PART 1
Fundamentals of Modern Marketing Thought

1. Marketing in the modern organization
2. Marketing planning: an overview of marketing
CHAPTER 1

Marketing in the modern organization
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. identify the fundamental principles of marketing
2. define the marketing concept and identify its key components and limitations
3. compare a production orientation and a marketing orientation
4. differentiate between the characteristics of market-driven and internally driven businesses
5. compare the roles of efficiency and effectiveness in achieving corporate success
6. describe how to create customer value and satisfaction
7. describe how an effective marketing mix is designed
8. discuss the criticisms of the 4-Ps approach to marketing management
9. explain the relationship between marketing characteristics, market orientation and business performance
10. identify relevant business and research examples, which illustrate the principles of marketing in a modern organization
CHAPTER 1 Marketing in the modern organization

What is Marketing?

Marketing drives successful organizations but it is often misinterpreted and sometimes gets bad press. Critics use phrases like marketing ‘gimmicks’, ‘ploys’ and ‘tricks’ to undermine the valuable effect that marketing can deliver. This is unfortunate because the essence of marketing is value creation not trickery. Successful companies rely on customers returning to repurchase, and 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 and focuses managers’ attention on attracting and keeping customers. Second, it implies that the purpose of marketing is not to chase any customer at any price. Drucker used profit as a criterion. Please note that profit may be used by many commercial organizations, whereas in the non-profit sector other measures of success might be used, such as reduction of social deprivation or hunger. Consequently, the concepts, principles and techniques described in this book are as applicable to Oxfam as to Apple.

Third, 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 Companies which apply the principles of marketing recognize the importance of building relationships with customers by providing satisfaction and attracting new customers by creating added value. Grönroos 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, most markets—e.g., consumer, industrial and not-for-profit—are characterized by strong competition. This means organizations need not only to understand what their customers want but also to understand what their competitors provide. If customers’ needs are not met, they may switch to a rival supplier.

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 or services that someone else has supplied. The objective is for all parties in the exchange to feel satisfied and gain something of value. The idea of satisfaction is particularly important to suppliers of products, because satisfied customers are more likely than dissatisfied ones to return to buy more. 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 discusses the fundamental principles of marketing and provides an introduction to how marketing can create customer value and satisfaction.

The Marketing Concept

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 success. To achieve success, companies must go further than mere customer satisfaction; they must do better than the competition. Mercedes-Benz constantly focuses on the competition, and year-on-year builds on its success through successful marketing and innovation. In 2011 Mercedes-Benz was ranked top super brand in the luxury car market continuing to increase market share by 3.4 per cent.5
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: 1) company activities should focus on providing customer satisfaction rather than making things easier and better for the producer or manufacturer. This is not an easy condition to meet but it is a necessity to place the customer at the centre of all activity; 2) 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 champion for the concept and to coordinate activities. But the concept is a business philosophy, not a departmental duty; 3) for integrated effort to work successfully, 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 the marketing concept. Researchers suggest the marketing orientation is an evolutionary process and companies can move from unawareness to complete acceptance of the importance of the marketing concept as a means of defining the orientation of a business. A competing philosophy is production orientation.* This is an inward-looking stance, where managers can become focused on the internal aspects of their business. This is particularly evident, in manufacturing companies, where employees spend their working day at the point of production, so it is easy to understand how this can happen.

Production orientation manifests itself in two ways. First, management becomes cost-focused and believes that the central focus of its job is to attain economies of scale by

*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.
producing a limited range of products (at the extreme, just one) in a form that minimizes production costs. Henry Ford is quoted 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 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 is manifest is in the belief that the business should be defined in terms of its production facilities. 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. Tension between the product and market orientation continues to define business success today. Kodak is a company that failed to adapt to the market and recognize changes in the film and photography industry. Consequently, it struggled to cope with the emergence of competitors, who offered the market products more suited to their needs. Despite being the first company to introduce a digital camera in 1991, Kodak lost market share to the smart phone—e.g., iPhone 4s, and other catch-all electronic devices that meet consumers’ photographic and movie needs, on-demand and on the move. There has been a significant shift in the needs of the consumer in the electronics industry and a merging of the boundaries between communications, photography and film.

Marketing-orientated companies focus on customer needs. Change is recognized as endemic and adaptation considered a 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 Danone—in 2011 the company launched the Fundooz brand aimed at improving nutritional intake of children in India—as well as opportunities for the creation and growth of new companies such as One Water, that donates 100 per cent of profits to life-saving projects in Africa, and Toms Shoes where one pair of shoes is donated every time a pair is sold. 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 can get to understand their needs and problems. For example, Dürr AG, the German paint and assembly systems
A deeper understanding of the marketing concept and orientation can be gained by contrasting a market-driven business with an internally focused business that focuses mainly on production-orientation. 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. For internally...
focused businesses convenience comes first. If customer wants are inconvenient or expensive to produce, excuses are often used as avoidance tactics.

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 and, consequently, are vulnerable when customers’ requirements change. Bombardier manufactures products for two industrial sectors: aerospace and rail transportation. However, this world-leading business also recognizes the importance of its customers, who have very specific needs.

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. Toyota is a market-led company which uses market research extensively. The Yaris was specially designed to meet the needs of the European consumer and Toyota’s Optimal Drive technology was designed to provide their customers with the benefit of enhanced performance, lower emissions and better fuel economy.

Internally driven businesses see marketing research as a non-productive intangible and prefer to rely on anecdotes and received wisdom. Market-orientated 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. Read Digital Marketing 1.1 to find out how technology companies are changing the way everyone does business.

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
Understanding Market-Driven Businesses  CHAPTER 1

Digital Marketing 1.1 Googleyzed, Faceooked and eBayed: The Internet is Changing How Everyone Does Business

In 1986 the first .co.uk address was registered. Less than 25 years later almost three-quarters of households and businesses in the UK have access to the Internet via broadband connections. According to the Boston Consulting Group ‘The Internet is transforming the UK economy’. Nearly everyone in the UK has taken to e-commerce in a big way. It has been estimated that the Internet contributed almost £100 billion to the UK economy. It is not easy to visualize, but it amounts to more trade than each of the construction, transportation and utilities industries and means that more than 7 per cent of Gross Domestic Product (GDP) comes via the Internet. This is important as GDP is an indicator of the health of a country’s economy; if it is showing positive growth then the economy is expanding. GDP is measured in three ways: 1) output, which is the value of goods produced by all sectors of the economy; 2) expenditure, the value of all goods purchased by households and government departments; 3) income, which is all the wages of individuals and company profits. So, there is a further £400 billion of commercial activities generated by business-to-business e-commerce, online advertising and productivity improvements, conducted via the Internet, which are not included in GDP calculations. The reach of the Internet is having an impact not only on the economy but also on the way companies do business and how consumers shop. Even those who do not trade or buy online may refer to websites to check out products and services before they buy, and the financial benefits of this activity are calculated to a further £40 billion per year (in offline purchases).

