Discover our new Devil Curry sauce from Sri Lanka. Fiery red peppers and slices of onion are blended with a scattering of nutty curry leaves and eye watering mustard seeds to create a light but devilishly hot dish. Try if you dare. Experience all six new exotic sauces from Sharwood's. For true curry connoisseurs.
Fundamentals of Modern Marketing Thought

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Management must think of itself not as producing products, but as providing customer-creating value satisfactions. It must push this idea (and everything it means and requires) into every nook and cranny of the organization. It has to do this continuously and with the kind of flair that excites and stimulates the people in it.

THEODORE LEVITT

LEARNING OBJECTIVES

After reading this chapter, you should be able to:

1. define the marketing concept and identify its key components and limitations
2. compare a production orientation and a marketing orientation
3. differentiate between the characteristics of market-driven and internally driven businesses
4. compare the roles of efficiency and effectiveness in achieving corporate success
5. describe how to create customer value and satisfaction
6. describe how an effective marketing mix is designed
7. discuss the criticisms of the 4-Ps approach to marketing management
8. explain the relationship between marketing characteristics, market orientation and business performance
In general, marketing has a bad press. Phrases like 'marketing gimmicks', 'marketing ploys' and 'marketing tricks' abound. The result is that marketing is condemned by association. Yet this is unfortunate and unfair because the essence of marketing is value not trickery. Successful companies rely on customers returning to repurchase; the goal of marketing is long-term satisfaction, not short-term deception. This theme is reinforced by the writings of top management consultant, the late Peter Drucker, who stated:\(^1\)

> Because the purpose of business is to create and keep customers, it has only two central functions—marketing and innovation. The basic function of marketing is to attract and retain customers at a profit.

What can we learn from this statement? First, it places marketing in a central role for business success since it is concerned with the creation and retention of customers. Second, it implies that the purpose of marketing is not to chase any customer at any price. Drucker used profit as a criterion. While profit may be used by many commercial organizations, in the non-profit sector other criteria might be used such as social deprivation or hunger. Many of the concepts, principles and techniques described in this book are as applicable to Action Aid as to Renault.

Third, it is a reality of commercial life that it is much more expensive to attract new customers than to retain existing ones. Indeed, the costs of attracting a new customer have been found to be up to six times higher than the costs of retaining old ones.\(^2\) Consequently marketing-orientated companies recognize the importance of building relationships with customers by providing satisfaction and attracting new customers by creating added value. Grönroos has stressed the importance of relationship building in his definition of marketing in which he describes the objective of marketing as to establish, develop and commercialize long-term customer relationships so that the objectives of the parties involved are met.\(^3\) Finally, since most markets are characterized by strong competition, the statement also suggests the need to monitor and understand competitors, since it is to rivals that customers will turn if their needs are not being met.

Marketing exists through exchanges. **Exchange** is the act or process of receiving something from someone by giving something in return. The 'something' could be a physical good, service, idea or money. Money facilitates exchanges so that people can concentrate on working at things they are good at, earn money (itself an exchange) and spend it on products that someone else has supplied. The objective is for all parties in the exchange to feel satisfied so each party exchanges something of less value to them than that which is received. The idea of satisfaction is particularly important to suppliers of products because satisfied customers are more likely to return to buy more products than dissatisfied ones. Hence, the notion of customer satisfaction as the central pillar of marketing is fundamental to the creation of a stream of exchanges upon which commercial success depends.

The rest of this chapter will examine some of these ideas in more detail and provide an introduction to how marketing can create customer value and satisfaction.

The above discussion introduces the notion of the marketing concept—that is, that companies achieve their profit and other objectives by satisfying (even delighting) customers.\(^4\) This is the traditional idea underlying marketing. However, it neglects a fundamental aspect of commercial life: competition. The traditional marketing concept is a necessary but not a sufficient condition for corporate achievement. To achieve success, companies must go further than mere customer satisfaction; they must do better than the competition. Many also-ran products on the market could have been world-beaters in the mid-1990s. The difference is competition. The modern **marketing concept** can be expressed as:
The achievement of corporate goals through meeting and exceeding customer needs and expectations better than the competition.

To apply this concept, three conditions should be met. First, company activities should be focused upon providing customer satisfaction rather than, for example, producer convenience. This is not an easy condition to meet. Second, the achievement of customer satisfaction relies on integrated effort. The responsibility for the implementation of the concept lies not just within the marketing department. The belief that customer needs are central to the operation of a company should run right through production, finance, research and development, engineering and other departments. The role of the marketing department is to play product champion for the concept and to coordinate activities. But the concept is a business philosophy not a departmental duty. Finally, for integrated effort to come about, management must believe that corporate goals can be achieved through satisfied customers (see Fig. 1.1).

There is no guarantee that all companies will adopt a marketing orientation. A competing philosophy is production orientation.* This is represented by an inward-looking stance that can easily arise given that many employees spend their working day at the point of production.

Production orientation manifests itself in two ways. First, management becomes cost-focused. It believes that the central focus of its job is to attain economies of scale by producing a limited range of products (at the limit, just one) in a form that minimizes production costs. Henry Ford is usually given as an example of a production-orientated manager because he built just one car in one colour—the black Model T—in order to minimize costs. However, this is unfair to Mr Ford since his objective was customer satisfaction: bringing the car to new

*This, of course, is not the only alternative business philosophy. For example, companies can be financially or sales orientated. If financially orientated, companies focus on short-term returns, basing decisions more on financial ratios than customer value; and sales-orientated companies emphasize sales push rather than adaptation to customer needs. Some textbooks even allude to the existence of eras of business orientation—production, product, selling and marketing—each with its own time zone, and this has entered marketing folklore. However, research has shown that such a sequence is based on the flimsiest of evidence and is oversimplified and misleading. We shall concentrate on the fundamental difference in corporate outlook: marketing versus production orientation.
market segments through low prices. The real production-orientated manager has no such virtues. The objective is cost reduction for its own sake, an objective at least partially fuelled by the greater comfort and convenience that comes from producing a narrow product range.

The second way in which production orientation reveals itself is in the belief that the business should be defined in terms of its production facilities. Levitt has cited the example of film companies defining their business in terms of the product produced, which meant they were slow to respond when the demand to watch cinema films declined in the face of increasing competition for people’s leisure time. Had they defined their business in marketing terms—entertainment—they may have perceived television as an opportunity rather than a threat.

Figure 1.2 illustrates production orientation in its crudest form. The focus is on current production capabilities that define the business mission. The purpose of the organization is to manufacture products and aggressively sell them to unsuspecting customers. A classic example of the catastrophe that can happen when this philosophy drives a company is that of Pollitt and Wigsell, a steam engine producer that sold its products to the textile industry. It made the finest steam engine available and the company grew to employ over 1000 people on a 30-acre (12-hectare) site. Its focus was on steam engine production, so when the electric motor superseded the earlier technology it failed to respond. The 30-acre site is now a housing estate. Contrast the fortunes of Pollitt and Wigsell with another company operating in the textile industry at about the same time. This company made looms and achieved great success when it launched the type G power loom, which allowed one person to oversee 50 machines. Rather than defining its business as a power loom producer, the company adopted a marketing orientation and sought new opportunities in emerging markets. In 1929 the type G power loom patent was sold to fund the creation of a car division. The company was Toyota.

