Chapter 1

UNDERSTANDING THE MARKETING PROCESS

SUMMARY

- What marketing is
- Its role in getting the best out of an organization's asset base
- The link between the external environment, customers and their needs and the marketing mix
- Clearing up the confusion surrounding marketing's role
- Clarification of what customers look for in their suppliers
- The differences and similarities between consumer, service and industrial marketing
- Whether a marketing department is essential
- Exercises to turn the theory into actionable propositions
- Readers who are already wholly familiar with the role of marketing in organizations may wish to go straight to Chapter 2, which begins to explain the marketing planning process

THE MARKETING CONCEPT*

In 1776, when Adam Smith said that consumption is the sole end and purpose of production, he was in fact describing what in recent decades has become known as the marketing concept.

> The central idea of marketing is of a matching between a company's capabilities and the wants of customers in order to achieve the objectives of both parties.

It is important at this stage to understand the difference between the marketing concept (often referred to as 'market orientation') and the marketing function, which is concerned with the management of the marketing mix. The management of the marketing mix involves using the various tools and techniques available to managers in order to implement the marketing concept.

* The authors would like to remind the reader that they will use the word 'product' throughout the text to avoid unnecessary references to 'services', 'not-for-profit services', 'capital goods' and 'retail'. The text is equally relevant to all of these.

> The marketing concept implies that all the activities of an organization are driven by a desire to satisfy customer needs.

For the sake of simplicity, these are often written about and referred to as the 4Ps, these being Product, Price, Promotion and Place, although today many scholars include a number of additional Ps, such as People and Process.

However, before any meaningful discussion can take place about how the marketing function should be managed, it is vital to have a full understanding about the idea of marketing itself, and it is this issue that we principally address in this chapter.

For readers who are interested in a history of marketing and the role of key players like Levitt, Kotler, Hunt, Alderson, Holbrook and others, please refer to Jones (1999) in the references section at the end of the chapter.[1]

THE MARKETING FUNCTION

There are many definitions of marketing and much confusion about what it is. The following definition should clarify this for readers.

Marketing is a process for:

- Defining markets.
- Quantifying the needs of the customer groups (segments) within these markets.
- Determining the value propositions to meet these needs.
- Communicating these value propositions to all those people in the organization responsible for delivering them and getting their buy-in to their role.
- Playing an appropriate part in delivering these value propositions (usually only communications).
- Monitoring the value actually delivered.

For this process to be effective, organizations need to be consumer/customer driven.

This definition is represented as a 'map' in Figure 1.1. This definition and map are important because we will refer to them throughout the remainder of this book.

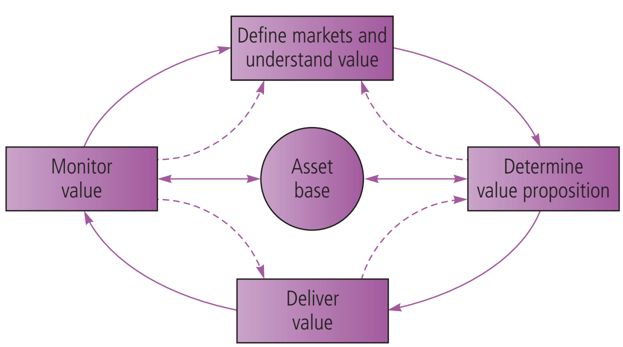

Figure 1.1: A map of marketing.

Starting at the top and moving clockwise, it should be pointed out that the first two boxes are concerned with strategies for markets, whereas the bottom box and the box on the left are concerned with implementing the strategies, once formulated. The fundamental difference between strategies and tactics will be expanded on in Chapter 2.

COMPANY CAPABILITIES

For now, let us return to the notion of bringing about a matching between a company's capabilities and the wants of its customers. In Chapter 4 we will explain what we mean when we talk about customer wants. But for now it is important to understand what we mean when we talk about a company's capabilities. To explain this more fully, let us imagine that we have been made redundant and have decided to set ourselves up in our own business.

The first thing we would have to do is to decide what it is that we can actually do. In answering this question we would quickly realize that our actual knowledge and skills restrict us very severely to certain obvious areas. For example, it would be difficult for a former sales manager to set himself up in business as an estate agent, or for an estate agent to start a marketing consultancy, unless, of course, both had the necessary skills and knowledge. A little thought will confirm that it is exactly the same for a company.

> Many commercial disasters have resulted from companies diversifying into activities for which they were basically unsuited.

> One such case concerns a firm making connectors for the military and aviation markets. When these traditional markets went into decline, the company diversified into making connectors for several industrial markets such as consumer durables, automobiles, and so on. Unfortunately these markets were so completely different from the ones that the company had been used to that they quickly went into a loss-making situation. Whereas the connector which the company had previously manufactured had been a highly engineered product made to the specifications of a few high technology customers, the company now had to mass produce simple connectors for broad markets. This meant making for stock and carrying field inventory. It also meant low competitive prices. The sales force did not know how to cope with the demands of their new markets. They had been used to making one or two calls a day and to having detailed technical discussions with buyers, whereas now they were expected to make eight or nine calls a day and to sell against many competitive products. Furthermore, the company just did not have the right image to succeed in the market. The results of all this were very serious financial losses.

The lesson simply is that all firms have a unique set of capabilities in the form of resources and management skills which are not necessarily capable of taking advantage of all market opportunities as effectively, hence as competitively, as other firms. To summarize, the matching process between a company's capabilities and customer wants is fundamental to commercial success. That this is so will become clearer as we get further into the task of explaining the role and the nature of marketing.

THE ROLE OF MARKETING IN BUSINESS

What causes success in the long run, by which we mean a continuous growth in earnings per share and in the capital value of the shares, has been shown by research[2] to depend on four elements as shown in Figure 1.2.

1. An excellent core product or service and all the associated R&D, which closely matches the wants of the organization's target segments. Clearly, marketing will have a heavy input into this process. All this is showing is that companies with average products deserve average success.
2. Excellent, world class, state-of-the-art operations. All this is saying is that inefficiency today is likely to be punished. Marketing should, of course, have an input to defining operational efficiency in customer satisfaction terms. Where it is not allowed to, because of corporate culture, quality often becomes a sterile token.
3. A culture that encourages and produces an infrastructure within which employees can be creative and entrepreneurial within the prescribed company procedures. Bored and boring people, for whom subservience and compliance is the norm, cause average or below-average performance. This is particularly important because it is the organization's people who deliver value to customers.
4. Professional marketing departments, staffed by qualified professionals (not failures from other functions). All this means is that companies who recruit professionally qualified marketers with appropriate experience have a far greater chance of success than those whose marketing departments are staffed by just about anybody who fancies themselves as marketers.
5. Finally, observe that everything in Figure 1.2 is organized around customers.

Given these ingredients and, above all else, a corporate culture which is not dominated (because of its history) by production, operations or financial orientation, all the evidence shows that marketing as a function makes a major contribution to the achievement of corporate objectives. Its principal role is to spell out the several value propositions demanded by different customer groups so that everyone in the organization knows what their contribution is in creating this value.

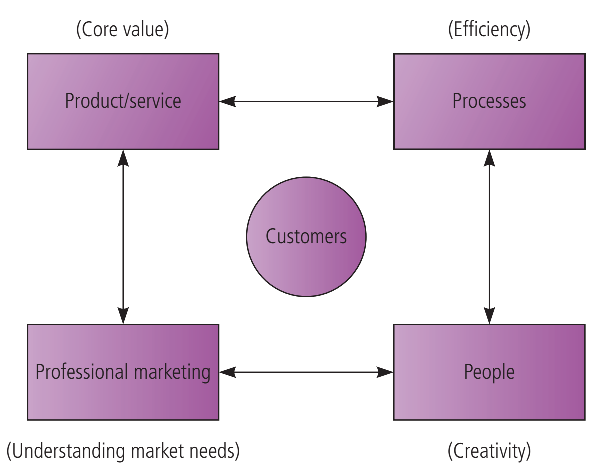

Figure 1.2: Business success.

