Fundamentals of Modern Marketing Thought

PART 1

Part Contents

Marketing in the modern organization

CHAPTER 1

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

THEODORE LEVITT

Learning Objectives

After reading this chapter, you should be able to:

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

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

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

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

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

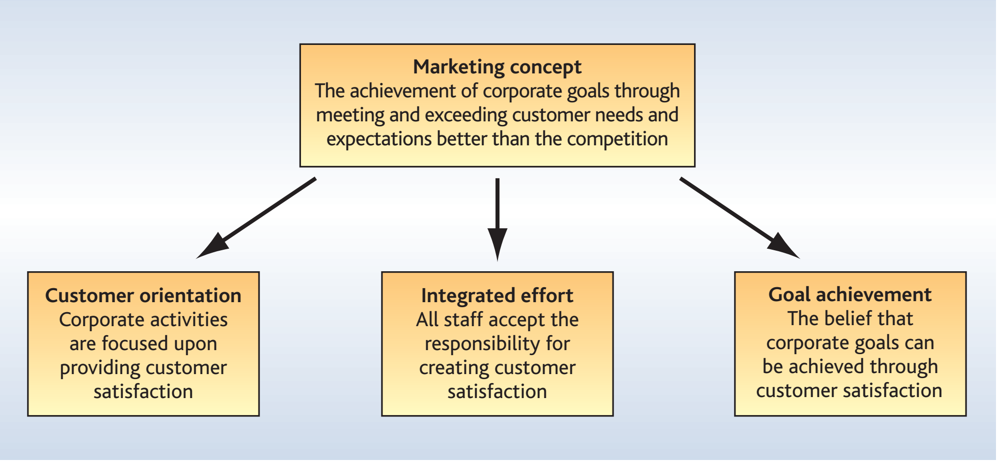
Marketing exists through exchanges. **Exchange** is the act or process of receiving something from someone by giving something in return. The 'something' could be a physical good, service, idea or money. Money facilitates exchanges so that people can concentrate on working at things they are good at,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

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

THE MARKETING CONCEPT

The above discussion introduces the notion of the marketing concept—that is, that companies achieve their profit and other objectives by satisfying (even delighting) customers.[4] This is the traditional idea underlying marketing. However, it neglects a fundamental aspect of commercial life: competition. The traditional marketing concept is a necessary but not a sufficient condition for corporate achievement. To achieve success, companies must go further than mere customer satisfaction; they must do better than the competition. Many also-ran products on the market could have been world-beaters in

Figure 1.1 Key components of the marketing concept



the mid-1990s. The difference is competition. The modern **marketing concept** can be expressed as:

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

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

MARKETING VERSUS PRODUCTION ORIENTATION

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

Production orientation manifests itself in two ways. First, management becomes cost-focused. It believes that the central focus of its job is to attain economies of scale by producing a limited range of products (at the limit, just one) in a form that minimizes pro-

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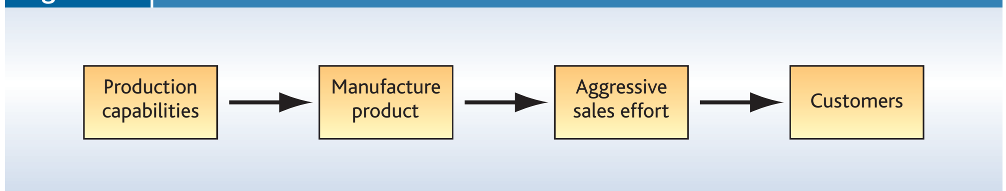
* This, of course, is not the only alternative business philosophy. For example, companies can be financially or sales orientated. If financially orientated, companies focus on short-term returns, basing decisions more on financial ratios than customer value; and sales-orientated companies emphasize sales push rather than adaptation to customer needs. Some textbooks even allude to the existence of eras of business orientation—production, product, selling and marketing—each with its own time zone, and this has entered marketing folklore. However, research has shown that such a sequence is based on the flimsiest of evidence and is oversimplified and misleading.[5] We shall concentrate on the fundamental difference in corporate outlook: marketing versus production orientation.

Figure 1.2 Production orientation



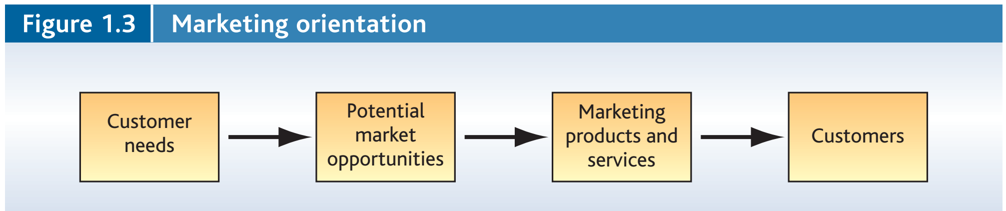
duction costs. Henry Ford is usually given as an example of a production-orientated manager because he built just one car in one colour—the black Model T—in order to minimize costs. However, this is unfair to Mr Ford since his objective was customer satisfaction: bringing the car to new market segments through low prices. The real production-orientated manager has no such virtues. The objective is cost reduction for its own sake, an objective at least partially fuelled by the greater comfort and convenience that comes from producing a narrow product range.

The second way in which production orientation reveals itself is in the belief that the business should be defined in terms of its production facilities. Levitt has cited the example of film companies defining their business in terms of the product produced, which meant they were slow to respond when the demand to watch cinema films declined in the face of increasing competition for people's leisure time.[6] Had they defined their business in marketing terms—entertainment—they may have perceived television as an opportunity rather than a threat.

Figure 1.2 illustrates production orientation in its crudest form. The focus is on current production capabilities that define the business mission. The purpose of the organization is to manufacture products and aggressively sell them to unsuspecting customers. A classic example of the catastrophe that can happen when this philosophy drives a company is that of Pollitt and Wigsell, a steam engine producer that sold its products to the textile industry. It made the finest steam engine available and the company grew to employ over 1000 people on a 30-acre (12-hectare) site. Its focus was on steam engine production, so when the electric motor superseded the earlier technology it failed to respond. The 30-acre site is now a housing estate. Contrast the fortunes of Pollitt and Wigsell with another company operating in the textile industry at about the same time. This company made looms and achieved great success when it launched the type G power loom, which allowed one person to oversee 50 machines. Rather than defining its business as a power loom producer, the company adopted a marketing orientation and sought new opportunities in emerging markets. In 1929 the type G power loom patent was sold to fund the creation of a car division. The company was Toyota.[7]

Marketing-orientated companies focus on customer needs. Change is recognized as endemic and adaptation considered to be the Darwinian condition for survival. Changing needs present potential market opportunities, which drive the company. For example, the change towards ethical consumption has created opportunities for existing companies, such as Nestlé's launch of Partners' Blend, as well as opportunities for the creation and growth of new companies such as Cafédirect. Within the boundaries of their distinctive

Figure 1.3 Marketing orientation



competences, market-driven companies seek to adapt their product and service offerings to the demands of current and latent markets. This orientation is shown in Figure 1.3.

Marketing-orientated companies get close to their customers so that they understand their needs and problems. For example, Dürr AG, the German paint and assembly systems manufacturer, gets close to its customers by assigning over half its workforce to the sites of its customers, such as Ford and Audi. 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 manufacturers can be attributed to their willingness to develop new products with lead customers: those companies who themselves are innovative.[8] This contrasts sharply with the attitude of UK machine tool

1.1 Marketing in Action

Marketing Orientation Brings Success to Toyota

Toyota GB is the national sales and marketing company responsible for sales and after-sales service for Toyota cars and commercial vehicles in the UK. Its success is reflected in sales growth in every year since 1992, when it sold 47,500, to over 120,000 in 2005, an increase of 23 per cent on 2001. Despite a consistent upward trend, the decade has seen the implementation of two fundamentally different philosophies. From 1992 to 1997, Toyota's market share grew from 2.6 per cent to 3.3 per cent as a result of a 'push' strategy fuelled by the achievement of short-term sales targets and focused on selling low-cost Japanese-designed cars. The approach was supported by a major tactical incentive programme but with little marketing or brand investment.