Marketing-orientated companies focus on customer needs. Change is recognized as endemic and adaptation considered to be the Darwinian condition for survival. Changing needs present potential market opportunities, which drive the company. For example, the change towards ethical consumption has created opportunities for existing companies, such as Nestlé’s launch of Partners’ Blend, as well as opportunities for the creation and growth of new companies such as Cafédirect. Within the boundaries of their distinctive competences market-driven companies seek to adapt their product and service offerings to the demands of current and latent markets. This orientation is shown in Figure 1.3.

Marketing-orientated companies get close to their customers so that they understand their needs and problems. For example, Dürr AG, the German paint and assembly systems
A deeper understanding of the marketing concept can be gained by contrasting in detail a market-driven business with one that is internally orientated. Table 1.1 summarizes the key differences.

Market-driven companies display customer concern throughout the business. All departments recognize the importance of the customer to the success of the business. Nestlé, for example, has placed the customer at the centre of its business philosophy by giving the company’s head of marketing responsibility for the company’s seven strategic business units. Marketers also control strategy, research and development, and production. In internally focused businesses convenience comes first. If what the customer wants is inconvenient to produce, excuses are made to avoid giving it.

Market-driven businesses know how their products and services are being evaluated against those of the competition. They understand the choice criteria that customers are using and ensure that their marketing mix matches those criteria better than that of the competition.

Businesses that are driven by the market base their segmentation analyses on customer differences that have implications for marketing strategy. Businesses that are focused internally segment by product (e.g. large bulldozers versus small bulldozers) and consequently are vulnerable when customers’ requirements change.

A key feature of market-driven businesses is their recognition that marketing research expenditure is an investment that can yield rich rewards through better customer understanding. We saw in Marketing in Action 1.1 how Toyota based its new marketing strategy on a customer research survey. Internally driven businesses see marketing research as a non-productive intangible and prefer to rely on anecdotes and received wisdom. Market-orientated businesses...
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Marketing Orientation Brings Success to Toyota

Toyota GB is the national sales and marketing company responsible for sales and after-sales service for Toyota cars and commercial vehicles in the UK. Its success is reflected in sales growth in every year since 1992 until the onset of the economic recession. Despite a consistent upward trend, the decade has seen the implementation of two fundamentally different philosophies. From 1992 to 1997, Toyota’s market share grew from 2.6 per cent to 3.3 per cent as a result of a ‘push’ strategy fuelled by the achievement of short-term sales targets and focused on selling low-cost Japanese-designed cars. The approach was supported by a major tactical incentive programme but with little marketing or brand investment.

Despite this short-term success, Toyota GB management considered the strategy unsustainable as low-price competitors began to match its offer, resulting in lower profit margins.

Based on a major customer research survey, the company began to be marketing led. The brand values of Toyota cars were mapped out, and the emphasis moved from the aggressive selling of cars to understanding what the Toyota brand meant to customers and how the company could better meet their needs. The marketing research budget was increased by a factor of four and the company worked much more closely with its Japanese parent and European cousin to ensure that new models were aligned more effectively to the requirements of the European customer. One consequence of this is the successful launch of the European-designed Yaris. Other aspects of marketing changed too: expenditure was moved from tactical incentives to media advertising (‘Today, Tomorrow, Toyota’) and Toyota GB worked with its dealers to transfer the new values and culture to the car showroom.

Toyota GB has also improved the service it provides for its customers. With an average owner’s purchase cycle of about 3.7 years and lengthening intervals between services, contact between Toyota and its customers (through its dealers) was sparse. The company decided to review its customer communication channels, resulting in the creation of a single customer database that forms the backbone of all Toyota communications. Communications are further enhanced by a revamped website, customer magazine, customer experience surveys and the Toyota Club for premium customers.

The result is that customer perception of Toyota cars has moved from ‘cheap and reliable’ to ‘a quality car at competitive prices’. Toyota’s commitment to innovation has resulted in Toyota Optimal Drive technology (see illustration). Market share has risen to almost 5 per cent over the past five years, together with a healthy rise in profit margins. Toyota’s brand loyalty is now over 50 per cent, making it the market leader in retained business.

Paul Philpott, marketing director of Toyota GB, says there are four key learning points from this story: (i) make marketing the number one priority in your company; (ii) put the views of your customers before your own; (iii) invest for the future; and (iv) be patient.

Toyota GB’s success has been mirrored globally. The company’s marketing expertise and innovative culture, which is reflected in its ground-breaking petrol-hybrids, including the Prius and Lexus, has resulted in it becoming the world’s biggest car maker, surpassing General Motors in 2008.

Based on: Simms (2002); Anonymous (2005); Anonymous (2005); Clark (2009)
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Marketing in the modern organization

Businesses welcome the organizational changes that are bound to occur as an organization moves to maintain strategic fit between its environment and its strategies. In contrast, internally orientated businesses cherish the status quo and resist change.

Attitudes towards competition also differ. Market-driven businesses try to understand competitive objectives and strategies, and anticipate competitive actions. Internally driven companies are content to ignore the competition. Marketing spend is regarded as an investment that has long-term consequences in market-driven businesses. The alternative view is that marketing expenditure is viewed as a luxury that never appears to produce benefits.

In marketing-orientated companies those employees who take risks and are innovative are rewarded. Recognition of the fact that most new products fail is reflected in a reluctance to punish those people who risk their career championing a new product idea. Internally orientated businesses reward time-serving and the ability not to make mistakes. This results in risk avoidance and the continuance of the status quo. Market-driven businesses search for latent markets: markets that no other company has exploited. 3M’s Post-it product filled a latent need for a quick, temporary attachment to documents, for example. The radio station Classic FM has become successful by filling the latent need for accessible classical music among people who wished to aspire to this type of music but were somewhat intimidated by the music and style of presentation offered by Radio 3. A third example is the online auction site eBay, which exploited the latent market consisting of individuals who wished to sell products directly to other people and required a forum in which to do so. Finally, Nintendo identified a latent market for electronic games with the launch of its Brain Training software.

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<td>Convenience comes first</td>
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<td>Know customer choice criteria and match with marketing mix</td>
<td>Assume price and product performance key to most sales</td>
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<td>Segment by customer differences</td>
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<td>Marketing spend regarded as an investment</td>
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Efficiency versus Effectiveness

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for the Nintendo DS, targeted at older people. Internally driven businesses are happy to stick with their existing products and markets.

Intensive competition means that companies need to be fast to succeed. Market-driven companies are fast to respond to latent markets, innovate, manufacture and distribute their products and services. They realize that strategic windows soon close. Dallmer, chief executive of a major European company, told a story that symbolizes the importance of speed to competitive success. Two people were walking through the Black Forest where it was rumoured a very dangerous lion lurked. They took a break and were sitting in the sun when one of them changed out of his hiking boots and into his jogging shoes. The other one smiled and, laughing, asked, ‘You don’t think you can run away from the lion with those jogging shoes?’ ‘No,’ he replied, ‘I just need to be faster than you!’ Internally driven companies when they spot an opportunity take their time. ‘Why rush?’ is their epitaph.

