

# Marketing Fundamentals



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Noordhoff Uitgevers

**Bronis Verhage**  
Marjolein Visser

3<sup>rd</sup> edition



Marketing Fundamentals

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

# MARKETING FUNDAMENTALS

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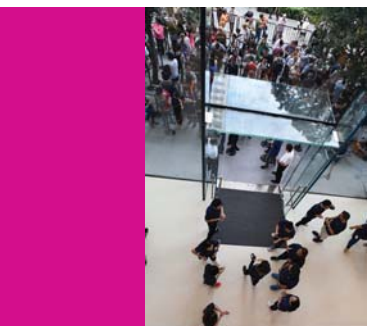
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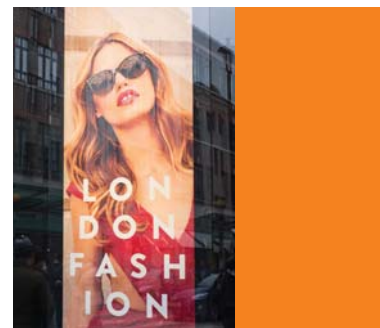




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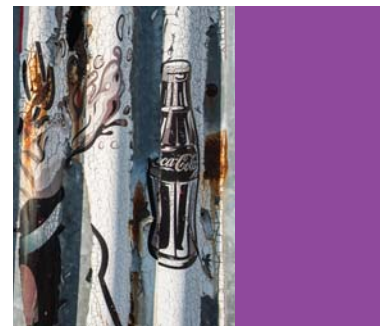
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# Preface

## **Introduction**

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

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 This tremendous progress in the marketing of goods and services has been accomplished by replacing outdated business practices with new marketing insights and techniques.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

## **Reasons for writing this book**

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

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

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

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

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

### **Positioning**

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

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

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

### **Pedagogical approach**

*Marketing Fundamentals'* engaging, lively writing style enhances student learning.

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

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

### **Structure of the text**

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

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

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

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

### **Key features of the book**

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

A striking change in the third edition is the addition of current (digital) marketing topics to various chapters. For her contributions to digital marketing, I thank Marjolein Visser RM, marketing consultant, owner of an Internet agency, member of the NIMA Examencollege and author / editor-in-chief of the book *Digital Marketing Fundamentals*. This book, written by more than 25 top Dutch specialists, has become the standard work in digital marketing for higher professional education and professional marketing courses. The book is also mandatory material for various NIMA-exams.

An overview of a large part of the current (digital) marketing concepts that are discussed in the third edition:

- Chapter 1: 4C model, Digital marketing, Marketing 4.0
- Chapter 3: Customer insights, Digital analytics, Mobile marketing
- Chapter 4: Customer reviews, Social listening
- Chapter 5: A/B test, Big data, Dynamic targeting, Marketing automation, Marketing dashboard, Online survey, Pixel technology, Sentiment analysis
- Chapter 7: Cost to serve, Web-care
- Chapter 8: Co-creation, Crowdsourcing, Mass collaboration
- Chapter 9: Branding sites, Communication sites, Content marketing, Influencers, Viral marketing, Multi step flow, Social branding
- Chapter 10: Affiliate marketing, Paid / Earned / Owned media, Display advertising, Social media marketing, Search engine marketing (SEO and PPC)
- Chapter 11: E-mail marketing, Digital & Social CRM
- Chapter 14: Digital Marketing Funnel, Customer journey, E-fulfilment, Social proofing, Touch-points

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

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

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

### **Online resources**

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

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

### **Acknowledgments**

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

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

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

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# About the author

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

Verhage's primary research interests are in global marketing and cross-cultural consumer behaviour. He has authored over a hundred articles in scholarly journals, business publications and conference proceedings. His research has been published in leading academic journals, including the Journal of Consumer Research, International Journal of Research in Marketing and Journal of the Academy of Marketing Science. He has written several best selling marketing text books in the Netherlands and benefited from the feedback of many of its users, a group that exceeds a quarter of a million students. His industry experience – prior to entering academia – includes a marketing management position at a multinational corporation, based in Holland. Being actively involved in global business, he has served as a marketing consultant for numerous non-profit organisations and companies, both in B2B and fast moving consumer goods.

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

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



Anticipating and satisfying the needs and wants of the buyer and making a profit in the process is the essence of marketing set out in Part 1 of this book.

The first part of *Marketing Fundamentals* offers insight into the marketing discipline and profession and defines the scope of this book. Three fundamental questions will be considered. What exactly is marketing? How do successful companies plan their marketing and develop their marketing strategies? And finally, why – and to what extent – is marketing strategy influenced by external factors? In other words, we will be looking at what, how and why.

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

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# PART 1

# INSIGHT INTO

# MARKETING

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Benvenuti  
Bienvenidos

Bienvenue  
Willkommen

Welcome

환영  
Welcome

LA

# 1 WHAT IS MARKETING?

## Contents

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

## Learning goals

After studying this chapter you will be able to:

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

## McDONALD'S



There may not be another name that is as familiar as McDonald's. Many people know what the name represents, even if they don't go there regularly. You could say that if you are so well known all around the world, your marketing must be well organised.

Let's go back to the beginning, the creation of McDonald's. It's reminiscent of 'the American dream' where it is possible for everyone to be successful by hard work alone: the newspaper boy who works his way up to be the director of a large company.

More than 70 years ago, in 1940, the brothers Dick and Mac McDonald started a hamburger restaurant. In 1955 the restaurant, which by now had several branches, was taken over by Ray Kroc, the founder of the McDonald's group as we know it today. As a result of its success, Ray Kroc is seen as the founding father and is still revered by the employees to this day. However, the success of McDonald's is not only due to the way the restaurants were decorated. International

expansion meant the company grew quickly. This international expansion mainly took place during the time that America was involved in several wars outside of the American continent. To remind them of America, the soldiers wanted to be able to eat what they were used to at home, and that included McDonald's. This is the reason why the same menu was available in all McDonald's stores world-wide, from New York to Hong Kong and from Amsterdam to Johannesburg. That gave everyone, wherever they were, a reassuring feeling: you knew what you could buy. In order to ensure that the same menu was available world-wide at every McDonald's restaurant, and that the way the restaurant was set up was the same, with the same appearance everywhere, a veritable education was provided for all branch managers, the Hamburger University of McDonald's, located in Oak Brook, a suburb of Chicago in the state of Illinois.

