MARKETING: THE FUNDAMENTALS

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INTRODUCTION

1.

"Marketing is too important to be left to the marketing department."

DAVID PACKARD
(CO-FOUNDER OF HEWLETT-PACKARD)

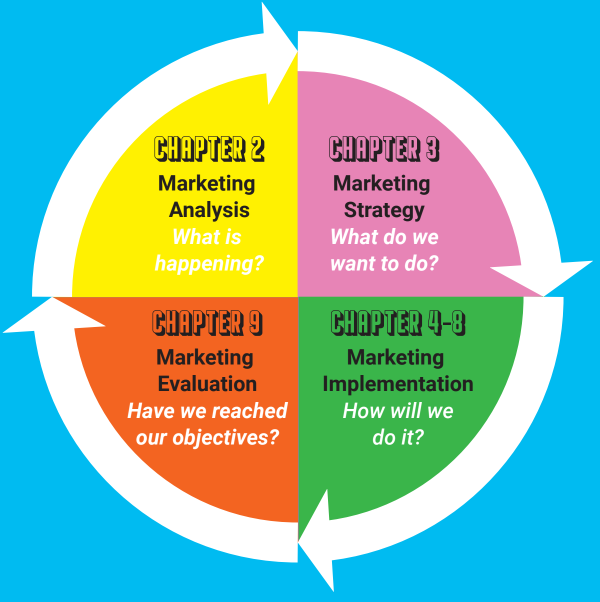
WHAT

Marketing refers to "the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large". (American Marketing Association)

WHY

Marketing, seen as a value-focused mindset, is vital for organizational success. Marketing is critical to attract new customers and maintain and develop relationships with existing customers by offering products that match their needs and wants. In this way, marketing is the core driver of any organization's financial success and overall worth.

HOW



LEARNING OBJECTIVES

- Understand what marketing entails
- Understand the concept 'value' and its importance
- Understand why marketing matters
- Explain the evolution of marketing
- Understand the different steps of the marketing cycle

1.1 WHAT IS MARKETING?

Is marketing just a department of the organization? Or is it a mindset? Actually, it can be both. While some organizations still have a functional view on marketing and consider marketing as a department that is responsible for functional tasks such as advertising and price promotions, other – more customer-centric – organizations take a strategic view and consider marketing as a mindset that emphasizes that the organization can only be successful if it satisfies the needs and wants of customers and other stakeholders.[1] This book focuses on the latter view: holding everyone in the organization co-responsible for marketing.

This strategic view on marketing is reflected in the definition of the American Marketing Association which defines marketing as "the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large".[2]

This implies that marketing is all about 'value'. Indeed, the modern marketing concept recognizes that marketing is only meaningful when it purposefully creates value for customers and other stakeholders.

But what is value? A dominant view is that value reflects a trade-off between the benefits and costs perceived by the beneficiary.[3] The beneficiary can be the organization itself, the customer, but also other stakeholders such as employees, investors, or the community. Importantly, value is always determined by the beneficiary itself.[4] Although this book recognizes that value should be created for all stakeholders involved, it mainly focuses on customers. Customers are a key beneficiary of the organization since they are key to organizational success. As stated by Sam Walton (founder of Walmart): "There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else."

When focusing on value for the customer, we use the term **customer value** which involves the trade-off between the benefits and costs perceived by the customer.[5] The benefits are the positive aspects related to the product, while the costs involve the negative aspects. Table 1.1 provides an overview of value types that reflect potential benefits and costs. It should be noted that not all value types listed in Table 1.1 are relevant for every product.

	VALUE TYPE	DESCRIPTION
BENEFITS		**Choosing/using the product…**
	Convenience	is easy and hassle-free.
	Excellence	is of outstanding quality.
	Status	makes a positive impression on other people.
	Self-esteem	has a positive effect on how the customer sees themselves.
	Enjoyment	is fun and pleasant.
	Aesthetics	is appealing in terms of design and atmospheric aspects such as color, layout, etc.
	Escapism	allows the customer to relax and escape daily life.
	Personalization	can be adapted to the needs, wants, taste, … of the individual customer.
	Control	can be influenced by the customer.
	Novelty	triggers curiosity.
	Relational benefits	enhances the customer's relationship with the organization.
	Social benefits	enhances the customer's relationship with other customers.
	Ecological benefits	has a positive influence on the environment.
	Societal benefits	has a positive influence on society.