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

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

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

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

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

Based on: Simms (2002);[10] Anonymous (2005);[11] Anonymous (2005);[12]

manufacturers, who saw marketing research as merely a tactic to delay new product proposals and who feared that involving customers in new product design would have adverse effects on the sales of current products. Marketing orientation is related to the strategic orientation of companies. Marketing-orientated firms adopt a proactive search for market opportunities, use market information as a base for analysis and organizational learning, and adopt a long-term strategic perspective on markets and brands.[9]

Marketing in Action 1.1 describes how a move to a marketing orientation has laid the foundations for success at Toyota.

MARKET-DRIVEN VERSUS INTERNALLY ORIENTATED BUSINESSES

A deeper understanding of the marketing concept can be gained by contrasting in detail a market-driven business with one that is internally orientated. Table 1.1 summarizes the key differences.

Market-driven companies display customer concern throughout the business. All departments recognize the importance of the customer to the success of the business. Nestlé, for example, has placed the customer at the centre of its business philosophy by giving the company's head of marketing responsibility for the company's seven strategic business units. Marketers also control strategy, research and development, and production.[13] In internally focused businesses convenience comes first. If what the customer wants is inconvenient to produce, excuses are made to avoid giving it.

Market-driven businesses know how their products and services are being evaluated against those of the competition. They understand the choice criteria that customers are

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
Efficient and effective	Efficient

using and ensure that their marketing mix matches those criteria better than that of the competition.

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

A key feature of market-driven businesses is their recognition that marketing research expenditure is an investment that can yield rich rewards through better customer understanding. We saw in Marketing in Action 1.1 how Toyota based its new marketing strategy on a customer research survey. Internally driven businesses see marketing research as a non-productive intangible and prefer to rely on anecdotes and received wisdom. Market-orientated businesses welcome the organizational changes that are bound to occur as an organization moves to maintain strategic fit between its environment and its strategies. In contrast, internally orientated businesses cherish the status quo and resist change.

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

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

Intensive competition means that companies need to be fast to succeed. Market-driven companies are fast to respond to latent markets, innovate, manufacture and distribute their products and services. They realize that strategic windows soon close.[14] Dallmer, chief executive of a major European company, told a story that symbolizes the importance of speed to competitive success.[15] Two people were walking through the Black Forest where it was rumoured a very dangerous lion lurked. They took a break and were sitting in the sun when one of them changed out of his hiking boots and into his jogging shoes. The other one smiled and, laughing, asked, 'You don't think you can run away from the lion with those jogging shoes?' 'No,' he replied, 'I just need to be faster than you!' Internally driven companies when they spot an opportunity take their time. 'Why rush?' is their epitaph.

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

EFFICIENCY VERSUS EFFECTIVENESS

Another perspective on business philosophy can be gained by understanding the distinction between efficiency and effectiveness.[16] **Efficiency** is concerned with inputs and outputs. An efficient firm produces goods economically: it does things right. The benefit is that the cost per unit of output is low and, therefore, the potential for offering low prices to gain market share, or charging medium to high prices and achieving high profit margins, is present. However, to be successful, a company needs to be more than just efficient—it needs to be effective as well. **Effectiveness** means doing the right things. This implies operating in attractive markets and making products that consumers want to buy. Conversely, companies that operate in unattractive markets or are not producing what consumers want to buy will go out of business; the only question is one of timing.

The link between performance and combinations of efficiency and effectiveness can be conceived as shown in Figure 1.4. A company that is both inefficient and ineffective will go out of business quickly because it is a high-cost producer of products that consumers do not want to buy. One company that went out of business because it was inefficient and ineffective was boo.com. The company spent lavishly while trying to persuade consumers to buy sports clothing online via its extremely slow website. It became clear that shoppers preferred to try on these products rather than view a rotating 3D image.[17] Another company that has suffered through a combination of inefficiency and ineffectiveness is General Motors. The inefficiency is the result of the legacy of paying healthcare costs to its current and retired workers—this adds $1500 to the cost of each of its cars; the ineffectiveness stems from a history of making unreliable and undesirable cars.[18]

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. Fiat is an example of an efficient and ineffective company. It is reasonably efficient due to investment in robotics. However, its cars have performed poorly in customer satisfaction surveys, rendering the company ineffective at meeting customer needs. Kodak is also in this category, being an efficient producer of photographic film but becoming increasingly ineffective as consumers move to digital photography.[19] Firms that are effective but inefficient are likely to survive because they are operating in attractive markets and are marketing products that people want to buy. Mercedes used to fall into this category, with its emphasis on over-engineering pushing up costs and lowering efficiency, while still making cars that people wanted to buy (driving an S500 has been likened to 'being wrapped in a freshly laundered silk sheet and blown up the road by a warm wind')[20] and so achieving effectiveness. 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 that leads to optimum business success. Such firms do well and thrive because they are operating in attractive markets, are supplying products that consumers want to buy and are benefiting from a low cost base.

Toyota is an example of an efficient and effective company. Its investment in innovative manufacturing practices and modern technology ensures efficiency, while its ability to

Figure 1.4 Efficiency and effectiveness

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

build cars that people want to buy (see Marketing in Action 1.1) proves its effectiveness. The result is growing global sales and profits.

Another company that has thrived through a combination of efficiency and effectiveness is Samsung Electronics, as Marketing in Action 1.2 explains.

1.2 Marketing in Action

Samsung Electronics: Thriving on Efficiency and Effectiveness

Samsung Electronics, the South Korean manufacturing giant, was regarded a decade ago as a producer of cheap televisions and microwave ovens. Now it is seen as a 'cool' youth brand serving the needs of the global 'techno-savvy'. The change has been brought about by a remarkable move to effectiveness in the marketplace while creating efficiency in its manufacturing facilities. Effectiveness has been created by repositioning itself as a major brand in mobile phones and flat-screen televisions; and as market leader in the memory chips that are used in digital cameras, mobile phones, and digital portable music players such as the iPod nano.

The defining moment was the transition from analogue devices to digital ones, a technological step-change that Samsung embraced with huge R&D investments that account for 8 per cent of sales revenue. To ensure that its research investment is market-focused, the company regularly sends designers and engineers to consumer laboratories around the world to gauge consumer tastes for new products. It was this kind of research and its innovative culture that meant Samsung was one of the first companies to pioneer the 'clamshell' mobile phone design (while Nokia hesitated), as well as the combining of digital cameras and music players into mobile phones. Further innovations include voice-recognition technology, which converts speech into text messages, offering an alternative to people who find typing messages on their mobile's tiny keyboard frustrating, and scanning technology that automatically scans business cards, inserting the details into the user's address book.

Samsung Electronics has become an efficient production unit by investing in the latest manufacturing technology. For example, between 2005 and 2010 it is investing £14 billion (€20 billion) in state-of-the-art memory chip-making facilities. The result of becoming effective and efficient has been a move from a loss-making operation in the mid-1990s to record profits today.

Based on: Anonymous (2005);[21] Ihlwan and Rowley (2006)[22]

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.

LIMITATIONS OF THE MARKETING CONCEPT

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

The marketing concept as an ideology

Brownlie and Saren argue that the marketing concept has assumed many of the characteristics of an ideology or an article of faith that should dominate the thinking of organizations.[23] They recognize the importance of a consumer orientation for companies but ask why, after 40 years of trying, the concept has not been fully implemented. They argue that there are other valid considerations that companies must take into account when making decisions (e.g. economies of scale) apart from giving customers exactly what they want. Marketers' attention should therefore be focused not only on propagation of the ideology but also on its integration with the demands of other core business functions in order to achieve a compromise between the satisfaction of consumers and the achievement of other company requirements.