'You could say that if you are so well known all around the world, your marketing must be well organised'

Attracted by the success of McDonald's, several 'hamburger chains' have since emerged. The best-known competitor of McDonald's is Burger King, who, like McDonald's, has managed to solidify a strong position. Your taste preference determines your preference for a chain. Similar to the notorious Coca Cola or Pepsi cola drinkers. It just so happens that these two brands each bound themselves to one of these chains: Coca Cola to McDonald's and Pepsi cola to Burger King.

But the world changed. People started to question everything that came from America and criticism of American societal achievements grew. Globalisation was no longer about transferring, or copying, successful concepts to any place outside the US. Globalisation was increasingly expected to take local differences into account. Even McDonald's could not escape it. For instance, the menu was carefully modified to leave room for local (national) preferences. In the Netherlands, for example, where awareness about healthy eating was present early on, there was more room on the menu for salads and other foodstuffs more consistent with a healthy diet. By today's standards, a

meal at McDonald's will never win prizes for being healthy, but nonetheless, hard work is being done to rid themselves of the image of greasy convenience food. McDonald's is also hard at work on other issues. In an industry that deals with a lot of waste in the form of packaging, you are obliged to work towards a sustainable solution for the processing of your waste. For example, separating waste for recycling is one of the spearheads of the organisation. It may or may not be a coincidence, but the bright colours red and especially yellow, are more often being replaced by an eco-friendly green. McDonald's has been successful with the Drive-thru: you no longer have to

get out of your car to place or receive your order. Despite this success, the restaurant receives plenty of attention and changes are becoming visible. Upon entry, it is possible to select your menu and place your order electronically at one of the self-service stations, instead of waiting in line at the counter. Once your order is ready, your number appears on a screen and you can pick it up. Self-service has always been McDonald's signature feature. With the exception of one branch in south Manhattan that has forgone self-service in favour of serving customers at their tables. And that is exactly the change that McDonald's is currently experiencing. It is called the shift from retail to restaurant.<sup>1</sup>



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

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

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

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





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

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

## **1.1 THE MEANING OF MARKETING**

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

### **1.1.1 Differences between selling and marketing**

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

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

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

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

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

## 1.1.2 A definition of marketing

Thanks to the marketing function in the business sector, the development of products and services is linked to specific markets. In other words, supply is precisely tailored to meet demand. Think of Heineken for example, which markets not only lager, but also bock beer, white beer, low-calorie and other types of beer – with brand names such as Murphy's, Wieckse Witte and Amstel Light, so consumers can always drink their favourite beer at home and in bars. The brewery conducts marketing research to find out which outlets sell its products and what kinds of beer different groups of consumers prefer. As a marketing-oriented company Heineken also makes sure that its many products are sold in the right stores, that the prices are neither too high nor too low and that potential buyers know what kinds of specialty beers are available at different times of the year.

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

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



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

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

### 1.1.3 The marketing mix

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

#### Marketing mix

#### Product

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

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

#### Price

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

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

#### Place

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

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

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

### Promotion

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

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

Promotion or marketing communication includes advertising, sponsorship, sales promotion (such as free gifts, contests and product demonstrations), direct marketing, and personal selling and public relations activities, including free publicity. Developing a marketing communication strategy requires a number of decisions, such as establishing the marketing communication target market, formulating the communication objectives, determining the proposition and communication message, selecting the best combination of marketing communication instruments and media, setting the budget, and determining the best method of measuring whether objectives have been met. Other decisions involve the efficient use of displays, offering special discounts, and attending trade fairs.

As they are not viewed from the customer's perspective, the four Ps are often criticised. An alternative is the model of the four Cs, which suggests that marketing is not a technique to sell a product (P), but a philosophy to win the customer (C) and their loyalty. The old Ps generally relate to producing companies (P), the modern Cs to more customer-oriented organisations that see themselves through the eyes of the customer.

## 4C-model

The relation between the 4P-model and 4C-model can be seen in table 1.1.

TABLE 1.1 FROM 4P-MODEL TO 4C-MODEL

Four Ps	Four Cs
Product	<i>Customer solution</i> : the solution for the customer
Price	<i>Cost to the customer</i> : value for money
Place	<i>Convenience</i> : ease for the customer
Promotion	<i>Communication</i> : mutual communication between the organisation and the customer

FIGURE 1.1 THE MARKETING MIX



### 1.1.4 Target market selection and the process of exchange

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

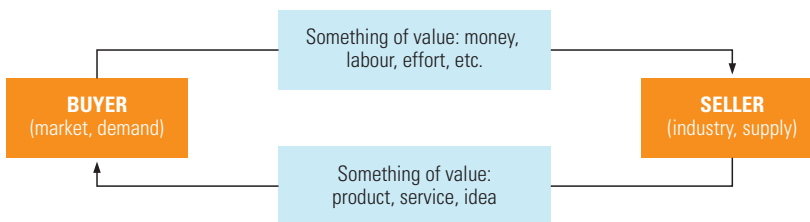
Target market

This exchange transaction underlies all marketing activities. In fact, organisations develop a marketing strategy to stimulate this process of exchange.