A key feature of marketing-orientated companies is that they strive for competitive advantage. They seek to serve customers better than the competition. Internally orientated companies are happy to produce me-too copies of offerings already on the market. Finally, marketing-orientated companies are both efficient and effective; internally orientated companies achieve only efficiency. The concepts of efficiency and effectiveness are discussed in the next section.

Another perspective on business philosophy can be gained by understanding the distinction between efficiency and effectiveness. Efficiency is concerned with inputs and outputs. An efficient firm produces goods economically: it does things right. The benefit is that the cost per unit of output is low and, therefore, the potential for offering low prices to gain market share, or charging medium to high prices and achieving high profit margins, is present. For example, car companies attempt to achieve efficiency by gaining economies of scale and building several models on the same sub-frame and with the same components. However, to be successful, a company needs to be more than just efficient—it needs to be effective as well. Effectiveness means doing the right things. This implies operating in attractive markets and making products that consumers want to buy. Conversely, companies that operate in unattractive markets or are not producing what consumers want to buy will go out of business; the only question is one of timing.

The link between performance and combinations of efficiency and effectiveness can be conceived as shown in Figure 1.4. A company that is both inefficient and ineffective will go out of business quickly because it is a high-cost producer of products that consumers do not want to buy. One company that has suffered through a combination of inefficiency and ineffectiveness is General Motors. The inefficiency is the result of the legacy of paying healthcare costs to its current and retired workers—this adds $1500 to the cost of each of its cars; the ineffectiveness stems from a history of making unreliable and undesirable cars. A company that is efficient and ineffective may last a little longer because its low cost base may generate more profits from the dwindling sales volume it is achieving. Kodak is an example of an efficient and ineffective company. It is an efficient producer of photographic film but has become ineffective as consumers have moved to digital photography. Firms that are effective but inefficient are likely to survive because they are operating in attractive markets and are marketing products that people want to buy. Mercedes used to fall into this
category, with its emphasis on over-engineering pushing up costs and lowering efficiency, while still making cars that people wanted to buy (driving an S500 has been likened to 'being wrapped in a freshly laundered silk sheet and blown up the road by a warm wind') and so achieving effectiveness. The problem is that their inefficiency is preventing them from reaping the maximum profits from their endeavours. Many small companies that operate in niche markets fall into the effective/inefficient category. One example is Porsche, which is a highly effective maker of premium-priced aspirational sports cars. Its small size relative to other car manufacturers renders the company inefficient by comparison. It is this inefficiency that has led to Porsche acquiring Volkswagen to give it the scale to reduce costs and fund the research and development needed to produce innovative, technology-leading new models. It is the combination of both efficiency and effectiveness that leads to optimum business success. Such firms do well and thrive because they are operating in attractive markets, are supplying products that consumers want to buy and are benefiting from a low cost base.

Toyota is an example of an efficient and effective company. Its investment in innovative manufacturing practices and modern technology ensures efficiency, while its ability to build cars that people want to buy (see Marketing in Action 1.1) proves its effectiveness.

Another company that has thrived through a combination of efficiency and effectiveness is Zara, the Spanish fashion chain. By using its own highly automated manufacturing and distribution facilities, seamstresses in 350 independently owned workshops in Spain and Portugal, and low advertising expenditures (its shops have always been its primary marketing tool), Zara has achieved high levels of efficiency. It is also highly effective through its ability to match fashion trends that change quickly by means of an extremely fast and responsive supply chain. The result is that Zara has become the world’s largest clothing retailer.

The essential difference between efficiency and effectiveness, then, is that the former is cost focused while the latter is customer focused. An effective company has the ability to attract and retain customers.

A number of academics have raised important questions regarding the value of the marketing concept. Four issues—the marketing concept as an ideology, marketing and society, marketing as a constraint on innovation, and marketing as a source of dullness—will now be explored.

The marketing concept as an ideology
Brownlie and Saren argue that the marketing concept has assumed many of the characteristics of an ideology or an article of faith that should dominate the thinking of organizations. They recognize the importance of a consumer orientation for companies but ask why, after 40 years of trying, the concept has not been fully implemented. They argue that there are other valid considerations that companies must take into account when making decisions (e.g. economies of scale) apart from giving customers exactly what they want. Marketers’ attention should therefore be focused not only on propagation of the ideology but also on its integration with the demands of other core business functions in order to achieve a compromise between the satisfaction of consumers and the achievement of other company requirements.

Marketing and society
A second limitation of the marketing concept concerns its focus on individual market transactions. Since many individuals weigh heavily their personal benefits while discounting
the societal impact of their purchases, the adoption of the marketing concept will result in the production of goods and services that do not adequately correspond to societal welfare. Providing customer satisfaction is simply a means to achieve a company's profit objective and does not guarantee protection of the consumer's welfare. This view is supported by Wensley, who regards consumerism as a challenge to the adequacy of the atomistic and individual view of market transactions.24 An alternative view is presented by Bloom and Greyser, who regard consumerism as the ultimate expression of the marketing concept compelling marketers to consider consumer needs and wants that hitherto may have been overlooked:25 “The resourceful manager will look for the positive opportunities created by consumerism rather than brood over its restraints.’

Companies are responding to the challenge of societal concerns in various ways. Marketing Ethics and Corporate Social Responsibility in Action 1.1 describes how company and government collaboration resulted in a social marketing campaign to control obesity. Other companies are responding to society's concern for the environment (see the illustration overleaf from Bosch).

1.1 Marketing Ethics and Corporate Social Responsibility in Action

Using Social Marketing to Combat the Obesity Crisis

Overeating has become a pressing health issue in many developed countries—for example, in the UK, where 9000 premature deaths per year are linked to obesity. Government data suggest that obesity-related illnesses will cost the tax payer £50 billion by 2050, and up to 90 per cent of today's children will be obese or overweight by the same year if current trends continue. In an attempt to raise public awareness of the link between obesity and life-threatening diseases such as coronary heart disease and diabetes, the UK Government financed a £75 million social marketing campaign, which drew an additional £200 million worth of services and marketing support from a variety of companies and organizations, including supermarkets, large food producers, health clubs, the London Marathon, voluntary groups and a wide-ranging media coalition. Rather than shocking people into healthier lifestyles, the Change4Life TV campaign used light-hearted animation to inform consumers of the threats posed by sedentary lifestyles, and drew particular attention to the need for children to eat more healthily and become more active.

The campaign is a social marketing effort aimed at employing the power of marketing tools and concepts to achieve specific behavioural goals for increased societal welfare. Although the initiative has been welcomed by most stakeholders, some have criticized the government's choice to engage in corporate partnerships, as food corporations and supermarkets are seen as part of the issue. Indeed, some of the food companies supporting the campaign are junk food manufacturers, which in turn have been accused of 'back-door' marketing targeted at school children. Also, a few supermarkets have been blamed for pushing foods high in salt, fat and sugar as cheap and credit crunch-friendly options for hard-pressed consumers. As a result, critics have suggested that the use of legislation to protect children from junk food marketing, food reformulation and effective nutritional labelling enforcement would be far better investments than the Change4Life campaign. Others, however, have argued that such private partnerships will be positive in that they will put junk food companies under the spotlight, while making them subject to public scrutiny due to their commitments to a health-related cause. Time will show the effectiveness of such partnerships and social marketing in the fight against obesity.