THE MARKETING ENVIRONMENT

The matching process referred to earlier takes place in what we can call the marketing environment, which is the milieu in which the firm is operating. Perhaps the most obvious constituent of the marketing environment is our competitors, for what they do vitally affects our own behaviour as a company.

The point is that, since what our competitors do so vitally affects our own decisions, it is necessary to find some way of monitoring this and other elements of the environment and of building this into our decision-making process. In Chapter 12 we show how this can be done.

The political, fiscal, economic, social and legal policies of the governments of the countries where we sell our goods also determine what we can do. For example, inflation reduces the discretionary spending power of consumers, and this can result in market decline. Legislation concerning such things as labelling, packaging, advertising, environmentalism, and so on, all affect the way we run our business, and all these things have to be taken account of when we make our plans.

Technology is constantly changing, and we can no longer assume that our current range of products will continue to be demanded by our customers. Perhaps one of the saddest examples of this is the demise of the once-mighty Kodak, a company that for just too long thought it was a chemical company in the photographic paper and film making business. It lost an early dominance in 35mm cameras to Canon and Nikon, then made a disastrous excursion into Instant Print, infringing on the patents held by Polaroid. Having burnt its fingers expensively there, it seemed to hold back on being at the forefront of the well-predicted move to digital because of its vested manufacturing interests worldwide. Volumes of 35mm film hit a peak as late as 2000 and, of course, with the switch to digital the traditional film processing market has since collapsed very rapidly indeed. Kodak no longer dominates the photography market in the way that it once did, and observationally seems to have allowed Hewlett Packard and Canon to muscle in with the new technology. Photography itself, the 'memory' and 'time capture' business, shows no sign of diminishing. Is Kodak another Gestetner or IBM, caught in the headlights at the wrong end of changing technology? After its 2012 bankruptcy, can it re-invent itself as a business service organization?

Likewise, the advent of the microprocessor revolutionized the computer industry, with a devastating effect on companies such as IBM, who remained dependent for too long on their supremacy in mainframes. It is interesting to note that IBM is now mainly a service company, with modest involvement in hardware, but it took many years of declining profits and a chairman from outside the industry to help them make the transition.

Merging technologies have also revolutionized traditional industries such as telecommunications, printing, publishing, IT and many others.

The point is that the environment in which we operate is not controlled by us, and it is dynamic. Hence, it must be constantly monitored and we must be prepared to adapt our asset base and our approach to markets. An approach for doing this is outlined in subsequent chapters.

So far, we have talked about the three constituent parts of what we have described as a matching process:

1. The capabilities of a firm.
2. The wants of customers.
3. The marketing environment.

Diagrammatically, it is shown in Figure 1.3.

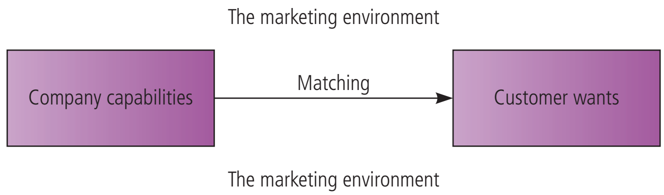

Figure 1.3: The matching process.

CUSTOMER WANTS

Although we shall be dealing with this subject in Chapters 3 and 4, let us briefly turn our attention to the subject of customer wants, so that we can complete our understanding of what marketing is.

Perhaps one of the greatest areas for misunderstanding in marketing concerns this question of customer wants. Companies are accused of manipulating innocent consumers by making them want things they do not really need.

If this were so, we would not have a situation in which a very high proportion of all new products launched actually fail! The fact is people have always had needs, such as, say, for home entertainment. What changes in the course of time is the way people satisfy these needs. For example, television was only commercially viable because people needed home entertainment, and this was yet another way of fulfilling that need.

But let us not be fooled into believing that the customer, in the end, does not have the final say. All customer needs have many different ways of being satisfied, and wherever people have choice they will choose that product which they perceive as offering the greatest benefits to them at whatever price they are prepared to pay.

Colgate, Nestlé, Johnson & Johnson, Procter & Gamble, General Electric and other long-standing great companies create shareholder value by applying the following values: an inspiring vision; clear strategies; rigorous segment and brand positioning; consistent innovation; superior customer value; high employee morale; tight cost control; and concern for all stakeholders, not just customer groups. Having said this, unless customer needs are satisfied in ways which lead to superior market performance, nothing else is possible.[3] What this means, in effect, since all commercial organizations incur costs in taking goods or services to the market, is that profit, through customer satisfaction, is the principal measure of efficacy or worth of what the company is doing.

> Cheapness, efficiency, quality (in the sense of international standards such as ISO) or, indeed, any other measure, are not criteria of effectiveness, since there is little point in producing anything cheaply, efficiently or perfectly if people don't actually want it and don't buy it.

Since costs are incurred in producing products, it is necessary to find customers to buy those products at a sufficiently high price and in sufficient volume (margin turnover) to enable the company to cover its costs and to make a surplus (or profit). This is an economic necessity to enable the company to stay in business and means that, unless what is being offered is seen by customers as satisfying their wants, they will not buy it. Hence, all other stakeholder groups will be disappointed.

In the commercial sector, research has shown that there is a direct link between long-run profitability and the ability of a firm to understand its customers' needs and provide value for them.[4] For industries previously protected from competition, such as the airline industry and telecommunications, many now know that sustainable profitability can only come in the long run through continuous customer satisfaction.

In the not-for-profit sector, customer satisfaction is obviously a proxy for profitability. We shall say more about this important point in Chapter 3 on market segmentation.

To summarize, any organization that continues to offer something for which there is a long-term fundamental decline in demand, unless it is prepared to change so as to be more in tune with what the market wants, in the end will go out of business. Even less sensible would be for a government, or a parent company, to subsidize such an operation, since we know that to go on producing what people do not want is economically inefficient, especially when people will get what they want from abroad if they cannot buy it in their home country.

The same line of reasoning must also apply to those who continually counsel increased productivity as the only answer to our economic problems. Unfortunately, any additional production would more than likely end up in stock unless people actually wanted what was being produced.

It would be different, of course, if there was only a temporary hiccup in demand, but, unfortunately, this is rarely the case, because markets are dynamic and we must learn to adapt and change as our markets mutate.

Central to this question of customer wants is an understanding that there is rarely such a thing as 'a market'. To start with, it is clear that it is customers who buy products, not markets. A market is merely an aggregation of customers sharing similar needs for which they want the products and services that best meet these needs. In reality, most markets consist of a number of submarkets, each of which is different. For example, the airline market consists of freight and passenger transport. The passenger side can be subdivided further into VFR (visiting friends and relatives), holidays, business travel, and so on. Failure to understand the needs of these very different customer groups would result in failure to provide the desired services at an acceptable price.

Of course, it is not quite as easy as this, which is why we devote the whole of Chapter 3 to this very important aspect of what we call 'market segmentation'. But for now it is only necessary to understand that it is our ability to identify groups of customer wants which our particular company capabilities are able to satisfy profitably that is central to marketing management.

THE MARKETING MIX

As we have already said, managing the marketing mix involves the use of the tools and techniques of marketing. Thus, in order for the matching process to take place, we need information. External and internal marketing information flows (marketing research) and database management are discussed further in Chapter 12.

Having found out what customers want, we must develop products or services to satisfy those wants. This is known as 'product management' and is discussed in Chapter 5. Obviously we must charge a price for our products, and this is discussed in Chapter 11.

We must also tell our customers about our products, for we can be certain that customers will not beat a path to our door to buy whatever it is we are making. Here we must consider all forms of communication, especially advertising, digital, personal selling and sales promotion. These are discussed in Chapters 7 and 8.

All that remains now is to get our products into our customers' hands, thus giving a time and a place utility to our product. Distribution and customer service are discussed in Chapter 9. Chapter 10 considers how we then manage the relationship with our existing customers over time to maximize value to both parties.

Finally, we must consider how to tie it all together in the form of a marketing plan. This latter point is so important that the next chapter is devoted to a discussion of the marketing planning process.

CONFUSION ABOUT WHAT MARKETING IS – VENEER OR SUBSTANCE?

It is a sad reflection on the state of marketing that in spite of over 50 years of marketing education, ignorance still abounds concerning what marketing is.