Exchange transaction

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

FIGURE 1.2 EXCHANGE PROCESS BETWEEN BUYER AND SELLER



## 1.2 LEVELS OF MARKETING SYSTEMS

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

Bartering

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

## Macromarketing

### 1.2.1 Macromarketing

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

### 1.2.2 Mesomarketing

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

#### The supply chain

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

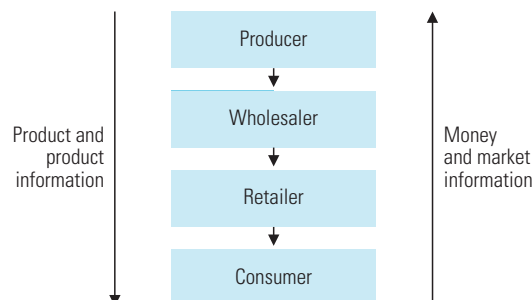
Figure 1.3 shows – in a simplified form – the elements that make up a supply chain. This marketing system consists of various horizontal sections or links. One such link, which is made up of companies that perform the same function in the production or trade of a certain product, is known as a sector.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

## Supply chain

## Sector

## Branch of industry

FIGURE 1.3 SIMPLIFIED SUPPLY CHAIN FOR CONSUMER PRODUCTS



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

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

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

### **Definition of mesomarketing**

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

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

Mesomarketing

### **1.2.3 Micromarketing**

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

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

Marketing management

A marketing manager always tries to see his company from the viewpoint of his customers. He begins by conducting market research to identify the needs, wants and ideas of potential buyers, which, in turn, helps him develop products and services that meet the desires of the target group. Then, ensuring that the target audience is well informed by promotion, he can offer these products and services

# The French wine industry's 'Terroir'

France is a country famed for its rich cultural heritage, as the birthplace of a wealth of fine art and literature. This is coupled with a proud gastronomic tradition spanning many centuries, which includes one of France's greatest exports – wine. Historically, French wines have been identified by the region from which they originated, for example Champagne, Bordeaux or Médoc. However, today's marketing trend in the wine industry is to identify a wine by its grape type (such as Merlot), rather than its region of origin. For French winemakers, it seems that changing their marketing strategy in the global marketplace is a challenge, involving a complex tradition of appellation that accentuates 'terroir'. *Terroir* is a French concept that refers to the unique features of a terrain, including its geology, geography, climate and soil type. These factors impact the wine's taste. It implies that even if all conditions of the grapegrowing process are perfectly reproduced elsewhere on the globe, the wine still cannot be duplicated. Some French winemakers even argue that their main role is to facilitate the ability of a wine to express its unique 'terroir'.

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

For a long time, regional characteristics in France were important to help distinguish the produce of one particular province from that of neighboring marketing mistake ones, especially when selling wines in other regions. The tradition of naming wines by region of production also stems from an emotional connection invoking issues of identity



and loyalty: a 'badge of pride and honour'. To a wine connoisseur, this may be important. In the words of Philippe Chaumont, a merchant from Toulouse, 'When I'm drinking a Tuscan wine, I don't want it to taste like a Beaujolais.' Returning to the changing global market, since the average consumer looking for a decent but affordable wine is not a wine connoisseur, there needs to be a way that he can differentiate between a €10 and a €50 bottle of wine. The current marketing trend to identify wine by grape type ('varietal wine') and even brand name (e.g. Mondavi) helps to accomplish this. Winemakers in other nations, including South Africa, Chile, Australia, and the United States usually market their 'New World' wines as a Chardonnay, Merlot, Malbec, or Cabernet Sauvignon, reflecting the types of grape used to produce the wine. French winemakers, however, have traditionally left the grape type off their labels altogether. Why does this even matter, when France and the French wine industry enjoy a long-standing favorable impression among numerous wine consumers? The answer is simple: the changing global marketplace. In the

last 25 years, sales of New World wines rose dramatically, from three percent to thirty percent of the global market. Now, research shows that the majority of wine importers in Europe, Asia and North America expect a further increase in demand for *varietal wines*. It is understandable why French wine producers may not want to betray their heritage. Yet, by failing to adapt to changing preferences and buying behaviour of today's wine drinkers (who are less preoccupied with regional distinctions or the merits of specific vineyards), France may be missing out on a huge marketing opportunity. In the words of the president of the Confederation of French Wine Cooperatives, Denis Verdier, 'I think France was sleeping on the laurels of its past success.' This statement is especially troubling, now that France has recently been overtaken by Italy as the world's largest producer of wine. Fortunately, a new generation of French winemakers is beginning to recognise the need for a shift in marketing strategy, by looking at fresh and innovative ways to sell wines. Some are poking fun at old traditions, while breaking down notions of elitism and snobbery. Successful French exports now include the rock-and-roll-inspired 'Rhôning Stones' and 'Le Freak Shiraz-Viognier'. Meanwhile, the cheekily-named 'Arrogant Frog', from Domaine Paul Mas, sells a million bottles per year in Australia, suggesting that important lessons have been learnt.

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

to the target market for the right price, and through the best sales channels. Finally he stays in touch with his customers to make sure that they are indeed satisfied. This process of strategy development and business decision-making, which does not always occur in this order, should be based on the marketing concept. We will come back to this in section 1.4.



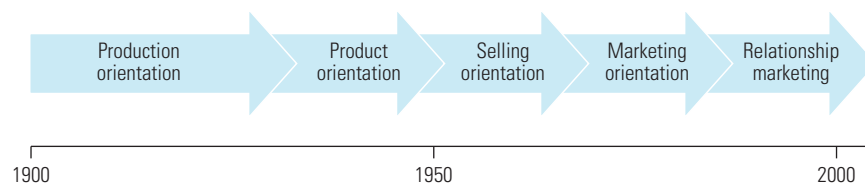
## 1.3 DEVELOPMENT OF THE MARKETING MINDSET

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

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

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

FIGURE 1.4 THE EVOLUTION OF MARKETING



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

### 1.3.1 Production- and product-oriented companies

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

In the aftermath of World War II, with an acute shortage of raw materials, machinery and production facilities, there was little change in the managerial mindset. Production and distribution of reasonably priced, mass-produced goods was still the priority. One difference, though, was that manufacturers shifted their

Production concept

## Product concept

attention from the production process to the product itself. Once the product concept was adopted in this era, the main objective became to improve quality. Managers assumed that 'a good product will sell itself' and regarded marketing as a superfluous activity.