Based on: Boseley (2009);26 Sweeney (2009);27 Watts (2009);28 National Social Marketing Centre29
Marketing as a constraint on innovation

In an influential article, Tauber presented a third criticism of marketing—that is, how marketing research discourages major innovation. The thrust of his argument was that relying on customers to guide the development of new products has severe limitations. This is because customers have difficulty articulating needs beyond the realm of their own experience. This suggests that the ideas gained from marketing research will be modest compared to those coming from the 'science push' of the research and development laboratory. Brownlie and Saren agree that, particularly for discontinuous innovations (e.g. Xerox, penicillin), the role of product development ought to be far more proactive than this. Indeed technological innovation is the process that 'realizes' market demands that were previously unknown. Thus the effective exploitation and utilization of technology in developing new products is at least as important as market-needs analysis.

However, McGee and Spiro point out that these criticisms are not actually directed at the marketing concept itself but towards its faulty implementation: an overdependence on customers as a source of new product ideas. They state that the marketing concept does not suggest that companies must depend solely on the customer for new product ideas; rather the concept implies that new product development should be based on sound interfacing between perceived customer needs and technological research. Project SAPPHO, which investigated innovation in the chemical and scientific instrument industries, found that successful innovations were based on a good understanding of user needs. Unsuccessful innovations, on the other hand, were characterized by little or no attention to user needs.

Marketing as a source of dullness

A fourth criticism of marketing is that its focus on analysing customers and developing offerings that reflect their needs leads to dull marketing campaigns, me-too products, copycat promotion and marketplace stagnation. Instead, marketing should create demand rather than reflect demand. As Brown states, consumers should be 'teased, tantalized and tormented by deliciously insatiable desire.' This approach he terms 'retromarketing,' and says that it is built on five principles: exclusivity, secrecy, amplification, entertainment and tricksterism.

Exclusivity is created by deliberately holding back supplies and delaying gratification. Consumers are encouraged to 'buy now while stocks last.' The lucky ones are happy in the knowledge that they are the select few, the discerning elite. Short supply of brands like Harley-Davidson (motorcycles), certain models of Mercedes cars and even the BMW Mini has created an aura of exclusivity.

The second principle of retromarketing—secrecy—has the intention of teasing would-be purchasers. An example is the pre-launch of the blockbuster *Harry Potter and the Goblet of Fire*, which involved a complete blackout of advance information. The book's title, price and review copies were withheld, and only certain interesting plot details were
drip-fed to the press. The result was heightened interest, fed on a diet of mystery and intrigue.

Even exclusive products and secrets need promotion, which leads to the third retromarketing principle of amplification. This is designed to get consumers talking about the ‘cool’ motorbike or the ‘hot’ film. Where promotional budgets are limited, this can be achieved by creating outrage (e.g. the controversial Benetton ads, including one showing a dying AIDS victim and his family) or surprise (e.g. the placing of a Pizza Hut logo on the side of a Russian rocket).

Entertainment is the fourth principle, so that marketing engages consumers. This, claims Brown, is ‘modern marketing’s greatest failure’ with marketing losing its sense of fun in its quest to be rigorous and analytical. The final principle of retromarketing is tricksterism. This should be done with panache and audacity as when Britvic bought advertising time to make what appeared to be a public service announcement. Viewers were told that some rogue grocery stores were selling an imitation of its brand, Tango. The difference could be detected because it was not fizzy and they were asked to call a freephone number to name the outlets. Around 30,000 people rang, only to be informed that they had been tricked (‘Tango’d’) as part of the company’s promotion for a new, non-carbonated version of the drink. Despite attracting censure for abusing the public information service format the promotion had succeeded in amplifying the brand extension launch and reinforcing Tango’s irreverent image.

Customer value
Marketing-orientated companies attempt to create customer value in order to attract and retain customers. Their aim is to deliver superior value to their target customers. In doing so, they implement the marketing concept by meeting and exceeding customer needs better than the competition. For example, the global success of McDonald’s has been based on creating added value for its customers, which is based not only on the food products it sells but on the complete delivery system that goes to make up a fast-food restaurant. It sets high standards in quality, service, cleanliness and value (termed QSCV). Customers can be sure that the same high standards will be found in all of the McDonald’s outlets around the world. This example shows that customer value can be derived from many aspects of what the company delivers to its customers—not just the basic product.

Customer value is dependent on how the customer perceives the benefits of an offering and the sacrifice that is associated with its purchase. Therefore:

Customer value = perceived benefits – perceived sacrifice

Perceived benefits can be derived from the product (for example, the taste of the hamburger), the associated service (for example, how quickly customers are served and the cleanliness of the outlet) and the image of the company (for example, whether the image of the company/product is favourable). If one of those factors—for example, product benefits—changes then the perceived benefits and customer value also change. For instance, the downturn in the fortunes of McDonald’s a few years ago was largely attributed to the trend towards healthier eating. This caused some consumers to regard the product benefits of its food to be less, resulting in lower perceived benefits and reduced customer value. In an attempt to redress the situation McDonald’s has introduced healthy-eating options including salad and fruit.35

A further source of perceived benefits is the relationship between customer and supplier. Customers may enjoy working with suppliers with whom they have developed close personal and professional friendships, and value the convenience of working with trusted partners.
Perceived sacrifice is the total cost associated with buying a product. This consists of not just monetary cost but the time and energy involved in purchase. For example, with fast-food restaurants, good location can reduce the time and energy required to find a suitable eating place. But marketers need to be aware of another critical sacrifice in some buying situations. This is the potential psychological cost of not making the right decision. Uncertainty means that people perceive risk when purchasing. McDonald’s attempts to reduce perceived risk by standardizing its complete offer so that customers can be confident of what they will receive before entering its outlets. In organizational markets, companies offer guarantees to reduce the risk of purchase. Figure 1.5 illustrates how perceived benefits and sacrifice affect customer value. It provides a framework for considering ways of maximizing value. The objective is to find ways of raising perceived benefits and reducing perceived sacrifice.

**Customer satisfaction**

Exceeding the value offered by competitors is key to marketing success. Consumers decide upon purchases on the basis of judgements about the values offered by suppliers. Once a product has been bought, **customer satisfaction** depends upon its perceived performance compared to the buyer’s expectations. Customer satisfaction occurs when perceived performance matches or exceeds expectations. Successful companies, such as Canon, Nokia, Toyota, Samsung, H&M, Apple and Virgin, all place customer satisfaction at the heart of their business philosophy. Companies facing difficulties, such as General Motors, Chrysler, Gap and Kodak, have failed to do so as customers' needs and expectations have changed.