Based on: BCG (2011),
BBC News Business (2011)

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 yet exploited. 3M’s Post-it product filled a latent need for a quick, temporary attachment to documents, while eBay, the online auction site, exploited the latent market for individuals who wished to sell products directly to others. Nintendo identified a latent market for a new style of home entertainment with the launch of its Wii console and software. The new product targets families, and the electronic games promise health and fitness for everyone who plays. Internally driven businesses are happy to stick with their existing products and markets.

Intensive competition means market-driven companies should respond quickly to latent markets. They need to innovate, manufacture and distribute their products and services rapidly if they are to succeed before the strategic window of opportunity closes. In contrast;

EXHIBIT 1.2
Natural smoothies enable Innocent to access emerging niche markets.

Test your knowledge about who owns whom by matching the parent company with the brands they own (answers below the table)

| A | Kraft owns ? | 1 Rachel’s Organic |
| B | PepsiCo owns ? | 2 Innocent |
| C | Groupe Lactalis owns ? | 3 Abel & Cole |
| D | Wellness Foods owns ? | 4 Green & Black’s |
| E | Lloyds Banking Group majority shareholder in ? | 5 Buxton |
| F | Unilever owns ? | 6 Tyrrell’s |
| G | Coca Cola majority shareholder in ? | 7 Seeds of Change |
| H | Nestlé owns ? | 8 Dorset Cereals |
| I | Mars owns ? | 9 Copella |
| J | Langholm Capital majority shareholder in ? | 10 Ben & Jerry’s |

Go to the website to see how Innocent markets its smoothies and how the advertising has changed since the launch of the product.

www.mcgraw-hill.co.uk/textbooks/jobber
internally driven companies tend to take their time. An example of a company which was slow to respond to the opportunities in the mobile computer is Microsoft. It introduced the tablet PC and carved a niche market in the health sector, but in 2010 Apple launched the iPad, widened market demand and now dominates this sector.

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.

**Marketing in Action 1.1 Corporate Strategies to Access Niche Markets**

New markets are emerging for natural products. A report by the Co-operative identified that markets for ethically sourced and produced food have grown almost three-fold in less than ten years and demand is driving these markets towards becoming more mainstream. While the rate of growth slowed a little in 2008/9, overall demand has continued to be positive, and a Euromonitor International report forecasts year-on-year growth of 4 per cent during 2011–2015. So it might come as no surprise that major corporate food manufacturers are seeking ways to access these emerging and potentially lucrative markets. According to a report by *Which? Magazine* (2011), ‘Wholesome-sounding brands have become household names, from Rachel’s Organics to Green & Blacks and many of us buy them partly because we like their principles and want to support small independents’. However, *Which? Magazine* also discovered that multinational corporations have become parent companies of many niche organic and ethical brands and, while they may share their principles, the ‘corporate parents often keep quiet about their ethical offspring’. Many ethical brands do not display the parent company name on the product or on associated websites, and those that do tend to be in very small print on an obscure part of the product packaging. According to academic experts there are advantages to adopting this approach: access to target markets that are difficult to reach, and *off-the-shelf* products with ready-made branding and strong market positioning, giving easy access to the market.

A company that is both inefficient and ineffective will go out of business quickly, because it is a high-cost producer of products that customers 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.20

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 that has slowly died. It was an efficient producer of photographic film but has become ineffective as consumers have moved to digital photography.21 Firms that are effective but inefficient are likely to survive because they are operating in attractive markets and are marketing products that customers 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’)22 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 Morgan Motor Company, which manufactures bespoke, high-specification sports cars. Prices for the basic model start at less than £30,000 and, as a result, the company has a long waiting list of customer orders but the factory continues to manufacture fewer than 20 cars a week.

A combination of efficiency and effectiveness 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 manufacturing company. Its investment in modern production practices ensures efficiency, while effectiveness is displayed by research and development investment into new products that consumers want to buy. Similarly, Dixons Retail Plc is an example of a company that has streamlined the supply side of its operation, so it can handle the growing demands of a multichannel retail operation efficiently. The company has also reinvented its store operations with a two-in-one format bringing together the leading brands of Currys and PC World to maximize consumer convenience and satisfaction. These investments have put the company in a strong position in consumer electronic markets.

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 quickly changing fashion trends by means of an extremely fast and responsive supply chain. The result is that Zara has become the world’s largest clothing retailer.23

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, while remaining cost-efficient.

Academics have raised important questions regarding the value of the marketing concept. The four key issues are:

1. The marketing concept as an ideology
2. Marketing and society
3. Marketing as a constraint on innovation
4. Marketing as a source of dullness.

The marketing concept as an ideology

Brownlie and Saren argue the marketing concept has assumed many of the characteristics of an ideology or an article of faith that should dominate the thinking of organizations.24 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 focus 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 focus on personal benefits rather than 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. Bloom and Greyser present an alternative view. They regard consumerism as the ultimate expression of the marketing concept, compelling marketers to consider consumer needs and wants that hitherto may have been overlooked: ‘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. Leon restaurants are aiming to change the fast food experience by only using natural, sustainably farmed produce in their menus.

Marketing as a constraint on innovation

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—e.g., search engines, social networks, cloud computing—are changing the very structure of society and were unimaginable by most consumers less than a decade ago.

It is important to note 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. 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. For example, at Google innovation is encouraged and innovations are tested and launched—e.g., froogle (product search engine, launched
Overeating has become a pressing health issue in many developed countries. In the UK there are 9000 premature deaths per year linked to obesity. Government data suggest that obesity-related illnesses will cost the taxpayer £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 by selling junk food and pushing foods high in salt, fat and sugar as cheap and credit crunch-friendly options for hard-pressed consumers. Critics have suggested that the use of legislation to protect children from junk food marketing and effective nutritional labelling enforcement would be far better investments than the Change4Life campaign. Others suggest private partnerships will have a positive effect by putting junk food companies under the spotlight, and making them subject to public scrutiny through their commitments to a health-related cause.