## Sellers' market

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

### 1.3.2 Selling-oriented companies

## Buyers' market

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

## Selling concept

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

## Buying power

### 1.3.3 Marketing-oriented companies

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

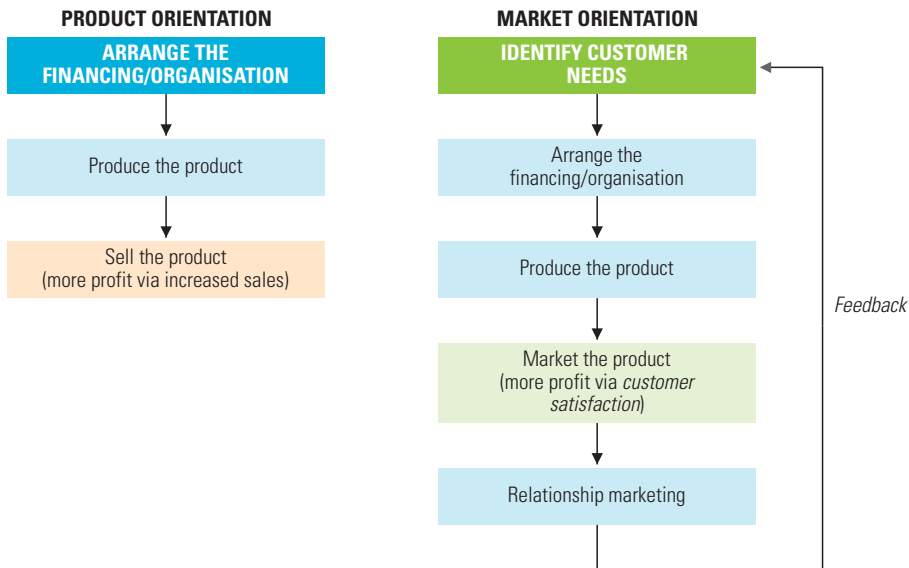
## Market orientation

#### Market orientation

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

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

FIGURE 1.5 COMPARISON OF A PRODUCT AND A MARKET ORIENTATION



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

FIGURE 1.6 DIFFERENCES BETWEEN A SELLING AND A MARKETING ORIENTATION

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

**The societal marketing concept**

Widespread concern about the undesirable side effects of marketing for third parties has recently led to a renewed interest in macromarketing (in the sense of socially responsible marketing). The increasing preoccupation with the long-term

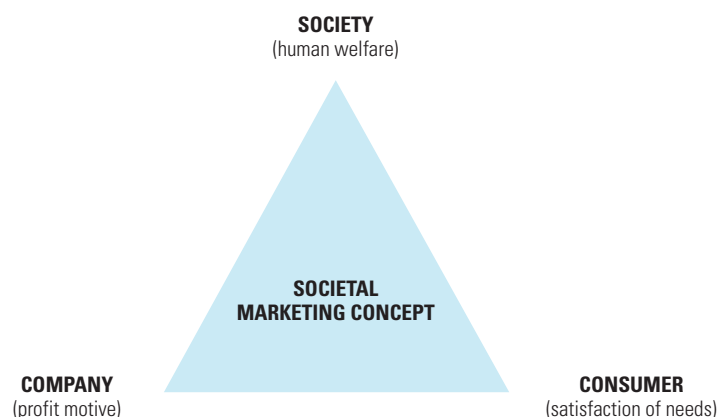
## Societal marketing concept

interest of society has led to an extension of the marketing concept known as the societal marketing concept. The underlying principle is that, since the production and marketing of certain products (for example, packaging) may – in the long term – have damaging consequences (such as deforestation) for society as a whole, every effort must be made to prevent harming the interests of buyers *and* non-buyers.<sup>4</sup>



Marketers should balance the interests of the consumer, the producer and society. As is illustrated in Figure 1.7, consumers are often driven by their needs and wants in the short term, while companies are driven by their objective to make a profit. However, society as a whole has to consider human wellbeing in the long run and must make it a priority. When developing a societal marketing-oriented strategy, firms with a sense of responsibility consider the impact of marketing activities on various groups within society (including children), social issues such as environmental protection and, often, the views of activists like the Amsterdam-based Greenpeace organisation. The combined efforts of consumers and corporations have resulted in positive trends in the development and acceptance of safer products including environmentally friendly detergents and hybrid cars.

FIGURE 1.7 THE SOCIETAL MARKETING CONCEPT: BALANCED INTERESTS



Thanks to the Internet, consumers are able to communicate with each other and with organisations directly without restrictions. Relationships between consumers and organisations are becoming increasingly interactive with consumers becoming more powerful. Consumers talk to each other about brands and organisations, and question the commercial approach and messages from marketers. The opinions of family, friends, relations, and 'acquaintances' on social media influence people in their decision-making process. Consumers expect, or demand, organisations to serve the interests of society, not just their own. Taking a social-marketing first

approach, responding to the increased interactivity inside and towards the market, and the increasing importance of social relationships on purchasing decisions is also referred to as 'Marketing 4.0'.

### 1.3.4 Relationship marketing

One of the most important developments in companies' altered orientation was the rise in relationship marketing. Companies have been driven to take customer-orientation one step further and actively cultivate good relationships with customers, as they need to retain value. Similarly, companies are working to strengthen long-term relationships with suppliers.

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

Table 1.2 clarifies the differences between transaction-oriented marketing and relationship marketing.<sup>5</sup> Although in relationship marketing each transaction is only one of the links in the chain between the company and its customers, this can considerably strengthen the relationship between the two parties. This underlines the need for a systematic and well thought-out strategy when it comes to implementing the marketing concept.

