of his company in this way; ‘In the factory we make cosmetics, in the drugstore we sell hope!’ Companies like Shell and Texaco also use need-oriented descriptions of what they do. They no longer define themselves as oil companies, but instead, as energy companies. Accordingly, they are now heavily invested in the development of alternative sources of energy, including wind, nuclear and solar energy systems. This emphasis on energy rather than simply on oil will galvanise companies to change as society changes, to prevent overreliance on a single energy source, and to remain leading energy suppliers even after the last oil well has run dry.

Mission

1.4.4 Competitive analysis

A firm adopting the marketing concept understands that even its most successful product – and often an entire product category – will someday be obsolete. For example, cotton diapers, LPs and video recorders have been replaced by disposable diapers, MP3 players and on-demand Internet streaming. Hopefully, the company itself, rather than a competitor, is able to develop an alternative product or service that replaces the existing products. In any event, the company needs to keep an eye on its **competitors** – even if only to adopt or improve on their good ideas.

Competitor

Successful managers constantly monitor the competition when identifying the opportunities and threats in the market and when examining the strengths and weaknesses of their own companies. Regular analysis of the competition is indispensable if a company is to gain and develop **competitive advantages**. In practice, competition often has a stimulating influence on product improvement and innovation through the whole branch. Occasionally, it also leads to meaningful agreements and collaboration between businesses.

Competitive advantage

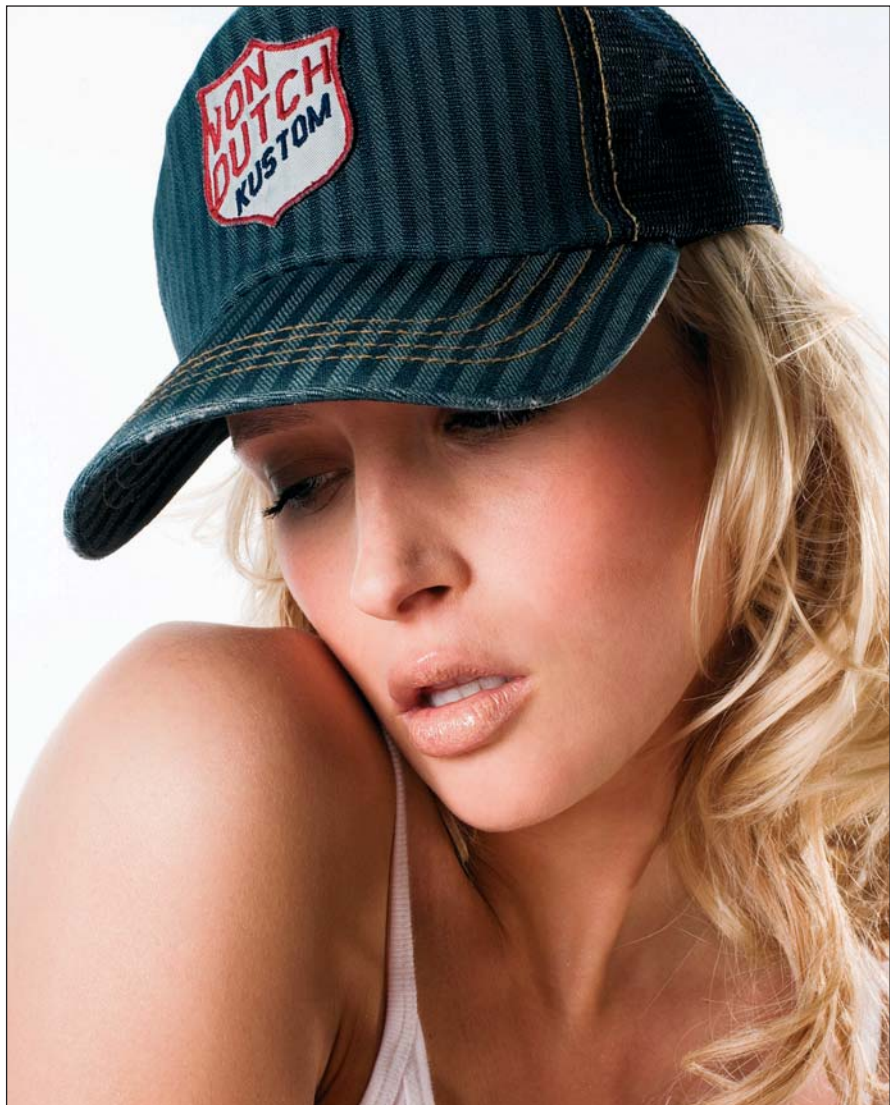
1.4.5 Marketing research and target market selection

When making decisions managers need useful – and usable – information. They can obtain some of this information by consciously observing the environment.

For example, marketers employed by Heineken go into the stores, along with sales representatives, at least twice a quarter to assess the retail climate and meet customers. This is a good idea, but on its own it is not enough. Well-organised gathering and systematic analysis of all relevant marketing information is essential.

Marketing research forms the basis of marketing. By collecting, analysing and interpreting the right data, a market-oriented company can find out, among other things, who the buyers are and which product features are most important to them. Of course, not everyone has the same desires. The 'average' consumer does not exist. So the company first has to analyse and then *segment* the market. In other words, it divides the market up into smaller groups of customers who have the same needs and preferences, or the same buying behaviour. The company then selects segments on which to concentrate. It regards these groups as its *target markets* and develops products and marketing strategies especially for them. The more useful information the marketer has at his disposal, the more able he is to differentiate his products and services.

