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Chapter One

Marketing in the Modern Firm

Learning Objectives

By the end of this chapter you will understand:

1. The marketing concept
2. The different business orientations that firms adopt
3. How to create customer satisfaction and value
4. The main types of decisions that must be made by marketing managers
5. The relationship between adopting a marketing philosophy and business performance

Marketing has its critics

Coca-Cola (www.coca-cola.com) has come under sharp criticism for its use of the Harry Potter character in their new advertising campaigns. The Centre for Science in the Public Interest, a Washington non-profit organisation launched scathing criticism on Coca-Cola for using the boy wizard for marketing their sugary soft drinks to children. The group claim that soft drink beverages contribute to obesity, diabetes and tooth decay in children. Coca-Cola signed a $150 million merchandising deal with AOL Time Warner for sole marketing rights of their new movie "Harry Potter and the Philosopher's Stone". Coca-Cola uses the movie tie-in for its advertising and packaging. "Coke has transformed Harry Potter into a marketing wizard to hook our kids on its junk beverages" said a spokesperson for Commercial Alert (www.commercialalert.org). Even a website was launched called www.saveharry.com encouraging visitors to send e-mails to the author of the Harry Potter series, J.K Rowlings urging her to end the deal.

A spokesperson responded saying that Harry Potter is about promoting the value of reading and the magic of Harry Potter – not promoting products to children and that Coke is not placed in the movie. Coca-Cola has also pledged $18 million to literacy programmes as part of its campaign and has assured the public that none of the characters from the movie will be depicted on any of Cokes products.

In situations like the one described above, marketing gets bad press. Phrases like 'marketing gimmicks', 'marketing ploys' and 'marketing tricks' abound. The result is that marketing is often condemned by association. Yet this is unfortunate and unfair because the essence of marketing is value not trickery. Successful companies rely on customers returning to repurchase; the goal of marketing is long-term satisfaction, not short-term deception. This theme is reinforced by the writings of top management consultant Peter Drucker, who stated:[1]

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

What can we learn from this statement? First, it places marketing in a central role for business success since it is concerned with the creation and retention of customers. Second, it is a reality of commercial life that it is much more expensive to attract new customers than to retain existing ones. Indeed, the costs of attracting a new customer have been found to be up to six times higher than the costs of retaining old ones.[2] Consequently marketing-orientated companies recognize the importance of building relationships with customers by providing satisfaction and attracting new customers by creating added value. Grönroos has stressed the importance of relationship building in his definition of marketing in which he describes the objective of marketing as to establish, develop and commercialize long-term customer relationships so that the objectives of the parties involved are met.[3] Third, since most markets are characterized by strong competition, the statement also suggests the need to monitor and understand competitors, since it is to rivals that customers will turn if their needs are not being met. The rest of this chapter will examine some of these ideas in more detail and provide an introduction to how marketing can create customer value and satisfaction.

The marketing concept

The modern **marketing concept** can be expressed as:

> The achievement of corporate goals through meeting and exceeding customer needs better than the competition.

To apply this concept three conditions should be met. First, company activities should be focused upon providing customer satisfaction rather than, for example, simply producing products. This is often not an easy condition to meet. Second, the achievement of customer satisfaction relies on integrated effort. The responsibility for the implementation of the concept lies not just within the marketing department but should run right through production, finance, research and

Figure 1.1 Key components of the marketing concept.

Marketing concept

The achievement of corporate goals through meeting and exceeding customer needs better than the competition

Customer orientation	*Integrated effort*	*Goal achievement*
Corporate activities are focused upon providing customer satisfaction	All staff accept the responsibility for creating customer satisfaction	The belief that corporate goals can be achieved through customer satisfaction

development, engineering and other departments. Finally, for integrated effort to come about, management must believe that corporate goals can be achieved through satisfied customers (see Fig. 1.1).

The Body Shop (www.bodyshop.com) grew rapidly from being a small cosmetics retailer in the south of England to being a well-known global brand through the implementation of the marketing concept. Senior management were committed to an alternative approach to the marketing of cosmetics and all activities within the company were focused around meeting customer needs. In contrast, the dangers inherent in not keeping customer needs to the forefront of the business are illustrated by the dramatic fall in the fortunes of Priceline.com (www.priceline.com). (See e-Marketing 1.1). Companies like the Body Shop also exemplify what has become known as the *societal marketing concept* which holds that companies should deliver customer satisfaction in a way that improves both the consumer's and society's well-being.[4] As we saw at the outset of the chapter, there is concern among consumer groups that Coca-Cola products are of little nutritional value and harmful to children's teeth. Coca-Cola has countered by demonstrating how much it has contributed to global literacy programmes. We will examine the issue of corporate social responsibility in greater detail in the next chapter.

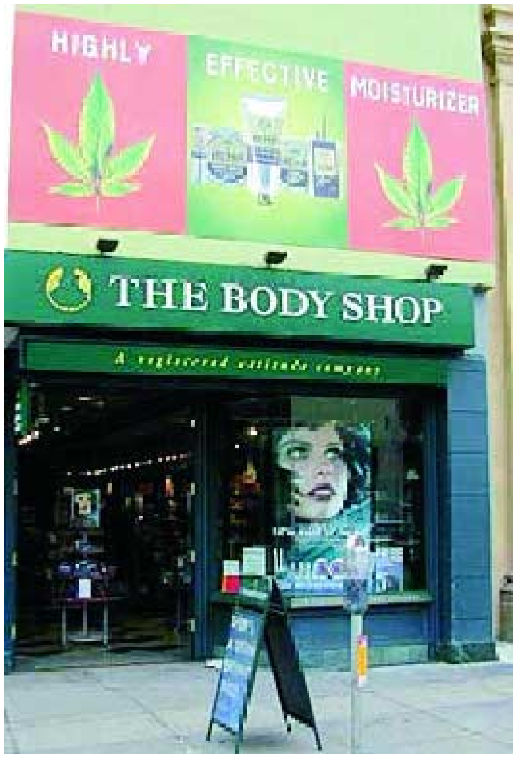


Exhibit 1-1 – The Body Shop has grown to become a global brand, operating in over 50 countries with over 1900 outlets.