	VALUE TYPE	DESCRIPTION
COSTS	Price	costs a lot of money.
	Time	costs a lot of time.
	Effort	costs a lot of effort.
	Privacy risk	may lead to a loss of privacy.
	Security risk	may lead to security issues in terms of losing personal data to criminals.
	Performance risk	may lead to performance issues because the product does not perform as intended.
	Financial risk	may lead to a loss of money.
	Physical risk	may cause injuries or health problems.
	Ecological costs	has a negative influence on the environment.
	Societal costs	has a negative influence on society.

Table 1.1 Overview of value types (adapted from Leroi-Werelds, 2019)

Furthermore, it is crucial to understand from the start that in marketing, the term product is used in a broad way. It refers to any (physical or digital) good and/or service that a customer can acquire, use and/or consume to satisfy their wants and needs (see Chapter 4 for more details).

Customer value is a fundamental concept within marketing for at least two key reasons. First, customer value influences customers' decision-making. For instance, when a customer wants to buy a car, they assess the expected value – in terms of benefits and costs – of alternative cars. Benefits are the positive aspects related to using the car, such as whether it is enjoyable to drive, looks good and is convenient to use. Costs are the negative aspects related to using the car, such as its price, the costs related to fuel consumption and its delivery time.

Based on the trade-off between the expected benefits and costs, the customer decides and chooses which car to buy. Second, customer value has an impact on the customer's evaluative judgments such as customer satisfaction and loyalty, which drive the success of the organization. For instance, after the customer has bought a particular car and uses it, they evaluate the realized benefits and costs, which impacts the extent to which they are satisfied with the car. Overall, customer value is thus crucial in the pre-purchase as well as post-purchase phase and impacts organizational success.[6]

1.2 WHY IS MARKETING RELEVANT?

Taking the perspective of 'marketing as a mindset' that focuses on the creation of value, marketing can be considered crucial for organizational success for a variety of reasons.

First, marketing is essential to attract new customers, as it underlies developing and signaling the existence of products that align with customer needs and wants. To do so, good marketing builds on deep insights of the customer base and the organizational environment.

Second, marketing is crucial to keep existing customers happy and build long-lasting relationships. An organization that enables value will be able to maintain a strong and loyal customer base, and thus increase its own financial performance and worth.

Finally, marketing is the primary source of revenues. Without good marketing, there will be no customers. Without customers, there will be no revenue.[7] If the organization invests in creating value for customers, value for the organization will follow.

1.3 THE ROLE OF MARKETING IN THE ORGANIZATION

Although the modern marketing concept focuses on value creation and satisfying the needs and wants of customers and other stakeholders, not every organization looks at marketing from this strategic point of view. The role of marketing within the organization depends on the so-called **management orientation** of the organization. The management orientation can be considered a philosophy that determines how the organization looks at customers and itself. We can distinguish five key management orientations (see Table 1.2).

When the organization has either a **production** or **product orientation**, it mainly takes an internal perspective and focuses on its internal processes, capabilities, and innovations. In these cases, marketing is often considered a function that is used to bring products to the market. When the organization has a **sales orientation**, it also takes an internal perspective and the function of marketing is to 'push' products to the market by means of aggressive selling and promotions. The focus is on transactions and selling whatever the organization offers rather than offering what customers want. These three orientations are based on product centricity (see Table 1.3). This can lead to marketing myopia, which refers to the error of focusing too much on the products of the organization instead of focusing on the needs and wants of customers. For instance, an organization that has a product orientation has the risk of focusing too much on improving the technical specifications and features of its products, and may lose sight of its customers and their (evolving) needs and wants. This is also referred to as the 'better mousetrap fallacy'. there may be an incorrect belief that if an organization produces a technically better product than its competitors, it will be preferred by customers.

A **marketing orientation**, on the other hand, takes a strategic view on marketing and is often referred to as customer centricity. Customer centricity is based on the notion of mutual value creation. Specifically, the essence of customer centricity is the creation of value for customers and, in the process, creating value for the organization.[8] Table 1.3 provides a brief overview of the differences between product and customer centricity.