In the competitive apparel market, Von Dutch's future success depends largely on management's response to changing customer wants and needs in positioning the international fashion label



1.4.6 Profit contribution

Marketers sometimes say ‘It is better to own a market than a factory.’ By this they mean that *demand* for their products is more important in assuring the continuity of the company than the *possession* of a building and machinery. For if demand stagnates (and with it *sales*), the factory that takes care of the supply is superfluous.

We can take this line of reasoning a step further. In evaluating a business, it is not *how many sales* a product generates that is important but *how much profit* those sales contribute to the enterprise. Increased sales do not assure increased profits. If a firm cannot make a profit, the question of whether it is satisfying a customer or societal need is immaterial because the firm will not survive. In this sense, profit is not so much an objective as it is a constraint. Since *profit contribution* is a more important criterion than turnover, the firm may be forced to abandon a product that contributes to overall sales but not to profits. Hence, every company has to strive, for example by building **brand equity**, to make a profit in the long term.

Brand equity

Levi’s versus the Consumers’ Association

At first sight the results of a jeans test conducted by a leading consumer organisation appeared to be devastating for the most famous jeans brand in the world. The two most expensive pairs of jeans in the test, both made by *Levi’s*, were bottom of the list and were described as ‘average/reasonable’. ‘We are very happy with the results of the test,’ was the surprisingly laconic reaction of Jan Keijzer, Managing Director of Levi Strauss Benelux. As far as he was concerned, the test was not relevant to the *Levi’s* target market. Furthermore, it showed a fundamental misunderstanding of the buying motives of young people – *Levi’s* primary target market. ‘The Consumers’ Association assesses physical product quality, but that doesn’t matter that much to young people. They are more concerned with what the jeans look like. We deliberately produce poor quality jeans, because that is what they ask for. They want worn-in, stonewashed or faded jeans. When the consumer test report says that the finish of the buttonholes “unfortunately leaves a lot to be desired”, it is showing that its assessment is not based on *market research*, for the frayed look is what young people want. Blue Ridge, the house brand of *We International*, was top of the list. But this was hardly surprising given that this retailer targets buyers aged thirty or more, who want beautifully finished jeans that will last for at least a year. We on the other hand stonewash and tear our jeans to meet our customers’ preferences.’ *Levi’s* market research shows that the young target market agrees with Jan Keijzer: ‘Many of them said:



“The Consumers’ Association doesn’t know what it’s talking about. We want *Levi’s*...” And they get *Levi’s*: *Levi’s* 501 red-tab jeans are targeted at 15 to 25-year-olds and sell for about 100 euros. Europe accounts for about 1 billion euros of San Francisco-based *Levi’s* annual sales that are estimated at over 4 billion euros. *Levi’s* aims to stay one step ahead of its competitors (brands such as Lee, Pepe Jeans, Wrangler and Diesel). The market leader is not afraid of these rivals. ‘To stay out there in front we need strong competitors. That keeps jeans popular and inspires us to be better than the others,’ said Kenny Wilson, Marketing President of *Levi’s* Europe. ‘Ultimately we have something that no one else can copy: we invented the jeans market. *Levi’s* is the first brand. And we still offer a product that is precisely what our customers want. That is a solid marketing proposition.’⁷

1.5 Tasks of marketing in a company

Demarketing

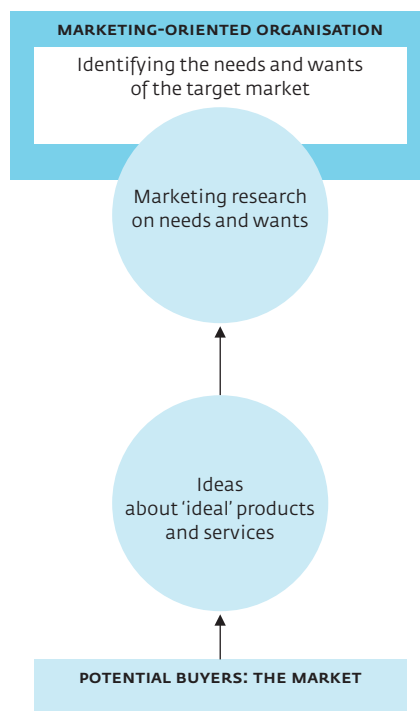
It is often said that the marketer's job is to create more demand. But this is a widespread misconception. Many marketing-oriented organisations actually implement a demarketing policy to *discourage* demand for their products among certain groups of buyers. European telecom companies like T-Mobile and Vodafone are implementing a **demarketing** strategy by no longer targeting 'pay as you go' customers (with prepaid phone cards) in their advertising campaigns for mobile phones. Instead, they are focusing on consumers that make more calls and use other services, such as text messaging. Their objective in this nearly saturated market is to gain the loyalty of the most profitable subscribers.

In fact, the task of marketing involves much more than influencing demand. To ensure that buyers are satisfied, a marketer also devotes considerable attention to customer service, the handling of complaints, communicating with recent buyers and after-sales services. That's also how he strengthens the *reputation* of his company and develops a good *relationship* with the buyers, hoping that they are converted into regular customers who will *respond* positively to future offers and new products of the company. We will come back to these three Rs (reputation, relationship and response) later in this chapter.

1.5.1 Marketing's first task

The first task of marketing is to anticipate and identify the needs and wants of the market. To do this, companies conduct marketing research among potential buyers to gain insight into their ideas about the kinds of 'ideal' products and services that meet their desires. This simplifies the selection of target markets. At the same time, the expressed ideas are the basis for developing the right products or services and the marketing strategy for the selected market segment. This first task of marketing is illustrated in Figure 1.11.