In 2010 HM Government reported on the Change4Life campaign, and found that, in its first year, the Change4Life movement has become more widespread than expected and there are many more supporters in the form of government and commercial sector partners. The focus of the campaign has widened and now includes Let’s Dance with Change4Life, Bike4Life, and Walk4Life and Start4Life, targeting pregnant mums and families with very young children. The Change4Life campaign has exceeded all of the initial targets, and the number of families signing up to the schemes is double the year one target. The report also states that ‘over 1 million mums are already claiming to have made changes to their children’s diets or activity levels as a result of Change4Life’.

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 simply reflect it. Britain’s retail industry provides some evidence to support this premise: in 2005 a NEF report concluded that there was increasing uniformity across high streets up and down the country and suggested the level of blandness was a new threat to retail development. The report blamed concentration of ownership among retailers, who have rolled out their formulaic retail solutions in high streets and shopping malls and the result is ‘corporate sameness’—a style, which continues to shape today’s high streets. Retail guru Mary Portas raised her concerns with the UK Government about the ‘sameness’ of malls and shopping centres and the impact on town centres, and got their commitment to invest in developing more diverse retailing to attract shoppers to city centres.
Brown also feels marketing should tease, tantalize and torment target markets to create insatiable desire. He introduced ‘retro marketing’ as an approach built on five principles: exclusivity, secrecy, amplification, entertainment and ‘tricksterism’.

1. **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.

2. **Secrecy** has the intention of teasing would-be purchasers and was a tactic used by the Harry Potter marketing team. The pre-launch of the blockbuster *Harry Potter and the Goblet of Fire* involved a complete blackout of advance information with the book’s title, price and review copies being withheld prior to its launch.

3. **Amplification** is designed to get consumers talking about the new product or service. This can be achieved by controversial adverts—e.g. Benetton, viral social media videos, Cadbury’s Gorilla playing the drums, Cravendale cats with thumbs. The growth in online advertising has facilitated wider use of such campaigns by many companies—e.g., Apple, Samsung and many other leading brands.

4. **Entertainment** ensures that marketing efforts are engaging target audiences. Brown claims ‘modern marketing’s greatest failure’ is that it has lost its sense of fun in its quest to be rigorous and analytical.

5. **Tricksterism** means marketing with ‘panache and audacity’. For example, Britvic made what appeared to be a public service announcement for television. 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 freefone 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.

These four emerging issues help prompt discussion about the value of the marketing concept, and together are useful for highlighting how aspects of the concept are evolving.

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**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:

\[
\text{customer value} = \text{perceived benefits} - \text{perceived sacrifice}
\]

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 and is developing allegiances with Weight Watchers and its popular weight-loss programme.

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; for example, 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, Waitrose, 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.

ASOS, a successful online fashion retailer, is succeeding by creating customer satisfaction. The company succeeds in satisfying young women’s desire to replicate the look of their
favourite celebrities by offering affordable versions of celebrity styles, and showing how to copy the designer looks of magazine favourites such as Victoria Beckham, Lindsay Lohan and Jennifer Lopez at a fraction of the cost.39

Customer satisfaction is taken so seriously by some companies that they link satisfaction to financial bonuses. 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 various questions, and their responses are measured. Dealerships have to be capable of achieving good performance scores, and existing dealerships that consistently fail to meet these standards are under threat of franchise termination. This approach 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.40

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. The 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 a free basket of fruit on arrival in visitors’ rooms. 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).41

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. Mini Case 1.1 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,42 greater customer loyalty43 and the willingness of customers to pay higher prices.44

### Customer Loyalty

Customer satisfaction is linked to customer loyalty and profitability.45 It can cost up to five times more to attract a new customer than to serve an existing one.46
Leading 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 assess satisfaction quantitatively. 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. However, the marketplace is changing and use of new data-capture methods and technologies means that some customers are more aware of how their data are being used. Consequently, customers must see some benefit from the use of their data if an effective relationship is to develop. Furthermore, customers (both satisfied and dissatisfied) are making themselves heard across the web, via Facebook, Twitter, so that understanding the digital arena is critical for marketers. Marks & Spencer discovered via Facebook that their tiered pricing of bras caused much dissatisfaction among their customers. The critical role of listening to customers in marketing success was emphasized by Sir Terry Leahy, former chief executive of Tesco, the successful UK supermarket chain, when talking to a group of business people. ‘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.

Kwik-Fit, the car repair group, places listening to customers high on its list of priorities. 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. 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.

In addition, companies must make provision to find out what their customers are saying online. 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. TripAdvisor is the world’s largest online travel site, and it helps people plan their holiday and business trips by providing advice from over 60 million reviews and opinions from other travellers who have experience of services provided by hotels, restaurants and travel companies. Each service provider is ranked by a number of performance indicators, and this can make a big difference to future trade as the opinions of other travellers can have a powerful influence.

Consumers can 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 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.

Questions:
1. Explain why feedback from social media sites can be more accurate than surveys.
2. What strategy would you suggest for a business in handling customer complaints, comments and questions?
3. How would you explain the blog search engine site Technorati to a friend and the benefits it offers?

Based on: Jones and Sasser Jr (1995); Morgan (1996); White (1999); Roythorne (2003); Ryle (2003); Mitchell (2005); Wright (2006); Jarvis (2009); Hilpern (2011), TripAdvisor (2012)
In most situations a returning customer is beneficial to an organization as they can increase sales volumes through repeat purchases. Loyalty is a response which a customer shows over time. Typically, they will repeatedly return to the same supplier if they are satisfied with the products and services they receive. Customer loyalty can be built on convenience, quality of service and social interaction, for example. However, loyalty can take different forms and be triggered by different marketing initiatives. For example, Tesco uses sales promotions through its loyalty card programme to trigger repeat customer behaviour. Arguably, this type of loyalty is driven by price, and the promotion acts as an incentive to trigger repeat purchases. At the other end of the scale is a form of loyalty which transcends emotional boundaries: brand love. Brand love is an extension of the concept of loyalty. Researchers have found that the connections between individuals and the brands they choose are closely associated with the concept of interpersonal physical love. However, while brand love was found to involve passion, positive emotional connections, long-term relationships, positive attitudes, and distress at the thought of separation, it does not leave the brand lover as profoundly committed to a product as they might be to a personal partner. Nevertheless, there are consequences for marketing managers and they should look for ways to turn liked brands into loved brands. Looking for ways to maintain this high level of commitment to the relationship can be achieved by maximizing three key opportunities: 1) facilitate ‘passion-driven behaviour’, which is a strong commitment to use the brand as in the case of luxury designer brands—e.g., Gucci, Rolex, Porsche; 2) build brands that engender self-brand integration. This is the way the brand connects to an individual’s values and deeper thought processes. Rewards can be used effectively to emphasise the benefits of this higher-level commitment. Samsung is an example of a brand attempting to connect with customers by engendering self-identity through brand values associated with the environment; 3) Create positive emotional connections. Brands which succeed in being regarded as ‘an old friend’ and creating a strong bond with the customer benefit by finding a place in the customer’s heart. Anita Roddick succeeded in making this type of connection with Body Shop customers. The concept of relationship marketing is covered in greater detail in Chapter 16.