TABLE 1.2 TRANSACTIONAL MARKETING VERSUS RELATIONSHIP MARKETING

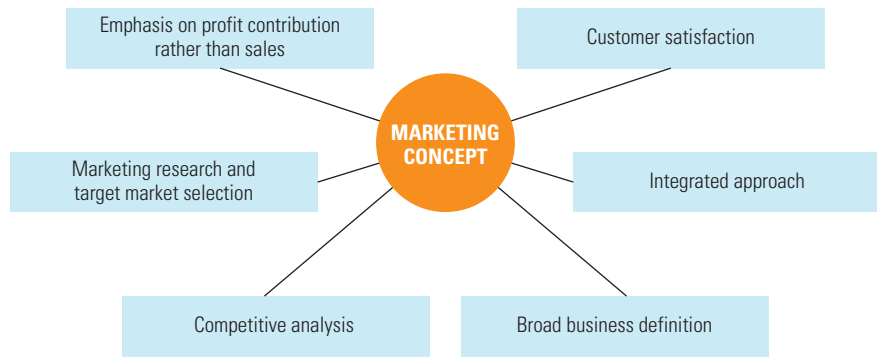
TRANSACTIONAL MARKETING	RELATIONSHIP MARKETING
1 Emphasis on getting new customers	1 Emphasis on keeping customers as well as getting new ones
2 Short-term orientation	2 Long-term orientation
3 Interest in making a single sale	3 Interest in repeat purchases and ongoing relationships
4 Limited commitment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

## 1.4 THE MARKETING CONCEPT

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

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

FIGURE 1.8 THE MARKETING CONCEPT



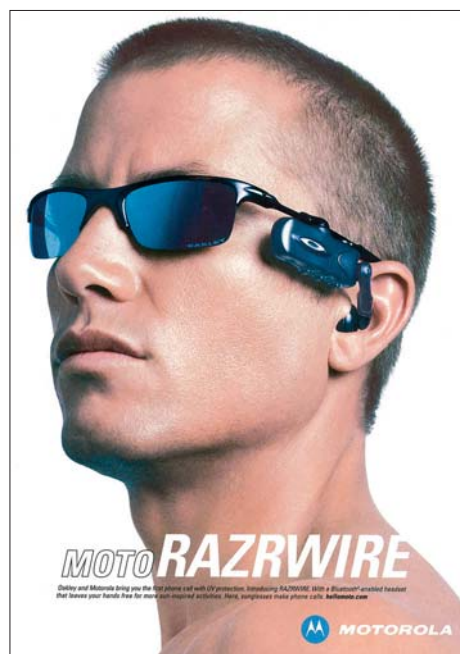
### 1.4.1 Customer satisfaction

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

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

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

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

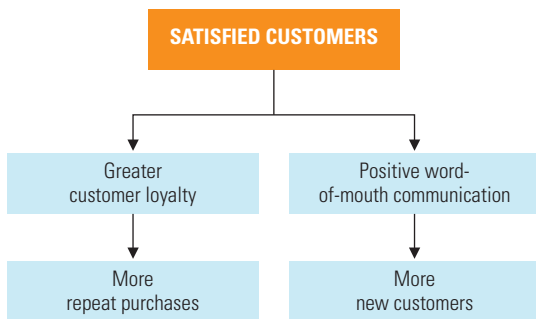


What does customer affairs involve beyond a 'money back' guarantee or a polite letter in response to a complaint? It is everything an organisation does to maintain good relations with its customers. The customer affairs or customer service department should:

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

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

FIGURE 1.9 IMPORTANCE OF CUSTOMER SATISFACTION



## 1.4.2 Integrated approach

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

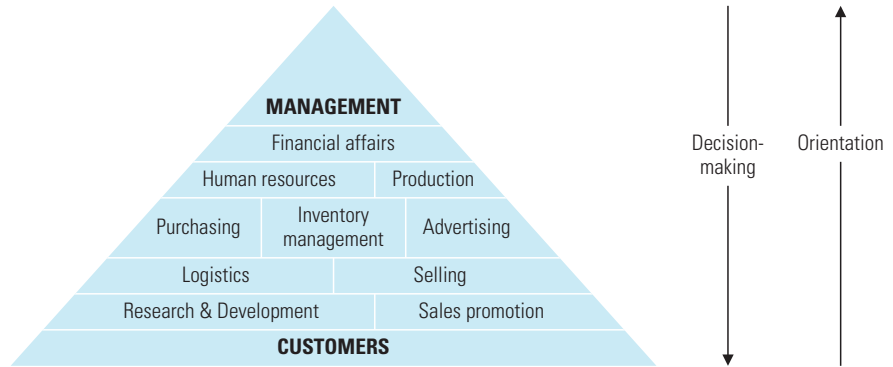
A marketing-oriented company follows a different approach. Its strategy is highly dependent on the wants and needs of customers, identified through market research or data-analysis. The departments still exist, but their tasks are partly defined by incorporating measures designed to create customer satisfaction.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

Figure 1.10B illustrates the coordinating role of the marketing department in a customer-oriented organisation. Marketers are actively involved in decisions about

FIGURE 1.10A AND B ORGANISATIONS WITH DIFFERENT MANAGEMENT PHILOSOPHIES

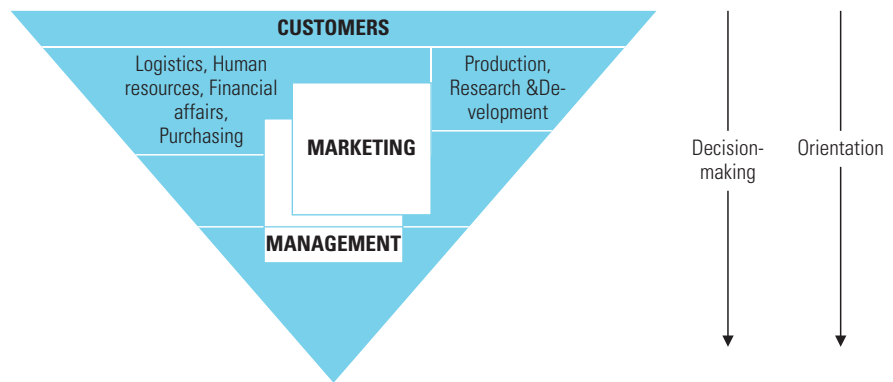
**A. AN IVORY TOWER ORGANISATION**

Compartmentalised thinking, product-oriented, top down



**B. A CUSTOMER-ORIENTED ORGANISATION**

Coordination, external orientation, bottom up



production strategy, stock planning and service policy – or anything else where customer satisfaction is at stake. Thus, marketing is integrated in nearly every aspect of management.