Figure 1.11 Marketing's first task: anticipating and identifying needs and wants



Before the marketer can develop an effective marketing strategy geared to consumer behaviour and the potential demand for new products, he first has to conduct marketing research to discover the needs and wants of future buyers. What is the relationship between these terms?

Needs

Before there can be demand for a product or service, the consumer first has to be aware of his needs. Needs have to do with a shortage of something and with a person's strong – almost instinctive – inclination to relieve this shortage. There is little, if anything, a company can do to influence such fundamental behavioural stimuli. In other words, marketers do not create needs! This is true of physical (innate) needs (such as thirst) as well as psychological needs (such as the need for recognition). Psychological needs are greatly influenced by culture. For instance, affluent Western societies devote more attention to needs relating to physical health and mental wellbeing than other cultures.

Need

Wants

Needs can be satisfied by more than one product. Once a consumer becomes aware of a need and considers the available alternatives, he will usually develop a preference for a certain product. This is the product he wants.

In choosing between similar products, the consumer will consider factors such as time, place and money. He has to decide when and where he will buy the product and how much he is willing to spend on it. In this stage, advertising and other marketing efforts can influence his wants. Wants are also referred to as desires or preferences.

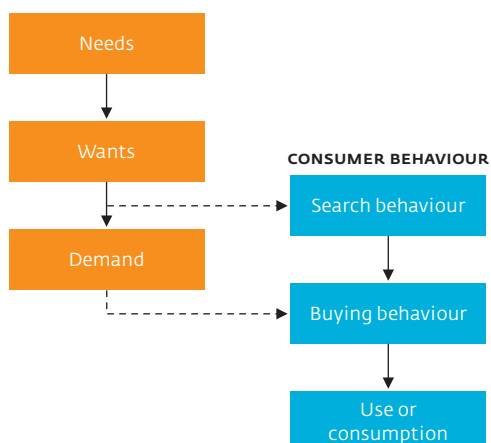
Consumer behaviour and demand

As soon as the consumer starts acting based on his needs and wants, consumer behaviour comes into play. Consumer behaviour generally takes three different forms: communication (the search for information and products prior to making a choice), the purchase (everything that relates to the transaction) and the use or consumption of the product. The purchase marks a turning point in this process: from then on, there is an actual demand. We define demand as the quantity of goods or services purchased on the basis of certain wants in order to satisfy a need.

Demand

So needs, wants and demand are closely related to one another. They are essentially a sequence of phases that consumers go through. Once needs have turned into certain desires and the consumer visibly responds to internal stimuli, this process is regarded as consumer behaviour. The relationship between needs, wants, consumer behaviour and demand is illustrated in Figure 1.12.

Figure 1.12 Relationship between needs, wants, demand and consumer behaviour



1.5.2 Marketing's second task

Although the purchase of a product is an important step in consumer behaviour, and certainly one that marketers try to bring about, it is usually not the only goal. The purchase indicates that the marketer has carried out his first task – discovering needs and wants – well and has successfully tailored the four Ps of the marketing mix to suit the buyer. According to 'traditional' marketing theory, this is the marketer's primary objective.

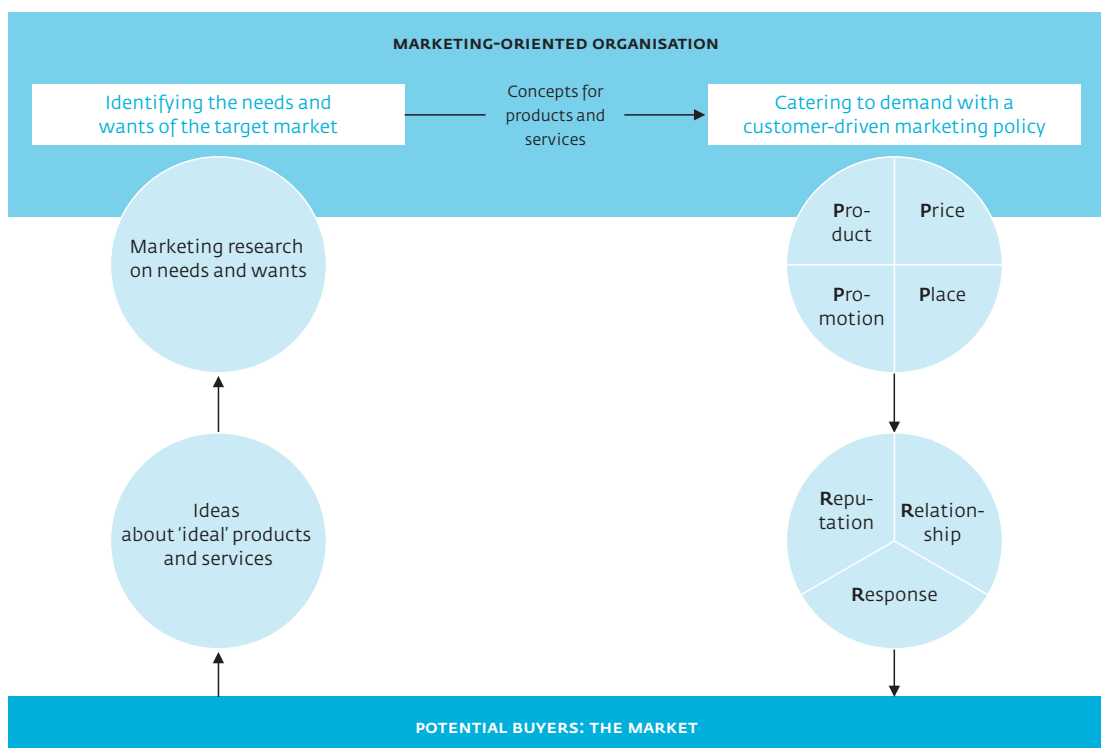
However, as competition increases many products become universally available, all the while becoming more and more similar in terms of quality and price level. At this point, product, price and distribution have become less important as marketing instruments. Some companies try to stand out from their competitors through a creative promotional campaign. But even then, it is increasingly difficult to build a leading position. In short, the four Ps are necessary as marketing instruments, but have become less important as 'weapons' in the fierce competitive battle.