The marketing function (or department) never has been, nor ever will be, effective in an organization whose history to date is one of technical, production, operations or financial orientation. Such enterprises have long since adopted the vocabulary of marketing and applied a veneer of marketing terminology.

MARKETING INSIGHT

Thus, some of the high street banks have spent fortunes on hiring marketing people, often from the fast-moving consumer goods (FMCG) sector, producing expensive TV commercials and creating a multiplicity of products, brochures and leaflets. Yet still most customers would have difficulty in distinguishing between the major players – so where's the competitive advantage?

Is this marketing in the sense of understanding and meeting customers' needs better than the competition or is it old-fashioned selling with the name changed, where we try to persuade customers to buy what we want to sell them, how, when and where we want to sell it?

The IT hardware industry provides perhaps even clearer examples. For years they have used the word 'marketing' quite indiscriminately as they tried to persuade customers to buy the ever more complex outpourings of their technology. At least one major hardware manufacturer used to call its branch sales managers 'marketing managers' to create the illusion of a local process of understanding and responding to customer needs. Racked by consolidation and huge losses, this is an industry in which most of the major players have either gone bankrupt or have changed fundamentally their business model.

The following are the major areas of confusion about marketing:

1. *Confusion with sales*. One managing director aggressively announced to everyone at the beginning of a seminar in Sydney, Australia: 'There's no time for marketing in my company until sales improve!' Confusion with sales is still one of the biggest barriers to be overcome.
2. *Confusion with product management*. The belief that all a company has to do to succeed is to produce a good product also still abounds, and neither Concorde, Sinclair's C5, the EMI Scanner, nor the many thousands of brilliant products that have seen their owners or inventors go bankrupt during the past 30 years will convince such people otherwise.
3. *Confusion with advertising*. This is another popular misconception and the annals of business are replete with examples such as British Airways who won awards with their brilliant advertising campaigns, while failing to deliver what the advertising promised. Throwing advertising expenditure at the public is still a very popular way of tackling deep-rooted marketing problems.
4. *Confusion with customer service*. The 'Have a nice day' syndrome is still having its heyday in many countries of the world, originally popularized, of course, by Peters and Waterman's book *In Search of Excellence* (Warner Books, 1982). Many organizations now know, of course, that training staff to be nice to customers does not help a lot if the basic offer is fundamentally wrong. For example, in many railway companies around the world, while it helps to be treated nicely, it is actually much more important to get there on time! 'Stop sending me birthday cards and answer your damned phone!' is a *cri de cœur* many customers will sympathize with.

It should by now be obvious that those people who talk about 'the sharp end' – by which they usually mean personal selling – as being the only thing that matters in marketing have probably got it wrong.

Selling is just one aspect of communication with customers, and to say that it is the only thing that matters is to ignore the importance of product management, pricing, distribution and other forms of communication in achieving profitable sales. Selling is just one part of this process, in which the transaction is actually clinched. It is the culmination of the marketing process, and success will only be possible if all the other elements of the marketing mix have been properly managed. Imagine trying to sell a horse that didn't have four legs! The more attention that is paid to finding out what customers want, to developing products to satisfy these wants, to pricing at a level consistent with the benefits offered, to gaining distribution, and to communicating effectively with our target market, the more likely we are to be able to exchange contracts through the personal selling process.

Likewise, it is naive to assume that marketing is all about advertising, since it is by now clear that advertising is only one aspect of communication. Many firms waste their advertising expenditure because they have not properly identified what their target market is.

For example, one public transport company spent half a million euros advertising how reliable their bus service was when, in reality, utilization of buses by the public was declining because they somehow felt that buses were working class! This was a classic case of believing that advertising will increase sales irrespective of what the message is. Had this company done its research, it could have decided to what extent and how advertising could be used to overcome this prejudice. As it was, the company spent a small fortune telling people something that was largely irrelevant!

In reality, many companies spend more on advertising when times are good and less on advertising when times are bad. Cutting the advertising budget is often seen as an easy way of boosting the profit and loss account when a firm is below its budgeted level of profit. This tendency is encouraged by the fact that this can be done without any apparent immediate adverse effect on sales. Unfortunately, this is just another classic piece of misunderstanding about marketing and about the role of advertising in particular. The belief here is that advertising is caused by sales! Also, it is naive in the extreme to assume that advertising effectiveness can be measured in terms of sales when it is only a part of the total marketing process.

For a discussion, with evidence that cutting promotional expenditure during a recession is precisely the wrong thing to do, see a report by the Institute of Practitioners in Advertising.[5]

The same, of course, applies to any form of communications, including all modern media, which we discuss in Chapter 7.

WHAT DOES THE CUSTOMER WANT?

Finally, we have to beware of what the words 'finding out what the customer wants', which appear in most definitions of marketing, really mean. The reality, of course, is that most advances in customer satisfaction are technology driven. For example, the fabulous technological breakthroughs that occurred as a result of the Houston space programme, when the Americans put two men on the Moon, have provided thousands of opportunities for commercial exploitation. Similarly, the Internet grew in large part out of the US Defense Department's ARPANET (Advanced Research Project Agency Network), while the World Wide Web was invented to help scientists to work together. The role of marketing has been to find commercial applications for the technology.

The truth, of course, is that there are two kinds of R&D:

1. Technology driven.
2. Market driven.

From the kinds of technology-driven programmes that take place on science parks and in laboratories around the world come opportunities for commercial exploitation.

MARKETING INSIGHT

From the kinds of market-driven programmes that most companies engage in come incremental, and sometimes discontinuous, improvements to product performance. Both are legitimate activities. The former has been glamorized and popularized by companies such as 3M, who claim to encourage and institutionalize unfocused scientific research. This has led to the formation of a number of new businesses and product launches, the most famous of which is Post-it.

The main point to remember, however, is that customers do not really know what they want! All they really want are better ways of solving their problems, so one of the main tasks of marketing is to understand the customers and their problems in depth so that we can continuously work on ways of making life easier for them. Whether this happens as a result of serendipity or focused R&D is less important than the end result.

ARE BUSINESS-TO-BUSINESS, CONSUMER AND SERVICE MARKETING DIFFERENT?[6]

The central ideas of marketing are universal and it makes no difference whether we are marketing furnaces, insurance policies or margarine. Yet problems sometimes arise when we try to implement marketing ideas in service companies and industrial goods companies.

A service does not lend itself to being specified in the same way as a product, as it does not have the same reproducible physical dimensions that can be measured. Thus, with the purchase of any service, there is a large element of trust on the part of the buyer, who can only be sure of the quality and performance of the service after it has been completed. Largely because of this, the salesperson actually selling the service obviously becomes part of the service, since this is one of the principal ways in which the potential efficacy of the service can be assessed. Additionally, a service product cannot be made in advance and stored for selling 'off the shelf' at some later stage. Nonetheless, apart from some differences in emphasis, the principles of marketing apply to services in exactly the same way.

Business-to-business goods are simply those goods sold to other businesses, institutional or government buyers for incorporation into their own products, to be resold or to be used by them within their own business. Principal types of business-to-business goods are raw materials, components, capital goods and maintenance, repair and operating goods and equipment, although even service companies sell direct to other companies rather than to consumers.

The fact that the share of world trade enjoyed by some manufacturing countries has slumped so dramatically over the past 50 years is not generally because their products were not as good as those produced by other countries, but because they failed to monitor and understand the environmental changes taking place and stuck doggedly to what had worked in the past, whereas organizations that continued to thrive did, including, where necessary, the sourcing of manufacturing in countries with lower costs.

One reason for this is that many manufacturing companies naively believe that the name of the game is making well-engineered products. Making well-engineered products is all some companies are concerned about, in spite of the fact that all the evidence points to the conclusion that more often than not it is for other reasons that the final choice is actually made. Failure to understand the importance of market segmentation (to be discussed in Chapter 3), market share, service and reputation, among other things, is the principal reason why such companies fail to compete successfully in so many world markets. Making what they consider to be good products and then giving them to the sales force to get rid of is just not enough.

> Failure to understand the importance of market segmentation is the principal reason for failure to compete effectively in world markets.