An example of a company that is flourishing as a result of creating customer satisfaction is ASOS, the online fashion retailer. It is succeeding by satisfying young women’s desire to replicate the look of their favourite celebrities. The company does this by offering affordable versions of celebrity styles, showing online how to copy the designer looks of magazine favourites such as Victoria Beckham, Lindsay Lohan and Jennifer Lopez at a fraction of the cost. Expectations are formed by suppliers’ marketing activities, discussions with other people and post-buying experiences. All these play a part with ASOS, including its website, which allows visitors to view dresses from several angles and watch models display the clothing along the catwalk.
Creating Customer Value and Satisfaction

CHAPTER 1

Customer satisfaction is taken so seriously by some companies that financial bonuses are tied to it. For example, two days after taking delivery of a new car, BMW (and Mini) customers receive a telephone call to check on how well they were treated in the dealership. The customer is asked 15 questions, with each question scored out of 5. The franchised dealership only receives a financial bonus from BMW if the average score across all questions is 92 or better (5 is equivalent to 100, 4 to 80, and so on). Customer satisfaction with after-sales service is similarly researched. Aspiring dealerships have to be capable of achieving such scores, and existing dealerships that consistently fail to meet these standards are under threat of franchise termination.

This makes a great deal of sense as higher levels of customer satisfaction are associated with higher levels of customer retention, financial performance and shareholder value.38 In today’s competitive climate, it is often not enough to match performance and expectations. Expectations need to be exceeded for commercial success so that customers are delighted with the outcome. In order to understand the concept of customer satisfaction the so-called ‘Kano model’ (see Fig. 1.6) helps to separate characteristics that cause dissatisfaction, satisfaction and delight. Three characteristics underlie the model: ‘Must be’, ‘More is better’ and ‘Delighters’.

‘Must be’ characteristics are expected to be present and are taken for granted. For example, in a hotel, customers expect service at reception and a clean room. Lack of these characteristics causes annoyance but their presence only brings dissatisfaction up to a neutral level. ‘More is better’ characteristics can take satisfaction past neutral into the positive satisfaction range. For example, no response to a telephone call can cause dissatisfaction, but a fast response may cause positive satisfaction or even delight. ‘Delighters’ are the unexpected characteristics that surprise the customer. Their absence does not cause dissatisfaction but their presence delights the customer. For example, a UK hotel chain provides free measures of brandy in the rooms of its adult guests. This delights many of its customers, who were not expecting this treat. Another way to delight the customer is to under-promise and over-deliver (for example, by saying that a repair will take about five hours but getting it done in two).39

A problem for marketers is that, over time, delighters become expected. For example, some car manufacturers provided small unexpected delighters such as pen holders and delay mechanisms on interior lights so that there is time to find the ignition socket at night. These are standard on most cars now and have become ‘Must be’ characteristics as customers expect them. This means that marketers must constantly strive to find new ways of delighting. Innovative thinking and listening to customers are key ingredients in this. Marketing in Action 1.2 explains how to listen to customers.

The importance of customer satisfaction is supported by studies which show that higher levels of customer satisfaction lead to higher financial (profits and sales) performance,40 greater customer loyalty41 and the willingness of customers to pay higher prices.42

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Listening to Customers

Top companies recognize the importance of listening to their customers as part of their strategy to manage satisfaction. Customer satisfaction indices are based on surveys of customers, and the results plotted over time to reveal changes in satisfaction levels. The first stage is to identify those characteristics (choice criteria) that are important to customers when evaluating competing products. The second stage involves the development of measurement scales (often statements followed by strongly agree/strongly disagree response boxes) to quantitatively assess satisfaction. Customer satisfaction data should be collected over a period of time to measure change. Only long-term measurement of satisfaction ratings will provide a clear picture of what is going on in the marketplace.

The critical role of listening to customers in marketing success was emphasized by Tom Leahy, chief executive of Tesco, the successful UK supermarket chain, when talking to a group of businesspeople. ‘Let me tell you a secret,’ he said, ‘the secret of successful retailing. Are you ready? It’s this: never stop listening to customers, and giving them what they want. I’m sorry if that is a bit of an anticlimax … but it is that simple.’

Marketing research can also be used to question new customers about why they first bought, and lost customers (defectors) on why they have ceased buying. In the latter case, a second objective would be to stage a last-ditch attempt to keep the customer. One bank found that a quarter of its defecting customers would have stayed had the bank attempted to rescue the situation.

One company that places listening to customers high on its list of priorities is Kwik-Fit, the car repair group. Customer satisfaction is monitored by its customer survey unit, which telephones 5000 customers a day within 72 hours of their visit to a Kwik-Fit centre.

Another more hands-on approach to listening to customers is that taken by Feargal Quinn, founder of the highly successful Dublin-based supermarket chain Superquinn. He devotes a portion of every week to walking around his supermarkets talking to customers. ‘Believe me, when you do experience the emotional strength of a customer’s reaction, you are much more likely to do something about it,’ he says.

A strategy also needs to be put in place to manage customer complaints, comments and questions. A system needs to be set up that solicits feedback on product and service quality, and feeds the information to the appropriate employees. To facilitate this process, front-line employees need training to ask questions, to listen effectively, to capture the information and to communicate it so that corrective action can be taken.

The Internet is providing other ways of listening to customers. Consumers write blogs, which can contain positive and/or negative comments about companies and brands. A blog is a personal commentary, a collection of thoughts and comments, which creates a kind of personal diary on the Internet. Companies can listen to what is being said about them and their brands by using a blog search engine such as Technorati, which also identifies the writer of the blog. This means that companies not only have a major research tool but also a means of responding to comments—both positive and negative.

Companies can also launch websites to solicit customers’ ideas. Dell did this after it received a flood of criticism over poor customer service, while also reaching out to online bloggers. The feedback led to a customer services overhaul and a fall in negative buzz. Finally, Google listens to customers by releasing most products in ‘beta’ (which means they are not quite finished), allowing users to suggest improvements. This approach has led to the refinement of such products as Google News, Gmail and the Chrome browser.

Developing an Effective Marketing Mix

Based on its understanding of customers, a company develops its marketing mix. The marketing mix consists of four major elements: product, price, promotion and place. These ‘4-Ps’ are the four key decision areas that marketers must manage so that they satisfy or exceed customer needs better than the competition. In other words, decisions regarding the marketing mix form a major aspect of marketing concept implementation. The third part of this book looks at each of the 4-Ps in considerable detail. At this point, it is useful to examine each element briefly so that we can understand the essence of marketing mix decision-making.

Product

The product decision involves deciding what goods or services should be offered to a group of customers. An important element is new product development. As technology and tastes change, products become out of date and inferior to those of the competition, so companies must replace them with features that customers value. As new products are developed that give greater benefits than old ones market leadership can change. For example, the Sony Walkman was the market leader in portable music players. Following its launch, the Apple iPod soon outsold the Walkman, however, as it had the advantages of being able to download music and hold thousands of songs on a much smaller device. From the first iPod, Apple has developed a product range to cater for diverse customer needs (see illustration).

Which iPod Are You?

Music and video lovers rejoice. Four distinct iPod models mean one is perfect for you.

- iPod shuffle
  - The first music player that talks to you.
  - Color
  - Capacity 4GB

- iPod nano
  - The world’s most popular music player.
  - Color
  - Capacity 8GB, 16GB

- iPod classic
  - Your entire entertainment library to go.
  - Color
  - Capacity 30GB, 60GB, 80GB

- iPod touch
  - The funniest iPod ever.
  - Color
  - Capacity 8GB, 16GB, 32GB

Apple has extended the iPod brand to cater for diverse customer requirements.