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

Internal marketing

**1.4.3 Broad business definition**

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

Marketing myopia

To facilitate a rapid adjustment to the changing needs of the market, many companies now choose to formulate a *business definition* as well as a mission (the role and ambitions of the organisation within its chosen field of activity) in broad,

Mission



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

#### 1.4.4 Competitive analysis

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

Competitor

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

Competitive advantages

#### 1.4.5 Marketing research and target market selection

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

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

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

# Untapped market for Magnet.me



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**We all keep saying that tech startups are the future, but in practice, 9 out of 10 startups fail. According to research by DeLoitte and THNK, this is down to three important factors: the lack of experience of the founders, too small a set-up for the necessary (often international) expansion and too rapid an entry onto the market. The most fundamental problem however, is the (internal) product orientation of many startup entrepreneurs: they do not sufficiently understand the needs of the market.**

### Marketing optics

A management orientation that offers more chance of success is that of *Magnet.me*: an online network that enables students and employers to connect with each other in an easy, direct and personal way. From the very first day, this startup tried to turn the recruitment world upside down. The young, marketing-oriented entrepreneurs achieved success because they did not start with a product or with the technology they wanted to apply, but from the perspective of fulfilling their (potential) customers' needs.

Even when they were still only students, the founders of the startup, Vincent Karremans, Freek Schouten and Laurens van Nues, found that, from a marketing perspective, job seekers and potential employers could best be linked to each other via an online recruitment network. Of course there was already *LinkedIn*, but they don't bring you into contact with companies that you don't already know. 'Based on that need, we have started to build a network that connects companies to potential employees in a smart way', says Karremans. 'We did not have a product that we then had to find a market for, but we saw a market, for which we then developed a product. The story surrounding our product, and in particular the problem we wanted to solve with it, was the foundation from which we started out.'

'We saw a market, for which we then developed a product'

### Company mission

Magnet.me's company mission is to 'help students and graduates to get the most out of their professional potential (without the b \* ll \$ h \* #)'. At the same time, the company's objective is to enable every organisation, from startup to multinational, to find the talent they need to achieve their goals, using their online network. To make such a business successful, you obviously need a large group of users. That is why the founders do their best, via social media, to create *word-of-mouth*. There are now more than 80,000 students and more than 1,200 companies registered with them.

### Market development

Recently, Magnet.me expanded to England and succeeded in committing 60 'launching customers' to them in London in just a short time, including *Unilever*, *PwC* and *Royal Bank of Canada*. This will lead to greater awareness among potential users and hopefully have a snowball effect. Or, as Karremans articulates the reason for this strategy: 'Without awareness there are no users, and for a company like ours: without users there is no product!'<sup>6</sup>

### 1.4.6 Profit contribution

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

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

Brand equity

## 1.5 TASKS OF MARKETING IN A COMPANY

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

Demarketing

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

### 1.5.1 Marketing's first task

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

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

FIGURE 1.11 **MARKETING'S FIRST TASK: ANTICIPATING AND IDENTIFYING NEEDS AND WANTS**



### Needs

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

### Wants

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

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

### Consumer behaviour and demand

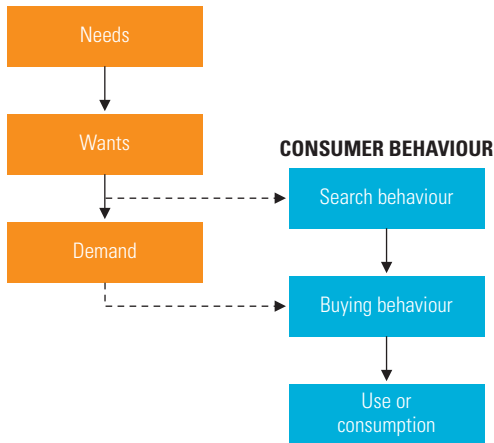
As soon as the consumer starts acting based on his needs and wants, *consumer behaviour* comes into play. Consumer behaviour generally takes three different forms: communication (the *search* for information and products prior to making a choice), the *purchase* (everything that relates to the transaction)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

Need

Demand

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

FIGURE 1.12 RELATIONSHIP BETWEEN NEEDS, WANTS, DEMAND AND CONSUMER BEHAVIOUR



## 1.5.2 Marketing's second task

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

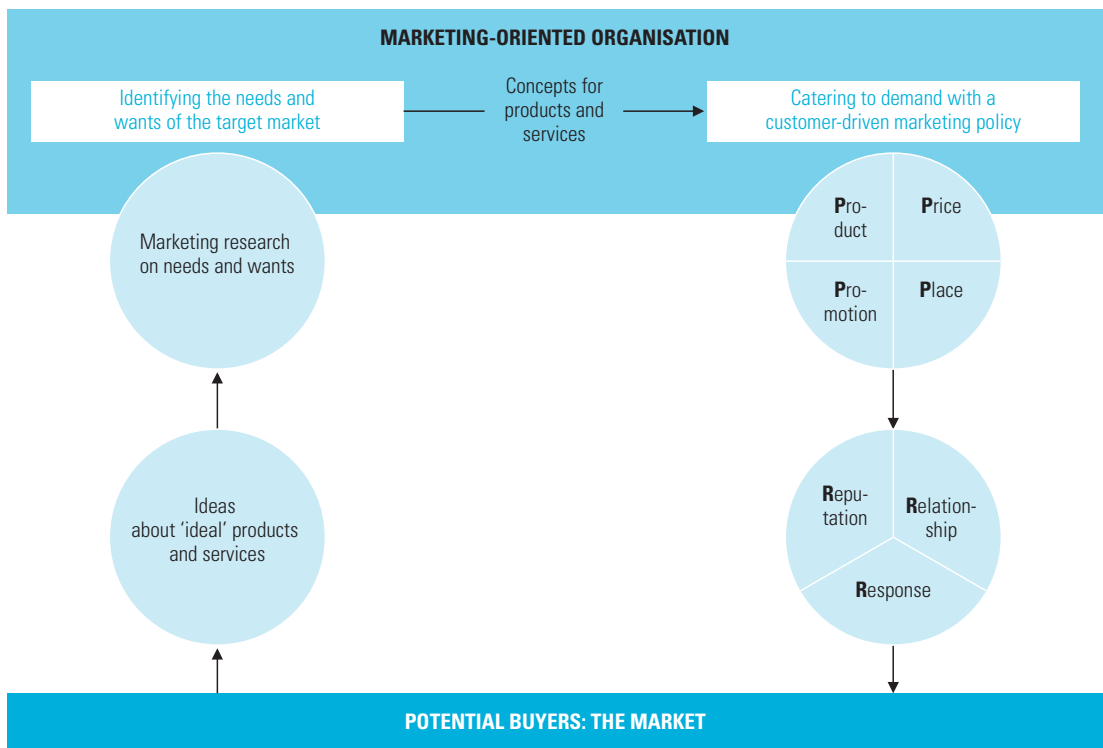
However, as competition increases many products become universally available, all the while becoming more and more similar in terms of quality and price level. At this point, product, price and distribution have become less important as marketing instruments. Some companies try to stand out from their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