Marketing and society

A second limitation of the marketing concept concerns its focus on individual market transactions. Since many individuals weigh heavily their personal benefits while discounting the societal impact of their purchases, the adoption of the marketing concept will result in the production of goods and services that do not adequately correspond to

1.1 Marketing Ethics and Corporate Social Responsibility in Action

Product Red Leads on Ethical Marketing Partnerships

The rock star Bono, frontman of U2, took centre stage in Davos during the World Economic Forum in 2006 to announce the launch of a new global brand, Product Red, with a share of profits to go to combat AIDS in Africa. Companies such as American Express, Gap, Converse and Giorgio Armani have formed partnerships to produce a range of 'Red' branded products, including T-shirts, footwear, sunglasses and a credit card. Product Red wants to draw on the branding expertise and commercial power of its corporate partners, and the Red partners hope to broaden their customer base while 'doing the right thing' at the same time.

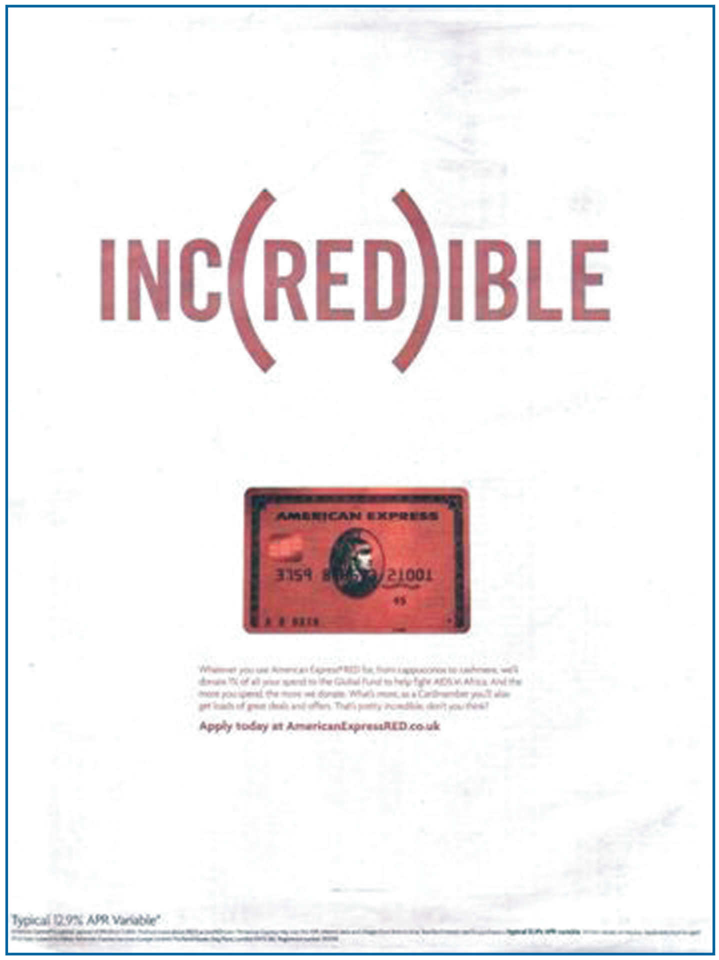
The aim is to channel funds from the project into the Global Fund to Fight AIDS, Tuberculosis and Malaria, and boost contributions from corporate sources. American Express, has launched its no-fee 'Red' Amex card in the UK only, promising that at least 1 per cent of every pound spent will go to the Global Fund (see illustration).

Gap clothing chain has brought out a range of 'Red' T-shirts, made in Africa, in its US and UK stores; Nike-owned Converse has sold a range of limited-edition Chuck Taylor All Star shoes; while luxury brand Armani has launched sunglasses, and aims to expand into perfume, jewellery and watches. On average, Product Red's partners have pledged to channel about 40 per cent of their profits to the Global Fund. American Express chief John Hayes called it 'conscientious commerce', something that should reward both the shareholders and the global community.

Ad Insight

Such 'feel-good' marketing opportunities are making inroads into traditional marketing strategies, as companies recognize the need to demonstrate tangible commitment to their corporate conscience if the public are to be persuaded about their ethical credentials. Many firms have faced criticism in the past over their questionable marketing practices (e.g. Nestlé and Nike) or their inconsistent commitment to ethical business practice. In 2005, Kraft announced the launch of its Kenco Sustainable Development coffee, certified by the Rainbow Alliance. The coffee is the first move by the giant food multinational into the ethical sector, as is Nestlé's Fairtrade-endorsed Partners' Blend instant coffee. Some campaigners argue that this is cynical manipulation by the multinationals to cash in on a growing market, rather than a fundamental shift in business strategy. Certainly Bono acknowledges that some critics consider he is also being used by companies to restore their reputations, although he argues, 'We are not endorsing their products, these products endorse us.' Whatever the motives behind the corporate involvement, some would say that the main issue is that if people are buying ethically at all, and if the world's economically deprived populations benefit alongside the global brands, this can only be a good thing.

Based on: Weber (2006);[26] Muspratt (2004)[27]



The American Express 'RED' credit card is designed to address consumers' ethical consumption.

societal welfare. Providing customer satisfaction is simply a means to achieve a company's profit objective and does not guarantee protection of the consumer's welfare. This view is supported by Wensley, who regards consumerism as a challenge to the adequacy of the atomistic and individual view of market transactions.[24] An alternative view is presented by Bloom and Greyser, who regard consumerism as the ultimate expression of the marketing concept compelling marketers to consider consumer needs and wants that hitherto may have been overlooked:[25] 'The resourceful manager will look for the positive opportunities created by consumerism rather than brood over its restraints.'

Companies are responding to the challenge of societal concerns in various ways. Marketing Ethics and Corporate Social Responsibility in Action 1.1 discusses how firms are forming ethical partnerships to combat disease and how ethical consumption is providing opportunities for the development of new brands.

Marketing as a constraint on innovation

In an influential article Tauber showed a third criticism of marketing, that is, how marketing research discouraged major innovation.[28] The thrust of his argument was that relying on customers to guide the development of new products has severe limitations. This is because customers have difficulty articulating needs beyond the realm of their own experience. This suggests that the ideas gained from marketing research will be modest compared to those coming from the 'science push' of the research and development laboratory. Brownlie and Saren agree that, particularly for discontinuous innovations (e.g. Xerox, penicillin), the role of product development ought to be far more proactive than this.[29] Indeed technological innovation is the process that 'realizes' market demands that were previously unknown. Thus the effective exploitation and utilization of technology in developing new products is at least as important as market-needs analysis.

However, McGee and Spiro point out that these criticisms are not actually directed at the marketing concept itself but towards its faulty implementation: an overdependence on customers as a source of new product ideas.[30] They state that the marketing concept does not suggest that companies must depend solely on the customer for new product ideas; rather the concept implies that new product development should be based on sound interfacing between perceived customer needs and technological research. Project SAPPHO, which investigated innovation in the chemical and scientific instrument industries, found that successful innovations were based on a good understanding of user needs.[31] Unsuccessful innovations, on the other hand, were characterized by little or no attention to user needs.

Marketing as a source of dullness

A fourth criticism of marketing is that its focus on analysing customers and developing offerings that reflect their needs leads to dull marketing campaigns, me-too products, copycat promotion and marketplace stagnation. Instead, marketing should create demand rather than reflect demand. As Brown states, consumers should be 'teased, tantalized and tormented by deliciously insatiable desire'.[32] This approach he terms 'retromarketing', and says that it is built on five principles: exclusivity, secrecy, amplification, entertainment and tricksterism.