Product decisions also involve choices regarding brand names, guarantees, packaging and the services that should accompany the product offering. Guarantees can be an important component of the product offering. For example, the operators of the AVE, Spain’s high-speed train, capable of travelling at 300 kmph, are so confident of its performance that they guarantee to give customers a full refund of their fare if they are more than five minutes late.
Price

Price is a key element of the marketing mix because it represents on a unit basis what the company receives for the product or service that is being marketed. All of the other elements represent costs—for example, expenditure on product design (product), advertising and salespeople (promotion), and transportation and distribution (place). Marketers, therefore, need to be very clear about pricing objectives, methods and the factors that influence price setting. They must also take into account the necessity to discount and give allowances in some transactions. These requirements can influence the level of list price chosen, perhaps with an element of negotiation margin built in. Payment periods and credit terms also affect the real price received in any transaction. These kinds of decisions can affect the perceived value of a product.

Because price affects the value that customers perceive they get from buying a product, it can be an important element in the purchase decision. Some companies attempt to position themselves as offering lower prices than their rivals. For example, supermarkets such as Asda (Wal-Mart) in the UK, Aldi in Germany, Netto in Denmark and Super de Boer in the Netherlands employ a low-price positioning strategy. Another strategy is to launch a low-price version of an existing product targeted at price-sensitive consumers. For example, Apple launched the Mac mini, a basic version of the Macintosh computer. With this low-priced machine Apple believes it can tempt people who have bought an iPod (and become fans of the company) to ditch their Windows-based PCs and switch to the Mac mini.  

Promotion

Decisions have to be made with respect to the promotional mix: advertising, personal selling, sales promotions, public relations, direct marketing and online promotion. By these means the target audience is made aware of the existence of a product or service, and the benefits (both economic and psychological) it confers to customers. Each element of the promotional mix has its own set of strengths and weakness, and these will be explored in the second part of this book. Advertising, for example, has the property of being able to reach wide audiences very quickly. Procter & Gamble used advertising to reach the emerging market of 290 million Russian consumers. It ran a 12-minute commercial on Russian television as its first promotional venture in order to introduce the company and its range of products. Advertising can be a powerful tool in a recession. While its competitors cut back on advertising expenditure during the Great Depression of 1929, Procter & Gamble increased its spend. The company dominated share of voice in radio advertising, bringing market leadership during the 1930s and the creation of the platform that has led to its continuing success to the present day.

The Internet is of increasing importance as a promotional tool. A great advantage of the Internet is its global reach. This means that companies that did not have the resources to promote overseas can reach consumers worldwide by creating a website. In business-to-business markets, suppliers and customers can communicate using the Internet and purchases
Developing an Effective Marketing Mix

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Can be made using e-marketplaces. The Internet has also proven to be a powerful communication tool, sometimes replacing traditional media. For example, Arctic Monkeys, a UK rock band, built up their fan base online before signing a record deal, by placing demo tracks on their website and MySpace, a social networking site that allows downloading and sharing among music fans. The band's popularity soared through viral word of mouth, resulting in number-one single and album hits.54

However, social networking sites do pose challenges to marketers, as Digital Marketing 1.1 explains.

1.1 Digital Marketing

What Opportunities do Social Media Environments Offer?

The marketer’s use of social media environments is still in its infancy. Social networking environments, such as Facebook and Twitter, provide opportunities for organizations to engage in a direct dialogue with individuals rather than just attempt to market to them.

The promise of an economically viable, direct, one-to-one dialogue between customers and companies seems to be a nirvana that marketers have been seeking for years. Examples of this include GlassesDirect, which uses the Twitter application to publicly respond to direct queries from customers browsing its website. This creates a kind of on-the-fly FAQ (frequently asked questions) as well as demonstrating a swift level of customer response. Microsoft employees actively use their staff blogs to engage with software developer customers, by opening up the process of software design for others to see and comment on. But environments such as Facebook and Twitter do have emerging problems that companies are finding difficult to grasp.

Social networkers appear to resent direct marketing via the environment they choose to use to communicate with others. The Twitter developers have a policy of resisting non-relevant direct marketing (and actively close down the accounts of ‘Twitter-spammers’). In addition, the ‘conversation’ between social networkers may not be in the best interests of the company. Many Facebook groups have been set up by users to complain vociferously about organizations: HSBC famously reversed a policy decision on student debt after thousands of graduates and undergraduates of British universities joined a group to voice their opposition to the action.

Used well, social media environments can be a new channel into difficult-to-reach markets. But many organizations are still learning the hard way that such environments can actually be very negative places to engage with customers.

Useful further reading: Charles (2007)55

Place

Place involves decisions concerning the distribution channels to be used and their management, the locations of outlets, methods of transportation and inventory levels to be held. The objective is to ensure that products and services are available in the proper quantities, at the right time and place. Distribution channels consist of organizations such as retailers or wholesalers through which goods pass on their way to customers. Producers need to manage their relationships with these organizations well because they may provide the only cost-effective access to the marketplace. They also need to be aware of new methods of distribution that can create a competitive advantage. For example, Dell revolutionized the distribution of computers by selling direct to customers rather than using traditional computer outlets. Music, too, is increasingly being distributed by downloading from the Internet rather than being bought at music shops.
Following this trend, Radiohead offered fans the opportunity to pay whatever they liked to download their new album, and the rock band Nine Inch Nails released theirs as a free download from the band’s website.56

There are four hallmarks of an effective marketing mix (see Fig. 1.7).

**Key Characteristics of an Effective Marketing Mix**

![Diagram of Hallmarks of an Effective Marketing Mix](image)

**The marketing mix matches customer needs**

Sensible marketing mix decisions can be made only when the target customer is understood. Choosing customer groups to target will be discussed in Chapter 8, which examines the process of market segmentation and target marketing. Once the decision about the target market(s) is taken, marketing management needs to understand how customers choose between rival offerings. They need to look at the product or service through customers’ eyes and understand, among other factors, the choice criteria they use.

Figure 1.8 illustrates the link between customer choice criteria and the marketing mix. The starting point is the realization that customers evaluate products on economic and psychological criteria. Economic criteria include factors such as performance, availability,
Key Characteristics of an Effective Marketing Mix

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Spare the Gas with Cobra Beer

Before Cobra beer, British Asian curry eaters faced a problem: what drink to order with a curry. Often Asian cuisine overpowered the taste of wine, and standard beers or lagers were too gassy. Cobra beer’s competitive advantages were its ‘less gassy’ nature and its Indian heritage. Positioned as an Indian lager, Cobra has seen massive growth since its launch in 1989 and is now regarded as a natural accompaniment to Asian meals. It is now available in a selection of ranges, including the double-fermented King Cobra, Cobra Light, Cobra 0% and the Cobra Bite range of fruit-flavoured premium beers. The company has also signed new deals to offer the drink in bottles, cans and on draught.

It is now available in bars, pubs and restaurants in almost 50 countries around the world. Its success is based on marketing fundamentals: meeting a customer need (a less gassy, suitable accompaniment for Asian food); better than the competition (wine and standard beers and lagers).