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

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

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

FIGURE 1.13 **MARKETING'S SECOND TASK: CATERING TO DEMAND WITH THE FOUR PS AND THREE RS**



### 1.5.3 The three Rs

#### Marketing manager

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

#### Reputation

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

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

#### Relationship

If most brands of a particular product are equally good, the key question for the buyer is not so much, ‘Which brand do I buy?’ but, ‘Where should I buy it?’ So

marketers have to 'come out from behind their stand' to show the customer who they really are. What kind of company and what kinds of people are behind the product? Ongoing *interaction* with the customer, which eventually creates a certain loyalty, is indispensable when developing a relationship. An interactive website, direct mail with a freepost address and a customer service line are all effective instruments in creating a customer loyalty system.

Relationship

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

### Response

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

Exchange

Ultimately the company tries to get consumers to *respond* to a marketing offer. A feasible objective for the company is to become the market leader for a certain *moment of use*. For example, a supermarket may try to do this by offering a variety of gourmet rolls and bread on weekends and regular sandwich bread during the rest of the week. And Nespresso marketers know from their marketing research that many people like to drink one kind of coffee during the day, while at work, and a different kind in the evening. Consumers like variety and they simply choose what suits them best at a particular moment.

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

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

### 1.5.4 Customer equity

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

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

Customer equity can be increased by:

- Reducing the cost of getting new customers
- Retaining more customers longer
- Increasing profits from retained customers by selling them more products at higher margins and with lower marketing costs.<sup>7</sup>

## Lifetime value

A company's customer equity is the total *lifetime value* of all customers. The lifetime value of an individual customer is the present value of the profits derived from this customer's future purchases from the company. This profit contribution of a loyal customer from repeat sales may be increased – as a result of his recommendations and referrals – by the revenue stream from purchases made by others. One study has estimated that the lifetime value of a loyal pizza customer can be 7,000 euros and of a loyal Mercedes owner, in excess of 300,000 euros.<sup>8</sup> Facing these numbers, more and more managers realise that losing a customer may result in a far greater loss than the value of a single transaction. Hence, they are trying to develop ongoing relationships with customers, because this leads to customer loyalty and a greater customer retention rate.

## Customer loyalty

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

FIGURE 1.14 INCREASING CUSTOMER EQUITY



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

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



# Laetitia Radder (Nelson Mandela Metropolitan University)

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

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

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

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

customer relationships; and taking a leading role in multichannel retailing and communication. The channels on which the company relies include a state-of-the-art internet shopping site and social commerce platforms that integrate social media marketing for the convenience of its customers. The success of *Pick n Pay*, South Africa's first food discounter, can be ascribed to its marketing principles of offering the best quality, decent prices, good service, appropriate store formats, and distribution channels that meet customers' expectations and evolving needs. *Pick 'n Pay* is also building strong customer relationships through its Smartshopper rewards programme. This direct marketing programme provides the retail chain with easy access to cardholders by SMS or e-mail, and allows it to obtain direct feedback from customers. The two-way interaction helps the company to get to know and understand its customers, communicate with them in an engaging manner, tailor-make its product ranges, and effectively serve its customers.

MTN, one of the leaders in the South African telecommunication industry, provides voice, data and telemetry services to its 20 million domestic customers. Innovation has put MTN at the forefront. For example, the company was the first one to pioneer the pre-paid customer solution and to launch the highly acclaimed MTN Zone, a dynamic tariffing billing system. The company also offers the right products and services that are marketed to well-defined customer categories. In addition, it systematically engages in societal marketing through an extensive greening initiative that reduces its energy consumption; sponsorship of sport and music events; and its involvement in community development programmes.

What is the common denominator in the success of these organisations? They know that successful marketing starts with the marketing concept. They do not equate marketing with selling or advertising, but implement marketing as an integrated process of developing, pricing, promoting and distributing products, services and experiences tailored to the changing needs of consumers, in a socially responsible and sustainable manner. Finally, they conduct marketing research to make sure that what they offer, and how they do so, satisfies their customers' needs and wants. Successful marketers, however, go beyond offering the products, services and experiences consumers want at prices and locations that appeal to them. They also build long-term relationships with their clients, realising that servicing an existing customer is much more cost effective than trying to find new ones. A customer-centric approach is at the heart of transforming customer interactions into long-term relationships. To this effect, successful marketers know their customers well, regularly obtain and act upon customer feedback, minimise customer attrition, build emotional bonds with their customers and turn them into advocates for the company. This is exactly what companies wanting to capitalise on the potential of the rising market in Africa have to do as well.<sup>9</sup>

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

## 1.6 MARKETING APPLICATIONS AND PREVIEW OF THE TEXT

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

Fast moving consumer goods  
Consumer marketing

### 1.6.1 Applications

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

Business-to-business marketing

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

Trade marketing  
Retail marketing

Other important applications of the principles of marketing are:

- *Services marketing*: the marketing strategy of a supplier of intangible services, such as a bank or an insurance company.
- *International marketing*: marketing activities that are planned domestically and aimed at customers outside of the domestic market.
- *Direct marketing*: a form of marketing in which the supplier not only wants a transaction, but also tries to develop – based on what he knows about potential buyers – an ongoing relationship with them, through direct communication (direct mail, telephone or the Internet) tailored to the individual customer, often followed by direct delivery.
- *Database marketing*: a form of (direct) marketing in which a company systematically collects and analyses information about customers (for example, about their ordering and buying behaviour) and uses this information, which is stored in a database, to tailor marketing activities and campaigns to individual customers. Today, direct interaction is the norm, which means that using databases is a rule rather than an exception.
- *Demarketing*: a marketing strategy designed to reduce the overall demand ('general demarketing') or the demand of a specific group of customers ('selective demarketing') for a certain product either temporarily or permanently, for example

to avoid increasing production capacity, when working with scarce resources (like tropical hardwood) or to prevent environmental pollution (use of cars).

- *Internal marketing*: marketing activities aimed at part of a company's own organisation, for instance because certain business units do business with each another, or because management wishes to communicate to its own workforce what it is trying to achieve 'externally' and what it is promising customers.
- *Digital marketing (or online or internet marketing)*: a sub-process of marketing in which organisations and existing or potential customers create value and products to share via Internet.
- *Non-profit marketing*: the marketing strategy of organisations without profit objectives (also known as not-for-profit marketing).

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

## 1.6.2 Non-profit marketing

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

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

Quite a few charities have turned to the business sector to find interested companies to support them. For instance, ING sponsors the Museum of Modern Art in New York as well as Amsterdam's Rijksmuseum, while Essent sponsors the WWF (World Wildlife Fund) Netherlands. Through this alliance, the WWF is not only boosting its financial resources, but also trying to influence corporate strategy, in this case by promoting, together with Essent, the use of green energy.<sup>10</sup>

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

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

If a charity knows what products its supporters use and how they perceive certain brands, it can deliberately approach a company that stands to gain most added value from such an alliance – and may therefore be willing to invest more (or to make more concessions in terms of its strategy). This can also work the other

### Non-profit marketing

way around. If a company is aware of what charities its target market supports, it can plan its *corporate sponsorship* accordingly, thereby making its marketing efforts a noble pursuit.

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

### 1.6.3 The need to study marketing

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

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

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

### 1.6.4 A preview of the text

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

and customers' buying behaviour – we need to cover these subjects before we proceed. Only then can we work out the marketing mix.

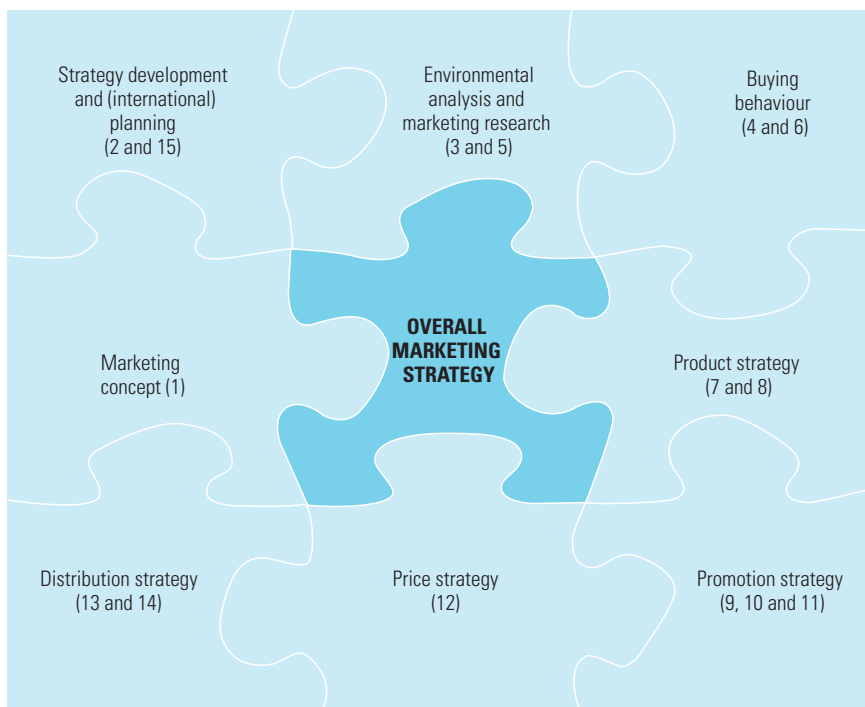
The sequence in which subjects are discussed in *Marketing Fundamentals* is generally the same order in which marketing managers address them on the job. Figure 1.15 shows which subjects are covered in what chapters.

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

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

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

FIGURE 1.15 HOW THE VARIOUS COMPONENTS OF MARKETING FIT TOGETHER



# Summary

## 1.1 FUNDAMENTALS OF MARKETING

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

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

## 1.2 MACRO-, MESO- AND MICROMARKETING

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

## 1.3 HISTORICAL DEVELOPMENT OF MARKETING THOUGHT

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

products. The company has to satisfy the needs and wants of its customers as effectively as possible. This fundamental idea of marketing is known as the marketing concept.

## 1.4 THE MARKETING CONCEPT

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

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

## 1.5 REPUTATION, RELATIONSHIP AND RESPONSE

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

makes it possible to carefully tailor corporate policy to the market. This leads to the 4 Cs: an attractive *customer solution* against acceptable *cost to the customer*, achievable through channels that offer the customer *convenience*, supported by effective mutual *communication*. This benefits both suppliers and customers.

## **1.6      MARKETING IN PRACTICE**

Marketers spend a great deal of time identifying and analysing the needs and wants of their customers

and prospects. Armed with this information they are able to develop and – with the right strategy – market attractive products, in line with the attitudes and the behaviour of the target market. This increases their market share.

As pointed out in Chapter 1, this approach is not only essential for companies that are competing with others, but also offers helpful leads for non-profit organisations. Therefore, it's crucial to have a clear insight into the *fundamentals of marketing*.

# Discussion questions

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