What then are the new priorities in the field of marketing? We already listed them in our definition of marketing at the beginning of this chapter. As you recall, we defined *marketing* as 'the process of developing, pricing, promoting and distributing products, services or ideas that are tailored to the market; it includes all other activities that create value, and systematically

- lead to increased sales or another desired **R**esponse,
- establish a good **R**eputation and
- ongoing **R**elationships with customers,
- so that all stakeholders achieve their objectives.'

The four Ps and the three Rs are all key elements in the second task of marketing – the implementation of a sound marketing strategy to satisfy the wants and needs and help create demand. This is illustrated in Figure 1.13.

Figure 1.13 Marketing's second task: catering to demand with the four Ps and three Rs



1.5.3 The three Rs

To avoid getting entangled in the downward spiral of tactical competition, **marketing managers** – who are responsible for the marketing activities in their organisation – concentrate on more than just ‘transaction-oriented’ marketing instruments (the four Ps). When plotting the strategy, experienced marketers also focus on the company’s *reputation* (or brand image), on the *relationship* with customers and on the desired *response* in the exchange process. Let’s further explore these three Rs.

Marketing manager

Reputation

An organisation develops a certain *reputation* – the image that buyers have of the organisation and its products or brands – through what it does in comparison with competitors. To make a positive impression on the consumer, a company has to do more than simply sell quality products. It also has to offer buyers excellent service in the long run. Once customers are not only satisfied, but also enthusiastic, will they most likely favour the organisation. That is how a company creates a great reputation.

Just as a doctor is valued by a patient when he gives him a prescription and then calls two days later to see how the patient is doing, the company has to do everything it can – through sponsorships, publicity, campaigns or personal contact – to reassure the customer that his confidence in the company is well placed. Appreciation is the basis of a good reputation and creates the climate for a good relationship between the two parties.

Relationship

If most brands of a particular product are equally good, the key question for the buyer is not so much, ‘Which brand do I buy?’ but, ‘Where should I buy it?’ So marketers have to ‘come out from behind their stand’ to show the customer who they really are. What kind of company and what kinds of people are behind the product? Ongoing *interaction* with the customer, which eventually creates a certain loyalty, is indispensable when developing a **relationship**. An interactive website, direct mail with a freepost address and a customer service line are all effective instruments in creating a customer loyalty system.

Relationship

To create a bond with their customers, firms try to expand and deepen their communication with the customer. This increases loyalty. If you are able, for instance, to discuss many different topics with your hair dresser, it is far more difficult to break off your relationship with him.

Response

Today’s consumers are looking for variety; they always want ‘more and better’. As a *variety seeker*, the consumer might drink Heineken on Monday, the inexpensive store brand from his favourite supermarket on Wednesday, and Grolsch bock beer on Friday. The next week he might drink something completely different. This response to the profusion of products on the market makes it more difficult for companies to bring about a process of **exchange** with a set group of customers. However, if a company has created a relationship with the customer based on its reputation, it is likely that the consumer will usually opt for his favourite brand. He won’t just *always* choose the same brand.

Exchange

Ultimately the company tries to get consumers to *respond* to a marketing offer. A feasible objective for the company is to become the market leader for a certain moment of use. For example, a supermarket may try to do this by offering a variety of gourmet rolls and bread on weekends and regular sandwich bread during the rest of

the week. And Nespresso marketers know from their marketing research that many people like to drink one kind of coffee during the day, while at work, and a different kind in the evening. Consumers like variety and they simply choose what suits them best at a particular moment.

In conclusion, marketers who succeed in developing a great reputation and a good relationship with their customers, and do all they can to create a positive response in the exchange process (for example by customising the offer for each customer), increase their chances of long-term success. Their company then enters an upward spiral of being valued by the customer as a supplier (*reputation*), confirmation that the customer was right to appreciate the company (*relationship*) and enhancing the relationship through additional contacts leading to a positive response.

Of course, the creation and exchange of value must be consistent with what the customer expects from the supplier. A butcher might give his customers a small bottle of liqueur as a gift, but this will do little to strengthen his reputation as an excellent butcher. A better idea would be to give customers a piece of superb sausage. Whatever the situation may be, through strategic use of the three Rs, a company can stand out from its less marketing-oriented competitors.

1.5.4 Customer equity

Some companies are determined to increase their sales and profit as quickly as possible. In order to grow, they constantly try to acquire new customers, and end up devoting less time to their existing customers. This weakens their position in the long run. To find the right balance in short term versus long term performance and in new customer acquisitions versus attention paid to existing customers, managers should consider the idea of systematically building customer equity.