But, quite apart from the fact that there appears to be a sort of status about being on the technical side of business, which sometimes acts as a barrier to the consideration of marketing issues, it is also a fact that marketing is difficult in many business-to-business markets. This makes it inevitable that managers will resort to doing things they can understand. For example, demand for all industrial products is derived from the demand for consumer products, which adds greater uncertainty to decision making and makes forecasting extremely difficult.

> Consumer products both head the value chain and rely on it.

Consumer products are, therefore, at the head of their value chains leading right back to the production of the basic raw materials. They rely on the whole chain performing well for their success. At the same time, those in charge of marketing consumer products also determine the survival of that value chain. As such they are interdependent.

Consumer services are similar. Thus, a financial adviser or hairdresser will sell to individual consumers and will use tangible products and/or information supplies to deliver their service. Together, they will have a collective impact on their value as will large retailers who will have a significant interdependency with their value chains.

Consumer Markets

The key marketing issue for manufacturers or retailers of consumer goods, or providers of consumer services, is that they are faced with large numbers of potential customers. This applies equally to organizations that supply consumer durables, such as refrigerators, and consumables, such as grocery products. The main differences between these two categories tend to be:

- frequency of purchase
- absolute cost
- degree of involvement in the purchase.

For these reasons, consumable products are often referred to as 'fast moving consumer goods' (FMCGs) where acceptance or rejection occurs in a relatively short space of time, which has implications for the way these products are marketed. Consumer durables, such as 'white goods' (freezers, cookers, etc.) or 'brown goods' (small appliances, furniture, etc.), on the other hand, tend to be infrequent purchases but of some significance to a household. Their purchase, therefore, tends to be a much longer and more considered process, requiring a supplier to adapt their marketing accordingly.

Whatever their category, the fact of very large numbers of potential purchasers remains and presents the suppliers of these products with a significant problem: how to make contact with customers when there are so many people who might be persuaded to buy your products in preference to a competitor's? This problem is compounded when those potential consumers are geographically dispersed or where they represent a small proportion of each community within the market.

Main Methods for Marketing Consumer Products

Over the years, this difficulty has been addressed in a number of different ways and is an area in which significant innovations have taken place at various times.

Personal selling

The most effective way to develop a sales relationship with a potential customer has always been for a person to meet with that customer to explore his or her needs and to explain the virtues of the offer to him or her. In most consumer markets, this would involve a sales person calling on individuals and engaging them in the sales process either over the phone or in person. Traditionally, this is known as cold calling or door-to-door selling. However, employing sales people in this way is a very expensive means of making a sale and, where the value of each sale is relatively small, not very profitable. For this reason, consumer goods sold in this manner tend to be:

- Difficult to sell (i.e. the benefits are hard to explain as is the case for insurance, solar heating or timeshares).

- Highly profitable (i.e. the margin per sale is large as is the case for double glazing or conservatories).
- Commodity items (i.e. where the only differentiating aspect is the sales process as can be the case for gardening services, new driveways or loft conversions).

The rapid expansion of call centres at the end of the last century and the beginning of the 21st has helped address the need for personal contact, although it has been abused by some organizations on a 'cold calling' basis. Well-run call centres, such as those for O2 or First Direct, however, can be a powerful adjunct to face-to-face personal selling.

Direct mail and email

In parallel with the increasing sophistication of IT and databases has come a significant increase in the use of direct mail and email. This is a cheaper means of placing a product in front of a consumer but enables a direct contact to be made. The increasing ability to target particular types of customer has encouraged many consumer products organizations to explore this route, and the 21st century has seen a proliferation of letters and catalogues arriving through consumers' doors, and offers arising in email inboxes.

The downsides of this method include a relatively low response rate, progressive disillusionment on the part of consumers who feel deluged, and a loss of any personal contact with suppliers. Spam filters have also reduced the potential for email.

Retail outlets

Given the number and dispersal of potential customers, suppliers of consumer products often rely on retailers to distribute and sell their goods and services. This emphasizes the need to select appropriate retail organizations and the requirement for maintaining good relations with them. Indeed, for some grocery products such as a new cook-in sauce, simply being on the right shelf in the right part of the right chain of supermarkets is almost enough to guarantee success for a product line. The power of such retailers has also given rise to a particular type of marketing referred to as trade marketing, and a supplier industry providing retail 'own label' products.

The Internet has also provided opportunities for established retailers to have another shop window, and new retailers to access a much more dispersed group of customers. An innovative example of a retailer using advanced technology to meet customer needs is provided by Tesco in South Korea. Operating in one of the hardest working countries in the world, Tesco's South Korean branch, called Home Plus, encourages time-poor commuters to buy products through their mobile phones while waiting for their trains, by building virtual aisles on the platforms. These virtual aisles display rich images of grocery items laid out in the same way as they would be in the shop. Every item has a corresponding QR barcode (Quick Response two-dimensional bar code). People waiting on the platform scan the codes of the items they want using their mobile, which are then immediately added to their Home Plus shopping basket.

Brands

Creating and maintaining a brand for a product or set of products is essentially a way of developing and keeping a relationship with a consumer without the need for personal contact.

> Strong brands elicit customer identification.

Strong brands are those that have a personality with which consumers can identify or that evoke a feeling within a consumer that matches their personal values, aspirations and lifestyle. Consumers are, therefore, attracted to brands of this nature and will buy them in preference to lesser (commodity) brands or brands that are targeted at a different segment of the market.

Brands are often central to consumer marketing strategy.

Possessing a strong product or company brand provides their owners with power in the market place. Manufacturers and service suppliers who own such brands are able to exert considerable influence on retailers in terms of price, shelf location, competitor positioning, merchandising, promotions policy, acceptance of new products and many other areas. Distinct retail brands are similarly able to influence lesser branded suppliers and to gain favourable locations and terms for their outlets.

For these reasons, brands and brand strategy are often at the heart of a supplier of consumer products' marketing strategy.

Value Chain Management

The competitive world of consumer marketing has led many suppliers and retailers to pay closer attention to the value chain at whose head they sit. These organizations have recognized that advantage can be gained by exerting influence across all those who affect their products and their ability to supply. These advantages include: lower cost, higher quality, better availability, product innovation, speed to market and a host of other important competitive factors.

In industries such as automotive manufacture, management of aspects of the value chain is sometimes delegated to a small group of key suppliers who are expected to influence and coordinate other suppliers in the chain. In others, such as the computer supply industry, businesses like Dell are working directly with suppliers right down to component level and beyond in seeking efficiency and innovation for competitive advantage.

Micro Marketing

Large numbers of potential consumers with similar needs leads many consumer marketing organizations to a mass marketing approach which tries to satisfy the majority of the market with an undiscriminating product, brand or approach as classically practised by Ford, Coca-Cola or McDonald's. Modern consumer marketers are, however, increasingly finding that markets are fragmenting as consumers become more sophisticated, individualistic and demanding. With the potential for varying the offer increasing as IT becomes more sophisticated, micro marketing is increasing in significance.

The fragmentation of consumer markets has led to a growth in brands.

One result has been a proliferation of new brands, or in some cases, existing brands being 'stretched' across a number of product variations. A recent example is provided by Neutrogena, which is now one of the biggest brands in the personal care portfolio of Johnson & Johnson. Originally, however, the brand was a skin-friendly range of mild glycerine soaps which only diversified into shampoos in 1980. Today the 'mild' associations of the brand have been used to stretch the name, which now covers a wide variety of products ranging from cleansers and moisturizers to hair care products, cosmetics and anti-aging creams.

Another initiative has been efforts to provide 'mass customization'. This involves consumers being able to configure their own product from a series of modular offerings added on to the core product or service. The relaunched 'Mini' designed and produced by BMW is a good example of this. The base product is devoid of most extras, which will add 50 per cent to the retail price once added, but which allows purchasers to create the car of their choice.

Personalized portfolios, where suppliers such as Amazon or Tesco target offers and information based on past purchases or expressions of interest, are also increasing in use.

Finding ways of keeping the cost of such practices down, and utilizing the growth of new direct consumer channels such as the Internet to provide customization in innovative and consumer-friendly ways, remain important challenges for future consumer marketers.