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

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

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

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

CREATING CUSTOMER VALUE AND SATISFACTION

Customer value

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

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

Customer value = perceived benefits − perceived sacrifice

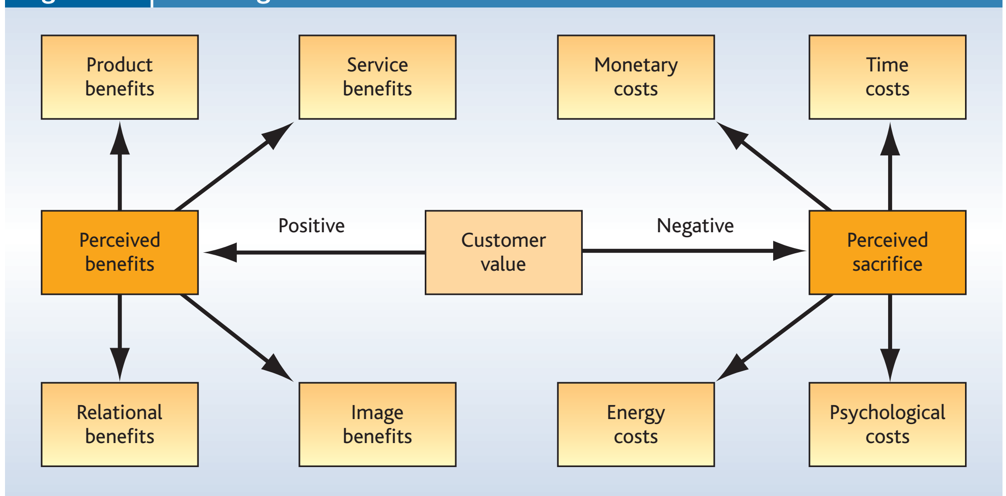
Perceived benefits can be derived from the product (for example, the taste of the hamburger), the associated service (for example, how quickly customers are served and the cleanliness of the outlet) and the image of the company (for example, whether the image of the company/product is favourable). If one of those factors—for example, product benefits—changes then the perceived benefits and customer value also change. For instance, the downturn in the fortunes of McDonald's in recent years has largely been attributed to the trend towards healthier eating. This has caused some consumers to regard the product benefits of its food to be less, resulting in lower perceived benefits and reduced customer value. In an attempt to redress the situation McDonald's has introduced healthy-eating options including salad and fruit.[33]

A further source of perceived benefits is the relationship between customer and supplier. Customers may enjoy working with suppliers with whom they have developed close personal and professional friendships, and value the convenience of working with trusted partners.

Perceived sacrifice is the total cost associated with buying a product. This consists of not just monetary cost but the time and energy involved in purchase. For example, with fast-food restaurants, good location can reduce the time and energy required to find a suitable eating place. But marketers need to be aware of another critical sacrifice in some buying situations.

This is the potential psychological cost of not making the right decision. Uncertainty means that people perceive risk when purchasing. McDonald's attempts to reduce perceived risk by standardizing its complete offer so that customers can be confident of what they will receive before entering its outlets. In organizational markets, companies offer guarantees to reduce the risk of purchase. Figure 1.5 illustrates how perceived benefits and sacrifice affect customer value. It provides a framework for considering ways of maximizing value. The objective is to find ways of raising perceived benefits and reducing perceived sacrifice.

Figure 1.5 Creating customer value



Customer satisfaction

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

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, as Digital Marketing 1.1 explains.

Customer satisfaction is taken so seriously by some companies that financial bonuses are tied to it. For example, two days after taking delivery of a new car, BMW (and Mini) customers receive a telephone call to check on how well they were treated in the dealership. The customer is asked 15 questions, with each question scored out of 5. The franchised dealership only receives a financial bonus from BMW if the average score across all questions is 92 or better (5 is equivalent to 100, 4 to 80, and so on). Customer satisfaction with after-sales service is similarly researched. Aspiring dealerships have to be capable of achieving such scores, and existing dealerships that consistently fail to meet these standards are under threat of franchise termination. This makes a great deal of sense as higher levels of customer satisfaction are associated with higher levels of customer retention, financial performance and shareholder value.[34]

In today's competitive climate, it is often not enough to match performance and expectations. Expectations need to be exceeded for commercial success so that customers are delighted with the outcome. In order to understand the concept of customer satisfaction the so-called 'Kano model' (see Fig. 1.6) helps to separate characteristics that cause dissatisfaction, satisfaction and delight. Three characteristics underlie the model: 'Must be', 'More is better' and 'Delighters'.

@ 1.1 *Digital Marketing*

Managing Expectations to Maximize Customer Satisfaction: dabs.com

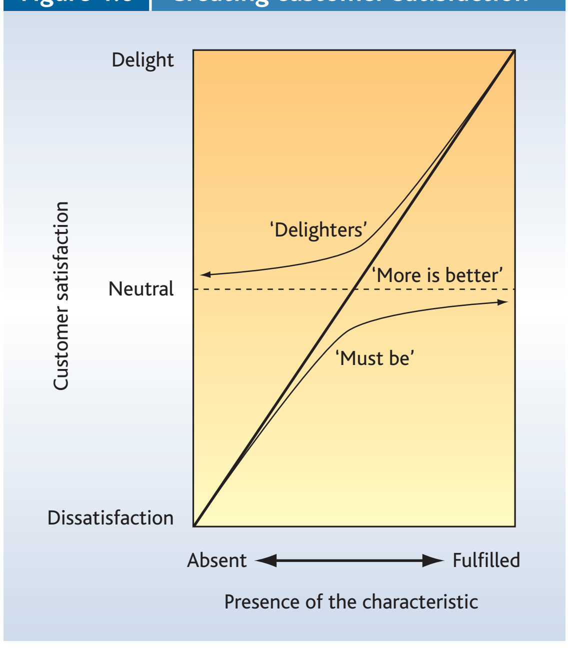
Pre-purchase expectations held by customers are a key determinant of satisfaction. Companies face the difficult task of not promising too much (as, when delivery falls short, dissatisfied customers go elsewhere) or promising too little (as customers may not purchase at all, demanding more than is offered).

Achieving a six-fold increase in turnover in eight years, successful Internet computing retailer dabs.com has taken a unique approach to the setting and management of expectations of its 1.6 million registered customers. The company aims to maintain competitive prices for products (but not necessarily the cheapest) and to deliver all products held in stock within 24 hours (something the majority of its competitors have yet to achieve). Rather than offer and advertise next-day delivery for all items (and disappoint those customers whose products take longer), items are advertised as available for delivery in one to three days. By allowing for a margin of error in a delivery date, customers are not dissatisfied on the rare occasions products arrive on the second or third day after order (as they would be if next-day delivery was stated). Conversely, most customers are satisfied when the company regularly delivers products next day when they were expecting delivery to take up to three days. Rather than over-promising and under-delivering, as many online retailers have done, dabs.com has been able to maximize customer satisfaction while simultaneously allowing for any operational problems that may occur.

'Must be' characteristics are expected to be present and are taken for granted. For example, in a hotel, customers expect service at reception and a clean room. Lack of these characteristics causes annoyance but their presence only brings dissatisfaction up to a neutral level. 'More is better' characteristics can take satisfaction past neutral into the positive satisfaction range. For example, no response to a telephone call can cause dissatisfaction, but a fast response may cause positive satisfaction or even delight. 'Delighters' are the unexpected characteristics that surprise the customer. Their absence does not cause dissatisfaction but their presence delights the customer. For example, a UK hotel chain provides free measures of brandy in the rooms of its adult guests. This delights many of its customers, who were not expecting this treat. Another way to delight the customer is to under-promise and over-deliver (for example, by saying that a repair will take about five hours but getting it done in two).[35]

A problem for marketers is that, over time, delighters become expected. For example, some car manufacturers provided small unexpected delighters such as pen holders and delay mechanisms on interior lights so that there is time to find the ignition socket at night. These are standard on most cars now and have become 'Must be' characteristics as customers expect them. This means that marketers must constantly strive to find new ways of delighting. Innovative thinking and listening to customers are key ingredients in this. Marketing in Action 1.3 explains how to listen to customers.

Figure 1.6 Creating customer satisfaction



1.3 Marketing in Action

Listening to Customers

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

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

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

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

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

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

Based on: Jones and Sasser Jr (1995);[36] Morgan (1996);[37] White (1999);[38] Roythorne (2003);[39] Ryle (2003);[40] Mitchell (2005)[41]

DEVELOPING AN EFFECTIVE MARKETING MIX

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

Product

Ad Insight

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

All products must give benefits that customers value. The advertisement for Lucozade Sport Hydro Active explains how, by replacing lost salts and fluid, the brand provides the benefit of getting the most out of exercise (see illustration overleaf).

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

1.1 Pause for thought

Think of a product that you have bought recently. What features pleased you? Were there any surprises that delighted you? Were there any disappointments? Imagine you are a consultant for the company that supplies the product. Given your experiences with the product, have you any recommendations for improving its ability to give customer satisfaction?