Customer equity is the financial value of the relationships the company maintains with its customers. This includes both the profits from first-time customers and the expected profits from future sales to these new and to existing customers. Customer equity can be increased by:

- Reducing the cost of getting new customers
- Retaining more customers longer
- Increasing profits from retained customers by selling them more products at higher margins and with lower marketing costs.⁸

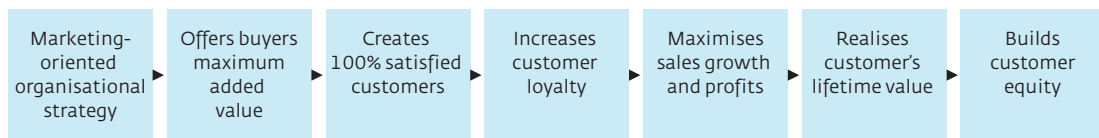
Lifetime value

A company's customer equity is the total *lifetime value* of all customers. The **lifetime value** of an individual customer is the present value of the profits derived from this customer's future purchases from the company. This profit contribution of a loyal customer from repeat sales may be increased – as a result of his recommendations and referrals – by the revenue stream from purchases made by others. One study has estimated that the lifetime value of a loyal pizza customer can be 7,000 euros and of a loyal Mercedes owner, in excess of 300,000 euros.⁹ Facing these numbers, more and more managers realise that losing a customer may result in a far greater loss than the value of a single transaction. Hence, they are trying to develop ongoing relationships with customers, because this leads to **customer loyalty** and a greater customer retention rate.

Customer loyalty

The relationship between marketing strategy and customer loyalty on the one hand and sales, profitability and customer equity on the other is illustrated in Figure 1.14. Loyal customers contribute to increased sales growth and profits because they buy more over time. Also, gaining new customers from their referrals tends to substantially lower the customer acquisition costs. From this perspective, customer equity may be a better measure of a company's marketing performance than its current sales or market share.

Figure 1.14 Increasing customer equity



Customer complaints need to be dealt with properly to satisfy the buyers' needs and to build a good reputation for the company. Unfortunately, many firms underestimate the importance of complaint handling as a marketing tool. The first reaction of those in charge of dealing with complaints is often defensive. What happened? Who was to blame? What should I do about it? In other words, they immediately concentrate on the business side and don't consider the emotional aspects of the problem.

But a complaint usually has a deep emotional element. And that needs to be addressed first. So start by showing a sense of commitment. 'Oh, how awful for you! Tell me more about what happened.' Then explore a possible solution with the customer that is not only clearly in his interest, but also underscores the relationship with the customer. 'What would you prefer? As one of our valued customers, would you be happy if we...?'

Laetitia Radder (Nelson Mandela Metropolitan University)

Laetitia Radder, Professor in Marketing Management at the Nelson Mandela Metropolitan University, South Africa, has published numerous articles on marketing and consumer-related topics in the services, hospitality and tourism industries. Her teaching career in South Africa and – as a visiting professor – in Germany, spans over 20 years.

One of the most exciting developments in global marketing in the next ten years is the rise of the African consumer. Research by McKinsey's Africa Consumer Insights Center portrays the emerging African consumers as young, brand conscious innovators who like to find information online, seek a modern, formal shopping environment and are loyal to products and stores with the right image. The retail, banking, telecommunications and tourism sectors in particular benefit from targeting these African consumers who demand high quality and reasonable prices.

This decade will be characterised by the rise of the African consumer

Entrepreneurs and companies that are new to marketing in Africa can learn from recent South African success stories. For example, Woolworths' marketing success can largely be attributed to 'being a customer-centric business'. The retail chain's increase in market share is the result of its management appealing to customers' needs and wants as defined by lifestyle segments; being brand-

driven; building profitable customer relationships; and taking a leading role in multichannel retailing and communication. The channels on which the company relies include a state-of-the art internet shopping site and social commerce platforms that integrate social media marketing for the convenience of its customers.

The success of Pick n Pay, South Africa's first food discounter, can be ascribed to its marketing principles of offering the best quality, decent prices, good service, appropriate store formats, and distribution channels that meet customers' expectations and evolving needs. Pick 'n Pay is also building strong customer relationships through its Smartshopper rewards programme. This direct marketing programme provides the retail chain with easy access to cardholders by SMS or e-mail, and allows it to obtain direct feedback from customers. The two-way interaction helps the company to get to know and understand its customers, communicate with them in an engaging manner, tailor-make its product ranges, and effectively serve its customers. MTN, one of the leaders in the South African telecommunication industry, provides voice, data and telemetry services to its 20 million domestic customers. Innovation has put MTN at the forefront. For example, the company was the first one to pioneer the pre-paid customer solution and to launch the highly acclaimed MTN Zone, a dynamic tariffing billing system. The company also offers the right products and services that are marketed to well-defined customer categories. In addition, it systematically engages in societal marketing through an extensive greening initiative that reduces its energy consumption; sponsorship of sport and music events; and its involvement in community development programmes.