Marketing Service Products

Service businesses became an increasingly significant sector of most advanced economies towards the end of the last century and continue to be a dynamic sector as the 21st century unfolds. It currently provides around 70 per cent of civilian employment in the USA and the UK. Table 1.1 illustrates the potential range of service activities involved. At the same time, there has been an accelerating trend to differentiate what were once considered to be simply 'goods' by highlighting the service elements of the offer. Together with the deregulation experienced by many professional and government services, these factors have forced organizations to consider whether any differences are required when marketing service-based products.

> Service is an important differentiation factor.

At one level, the answer is 'no' since the theory of marketing has universal application. At another, the nature of many service-based products dictates that more emphasis is placed on certain elements of the marketing process. It is very important that marketing organizations understand these elements and how they will affect the marketing tasks they face.

Defining a service

Defining a service for marketing purposes, however, is not easy. The diversity of organizations involved in services and the tendency to highlight the service elements of an 'offer' for competitive purposes means that they are sometimes hard to classify. One important element, however, is the degree of tangibility involved. Table 1.2 identifies four categories, varying from a 'pure' tangible product to a 'pure' service.

- Retailing, wholesaling and distribution
- Banking, insurance and other financial institutions
- Real estate
- Communications, information and multimedia services
- Health services
- Business, professional and personal services
- Leisure and entertainment
- Education
- Public utilities
- Government services and non-profit service organizations

Table 1.1: Major examples of service industries.

• A pure tangible product	A tangible offer, such as sugar, coal or tea. No services are bought with the product.
• A tangible product with accompanying services such as commissioning, training, maintenance, etc.	The offer has built-in services to enhance its customer appeal, e.g. computers, machine tools.
• An intangible product with accompanying minor goods	The offer is basically a service, but has a physical element, e.g. property surveyors, whose expert inspection is encapsulated in a report. Similarly, airlines offer in-flight meals or entertainment.
• A pure intangible product, where one buys expertise	The offer is a stand-alone service such as market research, psychoanalysis or ski instruction.

Table 1.2: Variations in product tangibility.

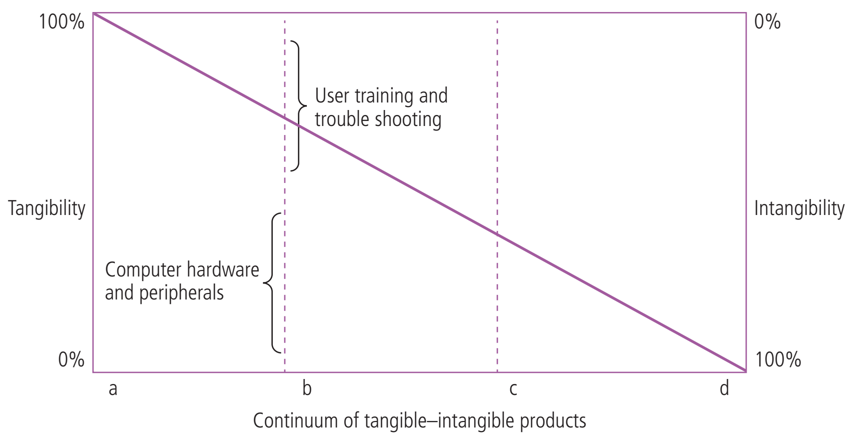

Figure 1.4: Continuum of tangible–intangible products.

Looked at in this way, a continuum of tangible–intangible products emerges as illustrated in Figure 1.4. Point 'a' on the left-hand side of this figure illustrates an offer where there is no service element and the product is highly tangible. At the other end of the spectrum, point 'd' illustrates a product which is entirely a service and is, therefore, highly intangible. Points 'b' and 'c' show varying mixes. For example, point 'b' illustrates the mix of tangibility for a computer company.

Computer hardware and peripherals are highly tangible and can be regarded as commodities, whereas the service elements of user training and trouble shooting are largely intangible.

The intangible nature of a service leads to a number of other differences of significance for marketing. These include the implications that:

- Services can easily be copied by competitors, since they cannot be patented and specified with drawings.

- Quality can be difficult to guarantee since services are not previously produced or 'manufactured' under controlled conditions. Instead, they are produced and delivered at the time of consumption.
- A service cannot be stored on a shelf or taken down and used at a later time. Services are, therefore, highly perishable.
- People are an intrinsic part of most services and are difficult to separate from the product.
- The true value of a service can only be assessed on consumption. Thus, the purchase of a service involves a high component of trust.
- Services are often very personal in their nature and can involve the customer in their delivery and consumption, as in the case of a golf lesson or making a purchase at IKEA.

An important area in marketing services is, therefore, the *relationship* between the customer and the supplier. The close link between production and consumption, and the personal nature of many service products, emphasize this aspect. Where no personal relationship exists, the contrast between membership-type organizations and 'hands off' or automated services is stark and has led many businesses to seek a means of marketing more concrete affiliations as a substitute. In looking at ways and means of marketing the specific features of service products, the management of the relationship with the customer is thus always important. We deal with this relationship in detail in Chapter 10.

> The relationship between customer and supplier is an important aspect of marketing services.

The nature of a service also makes it hard for the customer to *evaluate* an offer prior to purchase. Unlike a car, it cannot be test-driven; it is difficult to encapsulate in a technical specification, and quality is uncertain. As examples, it is hard for a potential customer to assess a bank before opening an account with them, and a stay in a hotel can only be judged after one has checked out.

Thus, a crucial aspect of marketing services is to provide, as far as is possible, *tangible evidence* of the product quality. This highlights the need for careful attention to the 'product promise', such as the initial points of contact, descriptive literature and the peripherals that provide clues to the product's integrity. It is no coincidence that professional service businesses often have plush reception areas, holiday brochures are a masterpiece of presentation, and spa-based health clubs make a big show of testing the water. The problems associated with service evaluation can also be addressed by focusing on reputation, or by enhancing the value of a service through the provision of extra benefits such as free offers. Here, word of mouth or third-party endorsements become particularly influential. These can come from existing customers, referral markets and media institutions, all of which can provide powerful testimony to the quality or value of an organization's offering. The increasing use of the Internet has enabled many more organizations to collect and display customer views.

> Demonstrating product quality and integrity is crucial to marketing services.

Since many services rely heavily on a personal interaction between the service provider and the customer, or depend on individuals exercising judgement when creating the service, considerable heterogeneity between purchases becomes possible, so that customer experiences of the product may vary enormously. Thus, the performance of a waiter or a shop assistant will have a great impact on the way a customer experiences the core benefit they are seeking. Similarly, two customers in the same hotel can have completely different opinions of their visit if one found their towels unlaundered or had their breakfast delivered late. Since the quality of such elements is in the hands of the people performing the service, employees become a vital concern for marketing services effectively. This requires attention to service-modelling to identify people-related 'fail points', as well as taking an interest in recruitment markets to ensure the right calibre of person. The process of *service delivery* thus needs careful specification, which should include an identification of the skills necessary to reduce the likelihood of product heterogeneity as a consequence of 'people problems'. We discuss service in depth in Chapter 9.

This is particularly important for providers of professional services where service delivery and marketing activities overlap and even spill over into informal client contact. Thus, lawyers, accountants and other professionals need to use time with clients to improve their customer knowledge, identify appropriate levels of service and ensure post purchase satisfaction. Indeed, the term 'marketing' could be seen as a term to describe professional service delivery.

At this point, it should also be noted that both the intangibility and heterogeneity of services mean that attention to detail becomes central to marketing effectiveness. This is, first, because it is often small factors that provide clues for the consumer about quality and, second, because such factors can have a major impact on customers' experience of service quality. Details, however, are also that part of the process of delivering the service most influenced by individual employees, thereby giving further weight to the focus on process design and human resource management.

> Customer management is important in service delivery.

> Interest in relationship marketing probably stems from the problems of marketing services.