The iPod's competitive advantages over the Sony Walkman were soon reflected in soaring sales for Apple.

Price

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

Because price affects the value that customers perceive they get from buying a product, it can be an important element in the purchase decision. Some companies attempt to position themselves as offering lower prices than their rivals. For example, supermarkets such as Asda (Wal-Mart) in the UK, Aldi in Germany, Netto in Denmark and Super de Boer in the Netherlands employ a low-price positioning strategy. Another strategy is to launch a low-price version of an existing product targeted at price-sensitive consumers. For example, Apple launched the Mac mini, a basic version of the Macintosh computer. With this low-priced machine Apple believes it can tempt people who have bought an iPod (and become fans of the company) to ditch their Windows-based PCs and switch to the Mac mini.[42]

Promotion

Decisions have to be made with respect to the **promotional mix**: advertising, personal selling, sales promotions, public relations, direct marketing, and Internet and online pro-

Lucozade's Hydro Active brand provides product benefits to people engaged in physical exercise.

motion. By these means the target audience is made aware of the existence of a product or service, and the benefits (both economic and psychological) it confers to customers. Each element of the promotional mix has its own set of strengths and weakness, and these will be explored in the second part of this book. Advertising, for example, has the property of being able to reach wide audiences very quickly. Procter & Gamble used advertising to reach the emerging market of 290 million Russian consumers. It ran a 12-minute commercial on Russian television as its first promotional venture in order to introduce the company and its range of products.[43] A growing form of promotion is the use of the Internet as a promotional tool. A great advantage of the Internet is its global reach. This means that companies that did not have the resources to promote overseas can reach consumers worldwide by creating a website. In business-to-business markets, suppliers and customers can communicate using the Internet and purchases can be made using e-marketplaces. The Internet has also proven to be a powerful communication tool, sometimes replacing traditional media. For example, the Arctic Monkeys, a UK rock band, built up their fan base online before signing a record deal, by placing demo tracks on their website and MySpace, a social networking site that allows downloading and sharing among music fans. The band's popularity soared through viral word of mouth, resulting in number-one single and album hits.[44]

Place

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

KEY CHARACTERISTICS OF AN EFFECTIVE MARKETING MIX

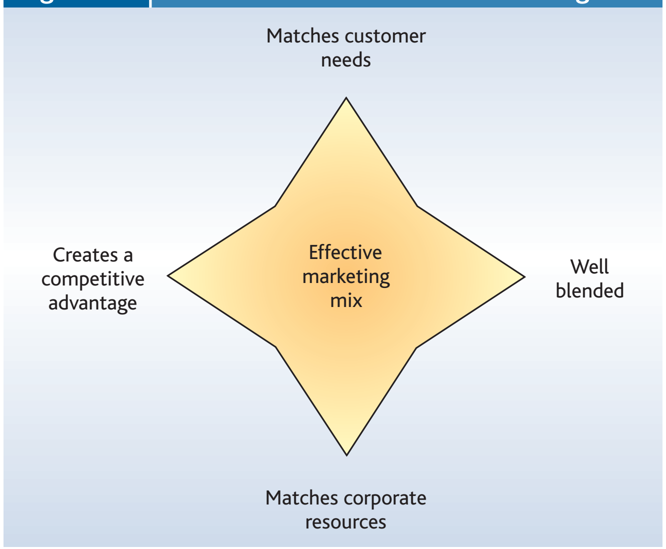
There are four hallmarks of an effective **marketing mix** (see Fig. 1.7).

The marketing mix matches customer needs

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

Figure 1.8 illustrates the link between customer choice criteria and the marketing mix. The starting point is the realization that customers evaluate products on economic and psychological criteria. Economic criteria include factors such as performance, availability, reliability, durability and productivity gains to be made by using the product. Examples of psychological criteria are self-image, a desire for a quiet life, pleasure, convenience and risk

Figure 1.7 Hallmarks of an effective marketing mix



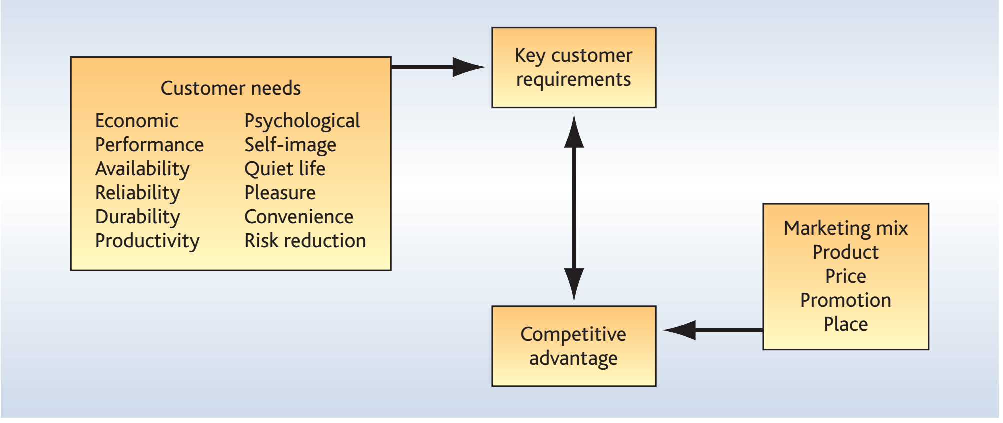
reduction. These will be discussed in detail in Chapter 4. The important point at this stage is to note that an analysis of customer choice criteria will reveal a set of key customer requirements that must be met in order to succeed in the marketplace. Meeting or exceeding these requirements better than the competition leads to the creation of a competitive advantage.

The marketing mix creates a competitive advantage

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

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

Figure 1.8 Matching the marketing mix to customer needs



The marketing mix should be well blended

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

1.2 Pause for thought

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

The marketing mix should match corporate resources

The choice of marketing mix strategy may be constrained by the financial resources of the company. Laker Airlines used price as a competitive advantage to attack British Airways and TWA in transatlantic flights. When they retaliated by cutting their airfares, Laker's financial resources were insufficient to win the price war. Certain media—for example, television advertising—require a minimum threshold investment before they are regarded as feasible. In the UK a rule of thumb is that at least £5 million (€7 million) per year is required to achieve impact in a national advertising campaign. Clearly those brands that cannot afford such a promotional budget must use other less expensive media—for example, posters or sales promotion—to attract and hold customers.

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

CRITICISMS OF THE 4-PS APPROACH TO MARKETING MANAGEMENT

Some critics of the 4-Ps approach to the marketing mix argue that it oversimplifies the reality of marketing management. Booms and Bitner, for example, argue for a 7-Ps approach to services marketing.[45] Their argument, which will be discussed in some detail in Chapter 22 on services marketing, is that the 4-Ps do not take sufficient account of people, process and physical evidence. In services, people often *are* the service itself; the process or how the service is delivered to the customer is usually a key part of the service, and the physical evidence—the décor of the restaurant or shop, for example—is so critical to success that it should be considered as a separate element in the services marketing mix.

Rafiq and Ahmed argue that this criticism of the 4-Ps can be extended to include industrial marketing.[46] The interaction approach to understanding industrial marketing stresses that success does not come solely from manipulation of the marketing mix components but long-term relationship building, whereby the bond between buyer and seller becomes so strong that it effectively acts as a barrier to entry for out-suppliers.[47] This phenomenon undoubtedly exists to such an extent that industrial buyers are now increasingly seeking long-term supply relationships with suppliers. For example, car manufacturers have drawn up long-term contracts with preferred suppliers that provide stability in supply and improvements in new component development. Bosch, the German producer of industrial and consumer goods, conducts quality audits of its suppliers. These kinds of activities are not captured in the 4-Ps approach, it is claimed.

Nevertheless, there is no absolute reason why these extensions cannot be incorporated within the 4-Ps framework.[48] People, process and physical evidence can be discussed under 'product', and long-term relationship building under 'promotion', for example. The important issue is not to neglect them, whether the 4-Ps approach or some other method is used to conceptualize the decision-making areas of marketing. The strength of the 4-Ps approach is that it represents a memorable and practical framework for marketing decision-making and has proved useful for case study analysis in business schools for many years.