What is the common denominator in the success of these organisations? They know that successful marketing starts with the marketing concept. They do not equate marketing with selling or advertising, but implement marketing as an integrated process of developing, pricing, promoting and distributing products, services and experiences tailored to the changing needs of consumers, in a socially responsible and sustainable manner. Finally, they conduct marketing research to make sure that what they offer, and how they do so, satisfies their customers' needs and wants. Successful marketers, however, go beyond offering the products, services and experiences consumers

want at prices and locations that appeal to them. They also build long-term relationships with their clients, realising that servicing an existing customer is much more cost effective than trying to find new ones. A customer-centric approach is at the heart of transforming customer interactions into long-term relationships. To this effect, successful marketers know their customers well, regularly obtain and act upon customer feedback, minimise customer attrition, build emotional bonds with their customers and turn them into advocates for the company. This is exactly what companies wanting to capitalise on the potential of the rising market in Africa have to do as well.¹⁰

A complaint is a negative reaction that, with the right marketing strategy, can be transformed into a positive experience. This is illustrated by the Chinese sign for 'crisis', which is made up of two symbols – one means 'threat' and the other 'opportunity'. A complaint is an opportunity; if handled properly in a customer-friendly manner, it will lead to greater customer loyalty.

1.6 Marketing applications and preview of the text

As we saw earlier, companies making everyday consumer products were the first to apply the marketing concept. In this book, too, we will focus mostly on the marketing of **fast moving consumer goods**, such as food products that consumers buy regularly. But the success of **consumer marketing** (in which the supplier concentrates its efforts on the 'end user') showed that marketing also has a great deal to offer for other types of organisations. So in this section we take a brief look at different applications of the marketing concept.

1.6.1 Applications

The fundamental idea behind marketing is universal. In trying to stimulate the exchange process, the key is to start with the market and think backwards, and to always work in a customer-oriented way. This not only applies to consumer marketing, which focuses on private individuals, but also to a target market made up of other companies. This is referred to as **business-to-business marketing** (B2B), and sometimes as *industrial or organisational marketing*. B2B-marketing is discussed in paragraph 4.6.

Because the influence of retailers has increased enormously, many manufacturers now develop a marketing strategy specially geared to retailers that is known as **trade marketing**. The marketing strategy of the retail company itself (such as Albert Heijn), which sells to the consumer, is referred to as **retail marketing**. Both of these subjects will also be covered in more detail later on in this book.

Other important applications of the principles of marketing are:

- **Services marketing**: the marketing strategy of a supplier of intangible services, such as a bank or an insurance company.

Fast moving consumer goods
Consumer marketing

Business-to-business marketing

Trade marketing

Retail marketing

- *International marketing*: marketing activities that are planned domestically and aimed at customers outside of the domestic market.
- *Direct marketing*: a form of marketing in which the supplier not only wants a transaction, but also tries to develop – based on what he knows about potential buyers – an ongoing relationship with them, through direct communication (direct mail, telephone or the Internet) tailored to the individual customer, often followed by direct delivery.
- *Database marketing*: a form of (direct) marketing in which a firm systematically collects and analyses information about customers (for example, about their ordering and buying behaviour) and uses this information, which is stored in a database, to tailor marketing activities and campaigns to individual customers.
- *Demarketing*: a marketing strategy designed to reduce the overall demand ('general demarketing') or the demand of a specific group of customers ('selective demarketing') for a certain product either temporarily or permanently, for example to avoid increasing production capacity, when working with scarce resources (like tropical hardwood) or to prevent environmental pollution (use of cars).
- *Internal marketing*: marketing activities aimed at part of a company's own organisation, for instance because certain business units do business with each another, or because management wishes to communicate to its own workforce what it is trying to achieve 'externally' and what it is promising customers.
- *Non-profit marketing*: the marketing strategy of organisations without profit objectives (also known as *not-for-profit marketing*).

All but the last application make sense in terms of for-profit businesses, but what does marketing have to offer non-profit organisations?

1.6.2 Non-profit marketing

Although marketing is usually associated with business activities, organisations without a profit motive – such as educational institutions, libraries, museums, hospitals, religious groups and charities – can also apply the principles of marketing to their advantage. Just like corporations, they also need money and other resources to achieve their goals and survive in a competitive market. Their long-term success is not measured by profits, but by the benefits they provide as well as by the support they get from donors and volunteers.

Unfortunately, recent scandals have undermined the consumer's faith in some good causes. At the same time, government subsidies have decreased. Their declining income has prompted charitable organisations to engage in **non-profit marketing**. They develop professional consumer campaigns or tap new donors through *corporate sponsorship*.

Quite a few charities have turned to the business sector to find interested companies to support them. For instance, ING sponsors the Museum of Modern Art in New York as well as Amsterdam's Rijksmuseum, while Essent sponsors the WWF (World Wildlife Fund) Netherlands. Through this alliance, the WWF is not only boosting its financial resources, but also trying to influence corporate strategy, in this case by promoting, together with Essent, the use of green energy.¹¹

This kind of cooperation can also be profitable for the sponsoring company. Research shows that consumers see a collaborative partnership with a charitable organisation as evidence of corporate social responsibility. They often turn this approval into action by purchasing the company's products. Because many consumers are also prepared to penalise a lack of corporate social responsibility by boycotting products or by negative word-of-mouth, the added value of corporate social responsibility is significant.

Non-profit marketing

However, not all collaboration between a company or brand and a charitable organisation is fruitful. For a good fit, both organisations should have the same supporters or target market. If a company wants to win the hearts and gain the confidence of a certain group of consumers, it has to tie in with the ideals of the people in this market segment. And we know what their ideals are if we know what charities they support. For example, the target market of Renault and the Amnesty International supporters appear to form a good match.

If a charity knows what products its supporters use and how they perceive certain brands, it can deliberately approach a company that stands to gain most added value from such an alliance – and may therefore be willing to invest more (or to make more concessions in terms of its strategy). This can also work the other way around. If a company is aware of what charities its target market supports, it can plan its *corporate sponsorship* accordingly, thereby making its marketing efforts a noble pursuit.