1.1 e-Marketing

The Rise and Fall of Priceline.com

In the heady days of the dot.com revolution of the late 1990s, Priceline.com was one of the star companies. To many this was a quintessential Internet company, one that turned the conventional wisdom of the 'old economy' on its head. Priceline's business proposition was that it allowed customers to bid for products. So if a person wanted to fly from Boston to San Francisco, for example, they would contact Priceline indicating when they wanted to fly and what price they were willing to pay. If Priceline accepted the bid, they then took it to the airlines to see if anyone was interested. In essence, Priceline was an intermediary or infomediary using the power of the Internet to bring bargaining-hunting customers together with airlines that had excess capacity. It quickly became apparent that this business model could be applied in a variety of sectors and Priceline expanded its 'name your own price' approach into a range of other businesses including hotel rooms, petrol, cars, telephone carriers, hardware products and even food. Along with many other dot.com companies, its share price soared as it grew and expanded, and it broke through the $160 a share mark in April 1999. However, this was to prove its high point and since then the share has been in freefall to a current level of just $4. One of the problems with the 'name your own price' approach is that it asks a lot from customers. Bidders must submit the details of their credit cards with their bids, which will be charged if Priceline accepts their offers. But customers bid blind, without knowing which airline will take them to their destination, what time it will take off, or where they may have to change flights. It runs contrary to many consumers' desire for convenience, ssurances of quality and choice. So rather than being a service that appealed to a mass market as it was originally envisaged, it appears that what Priceline offers is limited to a niche group of price-sensitive consumers.

Based on: Edgecliffe-Johnson (2000)[5].

Marketing versus production orientation

Despite its intuitive appeal, there is no guarantee that all companies will adopt a ***marketing orientation***. Many firms are characterised by an inward-looking stance, where their focus is on existing products or the internal operations of the company. Figure 1.2 illustrates production orientation in its crudest form. The focus is on current production capabilities. The purpose of the organization is to manufacture products and aggressively sell them to customers. A classic example of the catastrophe that can happen when this philosophy drives a company is Pollitt and Wigsell, a steam engine producer which sold its products to the textile industry. They made the finest steam engine available and the company grew to employ over 1000 people on a 30 acre site. Their focus was on steam engine production so when the electric motor superseded the earlier technology they failed to respond. The 30 acre site is now a housing estate.

Marketing-orientated companies focus on customer needs. Change is recognized as endemic and adaptation considered necessary for survival. Changing needs present potential market opportunities which drive the company. Market-driven companies seek to adapt their product and service offerings to the demands of current and latent markets. This orientation is shown in Fig. 1.3.

Marketing-orientated companies get close to their customers so that they understand their needs and problems. When personal contact is insufficient or not feasible, formal marketing research is commissioned to understand customer motivations and behaviour. Part of the success of German machine tool manufactures can be attributable to the willingness to develop new products with *lead customers*: those companies who themselves were innovative.[6] This contrasted sharply with the attitude of UK machine tool manufacture who saw marketing research only as a tactic to delay new product proposals and feared that involving customers in new product design would have adverse effects on the sales of current products.

In short, the differences between market-oriented businesses and internally-oriented businesses are summarised in Table 1.1. Market-driven businesses display customer concern throughout

Figure 1.2 Production orientation

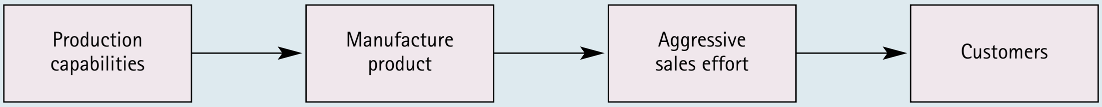


Figure 1.3 Marketing orientation

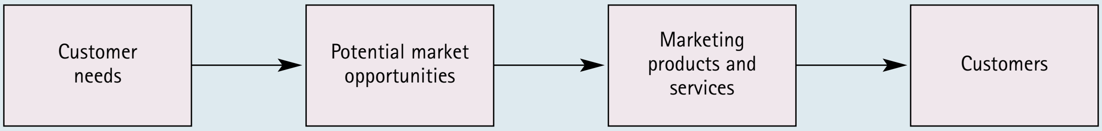


Table 1.1 Marketing-orientated businesses

Market-driven businesses	Internally orientated businesses
Customer concern throughout business	Convenience comes first
Know customer choice criteria and match with marketing mix	Assume price and product performance key to most sales
Segment by customer differences	Segment by product
Invest in market research (MR) and track market changes	Rely on anecdotes and received wisdom
Welcome change	Cherish status quo
Try to understand competition	Ignore competition
Marketing spend regarded as an investment	Marketing spend regarded as a luxury
Innovation rewarded	Innovation punished
Search for latent markets	Stick with the same
Being fast	Why rush?
Strive for competitive advantage	Happy to be me-too

the business, they understand the criteria customers use to choose between competing suppliers, they invest in market research and track market changes, they regard marketing spend as an investment and they are fast and flexible in terms of their pursuit of new opportunities.