The **societal marketing orientation** builds on the marketing orientation and goes a step further by also including the societal role of the organization. The organization thus focuses on the creation of value for customers, while also striving for the creation of so-called 'transformative value'.

MANAGEMENT ORIENTATION	STARTING POINT	FOCUS OF ORGANIZATION
Production orientation	Customers prefer products that are available and affordable.	The organization focuses on internal capabilities to enhance productivity and efficiency.
Product orientation	Customers prefer products that have the highest quality and performance. They are looking for innovative functions and features.	The organization focuses on innovation and adding new functions and features.
Sales orientation	Customers only buy in case of aggressive selling and promotions from the organization.	The organization focuses on aggressive selling and promotions.
Marketing orientation	Customers prefer products that satisfy their needs and wants. They decide and evaluate based on the value of products.	The organization focuses on understanding customers' needs and wants. It focuses on creating customer value.
Societal marketing orientation	Although customers prefer products that satisfy their needs and wants, organizations should also consider societal well-being in the short and long term.	The organization focuses on understanding customers' needs and wants, but also considers the well-being of society. It focuses on customer value as well as societal value.

Table 1.2 Management orientations

	PRODUCT CENTRICITY	CUSTOMER CENTRICITY
Philosophy	Sell products	Serve customers
Approach	Short-term transactions	Long-term relationships with customers
Focus	Internally focused: focus on the organization and what it can do	Externally focused: focus on customers and their needs and wants
Marketing	Marketing as a function	Marketing as a mindset
Profit	Profit based on selling large volumes	Profit based on creating value for customers and building relationships with them

Table 1.3 Key differences product versus customer centricity

Transformative value involves enhancing the lives of individuals, families, communities, and/or society at large.[9] For instance, Tony's Chocolonely strives for 100% slave-free chocolate and Patagonia engages itself to save our planet. The societal marketing orientation thus relates to concepts such as sustainability and corporate social responsibility. When specifically related to environmental issues, the term green marketing is also used.

In light of a societal marketing orientation, business leaders are preaching the concept of creating shared value which involves addressing societal issues with a business model. The organization thus increases its own economic/business value while *simultaneously* creating societal value. For instance, a coffee company can collaborate with a community of coffee farmers to improve their growing techniques. This enhances the quantity and quality of their yield and decreases water consumption. This creates value, not only for the farmers' community and the larger society, but also for the coffee company itself because it guarantees a steady supply of high-quality coffee. Overall, creating shared value is a business discipline where the organization uses its core business to create a transformative impact while at the same time enhancing its competitiveness.[10]

1.4 THE EVOLUTION OF MARKETING: FROM MARKETING 1.0 TO MARKETING 5.0

The role and focus of marketing not only differs between organizations, but it also evolved over time. Specifically, evolutions in the business world, as well as in the larger society, have influenced the meaning of marketing. We can discern five (overlapping) stages:[11]

- **Marketing 1.0** (1950-1990) focused on product-centric marketing and selling what organizations thought was the 'perfect' product in terms of features and technical specifications. This approach was informed by the Industrial Revolution.
- **Marketing 2.0** (1980-2010) shifted the focus from product-centric to customer-centric marketing. Organizations understood that they had to focus on customers' needs and wants.
- **Marketing 3.0** (2000-2020) builds upon the previous stage but also emphasized human centricity by not only focusing on customers, but also on society as a whole. Organizations thus embrace a societal marketing orientation and proactively address societal and environmental challenges.
- **Marketing 4.0** (2010-2030) builds upon the previous stage but takes the evolution a step further by embracing digital technologies to enhance the customer experience and using social media to build relationships with customers.
- **Marketing 5.0** (2020-...) builds upon Marketing 4.0 but focuses on the value of new technologies such as Artificial Intelligence, Robots, Augmented Reality, Virtual Reality, and Internet of Things. These technologies enable marketing to be more data-driven and more agile. Data-driven marketing implies that marketing can use data to optimize marketing decisions. Agile marketing implies that the organization can react quickly to changes in the marketplace.