Whether the aim is to build closely connected, deep and meaningful relationships with their customers or to offer short-term incentives to foster customer loyalty, marketing strategies need to pay close attention to how to apply the marketing mix. Read the research to develop a more in-depth knowledge of customer satisfaction and loyalty.
Using its understanding of its customers as a basis, a company develops its marketing mix. The original concept of 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. However, the growth of the service industries has given rise to an extended marketing mix of ‘7-Ps’ which adds people, process and physical evidence into the mix. The emphasis of each of the elements of the mix will vary depending on the products and services offered by an organization. For example, BMW cars and Rolex watches are market-orientated companies that focus primarily on the 4-Ps as they are product manufacturers, but Pizza Hut and Kentucky Fried Chicken focus primarily on the elements of the extended mix, as service, process and the physical evidence are at the heart of their fast-food restaurants.

In other words, decisions regarding the marketing mix form a major aspect of marketing concept implementation. At this point we briefly examine the 4-Ps to provide an essence of marketing mix decision-making. Later we look at each of the 4-Ps in considerable detail (Chapters 9, 11–18) and the service mix (people, process and physical in Chapter 10).

**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 Samsung MP3 player was the market leader in digital music players, but following its launch, the Apple iPod soon outsold the MP3 player. Samsung has been market leader in various consumer electronic markets from batteries for digital gadgets to flat-screen televisions. Currently, the company is making a move into more sustainable products. Samsung envisages in the future that it will be a market leader in technology markets which are vital to society.

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.
CHAPTER 1  Marketing in the modern organization

**Promotion**

Decisions have to be made with respect to the **promotional mix**: advertising, personal selling, sales promotions, public relations, direct marketing and online promotion. Target audiences are made aware of the existence of a product or service, and the benefits (both economic and psychological) it gives to customers. Each element of the promotional mix has strengths and weaknesses. Advertising, for example, is 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.

Sales promotions can be used to stimulate an immediate uplift in sales but this effect can be short-term. The Internet now attracts more advertising revenue than any other media and has become an important 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. However, social networks pose challenges for marketing managers. Find out more by reading Digital Marketing 1.2. In business-to-business markets, the promotional mix is used to communicate with suppliers and customers. Personal selling can be used to good effect as this promotional tool offers face-to-face interactions which are an important part of sales negotiations.

**Place**

**Place** concerns decisions about distribution channels. Key management decisions focus on locations of outlets, methods of transportation and inventory levels held. The objective is to ensure products and services are available in required 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 selling direct to customers rather than using traditional computer outlets. Music and film is increasingly being distributed by downloading from the Internet rather than being bought at music shops.

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Digital Marketing 1.2  What Opportunities Do Social Media Environments Offer?

Social networking environments, such as Facebook and Twitter, provide opportunities for organizations to engage in a direct dialogue with individuals. 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 Glasses Direct, 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. However, environments such as Facebook and Twitter have emerging problems that companies are finding difficult to grasp. Social networker ‘conversations’ may not be in the best interests of a company or brand. 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)
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.

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

**The marketing mix matches customer needs**

Sensible marketing mix decisions can be made only when the target customer is identified and understood (choosing customer groups, targeting, segmentation and positioning are explored in Chapter 8). Once the target market(s) is identified, marketing management needs to understand how customers choose between rival offerings. Managers should consider 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, reliability, durability and productivity gains to be made by using the product. Examples of psychological criteria are self-image, a desire for a quiet life, pleasure, convenience and risk reduction (see Chapter 4). The important point at this stage is to note that an analysis of customer choice criteria reveals a set of key customer requirements that must be met in order to succeed in the marketplace. Meeting or exceeding these requirements better than the competition leads to the creation of a competitive advantage.

**The marketing mix creates a competitive advantage**

A competitive advantage is the achievement of superior performance through differentiation to provide superior customer value or by managing to achieve lowest delivered cost. It can be derived from decisions about the 4-Ps. Apple’s iPad is an
example of a company using product features to convey customer benefits which exceed the competition’s offerings. The iPad’s portability, range of applications and its ability to download, display and store, PDF document audio, music, films can, therefore, be regarded as the creation of competitive advantages over the previous market leader in the tablet computer market, Microsoft. 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 1.2 explains how Cobra beer has gained a competitive advantage.

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 sales force can act as a competitive advantage. A problem that a company such as Rolls-Royce, the aero engine manufacturer, faces is the relatively small size of its sales force 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

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Marketing in Action 1.2  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, since 2009 Cobra has been jointly owned by Molson Coors UK and Lord Bilimoria, an India-born British peer who established the brand. Cobra is now regarded as a natural accompaniment to Asian meals. It is available in a selection of ranges, including the double-fermented King Cobra and Cobra 0%. The company has also signed new deals to offer the drink in bottles 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). Cobra has won many industry awards for its consistently high quality products.

Based on: Fernandez (2008)
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 cosmetics brands—Armani, Christian Dior and Calvin Klein, for example—is consistent with their strategic position.

The marketing mix should match corporate resources

The choice of marketing mix strategy may ultimately be down to the available financial resources of the company. For example, Amazon was only able to establish its global presence by massive financial investment in online advertising. 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, digital marketing, 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, discussed in some detail in Chapter 10 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.

However, 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 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. Research in Europe and North America has examined the relationship between marketing and performance and the results suggest that the relationship is positive.
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.

![FIGURE 1.9 The relationship between market orientation and profitability](image-url)
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.’

Recent studies have 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,70 sales growth,71 sales growth and new product success,72 perception of product quality73 and overall business performance.74

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.75 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 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. However, this clearly did not occur with the commodity sample in the Narver and Slater study.76 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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Log on to the Online Learning Centre at www.mcgraw-hill.co.uk/textbooks/jobber to explore chapter-by-chapter test questions, links and further online study tools for marketing.

Review

1 Identify the fundamental principles of marketing

- The marketing concept sets out the core ideas which underpin the nature of marketing and provides central planks on which to build a market-orientated organization.
- The marketing-orientation provides a guiding philosophy that enables an organization to concentrate its activities on its customers.
- Focusing on efficiency and effectiveness enables an organization to ensure that it is doing things right and doing the right things. Getting the balance correct between the two can mean the difference between success and failure.
- Customers are at the heart of marketing; consequently understanding how to create customer value and satisfaction is very important.
- Designing an effective marketing mix is an essential element of marketing and is the means by which customers are satisfied and marketing objectives are achieved.
2 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.