Creating customer value and satisfaction

Marketing-orientated companies attempt to create ***customer value*** in order to attract and retain customers. Their aim is to deliver superior value to their target customers. In doing so, they implement the marketing concept by meeting and exceeding customer needs better than the competition. For example, Ritz Carlton (www.ritzcarlton.com) has developed an enviable reputation in the luxury hotel market. One of the company's mottos is that staff 'only have permission to say yes'.[7] This is a clear signal to everyone in the company that no effort should be spared in responding the needs of their discerning customers. Customer value is dependent on how the customer perceives the benefits of an offering and the sacrifice that is associated with its purchase. Therefore:

Customer value = Perceived benefits − Perceived sacrifice

Perceived benefits can be derived from the product (for example, the hotel room and resturant), the associated service (for example, how responsive the hotel is to the specific needs of customers) and the image of the company (for example, is the image of the company/product favourable?). *Perceived sacrifice* is the total costs associated with buying the product. This consists of not just monetary cost but the time and energy involved in purchase. For example, with hotels, good location can reduce the time and energy required to find a suitable place to stay. But marketers need to be aware of another critical sacrifice in some buying situations. This is the potential psychological cost of not making the right decision. Uncertainty means that people perceive risk when purchasing. Top hotels like the Ritz Carlton and the Marriott (www.marriott.com) aim for consistency so that customers can be confident of what they will receive before staying there.

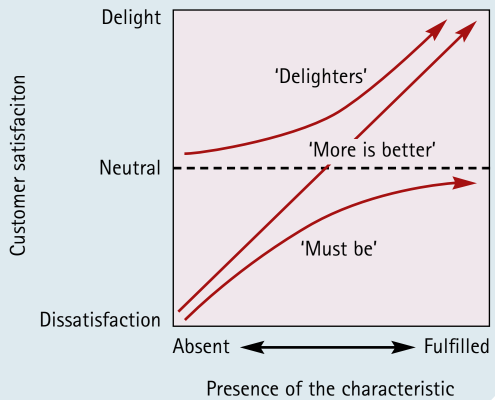
Exhibit 1-2 – This ad for expedia.co.uk, a travel website, highlights customer value. The perceived benefits of information on products and services are all available in one location (low perceived sacrifice).

Exceeding the value offered by competitors is key to marketing success. Consumers decide upon purchases on the basis of judgements about the values offered by suppliers. Once a product is bought, customer satisfaction depends upon its perceived performance compared to the buyer's expectations. Customer satisfaction occurs when perceived performance matches or exceeds expectations. Expectations are formed through post-buying experiences, discussions with other people, and suppliers' marketing activities. Companies need to avoid the mistake of setting customer expectations too high through exaggerated promotional claims since this can lead to dissatisfaction if performance falls short of expectations.

In today's competitive climate, it is often not enough to match performance and expectations. Expectations need to be exceeded for commercial success so that customers are delighted with the outcome. In order to understand the concept of customer satisfaction the Kano model (see Fig. 1.4) helps to separate characteristics that cause dissatisfaction, satisfaction and delight. Three characteristics underlie the model: 'must be', 'more is better' and 'delighters'.

Figure 1.4 Creating customer satisfaction.

Source: Joiner, B.L. (1994) *Fourth Generation Management*, New York: Mc-Graw-Hill



'Must be' characteristics are expected to be present and are taken for granted. For example, in a hotel, customers expect service at reception and a clean room. Lack of these characteristics causes annoyance but their presence only brings dissatisfaction up to a neutral level. 'More is better' characteristics can take satisfaction past neutral into the positive satisfaction range. For example no response to a telephone call can cause dissatisfaction, but a fast response may cause positive satisfaction or even delight. 'Delighters' are the unexpected characteristics that surprise the customer. Their absence does not cause dissatisfaction but their presence delights the customer. For example a UK hotel chain provides free measures of brandy in the rooms of their adult guests. This delights many of its customers who were not expecting this treat.

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

Exhibit 1-3 – The Ibis, a leading European hotel chain demonstrate a 'more is better' approach and acknowledge the importance of providing good customer service that is reliable and responsive. One of their customer service policies is "The 15 Minute Satisfaction Contract" where they promise that they will solve any problem involving a customer's accommodation within 15 minutes of the customer notifying an employee. If the customer's problem is not solved the customer gets a complete refund.

Efficiency versus effectiveness

Another perspective on customer orientation can be gained by understanding the distinction between efficiency and effectiveness.[8] ***Efficiency*** is concerned with inputs and outputs. An efficient firm produces goods economically: it does things right. The benefit is that cost per unit of output is low and, therefore, the potential for offering low prices to gain market share, or charging medium to high prices and achieving high profit margins, is present. However, to be successful a company needs to be more than just efficient: it need to be effective as well. *Effectiveness* means doing the right things. This implies operating in attractive markets and making products that consumers want to buy. Conversely, companies that operate in unattractive markets or are not producing what consumers want to buy will go out of business, the only question is one of timing. The link between performance and combinations of efficiency and effectiveness is illustrated in Fig 1.5. A company that is both inefficient and ineffective will go out of business quickly because it is a high-cost producer of products that consumers do not want to buy (See exhibit 1.4). A company that is efficient and ineffective may last a little longer because its low cost base may generate more profits from the dwindling sales volume it is achieving. Firms that are effective but inefficient are likely to survive because they are operating in attractive markets and are marketing products that people want to buy. The problem is that their inefficiency is preventing them from reaping the maximum profits from their endeavours. It is the combination of both efficiency and effectiveness

Figure 1.5 Efficiency and effectiveness

	Ineffective	Effective
Inefficient	Goes out of business quickly	Survives
Efficient	Dies slowly	Does well Thrives

Exhibit 1-4 – Boo.com was one of the highest profile 'dot.bombs'. The company spent millions trying to encourage shoppers to buy sports clothing online though it became clear that people still like to try on these products rather than simply see a rotating 3D image. Boo.com was both inefficient and ineffective.

that leads to optimum business success. Such firms do well and thrive because they are operating in attractive markets, are supplying products that consumers want to buy, and are benefiting from a low cost base.