The marketing mix creates a competitive advantage

A competitive advantage may be derived from decisions about the 4-Ps. A competitive advantage is the achievement of superior performance through differentiation to provide superior customer value or by managing to achieve lowest delivered cost. The example of the Apple iPod is an example of a company using product features to convey customer benefits in excess of what the competition is offering. The iPod’s small size and its ability to download and store music can, therefore, be regarded as the creation of competitive advantages over the previous market leader in portable music players, the Sony Walkman. Aldi, the German supermarket chain, achieves a competitive advantage by severely controlling costs, allowing it to make profits even though its prices are low, a strategy that is attractive to price-sensitive shoppers. Marketing in Action 1.3 explains how Cobra beer has gained a competitive advantage.

1.3 Marketing in Action

Spare the Gas with Cobra Beer

Before Cobra beer, British Asian curry eaters faced a problem: what drink to order with a curry. Often Asian cuisine overpowered the taste of wine, and standard beers or lagers were too gassy. Cobra beer’s competitive advantages were its ‘less gassy’ nature and its Indian heritage. Positioned as an Indian lager, Cobra has seen massive growth since its launch in 1989 and is now regarded as a natural accompaniment to Asian meals. It is now available in a selection of ranges, including the double-fermented King Cobra, Cobra Light, Cobra 0% and the Cobra Bite range of fruit-flavoured premium beers. The company has also signed new deals to offer the drink in bottles, cans and on draught.

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Based on: Fernandez (2008)

The strategy of using advertising as a tool for competitive advantage is often employed when product benefits are particularly subjective and amorphous in nature. Thus the advertising for perfumes such as those produced by Chanel, Givenchy and Yves St Laurent is critical in preserving the exclusive image established by such brands. The size and quality of the salesforce can act as a competitive advantage. A problem that a company such as Rolls-Royce, the aeroengine manufacturer, faces is the relatively small size of its salesforce compared to those of its giant competitors Boeing and General Electric. Finally, distribution decisions need to be made with the customer in mind, not only in terms of availability but also with respect to service levels, image and customer convenience. The Radisson SAS hotel at Manchester Airport is an example of creating a competitive advantage through customer convenience. It is situated five minutes’ walk from the airport terminals, which are reached by covered walkways. Guests at rival hotels have to rely on taxis or transit buses to reach the airport.
The marketing mix should be well blended

The third characteristic of an effective marketing mix is that the four elements—product, price, promotion and place—should be well blended to form a consistent theme. If a product gives superior benefits to customers, price, which may send cues to customers regarding quality, should reflect those extra benefits. All of the promotional mix should be designed with the objective of communicating a consistent message to the target audience about these benefits, and distribution decisions should be consistent with the overall strategic position of the product in the marketplace. The use of exclusive outlets for upmarket fashion and cosmetic brands—Armani, Christian Dior and Calvin Klein, for example—is consistent with their strategic position.

Think of a product that you consider is successful in the marketplace. Is its marketing mix well blended in the sense that product, price, promotion and distribution send a consistent, well-thought-out and appealing message to consumers?

1.2 Pause for Thought

The marketing mix should match corporate resources

The choice of marketing mix strategy may be constrained by the financial resources of the company. Laker Airlines used price as a competitive advantage to attack British Airways and TWA in transatlantic flights. When they retaliated by cutting their airfares, Laker’s financial resources were insufficient to win the price war. Certain media—for example, television advertising—require a minimum threshold investment before they are regarded as feasible. In the UK a rule of thumb is that at least £5 million per year is required to achieve impact in a national advertising campaign. Clearly those brands that cannot afford such a promotional budget must use other less expensive media—for example, posters or sales promotion—to attract and hold customers.

A second internal resource constraint may be the internal competences of the company. A marketing mix strategy may be too ambitious for the limited marketing skills of personnel to implement effectively. While an objective may be to reduce or eliminate this problem in the medium to long term, in the short term marketing management may have to heed the fact that strategy must take account of competences. An area where this may manifest itself is within the place dimension of the 4-Ps. A company lacking the personal selling skills to market a product directly to end users may have to use intermediaries (distributors or sales agents) to perform that function.

Some critics of the 4-Ps approach to the marketing mix argue that it oversimplifies the reality of marketing management. Booms and Bitner, for example, argue for a 7-Ps approach to services marketing. Their argument, which will be discussed in some detail in Chapter 22 on services marketing, is that the 4-Ps do not take sufficient account of people, process and physical evidence. In services, people often are the service itself; the process or how the service is delivered to the customer is usually a key part of the service, and the physical evidence—the décor of the restaurant or shop, for example—is so critical to success that it should be considered as a separate element in the services marketing mix.

Rafiq and Ahmed argue that this criticism of the 4-Ps can be extended to include industrial marketing. The interaction approach to understanding industrial marketing...
stresses that success does not come solely from manipulation of the marketing mix components but long-term relationship building, whereby the bond between buyer and seller becomes so strong that it effectively acts as a barrier to entry for out-suppliers. This phenomenon undoubtedly exists to such an extent that industrial buyers are now increasingly seeking long-term supply relationships with suppliers. For example, car manufacturers have drawn up long-term contracts with preferred suppliers that provide stability in supply and improvements in new component development. Bosch, the German producer of industrial and consumer goods, conducts quality audits of its suppliers. These kinds of activities are not captured in the 4-Ps approach, it is claimed.

Nevertheless, there is no absolute reason why these extensions cannot be incorporated within the 4-Ps framework. People, process and physical evidence can be discussed under ‘product’, and long-term relationship building under ‘promotion’, for example. The important issue is not to neglect them, whether the 4-Ps approach or some other method is used to conceptualize the decision-making areas of marketing. The strength of the 4-Ps approach is that it represents a memorable and practical framework for marketing decision-making and has proved useful for case study analysis in business schools for many years.

The basic premise of the marketing concept is that its adoption will improve business performance. Marketing is not an abstract concept: its acid test is the effect that its use has on key corporate indices such as profitability and market share. Fortunately, in recent years, two quantitative studies in both Europe and North America have sought to examine the relationship between marketing and performance. The results suggest that the relationship is positive. We will now examine each of the studies in turn.

**Marketing characteristics and business performance**

In a study of 1700 senior marketing executives, Hooley and Lynch reported the marketing characteristics of high- versus low-performing companies. The approach that they adopted was to isolate the top 10 per cent of companies (based on such measures as profit margin, return on investment and market share) and to compare their marketing practices with the remainder of the sample. The ‘high fliers’ differed from the ‘also-rans’ as follows:

- more committed to marketing research
- more likely to be found in new, emerging or growth markets
- adopted a more proactive approach to marketing planning
- more likely to use strategic planning tools
- placed more emphasis on product performance and design, rather than price, for achieving a competitive advantage
- worked more closely with the finance department
- placed greater emphasis on market share as a method of evaluating marketing performance.

**Marketing orientation and business performance**

Narver and Slater studied the relationship between marketing orientation and business performance. Marketing orientation was based on three measures: customer orientation, competitor orientation, and degree of inter-functional coordination. They collected data from 113 strategic business units (SBUs) of a major US corporation.