The fact that a service will require the customer's involvement in its creation and delivery enhances the need for efficient management of this customer/provider *interaction*. Since manufacturers are able to check quality prior to delivery, service providers have to find substitutes for this. One solution has been to utilize technology to enhance consistency and improve accessibility, as was achieved by banks when they introduced automated tills or 'banking through the wall' and the introduction of e-tickets by airlines. Another approach has been to focus attention on front line staff and to 'empower' them to negotiate service delivery to prevent excessive disappointment. Such a situation has worked well with in-store supervisory staff, receptionists and service engineers. A further method has involved better customer management to ensure satisfactory service delivery. Customer management can cover a number of different aspects, from setting appropriate expectations and encouraging customers to signify their satisfaction levels whilst utilizing a service, to getting them to behave in a way that enhances the service. A good example of the latter is the widespread improvement in the queueing technology, which now ensures nobody waits longer than necessary in many banks, post offices and railway stations.

For marketing managers, the *perishability* of a service places extra emphasis on understanding demand patterns and why such fluctuations exist. However, *matching demand* at all times is rarely possible or, indeed, cost-effective. In the end, the only alternatives are to try to change patterns of demand or to generate increased capacity at peak times. The techniques for managing demand revolve around incentives, such as offering better value and other sales promotion activities to encourage off-peak use, or using pricing mechanisms, such as premiums or discounts. Capacity can be enhanced by using part-time staff, subcontractors and shared facilities, or by carrying overheads in the form of staff, or assets, which are redundant at certain times. Managers, therefore, have to ensure careful coordination to balance the overall offer with the market's preferred pattern of utilization.

Services are sold into a whole range of markets, including industrial, consumer, government and not-for-profit. Whilst each market creates its own unique marketing requirements, for services it is the distinct characteristics of the product which provide the major marketing challenges. In particular, it would seem to demand an expanded marketing mix beyond the 4Ps of product, price, place and promotion, to include *people, processes* and *customer service*. These three additional elements significantly affect the success or otherwise of a service-based offering and will benefit from discrete programmes and action plans being developed for them. The features of service products also underline the importance of third-party markets such as recruitment, referral, influencer and internal markets, plus the overall concept of relationship marketing. Indeed, it has been argued that the recent interest in relationship marketing first grew from developments initiated within service businesses.

Marketing Industrial Products

Whatever an organization is offering, be it public services, involvement in a charity or commercial products, the fundamental principles of marketing always apply. A market-orientated organization will seek an understanding of its customers, the markets of which they are a part, the opportunities which exist within that market, the best ways to compete with its rivals, and so on.

In spite of these similarities, most organizations in industrial markets instinctively know that their markets are different and that marketing their products requires a different set of approaches. To operate effectively in industrial markets, it is important to understand what these differences are since they will highlight the areas on which the organization must focus.

Having accepted this, it is also important to note that there is no simple or clear divide between industrial and consumer products and markets. On the product side, some products are sold in the same form to both industrial and consumer markets. Examples of this include bank accounts, motor cars, personal computers and parts for washing machines. In terms of markets, some consumer goods manufacturers will only sell directly to other businesses, that is, trade sales. As a consequence, industrial marketing cannot be defined simply by the products involved or by the fact that it involves business-to-business selling.

> Industrial marketing is different from consumer marketing, but the divide is not easily drawn.

Understanding industrial marketing

The best way to conceptualize industrial marketing is to look at it as a continuum with obvious slow-moving industrial products at one end and fast-moving consumer products at the other (see Figure 1.5). In the middle of the continuum are faster moving industrial products and slower moving consumer products.

The existence of this continuum also illustrates the possibility of transferring marketing approaches between these different markets. Whilst the context of their usage and the way in which they are applied may vary, no idea should be ignored because it is thought to be more appropriate to the realm of one market or product than another.

> No idea should be ignored.

Industrial markets .... Consumer markets

Machine tools	Ball bearings	Furniture	Soap powder
Complex software	Printed circuit boards	Domestic appliances	Canned food

Figure 1.5: Continuum of industrial marketing.

Brands, for instance, are usually thought of as most appropriate for consumer product marketing. However, efforts by Intel and the success of Caterpillar provide contrary examples. Earth moving equipment is an unlikely candidate for branding, yet Caterpillar have established the stylish yellow-tabbed CAT logo as the symbol of the leading global manufacturer of off-road trucks, tractors and other multi-terrain vehicles. The power of the brand is demonstrated by its easy transfer to a range of high-priced heavy duty designer boots and associated apparel sold to the general public. The latter, though the smaller of the two businesses by far, trades off its sibling's well-established brand values of rugged, durable and dependable performance. Other examples of industrial corporations that have invested efforts in brand building include Johnston Controls and United Technologies Corp.

Issues in industrial marketing

The first issue concerns the way in which an industrial purchaser views a product it wishes to buy. Industrial products are often thought of as being more *complex* than the equivalent consumer products, which is obviously not always the case. What is different is the attention paid to the *details* of a product. Even a commodity product, such as sheet steel, cement or a simple component, will be considered in much greater detail by an industrial purchaser. This is because it will be used in more complex ways or small variations will have potentially harmful consequences. As an example, the wrong grade of steel will not machine properly and may put cost up and quality down. Similarly, a personal computer with a slightly wrong specification may make previous software purchases obsolete or networking with existing machines impossible.

The implications of such detailed product evaluations are that industrial purchasers have greater *information needs* than consumer purchasers, both before and after a purchase is made. In turn, this implies larger numbers of people being involved in the purchase decision. Consequently, organizations marketing industrial products have to cope with a larger and more diverse *decision-making unit* and a greater degree of *formalization* in the procedures applied to a purchase.

It also implies that a greater degree of *personal contact* between the supplier and buyer will be necessary, since this is the best way of providing complete information. Personal contact is necessary to isolate *who needs to know what* and *at what point in the decision-making process*, in order to improve the chances of a sale, or continued sales.

Apart from costly and infrequently purchased capital goods, the *volumes* bought by an industrial purchaser are also likely to be higher than by individuals or families in a consumer market. This makes the loss of a supply agreement to both supplier and purchaser more significant. If a supplier fails to deliver the right quantity, the purchaser will find it difficult to continue their business.

> Industrial markets exhibit a high degree of interdependence between buyer and supplier.

On the other hand, if a purchaser stops buying, this will have a significant impact on the supplier's income. In industrial markets, therefore, there is often a high degree of *interdependence*. Both supplier and purchaser will rely on each other for their continued existence. The loss of one purchaser in a consumer market is not nearly so significant.

This situation is further complicated by the fact that it is difficult in the industrial context to find mass markets. Apart from there being smaller numbers of customers, one buying organization is likely to differ significantly from the next in their buying requirements. This means that *segmentation* in industrial markets has to be conducted on a different basis.

A further implication is that the degree of *product variability* required can also be greater. In some cases, a single customer can form an entire segment and can consequently demand a high degree of customization. In others, the consumer variables for segmentation such as demography, life-stage and lifestyle need to be replaced by alternatives such as size, applications and competitive positioning. Such heterogeneity is an important factor for the organization marketing industrial products.

In trying to understand, and give some structure to, the markets which industrial suppliers face, it must be recognized that their customers also have customers of their own, who may in turn have customers! Unless the customer is a country's Defence Ministry or some similar body, all industrial products will eventually translate into a consumer purchase. This means that the structure of the market in which an industrial organization operates can be complex, with a whole series of intermediaries or 'value adders' between them and the final consumer. Industrial suppliers are thus faced with a situation of *derived demand* for their goods and services. The way they perceive their market and the way in which opportunities are identified and defined can, therefore, become a very complicated process.

Paradoxically, these factors combine to make market research in industrial markets sometimes more problematic, and sometimes easier, than consumer market research. Because of their low numbers, potential customers are likely to be difficult to find, extract information from, and generalize about. One cannot simply stand in shopping centres and stop passers-by or ring at random from the telephone directory. In addition, the influences on demand are likely to be more complex and remote from each organization, making them difficult to interpret. Where an organization has existing customers, however, market research is often easier since the people who hold valuable information and opinions should already be known and are usually quite willing to be approached.