3 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.

4 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.

5 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.

6 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.

7 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.

8 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.
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).

Identify relevant business and research examples, which illustrate the principles of marketing in a modern organization
- This chapter has described marketing and demonstrated how the principles of marketing can be applied in the modern organization through the use of examples, marketing insights and case studies at the end of the chapter. For each of the key concepts it is possible to identify illustrative examples.

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 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

References

CHAPTER 1

76. Narver and Slater (1990) op. cit.
For most companies, owning the number one brand name in the world (valued at over $67 billion by the Interbrand consultancy), having global brand recognition and earning $4.8 billion profits on sales of $21.9 billion a year in 2005 would spell success on a huge scale. But Coca-Cola is not ‘most companies’. In the face of strong competition and a changing marketing environment, the fortunes of Coca-Cola turned for the worse during the early 2000s.

Once a Wall Street favourite, Coca-Cola created a global brand by the expert marketing of something as humble as brown carbonated water laced with caffeine and vegetable extracts. For decades the company outperformed its arch-rival PepsiCo such that in early 2000 Coca-Cola’s market capitalization was $128 billion, almost three times that of PepsiCo, which was valued at $44 billion. By December 2005 all that had changed: PepsiCo had nudged ahead with a market capitalization of $98.4 billion against Coca-Cola’s $97.9 billion. For the first time in the history of the two companies PepsiCo was valued more highly than its old enemy. Suddenly, the ‘real thing’ was second best.

Coke’s problems

Many observers dated Coke’s problems back to the death in 1997 of Roberto Goizueta, its charismatic and highly successful chief executive, who delivered double-digit annual profit growth. His success over PepsiCo led him to treat that company with contempt. He once said, ‘As they become less relevant, I don’t need to look at them any more.’ Shortly after his death, however, the company’s shares lost a third of their value, and profit growth collapsed to the low single digits. His successors reigned during a time of bungled takeovers, disastrous product launches, contamination scares, and constant feuding between factions within the management and boardroom. A classic illustration of Coke’s problems was the scandal involving the launch of Dasani, a bottled mineral water that turned out to be distilled tap water. When the harmful chemical bromate was found in a batch the brand was withdrawn in the UK.

However, other people attributed the roots of Coke’s failings to Goizueta’s single-minded devotion to cola. His philosophy was that nothing could beat the low-cost, high-profit-margin business of producing syrupy concentrate for bottlers, under licence, to transform into the world’s favourite drink. While Coca-Cola focused on carbonated colas, PepsiCo diversified away from sugary fizzy drinks into a powerful portfolio of non-carbonated products. In 1998 it bought the fruit juice business Tropicana, which it has built to be the number one fruit juice brand in the USA. Three years later it bought Quaker Oats, thereby acquiring the energy drink Gatorade, which has also been built into a major brand. (Coca-Cola pulled out of the Quaker Oats bidding war believing its price to be too high.) PepsiCo also owns Aquafina, the leading bottled water brand in the USA. The fruit juice, energy drink and bottled water sectors all experienced double-digit growth in recent years. It continued its acquisition programme with the purchase of the South Beach Beverage Co, which manufactures the SoBe healthy drinking range, and has launched SoBe Lifewater, which it claims contains the full recommended daily amount of vitamin C together with vitamins E and B, and no preservatives or artificial flavourings. Its bottling partner Pepsi-Americas also bought Ardea Beverages, which markets the Nutrisoda range containing amino acids, vitamins, CoQ10, herbs and minerals. In contrast to Coke, the culture at PepsiCo was reported to be more dynamic and customer focused and less bureaucratic.

Where Coke focused on soft drinks Pepsi has interests in the snack food business (it bought the Frito-Lay snack food business in 1965), owning such brands as Doritos, Walkers Crisps, Quavers, Lay’s Potato Crisps and Wotsits (see Table C1.1). The result is that PepsiCo generates about 23 per cent of its worldwide profits from the stagnant carbonated drinks sector, while Coca-Cola relies on fizzy drinks for 80 per cent of profits. Coca-Cola always seemed to be playing catch-up, having launched Minute Maid fruit juice to challenge Tropicana, Dasani to take on Aquafina,
and Powerade, an energy drink, following the success of Red Bull and Gatorade in this sector. PepsiCo's diversification programme and its brand-building expertise has made it the world's fourth largest food and beverage company, ranking behind Nestlé, Kraft and Unilever. Its sales were more than $66 billion compared with Coke's $47 billion in 2011; it owns 6 of the 15 top-selling food and drink brands in US supermarkets—more than any other company, including Coke, which has two. Coke, on the other hand, is market leader in carbonated drinks (43 per cent versus 32 per cent).

**TABLE C1.1 Cola wars: who owns what**

<table>
<thead>
<tr>
<th>Coca-Cola brands</th>
<th>PepsiCo brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coca-Cola</td>
<td>Pepsi</td>
</tr>
<tr>
<td>Diet Coke</td>
<td>Diet Pepsi</td>
</tr>
<tr>
<td>Coke Zero</td>
<td>Gatorade</td>
</tr>
<tr>
<td>Powerade</td>
<td>Tropicana</td>
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<tr>
<td>Minute Maid</td>
<td>Aquafina</td>
</tr>
<tr>
<td>Dasani</td>
<td>Lipton Iced Tea</td>
</tr>
<tr>
<td>Fanta</td>
<td>Frappuccino</td>
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<tr>
<td>Lilt</td>
<td>Mountain Dew</td>
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<tr>
<td>Sprite</td>
<td>Walkers crisps</td>
</tr>
<tr>
<td>Calypso</td>
<td>Lay's potato crisps</td>
</tr>
<tr>
<td>Oasis</td>
<td>Quaker Oats</td>
</tr>
<tr>
<td>Just Juice</td>
<td>Quavers</td>
</tr>
<tr>
<td>Kia Ora</td>
<td>Doritos</td>
</tr>
<tr>
<td>Five Alive</td>
<td>Wotsits</td>
</tr>
<tr>
<td>Malvern water</td>
<td>Sugar Puffs</td>
</tr>
<tr>
<td>7-Up</td>
<td></td>
</tr>
</tbody>
</table>

Life since Mr Goizueta also saw Coke criticized for its fall in marketing investments, including advertising and marketing research, in an effort to maintain short-term profits, and the lack of iconic brand-building advertising. Its culture was also questioned and its high-rise headquarters in central Atlanta was known in the industry as 'the Kremlin' because of the political intrigue and bureaucratic culture that pervaded its corridors.