Virgin Atlantic (www.virgin-atlantic.com) is an example of a company that is both effective and efficient. It is effective by being innovative in service delivery (for example, personal televisions built into the seating) as well as efficient in keeping costs low (for example, promotional expenditures are kept low by Richard Branson's capacity to generate publicity for the airline). Similarly, Dell Computer Corporation (www.euro.dell.com) has risen to a position of dominance in the PC industry by being both effective and efficient (See Marketing in Action 1.1). The essential difference between efficiency and effectiveness, then, is that the former is cost-focused while the latter is customer-focused. An effective company has the ability to attract and retain customers.

Delivering Customer Value

As well as being a philosophy that puts the customer at the centre of the business, marketing is also a business function that encompasses the variety of activities that must be conducted in

1.1 Marketing in Action

How Dell Computer Corporation Dominates the PC Market

At the age of 35, Michael Dell is already an elder statesman of the high technology industry. He founded his company, Dell Computer Corporation while still a student at the University of Texas in Austin. The principles underlying the business were relatively straightforward. In a fast changing business like computing, it did not seem sensible to follow the traditional pattern of manufacturing products, finding a distributor and attempting to sell them in the marketplace. Rapid innovations in PC components meant that unsold stock quickly contained out-of-date parts making it unattractive to the market unless it was steeply discounted. Dell came up with the ingenious idea of making computers to order. Customers selected from a menu of options on hardware and software and telephoned their orders. This approach also meant that Dell was paid for its products in advance which was an enormous help to the growing company. Business and personal buyers then received a machine that was customised to their needs and the 'make-to-order' model allowed for the inclusion of the very latest components, if desired. But Dell has also worked very hard on producing these high value products efficiently by streamlining manufacturing and coordinating the supply chain. Whereas there are 130 'touches' or interventions by staff involved on a standard PC assembly line, Dell has reduced this to just 60. The just-in-time delivery of supplies and finished products also generates major savings in inventory and storage costs. Furthermore, the 'make-to-order' model was ideally suited to the Internet and over half of Dell's $30 billion plus sales are now online. The virtual integration of the supply chain has reduced coordination and communication costs and increased the speed with which orders can be processed. Dell's growth has been staggering. Its share price has been the top-performing, big-company stock of the 1990s rising by an amazing 29,600 percent between 1990 and 1998, that is a rise from 23 cents to $68. Michael Dell's sixteen percent stake in the company has made him one of the high-tech super rich.

Based on: Grande (2001)[9], Serwer (1998)[10] order to deliver customer value. These include conducting marketing research to understand customer needs and their behaviour, segmenting markets into submarkets to be targeted by the company, developing products and brands and positioning these in the marketplace, making pricing decisions, deciding on a promotional mix, selling and distributing products and marketing planning and management. These are the kinds of issues that will be the focus of suceeding chapters in the book. Markets and marketing are constantly changing and new methods of delivering value such as customer relationship management (CRM) are being developed. These new techniques along with issues of importance the marketing profession such as marketing ethics will also be discussed throughout the book.

Marketing therefore, is an exciting and multi-faceted profession. Marketing managers are responsible for ensuring that the organisation delivers value to customers. But in doing so they may avail of the services of researchers, salespeople, communication specialists, advertising agencies and retail specialists. The wide range of careers that fall within the realm of marketing are outlined in Appendix 1.1 at the end of this chapter.

Exhibit 1–5 – This advertisement for the Ford Mondeo emphasises the product benefit of safety

The Marketing Mix

A key marketing activity is the management of the company's ***marketing mix***. The marketing mix consists of four major elements: product, price, promotion and place. These '4-Ps' are four key decision areas and they form a major aspect of marketing concept implementation. The second module of this book looks at each of the 4-Ps in considerable detail. At this point, it will be useful to examine each element briefly so that we can understand the essence of marketing mix decision-making.

Product

The ***product*** decision involves deciding what goods or services should be offered to a group of customers. An important element is new product/service development. As technology and tastes change, products become out-of-date and inferior to competition so companies must replace them with features that customers value. For example, when Microsoft (www.microsoft.com) launched Windows XP in 2001, it offered home users new features such as Windows Movie Maker for editing and organising home movis and a network setup wizard so that all computers in the home can share printers, files and an Internet connection. Product decisions also involve choices regarding brand names, guarantees, packaging and the services which should accompany the product offering. Guarantees can be an important component of the product offering. For example, the operators of the AVE, Spain's high-speed train capable of travelling at 300 km.p.h. are so confident of its performance that they guarantee to give customers a full refund of their fare if they are more than five minutes late.

Price

Price is a key element of the marketing mix because it represents on a unit basis what the company receives for the product or service which is being marketed. All of the other elements represent costs, for example, expenditure on product design (product), advertising and salespeople (promotion) and transportation and distribution (place). Marketers, therefore, need to be very clear about pricing objectives, methods,

Exhibit 1-6 – When most people think of "promotion", they automatically think of television advertising, such as this advert for Nescafe. But there are many different forms of promotion such as sponsorship, cinema advertising, press advertising, billboards, ambient advertising, direct marketing, public relations etc.

and the factors which influence price setting. They also must take into account the necessity to discount and give allowances in some transactions.