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, two quantitative studies in both Europe and North America have sought to examine the relationship between marketing and performance. The results suggest that the relationship is positive. We will now examine each of the two studies in turn.

Marketing characteristics and business performance

In a study of 1700 senior marketing executives, Hooley and Lynch reported the marketing characteristics of high- versus low-performing companies.[49] The approach that they adopted was to isolate the top 10 per cent of companies (based on such measures as profit margin, return on investment and market share) and to compare their marketing practices with the remainder of the sample. The 'high fliers' differed from the 'also-rans' as follows:

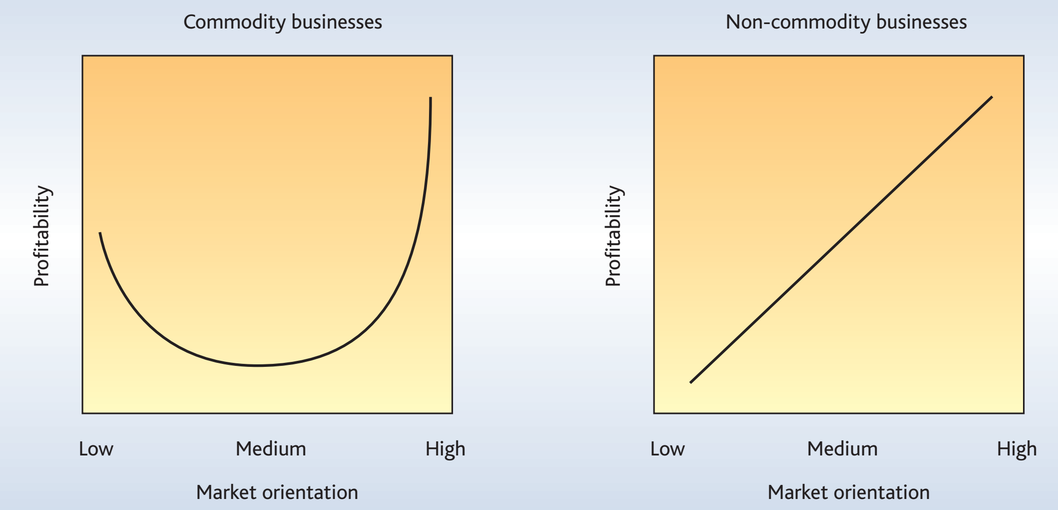
- more committed to marketing research
- more likely to be found in new, emerging or growth markets
- adopted a more proactive approach to marketing planning
- more likely to use strategic planning tools
- placed more emphasis on product performance and design, rather than price, for achieving a competitive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

Marketing orientation and business performance

Narver and Slater studied the relationship between marketing orientation and business performance.[50] Marketing orientation was based on three measures: customer orientation, competitor orientation, and degree of inter-functional coordination. They collected data from 113 strategic business units (SBUs) of a major US corporation.

The businesses comprised 36 commodity businesses (forestry products) and 77 non-commodity businesses (speciality products and distribution businesses). They related each

Figure 1.9 The relationship between market orientation and profitability



SBU's profitability, as measured by return on assets in relation to competitors over the last year in the SBU's principal served market, to their three-component measure of market orientation.

Figure 1.9 shows the results of their study. For commodity businesses the relationship was U-shaped, with low and high market-orientation businesses showing higher profitability than the businesses in the mid-range of market orientation. Businesses with the highest market orientation had the highest profitability and those with the lowest market orientation had the second highest profitability. Narver and Slater explained this result by suggesting that the businesses lowest in market orientation may achieve some profit success through a low cost strategy, though not the profit levels of the high market-orientation businesses, an explanation supported by the fact that they were the largest companies of the three groups.

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

A number of more recent studies have also found a positive relationship between market orientation and business performance. Market orientation has been found to have a positive effect on sales growth, market share and profitability;[51] sales growth;[52] sales growth and new product success;[53] perception of product quality;[54] and overall business performance.[55]

What overall conclusions can be drawn from these two studies? In order to make a balanced judgement their limitations must be recognized. They were all cross-sectional studies based on self-reported data. With any such survey there is the question of the direction of causality. Perhaps some respondents inferred their degree of marketing orientation by reference to their performance level. However, this clearly did not occur with the commodity sample in the Narver and Slater study.[56] What these three separate studies have consistently and unambiguously shown is a strong association between marketing and business performance. As one condition for establishing causality, this is an encouraging result for those people concerned with promoting the marketing concept as a guiding philosophy for business.

REVIEW

1 The marketing concept: an understanding of the nature of marketing, its key components and limitations

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

2 The difference between a production orientation and marketing orientation

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

3 The differences between market-driven and internally orientated businesses

- Customer concern vs convenience.
- Know customer choice criteria and match with marketing mix vs the assumption that price and performance are key.
- Segment by customer differences vs segment by product.
- Marketing research vs anecdotes and received wisdom.
- Welcome change vs cherish status quo.
- Understand competition vs ignore competition.
- Marketing spend is an investment vs marketing spend is a luxury.
- Innovation rewarded and reluctance to punish failure vs avoidance of mistakes rewarded and a failure to innovate is conspicuously punished.
- Search for latent markets vs stick with the same.
- Recognize the importance of being fast vs content to move slowly.
- Strive for competitive advantage vs happy to be me-too.
- Efficiency and effectiveness vs efficiency.

4 The differing roles of efficiency and effectiveness in achieving corporate success

- Efficiency is concerned with inputs and outputs. Business processes are managed to a high standard so that cost per unit of output is low. Its role is to 'do things right'—that is, use processes that result in low-cost production.
- Effectiveness is concerned with making the correct strategic choice regarding which products to make for which markets. Its role is to 'do the right things'—that is, make the right products for attractive markets.

5 How to create customer value and satisfaction

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

6 How an effective marketing mix is designed

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

7 Criticisms of the 4-Ps approach to marketing management

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

8 The relationships between marketing characteristics, market orientation and business performance

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

Key Terms

competitive advantage the achievement of superior performance through differentiation to provide superior customer value or by managing to achieve lowest delivered cost

customer satisfaction the fulfilment of customers' requirements or needs

customer value perceived benefits minus perceived sacrifice

effectiveness doing the right thing, making the correct strategic choice

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

exchange the act or process of receiving something from someone by giving something in return

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

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

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

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

Key Terms

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

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

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

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

Study Questions

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

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Case One

COKE'S BOULEVARD OF BROKEN DREAMS

For most companies, owning the number one brand name in the world (valued at over $67 billion by the Interbrand consultancy), having global brand recognition and earning $4.8 billion profits on sales of $21.9 billion a year would spell success on a huge scale. But Coca-Cola is not 'most companies'. In the face of strong competition and a changing marketing environment, the fortunes of Coca-Cola have turned in recent years.

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

Coke's problems

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

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

Where Coke has focused on soft drinks Pepsi has interests in the snack food business (it bought the Frito-Lay snack food business in 1965), owning such brands as Doritos, Walkers Crisps, Quavers, Lay's Potato Crisps and Wotsits (see Table C1.1). The result is that PepsiCo

Table C1.1 Cola wars: who owns what

Coca-Cola brands	PepsiCo brands
Coca-Cola	Pepsi
Diet Coke	Diet Pepsi
Powerade	Gatorade
Minute Maid	Tropicana
Dasani	Aquafina
Fanta	Lipton Iced Tea
Lilt	Frappuccino
Sprite	Mountain Dew
Calypso	Walkers crisps
Oasis	Lay's potato crisps
Just Juice	Quaker Oats
Kia Ora	Quavers
Five Alive	Doritos
	Wotsits
	Sugar Puffs

generates about 23 per cent of its worldwide profits from the stagnant carbonated drinks sector, while Coca-Cola relies on fizzy drinks for 85 per cent of profits. Coca-Cola always seems to be playing catch-up, having launched Minute Maid fruit juice to challenge Tropicana, Dasani to take on Aquafina, and Powerade, an energy drink, following the success of Red Bull and Gatorade in this sector.