**A new era?**

In response to its problems, Coca-Cola brought an ex-employee, Neville Isdell, out of retirement to become chairman and chief executive in 2004. One of his first acts was to allocate an additional $400 million a year to marketing and innovation. This was in recognition of the under-investment in brands and product development. Emerging markets such as China and India were also targeted more aggressively. He also briefed advertising agencies around the world in an attempt to create new iconic campaigns to revive the core brand and reconnect with consumers. In the face of research that showed the proportion of Americans agreeing that cola is 'liked by everyone' falling from 56 per cent in 2003 to 44 per cent in 2005, and those agreeing that the drink was 'too fattening' increasing from 48 per cent to 59 per cent, Coke increased investment in sugar-free brands such as Diet Coke and Sprite Zero. Sugar-free colas have also been launched, such as Coke Zero, which comes in black cans and bottles, and is targeted at calorie-conscious young males who have failed to connect with Diet Coke, believing that it lacks a masculine image. The brand is designed to compete with PepsiMax, which is also a diet cola targeted at men. Overall, marketing spend for the category doubled. Isdell also oversaw the acquisition of a number of small water and fruit juice companies in Europe. Isdell resisted the temptation to follow Pepsi with the acquisition of a snacks company. Instead his strategy was to focus on building a portfolio of branded drinks. Following this strategy, Coca-Cola purchased the US firm Energy Brands, which owns Glaceau, a vitamin-enhanced water brand, and bought a stake of 10 to 20 per cent of Innocent (increased to 58 per cent in 2010), the market leader (68 per cent) of fruit smoothie drinks in the UK. Innocent has built a reputation for making only natural healthy products, and using only socially and environmentally aware products. At the time of the deal (2009), Innocent operated in the UK, Ireland, France, Scandinavia, Germany and Austria. Coca-Cola also launched an energy drink Relentless aimed at 18–40-year-old men.

Meanwhile, PepsiCo has introduced its own labelling system in the USA to identify healthier products, using criteria set by an independent board of health experts. Now 40 per cent of sales derive from products with the green 'Smart Spot' given to healthier brands such as sugar-free colas and baked rather than fried crisps. Most of its research and development is focused on healthier products such as Tropicana-branded fruit bars, which provide the nutritional equivalent to fresh fruit. Sales of Smart Spot products are growing at twice the rate of those without the designation, and account for over half of Pepsi's product portfolio. Continuing its focus on healthy drinks, PepsiCo launched PurVia which uses Stevia, a South American herb used to create natural sugar substitutes, as a zero-calorie sweetener. It was first used in flavours in PepsiCo's water brand SoBe Life. Coca-Cola followed this launch with its own equivalent, Truvia. PepsiCo has continued its move into healthier fare with yoghurt drinks, hummus and oatmeal bars.
Both companies have also attempted to arrest the decline in the carbonated soft drinks sector by launching a flurry of new products such as lime- and cherry-flavoured colas. Nevertheless, colas have come under attack for their contribution to obesity with some schools banning the sale of all carbonated drinks on their premises.

Other ethical controversies have been encroaching upon Coca-Cola’s global hold on the drinks market. Concern at American foreign policy and anti-American sentiment around the world has led to the launch of brands such as Mecca Cola to provide an alternative to US colas.

Under Mr Isdell Coca Cola achieved steady international sales and profit growth. In 2008 he returned to retirement and was succeeded by Muhtar Kent who has successfully built sales of Coke’s brands globally. For example, in 2011 China accounted for 7 per cent of Coca-Cola’s total sales volume. In the same year, his investment in core brands saw Diet Coke overtake Pepsi as North America’s second best-selling soft drink.

Questions

1. Compare Coca-Cola’s response to the changing marketing environment before the arrival of Neville Isdell to that of PepsiCo.

2. Assess both companies in terms of their level of marketing orientation.


4. What advantages, if any, does PepsiCo’s greater diversification give the company over Coca-Cola?

5. Assess Coca Cola’s part-ownership of Innocent drinks from the point of view of both companies.

6. What future challenges is Coca-Cola likely to face?

The case was written by David Jobber, Professor of Marketing, University of Bradford.
In 1998 Nokia became the world’s biggest mobile phone manufacturer, with its share price peaking at over $60 in June 2000. It remained in a strong position until the first quarter of 2012 when its share price fell to just over $3.00 and Samsung overtook them. Nokia’s market capitalization stands at less than $12 billion, compared to Samsung’s $137 billion.

This case seeks to provide some insight into how Nokia found itself in decline, and asks what Nokia can do, if anything, to engineer a turnaround when faced with rivals who seem to be becoming stronger.

Company background
Since its establishment in the mid-nineteenth century Nokia has made one of the most remarkable business transformations ever. In 1966 Nokia restructured itself into three business units: forestry, rubber, and electronics. Back then, it was not certain that electronics would win out as the most important division because the traditional businesses within the group could point to stability, longevity, market share and cash generation—so why change?

Several factors were soon to make mobile communications not only a natural but also strategic choice—an opportunity where there is a strong fit between the resources and capabilities of the organization and an identified opportunity from the external environment.

The key opportunity arrived in the 1970s when the Nordic countries, who had already established a great degree of cooperation in various areas of trade, planned to have a common telephone network. At the time, it was thought that there was no way Finland could take the lead in this enterprise. It had a small population and too many lakes, which ruled out interconnecting cables between the islands because it was far too expensive.

However, Nokia decided to turn that problem into an opportunity. They believed that the aerial route for electronic signals was the best, maybe the only, solution and the Nordic Mobile Telephone (NMT) network was born, with Nokia appointed supplier of hardware to NMT. This enabled Nokia to set the industry standards right from the start—potentially a huge market advantage.

Nokia built on its successful pioneering and market development efforts as well as a track record of innovation in the 1990s with milestones such as the development and launch of the first global mobile communications network—GSM (Global System for Mobile Communications) with the very first GSM call in 1991.

As the market expanded, portability, design, style and services increased in importance and segments of consumers with different needs clearly emerged. Identifying these segments and developing value propositions which met each segment’s clearly defined needs were the key reasons why Nokia handsets became the popular handset of choice for users.

From 2000 to 2005
In 2000 things looked very promising for Nokia—sales and profits were at record levels, as was its share price. It was also Europe’s biggest brand and the fifth biggest brand on the planet (according to Interbrand).