Promotion

Decisions have to be made with respect to the ***promotional mix***: advertising, personal selling, sales promotions, public relations, direct marketing and Internet and on-line marketing. By these means the target audience is made aware of the existence of a product or service and the benefits (both economic and psychological) that it confers to customers. Each element of the promotional mix has its own set of strengths and weakness and these will be explored later. A growing form of promotion is the use of the Internet as a promotional tool. A key advantage is that small companies can expand the scope of their market at relatively low cost. E-Marketing 1.2 illustrates how the use of the internet can radically change the fortunes of a small business.

Place

Place involves decisions concerning the distribution channels to be used and their

Exhibit 1-7 – Firms can choose different distribution strategies ranging from the high street stores to online selling combined with home delivery.

1.2 e-Marketing

Bringing a local product to the global market

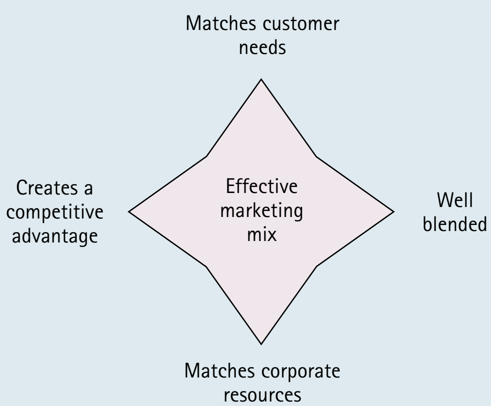
Roundstone Musical Instruments (www.bodhran.com) is a small Irish company based in the beautiful countryside of Connemara in the west of Ireland. The company specialises in making bodhrans –traditional Irish drums popular with folk musicans. Bodhrans (pronounced bow-rawn) are made from treated goatskin stretched onto a birch frame and in the hands of a skilful players they can be used to produce a variety of sounds and beats. The company's owner, Malachy Kearns first became familiar with the Internet during regular visits to trade fairs in the US and quickly realised its potential as a medium whereby a small company could reach a global market. So in 1995, he decided to divert 60 percent of his marketing budget into developing a website. The site subsequently won several design awards including a three shamrock rating by Doras, the Irish internet directory and the Golden Spider web award in 1997. It has also had a significant impact on business. The company gets about 18 percent of its turnover from the Internet and in the quieter winter months, between 30 to 40 of orders are online which has helped to spread the production workload for the handmade product more evenly throughout the year. The factory produces over 30,000 bodhrans per year which are sold to customers as far afield as the US, Japan, Australia and South America.
Based on: Keatinge (1999)[11]

management, the locations of outlets, methods of transportation and inventory levels to be held. The objective is to ensure that products and services are available in the proper quantities, at the right time and place. Distribution channels consist of organizations such as retailers or wholesalers through which goods pass on their way to customers. Producers need to manage their relationships with these organizations well because they may provide the only cost-effective access to the marketplace.

There are four hallmarks of an effective marketing mix (see Fig. 1.6). Initially, the mix must be designed to match the needs of a target customer group. Second it must contribute to the creation of a competitive advantage which is a clear performance differential over the competition on factors that are important to customers (see for example, the Ford Mondeo advertising in exhibit 1.5). The marketing mix must match the resources that are available to the firm. Certain media, for example television advertising, require a minimum threshold investment before they are regarded as feasible. In the UK a rule of thumb is that at least £1 million per year is required to achieve impact in a national advertising campaign. Clearly those brands that cannot afford such a promotional budget must use other less expensive media, for example posters or sales promotion, to attract and hold customers. Finally, an effective marketing mix should be well blended to form a consistent theme. For example, the use of exclusive outlets for up-market fashion and cosmetic brands—Armani, Christian Dior and Calvin Klein, for example—is consistent with their strategic position.

Thinking of the marketing mix simply in terms of 4-Ps has been the subject of some criticism in recent years. For example, in service businesses like hair salons, the hairdresser is a key part of the service itself while the décor of a resturant or café

Figure 1.6 **Hallmarks of an effective marketing mix**



1.2 Marketing in Action

IKEA Expands Internationally

The success of IKEA (www.ikea.com), the Swedish-based furniture and home furnishings store, is impressive. In four decades it has grown from a single store in Sweden to become one of the most successful international retailers in the world. The first store outside Scandinavia opened in Switzerland in 1973. Since then IKEA has opened 70 stores around Europe and has expanded into 29 countries with 158 stores on four continents. It is now the world's largest furniture retailer. Its clean, simple designs have become fashionable around the world, making it one of the few retailers to sell products that are able to cross national boundaries.

Two factors make IKEA's growth even more remarkable. First, unlike most furniture retailers which have been badly affected by the recession, IKEA has proven recession resistant. Second, IKEA's sales per square foot are over 2.5 times the industry average. What are the bases of their success?

First, they have a clear marketing-orientated business philosophy. 'We shall offer a wide range of home furnishing items of good design and function at prices so low that the majority of people can afford to buy them.' The key has been to use huge volumes and simple self-assembly designs to keep prices low, while selling more stylish products than the competition. The products are based upon Sweden's strong design skills which generate products from furniture to household items such as crockery and linen. Variations in national tastes have been smoothed into a uniform, modern look. IKEA sell a range of 12,000 products that are all designed in-house but manufactured around the world. The combination of stylish products, an enormous range from which to choose, and inexpensive prices produces a powerful competitive advantage to middle-income people, particularly young homemakers, their primary target market segment.