Not-for-profit organisations other than charities benefit from applying the marketing concept as well. Simply being devoted to ‘a good cause’ in an idealistic way will not generate income. Any highly competitive market needs to be analysed on a regular basis – through marketing research – to identify market segments and learn about the attitudes, needs and behaviour of consumers. The product or service that the non-profit organisation offers – possibly in different versions – must tie in closely with the characteristics of the selected target markets. We also need to decide whether each target market warrants a separate marketing and communication strategy. Think for example of colleges and universities that offer different courses for full-time and evening students. So, just like profit seeking companies, all non-profit organisations have to be marketing-driven to survive and, among competitors, to expand their market share.

1.6.3 The need to study marketing

Marketing is a fascinating subject that affects everybody, but unfortunately, almost everybody also seems to think that they know a lot about it. Although marketing skills, now more than ever, are in high demand, few people have a clear understanding of the real nature of marketing.

There are plenty of good reasons to take the study of the subject of marketing seriously. First of all, more and more organisations are adopting a marketing-oriented approach. This trend in corporate culture provides many interesting *career opportunities* for (future) marketing managers. But even those who do not work in marketing-related positions are likely to interact with marketers involved in, for example, product planning, marketing research, advertising or distribution. Therefore it is essential to be aware of the principles of marketing. Furthermore, almost everyone who works in an organisation has to deal with demanding *customers*. This is another sound argument for being familiar with marketing fundamentals and for adopting the mindset of a marketing-oriented manager. Knowing about the theory of marketing is like having a driver’s license: you have to get one, but after that you have to put the knowledge into practice in order to realise its full benefits.

Since as *consumers*, we interact daily with the marketplace, it is important to understand both the market system and what individual firms are trying to accomplish. For example, does it make sense to put off buying a tablet, now these products are becoming increasingly advanced and their prices are dropping? As consumers, are we better off cutting out the middleman by buying directly from the manufacturer through the Internet? If a retailer is not responding to our complaints, how do we exercise our rights? By exploring these and many other questions in the chapters to come, we will hopefully become more informed and intelligent consumers.

1.6.4 A preview of the text

Although by now we have a general idea of what marketing is all about, we cannot immediately start deciding on how to best use the marketing instruments. In reality, managers first figure out which market segments to target and establish their objectives in each submarket. Since these decisions are based on both the corporate strategy and information about the market – including the competition and customers' buying behaviour – we need to cover these subjects before we proceed. Only then can we work out the marketing mix.

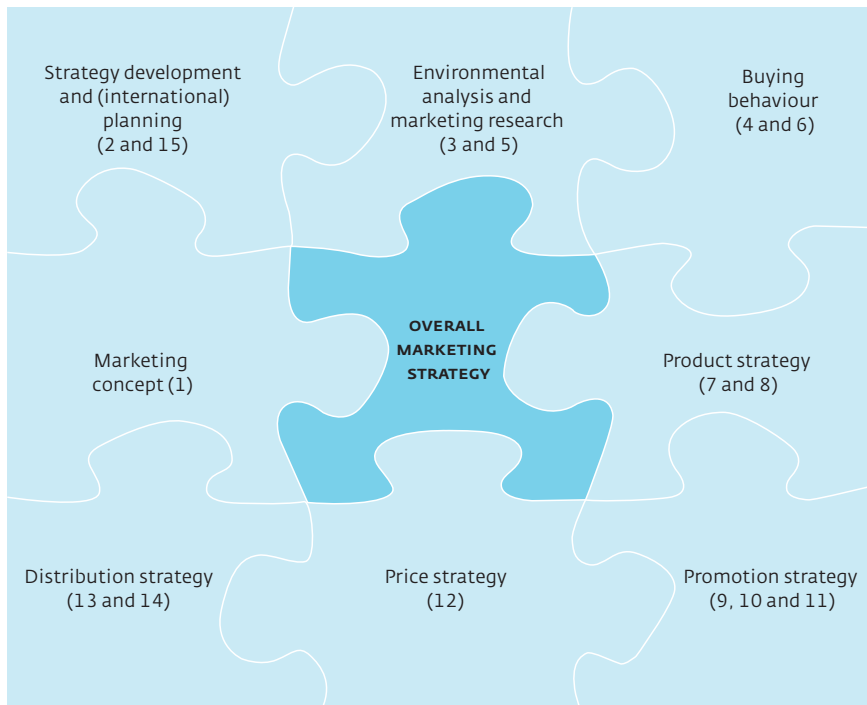
The sequence in which subjects are discussed in *Marketing Fundamentals: An International Perspective* is generally the same order in which marketing managers address them on the job. Figure 1.15 shows which subjects are covered in what chapters.

The remaining chapters in Part 1 look at an effective system of marketing planning and strategy development. We will then consider the environment – at the meso and macro levels – in which the firm operates. These include environmental forces beyond the control of the marketing manager, as well as situations that can be influenced in order to market products and services profitably.

Part 2 discusses the analysis of the market. We will explore the buying behaviour of customers in the consumer and in the business-to-business market, and compare the most widely used methods of marketing research. Chapter 6 offers advice on how to segment the market, how to select the right target market and how to develop a successful product positioning strategy.