However, within a couple of years the wheels on the Nokia bandwagon started to wobble, perhaps best demonstrated by the dramatic 80 per cent fall in its share price to just under $11.00 in August 2002.

Having had such a dominant market position, how could Nokia’s fall from grace be so dramatic? Surely, the company was still customer and market–oriented and performing well against the ‘market-driven business’ criteria shown in...
Early warning signs

As early as 2001/2, Nokia was starting to get complacent as a remark by the then CEO, Olli-Pekka Kallasvuo, shows: ‘The complexity of the new devices benefits us. We know this industry better than anyone. Complexity improves our competitive position.’

In addition, Microsoft, which has the reputation of being an aggressive competitor, had announced its decision to enter the mobile phones market but this only belatedly set alarm bells ringing in Nokia.

In mid-2004 an article in the Economist highlighted the potential contributory factors:

1. **Competitive blindness: not constantly monitoring the competitive environment**
   
   ‘When a firm dominates a market, especially one that is driven by constant technological advances, it becomes so fixated with trying to ward off what it reckons to be its most powerful challenger, that it leaves itself vulnerable to attack from other directions.’

   By just focusing on Microsoft, Nokia seemed to ignore the challenges from other competitors, thereby failing not only to follow what established players like Motorola and Sony Ericsson were doing, but also emerging competitors such as Samsung.

2. **Failing to track market demands**
   
   Obsessed with warding off competition from Microsoft, Nokia failed to read market signals like growing demand for clamshell phones, colour monitors and camera options, while Asian players like Samsung, LG and Sharp quickly introduced new models at better prices.

   Companies like Motorola and Sony Ericsson also proved more agile than Nokia in adapting to new market demands. ‘We read the signs in the marketplace a bit wrong. While Nokia was focused on functional advantages like phone size and ease of use, the competition was emphasizing “experiential” factors such as colour richness and screen size. That proved to be attractive at the point of sale,’ said Anssi Vanjoki, head of Nokia’s multimedia operations.

3. **Line reduction for internal convenience, not in response to customer segment needs**
   
   Nokia restricted the range of their models, mainly to reap the rewards of manufacturing cost reduction and thereby increase the bottom line. However, important segments of the market wanted more variation than Nokia was giving them. The competitors were much more in tune with the needs of younger buyers.

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The re-emergence of smartphones (2006–2009)

From 2005 things seemed to improve. In the second quarter of 2006 alone, Nokia shipped 78.4 million mobile phone units, 34 per cent of the total market. At the time, Nokia seemed to be putting renewed emphasis on new product development and branding.

In April 2005 Nokia launched two new smartphone sub-brands, the N Series and the E Series (although the company referred to the E Series as ‘business devices’ rather than smartphones), in a departure from its normal ‘umbrella branding’ approach. Analysts felt that these helped Nokia to capture the new/emerging market for high-end multimedia mobile phones and business-oriented mobile phones respectively.

In addition, Nokia entered the Internet space with the ‘OVI’ brand in August 2007. ‘OVI’ was an umbrella brand for a range of Internet services offered by Nokia—an online music store, games store and navigation service. The above initiatives led to improvements in Nokia’s overall performance, which was reflected in its share price. In January 2005 it stood at around $15.00; by the end of 2007 it was hovering around the $40.00 mark, an increase of more than 250 per cent.

However, once again, this proved to be an illusion. Some analysts felt that the emerging markets of India and China were largely responsible for Nokia’s revival in the mid-2000s, rather than their NPD initiatives. As the old saying goes, ‘a rising tide lifts all boats,’ and this might have led to more complacency and not delving deep enough into the drivers of their performance improvements.

Although Nokia had launched the first smartphone back in 2005 and had 53 per cent of this market in the fourth quarter of 2007, according to Canalys, it was about to lose this leadership to iPhone and BlackBerry. While Nokia’s mobile phones were generally praised for their robust construction and ease of use, its competitors’ smartphones were perceived as more powerful and even easier to use—especially the Apple iPhone—and BlackBerry phones had fantastic email integration. Nokia smartphones simply didn’t possess the cachet of their rivals.

Bloomberg BusinessWeek put it thus: ‘As iPhone sales took off in 2007, Nokia remained strangely detached, say a dozen current and former executives. The company didn’t sit still, exactly. Yes, it opened its own app store, OVI—but never put marketing muscle behind it. With no runaway hit like the iPhone, app developers largely ignored it. However, “It was an ignorant complacency, not an arrogant complacency,” said Nokia human resources head Juha Akras.’
2010 onwards
In September 2010 Nokia appointed its first non-Finnish CEO as a replacement for Olli-Pekka Kallasvuo. Stephen Elop was recruited from Microsoft, where he had been Head of Business for Microsoft Office.

Within six months, Elop conducted his own strategic review of Nokia and he didn’t hold back on his assessment of the dire situation facing the company. As the Economist reported in February 2011:

‘Apocalyptic language fuels the technology industry as much as venture capital does. But Stephen Elop, Nokia’s new boss, may have set a new standard. ‘We are standing on a burning [oil] platform,’ he wrote in a memo to all 132,000 employees of the world’s biggest handset-maker. If Nokia did not want to be consumed by the flames, it had no choice but to plunge into the ‘icy waters’ below. In plainer words, the company must change its ways radically.

In 1996 Andy Grove, founder of Intel said: ‘Business success contains the seeds of its own destruction…Success breeds complacency, and complacency breeds failure.’ This is a key lesson, which successive CEOs before Elop didn’t really apply.

Elop’s predecessor, Olli-Pekka Kallasvuo, was openly and infamously dismissive about the threat from Apple in 2007. He confidently informed his executives that Apple’s new iPhone would ‘not in any way necessitate us changing our thinking’ . He obviously had forgotten the lessons of the early 2000s, and yet again complacency seemed to be rearing its ugly head.

And as Mark Ritson wrote in June 2011:

‘The eternal problem for brands such as Nokia is that markets are fluid and companies are not. If executives could have their way, they would draw up a list of brands allowed to compete in a market and competition would then commence, uninterrupted by game-changing entrants. In Nokia’s case it was a short list of handset manufacturers that included Sony, Ericsson, Motorola and Samsung.

But sadly for Nokia, consumers don’t think within categories, they think across them. To them, Apple was just as much an option as Nokia because of its brand and its proven relationship with consumers in other areas.