IKEA augment their offering by providing a playroom for 3–7-year-olds, a children's cinema, babycare rooms, and children's buggies to appeal to couples with young children. They provide a family restaurant (with Swedish specialities), a bistro and a Sweden shop selling such items as biscuits, jams and preserved fish to enhance the experience of shopping there. Finally, they cater for customers' needs by supplying a home delivery service, the possibility of buying or borrowing a roof rack, wheelchairs for disabled people, and a one-month, no-nonsense returns policy.

The distribution policy is to build vast out-of-town stores which cater for regions. Their policy is one of cautious expansion. In 1992 IKEA had five stores in the UK; by 2000 this had grown to 10, with plans to open another 20. They attempt to penetrate one region successfully before moving on to the next.

IKEA is a classic example of how the marketing mix can be designed to meet customer needs better than the competition. Their strong competitive advantages are the bases of their success.

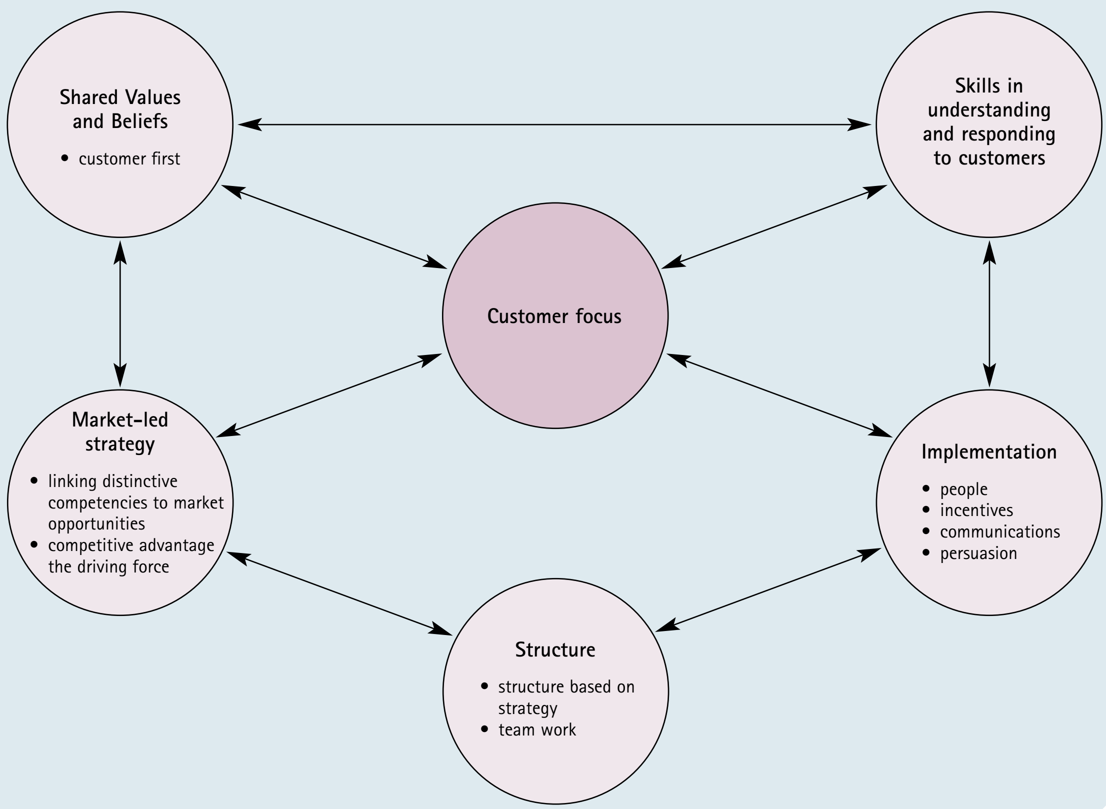
Based on: Lynn (1992);[13] Thornhill (1992);[14] Jones. (1996);[15] Anonymous (1999);[16] Baird. (1998);[17] Bring et al. (1999); [18] Clark;[19] Moss (2000)[20] is an important aspect of the enjoyment of that experience. Consequently service marketers have argued for a 7-Ps approach to incorporate the people, process and physical evidence aspects of services.[12] Whatever framework is used, the important issue is not to neglect decision-making areas that are critical to effective marketing. The strength of the 4-Ps approach is that it represents a memorable and practical framework for marketing decision making and has proved useful in the classroom and in practice for many years.

Managing Marketing Activity

Though the reasons why a company should be marketing oriented may be easy to understand, achieving it in practice is often much more difficult. A combination of factors are required to successfully drive a customer focus as shown in Figure 1.7. First, shared values and beliefs are a necessary prerequisite for successful marketing implementation.[21] Achieving this can be a problem for long-established companies that hitherto did not put the customer first. In general, changing attitudes is a hard-won battle.

The second dimension concerns the skills in understanding and responding to customers or what Peters and Waterman call getting and keeping close to the customer. A study by Kohli and Jaworski found that the starting-point of market orientation was intelligence gathering, which included not only customers' needs and preferences but also an analysis and interpretation of the factors that influence those needs and preferences.[22] Furthermore, they found that information gathering was not the exclusive responsibility of the marketing department and that individuals such as engineers at conferences and departments such as R&D often informally gathered information. Next, information needs to be disseminated throughout the company by formal and informal means. Kohli and Jaworski tell how marketing

Figure 1.7 Key dimensions of market-driven management



managers in two consumer products companies developed and circulated periodic newsletters to facilitate the spread of information. While in another manufacturing company a manager encouraged the process of dissemination by *storytelling*. She told stories about customers, their needs, personalities, and even their families. The idea was to have secretaries, engineers and production personnel get to know customers. Finally, responsiveness highlighted the need to select target markets, design and offer products and services that cater to current and anticipated needs, and producing, pricing, distributing and promoting those products and services in a way that customers value.