The next four parts examine the key marketing ingredients: product, promotion, pricing and distribution. Here, we will also look at recent developments in marketing and at techniques that companies apply to plot their marketing strategies. Finally, Chapter 15 investigates international marketing planning, the global marketing environment and strategies to enter foreign markets.

Figure 1.15 How the various components of marketing fit together.



Summary

1 Fundamentals of marketing

There is more interest in marketing than ever before. Faced with increasing competition, companies realise that their primary objective is to *anticipate and satisfy the needs and wants* of their customers. If they fail, unsatisfied buyers will switch to a competitor. Thus, for most organisations, effective marketing is indispensable.

Marketing is not the same thing as advertising, or a 'clever' way of selling products. Advertising and selling are important marketing instruments, but marketing involves a lot more than that. It includes virtually all of the activities that bring the buyer and the seller closer together in the exchange process. Many individuals in an organisation contribute to this goal. For instance, one of the main tasks in marketing is to find a 'gap in the market,' by identifying unfulfilled needs and wants of a group of buyers. Once the marketer knows his *target market's* precise interests, he can appeal to that market with the right product, combined with an appropriate pricing, distribution and communication strategy. The more closely the *marketing mix* is tailored to the desires of the customer, the greater the chance of success in a competitive market.

2 Macro-, meso- and micromarketing

Marketing can be studied at different levels. The macro and meso level are the domain of *society* and the *business sector* respectively. In this book we will be concentrating on micromarketing: the marketing strategy of an organisation, from the point of view of a manager who has to make effective decisions. This is also known as the *marketing management* approach.

3 Historical development of marketing thought

The development of marketing thought was preceded by the *production-, product- and selling-orientation*: management philosophies that most industries embraced during the 20th century. Under a *marketing orientation*, business decisions are based on the customer, rather than on the company and its products. The company has to satisfy the needs and wants of

its customers as effectively as possible. This fundamental idea of marketing is known as the marketing concept.

4 The marketing concept

Under the *marketing concept*, the primary aim of a company is to discover and satisfy the needs and wants of the buyer, developing an ongoing relationship with him and helping to solve the customer's problems in a profitable way. Marketing is therefore a *demand- or consumer-oriented* activity, which makes it necessary to 'think backwards from the market', and requires extensive marketing research.

In implementing this philosophy of management, rather than being carried out in isolation, promotion, pricing, distribution and other marketing activities are treated as part of an integrated marketing strategy and are discussed as such in a *marketing plan*. All marketing functions – from marketing research and product development to analysing the competition and evaluating the customer's reaction to the product range – are *aligned* with one another. Finally, implementation of the marketing concept requires a broad definition of the firm's mission, expressed in terms of *needs*, rather than products. This will make it more likely that the company will regularly adapt to meet the changing preferences in the market.

5 Reputation, relationship and response

Most organisations are finding it increasingly difficult to develop a unique marketing mix that is better than that of their competitors. Nevertheless, a firm can stand out on the basis of the three – overlapping – Rs: its *reputation*, its *relationship* with the customers and systematically creating the desired *response*. These factors are the key to success in the marketing strategy of the 21st century. However, the selection of the right target market and a constant analysis of unfulfilled needs, wants and demand are equally important. In short, a shrewd and consistent implementation of the *four Ps* and the *three Rs* makes it possible to carefully tailor corporate policy to the market – to the advantage of suppliers and customers alike.

6 Marketing in practice

Marketers spend a great deal of time identifying and analysing the needs and wants of their customers and prospects. Armed with this information they are able to develop and – with the right strategy – market attractive products, in line with the attitudes and the behaviour of the target market. This increases their market share. As pointed out in Chapter 1, this approach is not only essential for companies that are competing with others, but also offers helpful leads for non-profit organisations. Therefore, it's crucial to have a clear insight into the *fundamentals of marketing*.

Note:

A thousand definitions at a glance

All of the terms printed in **bold** and in the margins of this book are listed alphabetically and defined in *Verhage's Glossary* on the companion website to this book (www.verhage.noordhoff.nl), as well as in the order in which they appear by individual chapter.

Discussion questions

- 1 How would you explain the nature of marketing to someone who is not familiar with the subject?
- 2 Many people do not know exactly what marketing involves. This is clear from the following statements:
 - Marketing is simply another word for selling.
 - The main objective of marketing is to get people to buy products they don't really want or need.
 - Marketing only makes sense if supply exceeds demand.
 - Marketing is less important than the company's other activities.If you were talking to someone who made such a comment, how would you respond?
- 3 How – in the context of the societal marketing concept – could a business that makes soft drinks achieve (for example in its packaging) an optimal balance between the interests of the consumer, society and its own continued existence?
- 4
 - a During the course of the 20th century what were the factors that influenced the shift in emphasis from a production-orientation to a selling-orientation?
 - b Many companies were once production-oriented, and even at the start of the 21st century there are still some organisations that do not adopt a marketing-oriented approach. How would you explain this?
- 5 List some of the arguments you would use to convince the executives of a company that does not adopt a marketing-oriented approach that the marketing concept is essential for sound management.
- 6 Why, despite the implementation of the marketing concept, are there still so many unsuccessful products?
- 7 What do you think is the most innovative development in marketing in recent years, and why?
- 8 Has the institute at which you are studying adopted a marketing-oriented approach? Describe the four marketing instruments of this organisation.
- 9 The Internet is not only a new medium; it is also regarded as a new marketing instrument. How can the Internet play an important role in marketing? Give some examples.
- 10 Make a short questionnaire (of approximately five questions) to measure the extent to which a company succeeds in satisfying its customers.