Elop was not going to make the same mistake. In March 2011, he announced that Nokia were to dump their homemade Symbian software (shipped already on around 400 million phones), and replace it with Microsoft’s Windows Phone 7 software, then running on around 4 million. To the 2000 employees in the announcement meeting in Finland, this was a humiliating climb-down, but Elop was unapologetic. Apple and Google had changed the industry, he said, from handset-focused to software-focused, while Nokia just stood and watched.

As Bloomberg BusinessWeek put it in June 2011, ‘Pride can kill a company. So can bad management. Nokia suffered from both—and terrible timing, too.’ Elop couldn’t put the clock back, but at least he was trying to lead the jump from the burning platform.

‘When you go through a transition like this,’ Elop said, ‘there are going to be bumps in the road. Investors hate uncertainty, and we’ve entered a period of uncertainty.’ ‘Bumps’ and ‘uncertainty’ maybe underestimate it, but Elop insists he knew things would get worse before they got better. He remains committed, he says, to his process, and especially to the ‘management journey’ he undertook to get Nokia back on track.

The future
What, then, does the future look like for Nokia? As the Nokia website puts it, the future will look like this:

‘To help us achieve our mission, Nokia has formed a strategic partnership with Microsoft that will, we hope, see us regain lost ground in the smartphone market. Together, we intend to build a global ecosystem that surpasses anything currently in existence. The Nokia-Microsoft ecosystem will deliver differentiated and innovative products with unrivalled scale in terms of product breadth, geographical reach and brand identity.

Elop’s master plan, according to Bloomberg BusinessWeek, has two main components:

Windows-based smartphones are the first stage. With an estimated $1.4 billion annual savings from discontinuing Symbian, he says he will invest more to protect and build Nokia’s massive low-end phone business in emerging and yet-to-emerge nations in Asia and Africa, which brought in 33 per cent of Nokia’s sales in 2010.

Elop’s second priority has been dubbed ‘New Disruptions’. It’s a fully sanctioned skunkworks (skunkworks means a group within an organization given a high degree of autonomy and unhindered by bureaucracy, tasked with working on advanced or secret projects, according to Wikipedia).

The goal of the skunkworks, as Elop told a group of engineers in Berlin on Feb. 29, is once again to ‘find that
next big thing that blows away Apple, Android, and everything we’re doing with Microsoft right now and makes it irrelevant—all of it. So go for it, without having to worry about saving Nokia’s rear end in the next 12 months. I’ve taken off the handcuffs.’

Lumia 900: the next big thing?
It didn’t take long for this big shift in strategy to show signs of promise. Prior to going on sale in North America in April 2012, there was an unmistakable buzz around Nokia’s new Lumia 900 touchscreen, which runs the new Windows Phone OS (Operating System) and can operate on fourth-generation, or LTE (Long Term Evolution), wireless networks. The phone won ‘best of’ accolades at the 2012 Consumer Electronics Show (CES 2012).

There was also a lot of goodwill amongst the UK pundits. The Sunday Times gave the Lumia a very good report when it launched. And Marketing Week, in November 2011, gave Nokia a great piece of PR. They reported that Charmaine Eggbery, Nokia’s senior vice-president of Marketing and Marketplace Activation, is one of the marketers enacting the new strategy. Well known in the technology world, Eggbery joined from BlackBerry maker RIM in July 2010 and reports to CMO Jerri DeVard.

Part of the refocus is to focus on the youth market, a market segment that has become very important for BlackBerry, because of its free instant messaging application, BBM. Eggbery says the Lumia range’s social hub and inbuilt music streaming service will be the functions that will revive the brand among this particular segment.

But can Nokia, a brand that has been typically favoured by older, more conservative consumers, speak the language of today’s youth? Eggbery is quoted by Marketing Week saying the company’s research and insight department has been exploring the global youth market to help inform Nokia’s strategy.

‘If you want to be consumer-centric, the first thing you have to do is talk to consumers. I have been blown away by the consumer research and insights group here. We have been doing intensive research on every continent and really looking hard at what Nokia means to them, who they are, what do they aspire to, what are their passions and what resonates with them,’ Eggbery explains. But was that confidence misplaced?

It’s going to be difficult—maybe Gloomia for Lumia?
In 2012 Nokia warned investors that it would post losses for the third and fourth quarters of the year. This sent its shares plunging to just over $3.00, a level not seen since 1996.

Then came reports that the Lumia 900 was marred by an embarrassing software glitch, and that several big European carriers didn’t think it was good enough to compete with Apple’s iPhone or Samsung’s Galaxy phones. Some have even questioned whether Elop bet on the wrong horse by hitching Nokia’s fortunes to Microsoft’s, rather than going with the ‘open’ OS Android.

In the first quarter of 2012, Nokia said it had sold 2 million Lumia handsets. By comparison, Apple claimed to have sold 1 million iPhone 4s handsets in the 24 hours after it went on sale, according to PC Pro.

It all just highlights how difficult it can be to engineer a quick turnaround when up against giants like Apple, Google and Samsung. Having a phone which generates buzz is one thing, but convincing people to buy it is quite another.

The figures published by IDC for smartphone sales in February 2012 show the huge job still to be done:

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apple</td>
<td>23.5%</td>
</tr>
<tr>
<td>Samsung</td>
<td>22.8%</td>
</tr>
<tr>
<td>Nokia</td>
<td>12.4%</td>
</tr>
<tr>
<td>RIM (Blackberry)</td>
<td>6.5%</td>
</tr>
<tr>
<td>HTC</td>
<td>10.8%</td>
</tr>
<tr>
<td>Others</td>
<td>24.0%</td>
</tr>
</tbody>
</table>

Rupert Englander, Nokia’s head of Innovation and Services, gave an interview to The Marketer in the May–June 2012 edition in which he was very sanguine about the future, especially as Nokia builds stronger relationships with developers. ‘We’re being recognised as an ecosystem for developers,’ he says. ‘We’re actively courting new ideas.’

The objective to regain lost ground in the smartphone market, and ‘build a global ecosystem that surpasses anything currently in existence,’ seems an almost unattainable target at the moment. But who would bet against a company that has made a series of staggering business transformations in the past. Can it do it again?

References
The Economist 12 February 2005: ‘The giant in the palm of your hand’.
Questions

1. If you were to pick just one reason why Nokia finds itself in its current predicament, what would it be, and how would you justify your choice?

2. Which of the 10 criteria in Table C1.1 do you feel contributed to Nokia’s decline? Again, justify your choice!

3. Evaluate Nokia’s recent attempts to regain a leading position in the market. How likely is it that it will succeed? What other options does Nokia have?

This case was prepared by Tony Rowe, Principal of Marketing Mentors, and Tony Lindley, Managing Director of Tony Lindley Consultants Ltd.