Third, a customer focus implies market-led strategies and the desire to meet needs better than the competition. However, as Davidson points out, the reality of the marketplace should be aligned with the assets (distinctive competences) of the company.[23] When looking to enter new markets, companies should be aware of their inherent corporate strengths and weaknesses. Fourth, organizational structure must reflect marketing strategy. As markets change, marketing strategy changes and the structure and systems may require modification to implement new strategies. This may involve, for example using new distribution systems, the breaking down of barriers between departments to foster innovation or the formation of new alliances.[24]

Finally, the last dimension of market-driven management is implementation, which requires clear communication of strategy so that it is not undermined by those who deal with the customer at first hand. One of the most high profile failures in the drinks industry was that of Guinness Light. Launched as an extension of the well-known Guinness brand, the new product never reached its sales targets and was promptly withdrawn. One of the reasons for its failure was that the margins offered to the distributors (public houses) was less than those available on existing products. Consequently, the distributors had no incentive to push the product and it failed to gain acceptance in the marketplace.

Marketing and business performance

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

For example, Narver and Slater studied the relationship between marketing orientation and business performance.[25] They collected data from 113 strategic business units (SBUs) of a major US corporation. In the main, their study found that the relationship between market orientation and profitability was strongly linear, with the businesses displaying the highest level of market orientation achieving the highest levels of profitability and those with the lowest scores on market orientation having the lowest profitability figures. As the authors state: 'The findings give marketing scholars and practitioners a basis beyond mere intuition for recommending the superiority of a market orientation.'

Similarly, a study published in the UK by Hooley, Lynch and Shepherd sought to develop a typology of approaches to marketing and to relate those approaches to business performance.[26] They identified four groups of companies, namely, *marketing philosophers, sales supporters, departmental marketers* and *unsures*. The *marketing philosophers* saw marketing as a function with the prime responsibility for identifying and meeting customers' needs and as a guiding philosophy for the whole organization: they did not see marketing as confined to the marketing department, nor did they regard it as merely sales support. The *sales supporters* saw marketing's primary functions as being sales and promotion support. Marketing was confined to what the marketing department did and had little to do with identifying and meeting customer needs. The *departmental marketers* not only shared the view of the marketing philosophers that marketing was about identifying and meeting customer needs but also believed that marketing was restricted to what the marketing department did. The final group of companies—the *unsures*—tended to be indecisive regarding their marketing approach.

The attitudes, organization and practices of the four groups were compared, with the *marketing philosophers* exhibiting many distinct characteristics. In summary:

1. Marketing philosophers adopted a more proactive aggressive approach towards the future.
2. They had a more proactive approach to new product development.
3. They placed a higher importance on marketing training.
4. They adopted longer time horizons for marketing planning.
5. Marketing had a higher status within the company.
6. Marketing had a higher chance of being represented at board level.
7. Marketing had more chance of working closely with other functional areas.
8. Marketing made a greater input into strategic plans.

Significantly, the marketing philosophers achieve a significantly higher ROI than the remainder of the sample. The departmental marketers performed at the sample average, while the unsures and sales supporters performed significantly worse. Hooley *et al.*'s conclusion was that marketing should be viewed not merely as a departmental function but as a guiding philosophy for the whole organization.

It is surprising then, that marketing has not had the influence in corporate boardrooms that its importance would seem to justify. A recent study in the UK found that only 12 percent of the chief executives in Britain's top 100 companies had experience of a marketing job[27] while research in the US shows that the majority of chief executives in recent decades have had a finance background.[28] Doyle argues that the reason for marketing's relatively low status is that the links between marketing investments and the long term profitability of the organisation have not been made clear.[29] Too often marketers justify their investments in terms of increasing customer awareness, sales volume or market share. He proposes the concept of value-based marketing where the objective of marketing is seen as contributing the maximisation of shareholder value which has become the overarching goal of chief executives in more and more companies. This approach helps clarify the importance of investments in marketing assets such as brands and marketing knowledge and helps to dissuade management from making arbitrary cuts in marketing expenditures such as advertising in times of economic difficulty.

Summary

Marketing achieves company goals by meeting and exceeding customer needs better than the competition and in turn contributing to shareholder value. The focus is on giving extra value rather than widespread cost cutting. Marketing-orientated companies attempt to achieve not only efficiency but also effectiveness—the ability to attract and retain customers. They show customer concern throughout the business and encourage innovation so that new products can be developed to meet the needs of tomorrow's customers.

However, it should be recognized that the marketing concept has its limitations. It should not be regarded as the sole raison d'etre of business and customer satisfaction may be tempered by other decisions that influence shareholder value. Furthermore while researching the market is essential to understanding customer needs and wants, its limitations with respect to product innovation must also be acknowledged as consumers may have a difficulty in articulating specific innovations that they would like. Successful new products like the Sony Walkman emerged from the R&D laboratory rather than from the marketplace.

Nevertheless, the key challenge for marketers is to monitor and understand customer needs and develop a competitive advantage through marketing mix decisions. The marketing mix comprises the 4-Ps: product, price, promotion, and place. Implementing the marketing concept in organizations can be difficult but studies show that rewards in terms of better business performance can be expected.