Industrial marketing and general management

One of the consequences of the complexities which exist in the buyer/seller relationship in industrial markets is that many different functions within the selling organization are required to interact with various aspects of the customer organization. This can include service or maintenance sections, the design team, installation group, training, delivery and finance departments, as well as senior directors and the sales people. While many of these are also points of contact in consumer marketing, these contacts tend to be extensive and of greater significance in industrial markets.

> Industrial marketing requires involvement across the management functions.

Such complexity has also given rise to a need for key account management (KAM) (covered in detail in Chapter 8). Supply relationships that are significant for both parties can easily falter if left on a simple transactional basis. Key account managers who take a relationship perspective on an organization-wide basis are more likely to ensure that potential problems are avoided.

> Key account management is often a feature of industrial marketing.

The management of marketing in industrial organizations, therefore, tends towards a general management function with small decisions in one area having a greater impact on the customer and business success. This is not to say that such coordination is inappropriate for consumer markets, but that closer attention to building a marketing approach across the management functions has a higher profile.

In general, then, marketing industrial products is a diverse area which can utilize a number of the approaches developed by consumer marketing organizations. What is important is a recognition of the differences that exist in industrial markets and the implications these hold for the supplying organization. In particular, the way that the relationship between supplier and customer is managed takes on a different perspective, but one which must be well understood and nurtured over time for the achievement of continuing and successful business.

Marketing Capital Goods

The marketing of capital goods presents suppliers with some special concerns. These are generated by the nature of the products and the circumstances under which they are bought and sold. Capital goods can be pieces of plant and equipment, such as large machines, boilers or storage facilities, or complete systems such as refineries, telecommunications networks or civil engineering projects.

> The purchase of capital goods involves high cost and high risk.

Customers will similarly be large organizations and may be either private or public sector. Whichever the case, the purchase will be a significant event for both the customer and the supplier in terms of the amounts of money involved and the benefits that the products will be required to deliver. Such high stakes mean that a systematic approach to marketing is required so that the risks involved are carefully managed.

Consequences for marketing

By their nature, orders for capital goods tend to be few in number, even for the 'faster-moving' capital goods such as machine tools. In addition, their high cost also makes them very prone to economic fluctuations. Suppliers are thus often faced with a 'feast or famine' situation whereby they either have no orders and are standing around idle, or they are overwhelmed with enquiries and find it difficult to meet delivery or completion schedules.

This is further exacerbated by the fact that each purchase is usually supplied against a different specification. It is unlikely that such large and complex products will be used in the same way, or serve exactly the same purpose, from one customer to another. Such a situation prohibits the creation of finished stock except at a very early stage in the manufacture or construction process.

The risk associated with the supply and purchase of capital goods also creates pressures which militate against the use of innovative technologies or approaches. On the supplier side, the consequence of product failure in terms of financial penalties or loss of reputation can be very high. Similarly, from the customer's point of view, a capital purchase will frequently have strategic, or at least operational, significance and buyers are likely to be anxious to reduce the chances of something going wrong by sticking to proven technologies or methodologies. Where innovation does occur, its adoption is, therefore, likely to be a slow process and the recovery of development costs a long-term activity.

The consequences of these factors for marketing cover a number of areas. High levels of customization plus the complexity of (particularly) larger products will mean that a product specification will take time to evolve and will typically be the result of much negotiation between supplier and customer. This will require suppliers to resource such negotiations and to maintain the ability to understand a customer's perspectives so that they can translate the benefits that customers seek into a product specification. Protracted negotiations and the absence of finished goods stock will create long order lead times, which will also require suppliers to maintain sales relationships over time. Without this, suppliers may risk losing an order through issues such as:

- changes in personnel
- loss of interest

- situational changes that will alter the product specification
- the activities of competitors.

The size of an order may also require suppliers to join together, sometimes as international consortia, to be able to fulfil the requirements of a customer. Managing such relationships in a way which presents customers with a unified face is a distinct skill, but one that is important for the maintenance of relationships with customers. Such relationships, however, will also need to be continued after a sale has been made since capital goods usually involve lengthy construction and/or installation. Although repeat business is not as significant a feature of capital goods marketing as it is for other types of industrial products, client or customer referrals and references *are* an important aspect of selling and good relationships will be needed to ensure that these are forthcoming.

> Repeat business is not a significant feature of capital goods marketing.

Capital goods pricing

Since each product is unique, the price of a particular sale will also vary. In addition, since there is much negotiation about each specification, price is often one of the last factors to be considered. The complexity of supply also means that competing bids for a contract often vary significantly between competitors as a result of the way prices are calculated and the different methodologies that can be applied to the fulfilment of a specification. Indeed, finding alternative cheaper solutions to problems presented in an invitation to tender can be a significant competitive advantage.

At the same time, the variations in demand mean that organizations sometimes adopt a pricing strategy which is closer to marginal cost pricing. This may be done to maintain capacity during times of 'famine' in order to prevent the loss of resources that would make them uncompetitive when business becomes more buoyant. Alternatively, during periods of growth, organizations will often seek to recover cost and limit demand, which will tempt them to quote much higher prices.

Prices in capital goods markets, then, have a tendency to fluctuate quite widely, both between time periods and between different forms of the same product, which makes it difficult to decide how to use price as a competitive weapon. On the other hand, the amounts of money involved and the complexity of the product provide more scope than in other areas for variations on the pricing mix. This can involve:

> The price of capital goods tends to fluctuate wildly.

- payment terms
- payment penalties and bonuses
- profit sharing
- leasing arrangements
- modular pricing
- the way a price is presented
- technology transfer agreements.

Decision making in the purchase of capital goods

The size and significance of a capital purchase will mean that large numbers of people are likely to combine to form the decision-making unit. Since relationships are an important factor in capital goods sales, personal contacts and the ability to keep and develop such relationships

Capital goods marketing demands that suppliers are flexible.

is a critical factor for success. Similarly, having the flexibility to maintain different types of relationships with different people is also important. The significance of capital purchases, however, can mean that governments will also have an interest in the product. Indeed, for some products, governments *are* the customer. Thus, there can be a political, as well as a commercial, influence in the decision to buy.

Thus, in some instances, such as a defence project, high levels of confidentiality may be required. In others, such as a large infrastructural civil engineering project, awareness of a country's development plans, the involvement of national suppliers or some 'tit-for-tat' investment by the supplier or the supplier's government may be a prerequisite for a successful sale. This political aspect, plus the complex nature of the 'buy-centre', may require a lot of 'politics' and building of credibility along a number of different dimensions for an organization to be a viable contender for a piece of business.

Marketing capital goods is, therefore, conducted in a complex market environment. Marketers are faced with long lead times and extended product life cycles, which make it difficult to innovate. In contrast, they are also faced with volatile demand and large variations between one purchase and the next. This is further complicated by the need to develop good relationships with customers, but with the likelihood that any relationship will only be temporary since any one customer is only likely to purchase once or, at best, infrequently. This demands that suppliers are able to be flexible in terms of relationships, capacity and the product they supply. It also demands that they take a long-term perspective on several counts including sales negotiations, product design and development, relationship management, profit planning and funding issues.

It can be readily appreciated from Figure 1.6 that the further a company gets from the eventual consumer, the less control it has over demand. Take the example of brewers. They can communicate direct with their consumers, whereas the company making their plant and the suppliers in turn to the plant company are, in the final analysis, also dependent on ultimate consumers.

Also, information about business-to-business markets is not so readily available as in consumer goods markets, which makes it more difficult to measure changes in market share. There are other difficulties besides these, which make marketing in the business-to-business area more difficult.

Unfortunately, the answer to this problem by many companies has been to recruit a 'marketing person' and leave them to get on with the job of marketing. But it will now be obvious that such a solution can never work, because the marketing concept, if it is to work at all, has to be understood and practised by all executives in a firm, not just by the marketing manager. Otherwise everyone goes on behaving just as they did before and the marketing person quickly becomes ineffective.

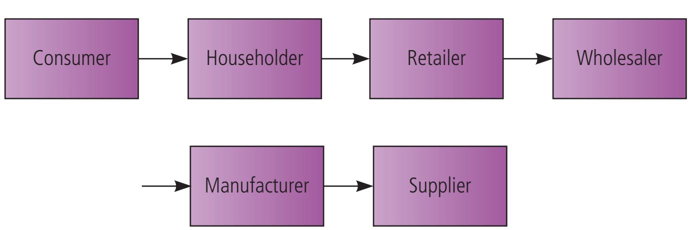

Figure 1.6: Supply chain.