1.5 MARKETING IN VARIOUS TYPES OF ORGANIZATIONS

Marketing plays a role in *every* organization, whether it is a university, a bank, a store, a hospital, or a large production company. The basic notions of marketing stay the same and all organizations benefit from a focus on creating value. However, marketing theory and practice refer to different kinds of marketing based on the type of organization and customers. We briefly describe five of them: business-to-consumer marketing, business-to-business marketing, business-to-government marketing, non-profit marketing and social marketing. In the remainder of this book, the focus is mostly on business-to-consumer marketing, although the majority of insights are applicable or can be translated to the other ones.

Business-to-consumer (BtoC) marketing involves marketing in the context of products that are bought by individuals or households for personal consumption. These consumer products are bought to satisfy personal needs and wants. For instance, Samsung uses BtoC marketing when offering smartphones which are bought by individuals for their own usage.

Business-to-business (BtoB) or **industrial marketing** relates to marketing in the context of products that are bought by other firms. These firms buy industrial products for two main reasons: (1) to produce other products or (2) to facilitate their own operations. For instance, BMW buys airbags from an airbag manufacturer to use them in its own production process, but it also buys laptops for its employees which are used in daily activities.

Business-to-government (BtoG) marketing involves marketing linked to products that are bought by governmental bodies. These organizations typically operate in a highly regulated context where procurement policies and procedures are common. A local government that wants to purchase computers, printers, and other equipment, for instance, may be obliged to publish this ambition via a public tender.

Non-profit marketing is used by non-profit organizations such as charity organizations and social enterprises. These organizations can sell products – for instance to raise money for a good cause – but they can also use marketing to attract volunteers, encourage donations or raise awareness. For instance, the Red Cross uses marketing to encourage donations and attract volunteers, but it also sells products to raise money for its operations.

Social marketing involves the use of marketing to influence individuals' behavior in order to improve individual and/or societal well-being. For instance, the government can use social marketing to stimulate people to wear a seatbelt in the car, and the WWF can stimulate people to reduce their water consumption at home.

1.6 THE MARKETING CYCLE

If an organization wants to focus on the creation of value for customers and other stakeholders, a multi-step journey is critical. First, any organization should start building a thorough understanding of their customers' needs and wants, as well as of the context in which they are embedded. Hence, **marketing analysis** is needed to gather relevant insights to support marketing decisions (see Chapter 2). These insights can then be used to develop a **marketing strategy**. This involves the planning of actions and activities to build a sustainable differential advantage by creating a distinctive and meaningful position in the minds of target customers and other stakeholders (see Chapter 3). In the consecutive **marketing implementation** phase, the marketing strategy is translated into a marketing mix. This refers to the set of marketing instruments that work together to attract customers, satisfy their needs and wants, and build relationships with them. The most important marketing instruments – which can be referred to as the 5 Ps – are Product (Chapter 4), Promotion (Chapter 5), Place (Chapter 6), Price (Chapter 7), and People (Chapter 8). Finally, the organization needs to **evaluate its marketing performance** (Chapter 9). This implies the organization assessing its performance in terms of reaching specific objectives related to the marketing strategy and marketing implementation. These four steps form a never-ending cycle of analyzing, strategizing, implementing, and evaluating (see Figure 1.1). These four steps are the foundation of the rest of this book.

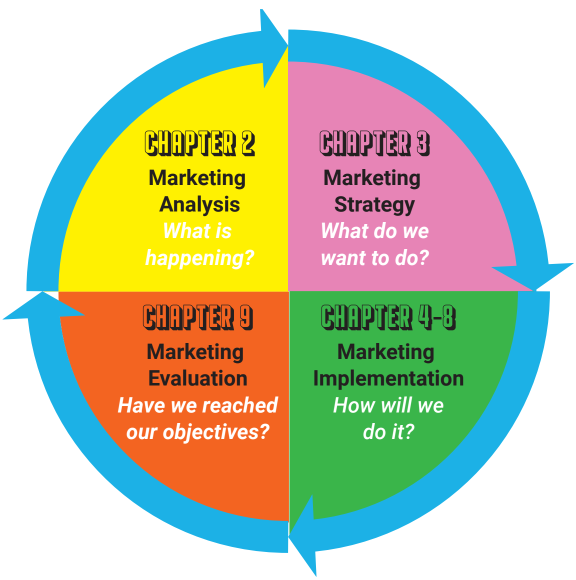


Figure 1.1 The marketing cycle

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