Suggested Readings

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Internet exercise

Marketing concept

Sites to visit

http://www.amazon.com

http://www.ft.com

http://www.yahoo.com

http://www.tesco.com

Exercise

Describe how these companies are creating value for their customers.

Study questions

1. Explain what it means to be a market oriented company?
2. Identify two examples of organisations that you consider to provide customer satisfaction and describe how they do it?
3. Marketing is sometimes considered to be an expensive luxury. Respond to this claim by demonstrating how a marketing orientation can have a positive impact on business performance?
4. Explain how the desire to be efficient may conflict with becoming effective?
5. Describe and explain the five dimensions of market-driven management?

Key terms

marketing concept the achievement of corporate goals through meeting and exceeding customer needs better than the competition

marketing orientation companies with a marketing orientation focus on customer needs as the primary drivers of organizational performance

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

effectiveness doing the right thing, making the correct strategic choice

efficiency a way of managing business processes to a high standard, usually concerned with cost reduction; also called 'doing things right'

customer value perceived benefits minus perceived sacrifice

customer satisfaction the fulfilment of customers' requirements or needs

shareholder value The returns to a company's shareholders, which grow when the company increases its dividends or its share price rises

customer relationship management (CRM) the practice of using information technology to build customer profiles with the objective of identifying, serving and retaining the 'best' customers

marketing mix a framework for the tactical management of the customer relationship, including product, place, price, promotion (4Ps). In the case of services three other elements to be taken into account are: process, people and physical evidence.

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

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

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

place the distribution channels to be used, outlet locations, methods of transportation

competitive advantage a clear performance differential over competition on factors that are important to target customers

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Appendix 1.1

Careers in Marketing	
Choosing a career in marketing can offer a wide range of opportunities. The following table outlines some of the potential positions available in marketing;	
Marketing Positions	
Marketing Executive / Coordinator	Management of all marketing-related activities for an organisation.
Brand / Product Management	A Product Manager will be responsible for the management of a single product or family of products. In this capacity, they may participate in product design and development according to the results of research into the evolving needs of their customer base. In addition, marketing managers develop business plans and marketing strategies for their product line, manage product distribution, disseminate information about the product, and coordinate customer service and sales.
Brand / Marketing Assistant	At the entry level of brand assistant, responsibilities consist of market analysis, competitive tracking, sales and market share analysis, monitoring of promotion programs, etc.
Marketing Researcher / Analysts	Market researchers collect and analyse information to assist in marketing, and determine whether a demand exists for a particular product or service. Some of tasks include: designing questionnaires, collecting all available and pertinent information, arranging and analysing collected information, presentation of research results to clients and making recommendations.
Marketing Communications Manager	Manages the marketing communications activity of an organisation such as advertising, public relations, sponsorships, direct marketing etc.
Customer Service Managers / Executives	Manages the service delivery and any interactions a customer may have with an organisation. Can be quite varied depending on industry.
Sales Positions	
Sales Executives / Business Development	Tries to develop successful business relationships with existing and potential customers. Manages the company's selling activities to existing customers and identifies potential sales prospects.
Sales Manager	Plans and coordinates the activities of a sales team, controls product distribution, monitors budget achievement, trains and motivates personnel, and prepares forecasts.
Key Account Executives	Manages the selling and marketing function to key customers (accounts). Conducts negotiations on products, quantities, prices, promotions, special offers etc.. Networks with other key account personnel influential in the buying decision process. Liases internally with all departments and colleagues in supplying and servicing the key account. Monitors performance of the key account.

Sales Support Managers	Provide sales support by fielding enquiries, taking orders and providing phone advice to customers. They also assist with exhibitions, prepare documentation for brochures and sales kits, and commission market research suppliers for primary data.
Merchandisers	Tries to maximise the display of a company's products in assigned retail outlets. Ensuring the point of sale displays are stocked and maintained correctly.
Sales Promotion Executives	Tries to communicate product features and benefits directly to customers at customer locations through sampling, demonstrations and the management of any sales promotional activities.
Telesales Representative	Personnel who take inbound or make outbound calls, which are sales-related.
Advertising Sales Executive	Sell a media organisation's airplay, TV spot or space to companies for the purpose of advertising.
Retailing	
Retail Management	Plans and coordinates the operations of retail outlets. Supervises the recruitment, training, conduct and work of staff. Maintains high levels of customer service. Manages stock levels
Retail Buyers	Retail buyers purchase goods to be sold in retail stores. Manage and analyse stock levels. Obtain information about the range of products available. Manage vendor relations.
Advertising Positions	
Account Executive	Advertising account executives help devise and coordinate advertising campaigns. They liase with clients, obtaining relevant information from clients such as product and company details, budget and marketing goals and marketing research. Furthermore they brief other specialists in the agency (such as creative team, media planners and researchers) on client requirements, to develop the details of a campaign. They may present draft campaign suggestions to clients along with a summary of the expenditure involved, and negotiate and arrange for modifications if required. They may supervise and coordinate the work of the relevant production departments so that the campaign is developed as planned to meet deadlines and budget requirements
Media Planner / Buyer	Media Buyer/ Planner organise and purchase advertising space on television, radio, in magazines, newspapers or on outdoor advertising. They liase between clients and the sellers of advertising space to ensure that the advertising campaign reaches the target market.
Public Relations	
Public Relations Executive	Helping to developing and maintaining a hospitable, friendly public environment for the organisation. Involves liasing with clients, coordination of special events, lobbying, crisis management, media relations, writing and editing of printed material.
Press Relations / Corporate Affairs	Developing and maintaining a good working relationships with the media. Creating press releases or responding to media queries