PepsiCo's diversification programme and its brand-building expertise has made it the world's fourth largest food and beverage company, ranking behind Nestlé, Kraft and Unilever. Its sales are more than $29 billion compared with Coke's $22 billion; it has 16 brands that each generate more than $1 billion of annual revenue; and it owns 6 of the 15 top-selling food and drink brands in US supermarkets—more than any other company, including Coke which has two. Coke, on the other hand, is market leader in carbonated drinks (43 per cent versus 32 per cent).

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

A new era?

In response to its problems, Coca-Cola brought an ex-employee, Neville Isdell, out of retirement to become chairman and chief executive in 2004. One of his first acts was to allocate an additional $400 million a year to marketing and innovation. This was in recognition of the under-investment in brands and product development. Emerging markets such as China and India are also being targeted more aggressively. He also briefed advertising agencies around the world in an attempt to create new iconic campaigns to revive the core brand and reconnect with consumers. In the face of research that showed the proportion of Americans agreeing that cola is 'liked by everyone' falling from 56 per cent in 2003 to 44 per cent in 2005, and those agreeing that the drink was 'too fattening' increasing from 48 per cent to 59 per cent, Coke has increased investment in sugar-free brands such as Diet Coke and Sprite Zero. Sugar-free colas have also been launched, such as Coke Zero, which comes in black cans and bottles and is targeted at calorie-conscious young males who have failed to connect with Diet Coke, believing that it lacks a masculine image. The brand is designed to compete with PepsiMax, which is also a diet cola targeted at men. Overall, marketing spend for the category has doubled. Isdell has also overseen the acquisition of a number of small water and fruit juice companies in Europe.

Meanwhile, PepsiCo has introduced its own labelling system in the USA to identify healthier products, using criteria set by an independent board of health experts. Now 40 per cent of sales derive from products with the green 'Smart Spot' given to healthier brands such as sugar-free colas and baked rather than fried crisps. Most of its research and development is focused on healthier products such as Tropicana-branded fruit bars, which provide the nutritional equivalent to fresh fruit. Sales of Smart Spot products are growing at twice the rate of those without the designation, and account for over half of Pepsi's product portfolio.

Both companies have also attempted to arrest the decline in the carbonated soft drinks sector by launching a flurry of new products such as lime- and cherry-flavoured colas. Nevertheless colas have come under attack for their contribution to obesity. One UK school removed Coca-Cola fizzy drinks from its vending machines when it identified that its pupils were drinking on average three cans a day—equivalent to more than one and a half times a child's recommended daily sugar intake. In the United States, Arnold Schwarzenegger (of *Terminator* fame), now governor of California, recently passed legislation banning the sale of all carbonated drinks in schools across California.

Other ethical controversies have been encroaching upon Coca-Cola's global hold on the drinks market. A French entrepreneur, Tawfik Mathlouthi, launched Mecca-Cola, designed to benefit from increasing concern at American foreign policy and anti-American sentiment around the world. His aim is to encourage Muslims to choose Mecca-Cola rather than Coca-Cola. Coca-Cola, like other American brands, has felt the negative impact of US boycotts and anti-globalization sentiments targeted at US brands. Mecca-Cola has already been launched in France, Britain, Germany, Belgium, Italy, Spain and Scandinavia. Other alternatives to US colas include ZamZam Cola (an Iranian brand), which is selling well in Iraq, Saudi Arabia, Pakistan and Africa, and Qibla Cola, a UK brand that has also entered the Islamic cola market.

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Questions

1. Compare Coca-Cola's response to the changing marketing environment before the arrival of Neville Isdell to that of PepsiCo.
2. Assess both companies in terms of their level of marketing orientation.
3. How would you position Coca-Cola and PepsiCo on the efficiency–effectiveness matrix? Justify your answer.
4. What advantages, if any, does PepsiCo's greater diversification give the company over Coca-Cola?
5. What future challenges is Coca-Cola likely to face?

The case was written by David Jobber, Professor of Marketing, University of Bradford, and Marylyn Carrigan, Senior Lecturer in Marketing, University of Birmingham, UK

Case Two

H&M GETS HOTTER

Stefan Persson, chairman of Swedish retailer Hennes & Mauritz (H&M), vividly remembers his company's first attempt at international expansion. It was 1976, the year H&M opened its London store in Oxford Circus. 'I stood outside trying to lure in customers by handing out Abba albums' he recalls with a wry laugh. Persson, then 29, son of the company's founder, waited for the crowds. And waited. 'I still have most of those albums,' he says.

But Stefan is not crying over that unsold vinyl. In a slowing global economy, with lacklustre consumer spending and retailers across Europe struggling to make a profit, H&M's pre-tax profits hit £1 billion (€1.5 billion) in 2005, a 23 per cent increase on the previous year, on sales of £4.5 billion (€6.6 billion). The growth is being fuelled not only by expansion: same-store sales were up around 4 per cent in 2005. And at current sales levels, the chain is the largest apparel retailer in Europe. This is not just a store chain; it is a money-making machine. Table C2.1 compares H&M with Gap and Zara, its closest rivals.

Marketing at H&M

If you stop by its Fifth Avenue location in New York or check out the mothership at the corner of Regeringsgatan and

Table C2.1 The clash of the clothing titans

	Style	Strategy	Global reach	Financials
H&M	Motto is 'fashion and quality at the best price' Translates into cutting-edge clothes	Production outsourced to suppliers in Europe and Asia Some lead times are just three weeks	Has 1200 stores in USA and Europe More than 88 per cent of sales come from outside Sweden	Estimated 2005 pre-tax profit of £1.0 billion (€1.4 billion) on sales of £4.5 billion (€6.3 billion)
Gap	Built its name on wardrobe basics such as denim, khakis and T-shirts	Outsources all production An average of nine months for turnaround	Operates 700 stores in Canada, Japan and Europe, which produce 8 per cent of sales	Estimated 2005 pre-tax profit of £978 million (€1369.2 million) on sales of £8.7 million (€12.18 billion)
Zara	Billed as 'Armani on a budget' for its Euro-style clothing for women and men	Bulk of production is handled by company's own manufacturing facilities in Spain	Runs 650 outlets in 50 countries, but Spain still accounts for 50 per cent of sales	Parent Inditex does not break out sales

Data: company reports, Santander Central Hispano, BNP Paribas, Goldman Sachs & Co

Hamngatan in Stockholm, it's easy to see what's powering H&M's success. The prices are as low as the fashion is trendy, turning each location into a temple of 'cheap chic'. At the Manhattan flagship, mirrored disco balls hang from the ceiling, and banks of televisions broadcast videos of the body-pierced, belly-baring pop princesses of the moment. On a cool afternoon in October, teenage girls in flared jeans and two-toned hair mill around the ground floor, hoisting piles of velour hoodies, Indian-print blouses and patchwork denim skirts—each £16 (€23) or under. [The average price of an H&M item is just £10 (€14).] This is not Gap's brand of classic casuals or the more grown-up Euro-chic of Zara. It's exuberant, it's over-the-top, and it's working. 'Everything is really nice—and cheap,' says Sabrina Farhi, 22, as she clutches a suede trenchcoat she has been eyeing for weeks.

The H&M approach also appeals to Erin Yuill, a 20-year-old part-time employee from New Jersey, who explains, 'Things go out of style fast. Sometimes, I'll wear a dress or top a few times, and that's it. But I'm still in school and I don't have a lot of money. For me this is heaven.'

H&M is also shrewdly tailoring its strategy to fit the US market. In Europe, H&M is more like a department store—selling a range of merchandise from edgy street fashion to casual basics for the whole family. Its US stores are geared to younger, more fashion-conscious females. H&M's menswear line, a strong seller in Europe, hasn't proved popular with the less-fashion-conscious American male. So a number of US outlets have either cut back the selection or eliminated the line. And while the pricing is cheap, the branding sure isn't. H&M spends a hefty 4 per cent of revenues on marketing.