The businesses comprised 36 commodity businesses (forestry products) and 77 non-commodity businesses (speciality products and distribution businesses). They related each SBU’s profitability, as measured by return on assets in relation to competitors over the last year in the SBU’s principal served market, to their three-component measure of market orientation.
Figure 1.9 shows the results of their study. For commodity businesses the relationship was U-shaped, with low and high market-orientation businesses showing higher profitability than the businesses in the mid-range of market orientation. Businesses with the highest market orientation had the highest profitability and those with the lowest market orientation had the second highest profitability. Narver and Slater explained this result by suggesting that the businesses lowest in market orientation may achieve some profit success through a low cost strategy, though not the profit levels of the high market-orientation businesses, an explanation supported by the fact that they were the largest companies of the three groups.

For the non-commodity businesses the relationship was linear, with the businesses displaying the highest level of market orientation achieving the highest levels of profitability and those with the lowest scores on market orientation having the lowest profitability figures. As the authors state, ‘The findings give marketing scholars and practitioners a basis beyond mere intuition for recommending the superiority of a market orientation.’

A number of more recent studies have also found a positive relationship between market orientation and business performance. Market orientation has been found to have a positive effect on sales growth, market share and profitability, sales growth, sales growth and new product success, perception of product quality and overall business performance.

Finally, a study by Kirca, Jayachandran and Bearden analysed the empirical findings from a wide range of studies that sought to identify the antecedents and consequences of marketing orientation. Their findings showed that a marketing orientation led to higher overall business performance (higher profits, sales and market share), better customer consequences (higher perceived quality, customer loyalty and customer satisfaction), better innovative consequences (higher innovativeness and better new product performance) and beneficial employee consequences (higher organizational commitment, team spirit, customer orientation and job satisfaction, and lower role conflict). Their analysis of the antecedents of marketing orientation showed the importance of top management emphasis on marketing, good communications between departments and systems that reward employees for market success for the implementation of marketing orientation.

So, what overall conclusions can be drawn from these studies? In order to make a balanced judgement their limitations must be recognized. Most were cross-sectional studies based on self-reported data. With any such survey there is the question of the direction of causality. Perhaps some respondents inferred their degree of marketing orientation by...
reference to their performance level. However, this clearly did not occur with the commodity sample in the Narver and Slater study. What these studies have consistently and unambiguously shown is a strong association between marketing and business performance. As one condition for establishing causality, this is an encouraging result for those people concerned with promoting the marketing concept as a guiding philosophy for business.

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Review

1 The marketing concept: an understanding of the nature of marketing, its key components and limitations
   - The marketing concept is the achievement of corporate goals through meeting and exceeding customer needs better than the competition.
   - It exists through exchanges where the objective is for all parties in the exchange to feel satisfied.
   - Its key components are customer orientation, integrated effort and goal achievement (e.g. profits).
   - The limitations of the concept are that the pursuit of customer satisfaction is only one objective companies should consider (others, such as achieving economies of scale, are equally valid), the adoption of the marketing concept may result in a focus on short-term personal satisfaction rather than longer-term societal welfare, the focus on customers to guide the development of new products will lead to only modest improvements compared to the innovations resulting from technological push, and the emphasis on reflecting rather than creating demand can lead to dull marketing campaigns and me-too products.

2 The difference between a production orientation and marketing orientation
   - Marketing orientation focuses on customer needs to identify potential market opportunities, leading to the creation of products that create customer satisfaction.
   - Production orientation focuses on production capabilities, which defines the business mission and the products that are manufactured. These are then sold aggressively to customers.

3 The differences between market-driven and internally orientated businesses
   - Customer concern vs convenience.
   - Know customer choice criteria and match with marketing mix vs the assumption that price and performance are key.
   - Segment by customer differences vs segment by product.
   - Marketing research vs anecdotes and received wisdom.
   - Welcome change vs cherish status quo.
   - Understand competition vs ignore competition.
   - Marketing spend is an investment vs marketing spend is a luxury.
   - Innovation rewarded and reluctance to punish failure vs avoidance of mistakes rewarded and a failure to innovate is conspicuously punished.
   - Search for latent markets vs stick with the same.
   - Recognize the importance of being fast vs content to move slowly.
   - Strive for competitive advantage vs happy to be me-too.
   - Efficiency and effectiveness vs efficiency.
4 The differing roles of efficiency and effectiveness in achieving corporate success
- Efficiency is concerned with inputs and outputs. Business processes are managed to a high standard so that cost per unit of output is low. Its role is to ‘do things right’—that is, use processes that result in low-cost production.
- Effectiveness is concerned with making the correct strategic choice regarding which products to make for which markets. Its role is to ‘do the right things’—that is, make the right products for attractive markets.

5 How to create customer value and satisfaction
- Customer value is created by maximizing perceived benefits (e.g. product or image benefits) and minimizing perceived sacrifice (e.g. monetary or time costs).
- Customer satisfaction once a product is bought is created by maximizing perceived performance compared to the customer’s expectations. Customer satisfaction occurs when perceived performance matches or exceeds expectations.

6 How an effective marketing mix is designed
- The classical marketing mix consists of product, price, promotion and place (the ‘4-Ps’).
- An effective marketing mix is designed by ensuring that it matches customer needs, creates a competitive advantage, is well blended and matches corporate resources.

7 Criticisms of the 4-Ps approach to marketing management
- Criticisms of the 4-Ps approach to marketing management are that it oversimplifies reality. For example, for services marketing three further Ps—people, process and physical evidence—should be added and, for industrial (business-to-business) marketing, the marketing mix approach neglects the importance of long-term relationship building.

8 The relationships between marketing characteristics, market orientation and business performance
- Research has shown a positive relationship between business performance, market orientation and marketing characteristics (although for commodity businesses the relationship was U-shaped).

Key Terms

- competitive advantage: the achievement of superior performance through differentiation to provide superior customer value or by managing to achieve lowest delivered cost
- customer satisfaction: the fulfilment of customers’ requirements or needs
- customer value: perceived benefits minus perceived sacrifice
- effectiveness: doing the right thing, making the correct strategic choice
- efficiency: a way of managing business processes to a high standard, usually concerned with cost reduction; also called ‘doing things right’
- exchange: the act or process of receiving something from someone by giving something in return
- marketing concept: the achievement of corporate goals through meeting and exceeding customer needs better than the competition
- marketing mix: a framework for the tactical management of the customer relationship, including product, place, price, promotion (the 4-Ps); in the case of services three other elements to be taken into account are process, people and physical evidence
- marketing orientation: companies with a marketing orientation focus on customer needs as the primary drivers of organizational performance
place the distribution channels to be used, outlet locations, methods of transportation

price (1) the amount of money paid for a product; (2) the agreed value placed on the exchange by a buyer and seller

product a good or service offered or performed by an organization or individual, which is capable of satisfying customer needs

production orientation a business approach that is inwardly focused either on costs or on a definition of a company in terms of its production facilities

promotional mix advertising, personal selling, sales promotions, public relations, direct marketing, and Internet and online promotion

Study Questions

1. What are the essential characteristics of a marketing-orientated company?
2. Are there any situations where marketing orientation is not the most appropriate business philosophy?
3. Explain how the desire to become efficient may conflict with being effective.
4. How far do you agree or disagree with the criticism that marketing is a source of dullness? Are there any ethical issues relevant to the five principles of ‘retromarketing’?
5. To what extent do you agree with the criticisms of the marketing concept and the 4-Ps approach to marketing decision-making?

References


70. Narver and Slater (1990) op. cit.