Behind this stylish image is a company so buttoned-down and frugal that you can't imagine its executives tuning into a soft-rock station, let alone getting inside a teenager's head. Stefan Persson, whose late father founded the company, looks and talks more like a financier than a merchant prince—a penny-pinching financier, at that. 'H&M is run on a shoestring' says Nathan Cockrell, a retail analyst at Credit Suisse First Boston in London. 'They buy as cheaply as possible and keep overheads low.' Fly business class? Only in emergencies. Taking cabs? Definitely frowned upon. To rein in costs, Persson even took away all employees' mobile phones in the 1990s. Today, only a few key employees have cell-phone privileges.

But that gimlet eye is just what a retailer needs to stay on its game—especially the kind of high-risk game H&M is playing. Not since IKEA set out to conquer the world one modular wall unit at a time has a Swedish retailer displayed such bold international ambition. H&M is pressing full-steam ahead on a programme that brought its total number of stores to 1200 by the end of 2005—a 48 per cent increase in the past three years.

Yet H&M is pursuing a strategy that has undone a number of rivals. Benetton tried to become the world's fashion retailer but retreated after a disastrous experience in the USA in the 1980s. Gap, once the hottest chain in the States, has lately been choking on its mismanaged inventory and has never taken off abroad. Body Shop and Sephora had similar misadventures.

Nevertheless, Persson and his crew are undaunted. 'When I joined in 1972, H&M was all about price,' he says. 'Then we added quality fashion to the equation, but everyone said you could never combine [them] successfully. But we were passionate that we could.' Persson is just as passionate that he can apply the H&M formula internationally.

What's that formula, exactly? Treat fashion as if it were perishable product: Keep it fresh, and keep it moving. That means spotting the trends even before the trendoids do, turning the ideas into affordable clothes, and making the apparel fly off the racks. 'We hate inventory,' says H&M's head of buying, Karl Gunnar Fagerlin, whose job it is to make sure the merchandise doesn't pile up at the company's warehouses. Not an easy task, considering H&M stores sell 550 million items per year.

Although H&M sells a range of clothing for women, men and children, its cheap-chic formula goes down particularly well with the 15-to-30 set. Lusting after that Dolce & Gabbana corduroy trenchcoat but unwilling to cough up £600 (€900)-plus? At £32 (€46), H&M's version is too good to pass up. It's more Lycra than luxe and won't last for ever. But if you're trying to keep *au courant,* one season is sufficient. 'At least half my wardrobe comes from H&M,' says Emma Mackie, a 19-year-old student from London. 'It's really good value for money.'

H&M's high-fashion, low-price concept distinguishes it from Gap, Inc., with its all-basics-at-all-price-points, and chains such as bebe and Club Monaco, whose fashions are of the moment but by no means inexpensive. It offers an alternative for consumers who may be bored with chinos and cargo pants, but not able—or willing—to trade up for more fashion. H&M has seized on the fact that what's in today will not be in tomorrow. Shoppers at the flagship store agreed, particularly the younger ones that the retailer caters to.

In 2004 H&M commissioned Karl Lagerfeld, Chanel's designer, to create the limited-edition Lagerfeld range, which included a £70 (€102) sequinned jacket and cocktail dresses for under £55 (€80). The range, which was offered in the USA and 20 European countries, sold out within two hours in some stores. This was followed in 2005 by the Stella McCartney collection. McCartney, the British designer whose clothes normally retail for hundreds and sometimes thousands of pounds, designed 40 pieces for H&M, including camisoles, skinny jeans and tailored waist-coats. The average price was £40 (€58) per item, around 15 times cheaper than her own prices. The limited edition was a resounding success, with customers queuing from as early as 6.30 am to get first pick of the clothes.

Design at H&M

H&M's design process is as dynamic as its clothes. The 95-person design group is encouraged to draw inspiration not from fashion runways but from real life. 'We travel a lot,' says designer Ann-Sofie Johansson, whose recent trip to Marrakech inspired a host of creations worthy of the bazaars. 'You need to get out, look at people, new places. See colours. Smell smells.' When at home, Johansson admits to following people off the subway in Stockholm to ask where they picked up a particular top or unusual scarf. Call it stalking for style's sake.

The team includes designers from Sweden, the Netherlands, Britain, South Africa and the USA. The average age is 30. Johansson is part of the design group for 15 to 25 year olds, and the style they are marketing this autumn is Bohemian: long crinkled cotton skirts with matching blouses and sequinned sweaters for a bit of night-time glamour. Johansson and Emneryd aren't pushing a whole look. They know H&M's customers ad-lib, pairing up one of its new off-the-shoulder chiffon tops with last year's khaki cargo pants for instance. The goal is to keep young shoppers coming into H&M's stores on a regular basis, even if they're spending less than £16 (€23) a pop. If they get hooked they'll stay loyal later on, when they become more affluent.

Not all designs are brand new: many are based on proven sellers such as washed denim and casual skirts, with a slight twist to freshen them up. The trick is striking the right balance between cutting-edge designs and commercially viable clothes.

To deliver 500 new designs to the stores for a typical season, designers may do twice as many finished sketches. H&M also has merchandise managers in each country, who talk with customers about the clothes and accessories on offer. When they travel, buyers and designers spend time with store managers to find out why certain items in each country have or haven't worked. In Stockholm, they stay close to the customers by working regularly in H&M's stores. Still, Johansson and her crew won't chase after every fad: 'There are some things I could never wear, no matter how trendy,' she says. Hot pants are high on that list. It's safe to say they won't be popping up at H&M anytime soon.

H&M's young designers find inspiration in everything from street trends to films to flea markets. Despite the similarity between haute couture and some of H&M's trendier pieces, copying the catwalk is not allowed, swears Margareta van den Bosch, who heads the H&M design team. 'Whether it's Donna Karan, Prada or H&M, we all work on the same time frames,' she says. 'But we can add garments during the season.'

Cutting lead times and costs

Working hand in glove with suppliers, H&M's 21 local production offices have compressed lead times—the time it takes for a garment to travel from design table to store floor—to as little as three weeks. Only Zara has a faster turnaround. But Zara has nearly 300 fewer stores. In addition, Zara's parent, Inditex, owns its own production facilities in Galicia, Spain, allowing Zara to shrink lead times to a mere two weeks. Gap, Inc. operates on a nine-month cycle, a factor analysts say is to blame for its chronic over-stock problem.

H&M's speed maximizes its ability to churn out more hot items during any season, while minimizing its fashion faux pas. Every day, Fagerlin and his team tap into the company's database for itemized sales reports by country, store and type of merchandise. Stores are restocked daily. Items that do not sell are quickly marked down in price to make room for the next styles. Faster turnaround means higher sales, which helps H&M charge low prices and still log gross profit margins of 58 per cent.

All major fashion retailers aim for fast turnaround these days, but H&M is one of the few in the winners' circle. To keep costs down, the company outsources all manufacturing to a huge network of 900 garment shops located in 21 mostly low-wage countries, primarily Bangladesh, China and Turkey. 'They are constantly shifting production to get the best deal,' says John Tisell, an analyst at Enskilda Securities in Stockholm.

Questions

1. To what extent is H&M marketing orientated? What evidence is there in the case to support your view?
2. Into which cell of the efficiency–effectiveness matrix does H&M fall? Justify your answer.
3. What is the basis of the customer value H&M provides for its customers?
4. What are the marketing benefits to H&M of commissioning Karl Lagerfeld and Stella McCartney to design limited edition clothing ranges?
5. What challenges are likely to face H&M in the future?
6. Do you consider the marketing of disposable clothes contrary to societal welfare? Justify your opinion.

This case was compiled by David Jobber, Professor of Marketing, University of Bradford, and is almost completely based on Capell, K., G. Khermouch and A. Sains (2002) How H&M Got Hot, Business Week, 11 November, 37–42, with additional material from M. Wilson (2000) Disposable Chic at H&M, Chain Store Age, May, 64–6 and Jones A. and E. Rigby (2005) A Good Fit? Designers and Mass Market Chains Try to Stitch Their Fortunes Together, Financial Times, *25 October, 17.*