Again, however, the conclusion must be that, apart from differences in emphasis, the principles of marketing apply in exactly the same way.

DO YOU NEED A MARKETING DEPARTMENT?

This brings us finally to the question of whether it is necessary for a company to have a marketing department.

It is not essential to have a formalized marketing department for the analysis, planning and control of the matching process. This is particularly so in small, undiversified companies where the chief executive has an in-depth understanding of customers' needs. Even in large companies it is not necessary to have a marketing department, because the management of products can be left to the engineers, pricing can be managed by the accountants, distribution can be managed by distribution specialists, and selling and advertising can be managed by the sales manager.

The dangers in this approach, however, are obvious. Technicians often place too much emphasis on the physical aspects of the products, accountants can be too concerned with costs rather than with market values, distribution people can often succeed in optimizing their own objectives for stock, yet at the same time suboptimizing other more important aspects of the business, such as customer service, and selling and promotion can often be carried out in a way that may not be in the best interests of the firm's overall goals.

However, as a company's product range and customer types grow, and as competitive pressures and environmental turbulence increase, so it often becomes necessary to organize the management of marketing under one central control function, otherwise there is a danger of ending up with the kind of product which is brilliant technically, but disastrous commercially.

In professional organizations, great care is necessary in thinking about the appropriate organizational form for marketing. For example, in a postgraduate business school the major role of the marketing department has traditionally been in the domain of promotion and information coordination. While it does obviously act as a facilitator for strategy development, it is intellectually simplistic to imagine that it could be the originator of strategy. In some other service organizations, the central marketing function might also provide the systems to enable others to carry out effective marketing, but in such organizations marketing departments never have actually done marketing, nor ever will.

The reasons are obvious. If the term 'marketing' is intended to embrace all those activities related to demand creation and satisfaction and the associated intelligence, then it is clear that most marketing takes place during the service delivery and customer contact process, in all its forms. Marketing, then, reflects this process and it is absurd to believe that it is the sole domain of those people in the organization who happen to belong to the marketing department.

In the best professional firms, a 'Marketing Partner' is often appointed. Such a person is usually a qualified professional, such as a lawyer or an accountant, and they take the qualified marketers in the marketing department under their wing so that marketing has a voice in the boardroom.

> It is absurd to believe that marketing is the sole domain of those people in the organization who happen to belong to the marketing department.

As Alan Mitchell, a freelance journalist for *Marketing Business* said, 'To say the Marketing Department is responsible for marketing is saying love is the responsibility of one family member.'

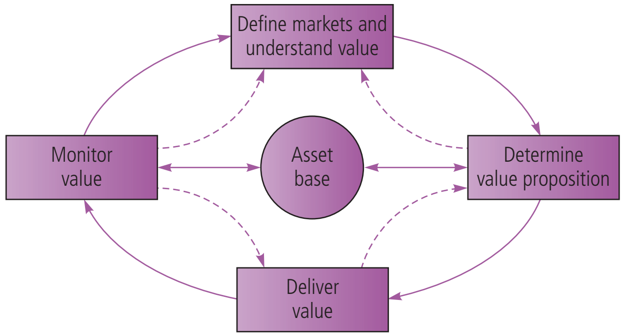

Figure 1.7: A map of marketing.

It is equally absurd to suggest that the personnel department actually emphasize personnel management, with all other managers in the organization having nothing to do with people. This could be said for finance and information systems. Indeed, it is such myopic functional separation that got most struggling organizations into the mess they are in today.

Much more important, however, than who is responsible for marketing in an organization is the question of its marketing orientation, that is, the degree to which the company as a whole understands the importance of finding out what customer groups want and of organizing all the company's resources to satisfy those wants at a profit.

Nonetheless, given the definition of marketing supplied earlier, we repeat Figure 1.1 (as Figure 1.7) as a diagram of this definition, which we shall return to later.

We should like to make one final important point in this introductory chapter. It has always been tempting to give in to that strident minority who criticize the whole topic of marketing and marketing planning in particular. So, to conclude this chapter on a positive note we include a quotation from *Management Today*:[7]

> Diageo's well-deserved win as Britain's most admired company is a tale of meticulously planned strategy, consistently executed over many years, with little regard to the whims of corporate fashion.

APPLICATION QUESTIONS

1. Describe as best you can what you think marketing means in your company.
2. Describe the role of your marketing department, if you have one.
3. If you do not have a marketing department, describe how decisions are made in respect of the following:
   - the product itself
   - price
   - customer service levels
   - physical distribution
   - advertising
   - sales promotion
   - the sales force
   - information about markets.

4. How do you distinguish between marketing, promotion and selling in your organization?
5. Would you say your products are what the market wants, or what you prefer to produce?
6. Do you start your planning process with a sales forecast and then work out a budget, or do you start by setting marketing objectives, which are based on a thorough review of the previous year's performance? If the former, describe why you think this is better than the latter.

CHAPTER 1 REVIEW

The marketing concept

Providing goods or services for which there is a known customer demand, as opposed to selling what the company likes to produce. By focusing on customers and their wants the company is better positioned to make a profit. The company is then said to be market led, or to have a 'market orientation'.

The marketing function

There are many definitions of marketing and much confusion about what it is. The following definition should clarify this for readers.

Marketing is a process for:

- defining markets
- quantifying the needs of the customer groups (segments) within these markets
- determining the value propositions to meet these needs
- communicating these value propositions to all those people in the organization responsible for delivering them and getting their buy-in to their role
- playing an appropriate part in delivering these value propositions (usually only communications)
- monitoring the value actually delivered.

For this process to be effective, organizations need to be consumer/customer driven.

This definition is represented as a 'map' in Figure 1.1, repeated here as Figure 1.8.

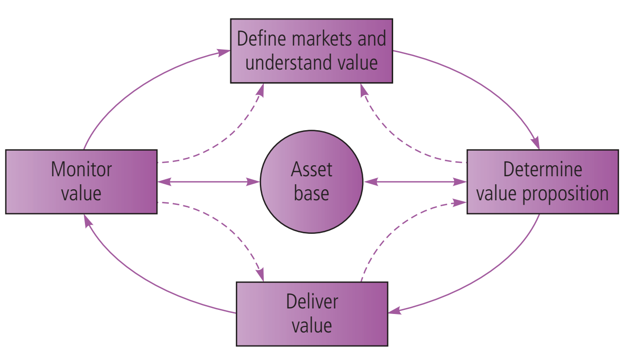

Figure 1.8: Map of the marketing process.

Starting at the top and moving clockwise, it should be pointed out that the first two boxes are concerned with strategies for markets, whereas the bottom box and the box on the left are concerned with implementing the strategies, once formulated. The fundamental difference between strategies and tactics will be expanded on in Chapter 2.

Try Exercise 1.1

Company capabilities

The company will not be equally good at all things. It will have strengths and weaknesses. The astute company tries to identify customer wants that best match its own strengths, be they its product range, relations with customers, technical expertise, flexibility or whatever. Inevitably there is an element of compromise in the matching process, but successful companies strive to build on their strengths and reduce their weaknesses.

Try Exercise 1.2

The marketing environment

No business operates in a vacuum; it has an environment which not only contains all its existing and potential customers and its competitors, but many factors outside its control. Changes in the environment in terms of:

- customer wants
- fashions
- technology
- environmental concerns
- legislation
- economic climate
- competition, etc.

present the company with both opportunities and threats. Keeping a finger on the pulse of the environment is essential for the successful company.

Try Exercise 1.3

Questions raised for the company

1. Q: Is it different marketing a product or a service?
   A: The central ideas of marketing are universal.
2. Q: What do customers want?
   A: They don't always know, but dialogue with them and intelligent research can help to answer this question.
3. Q: Do we need to bother with marketing?
   A: Some companies are very successful by chance. They happen to be in the right place at the right time. Most other companies need to plan their marketing.

Try Exercise 1.4

4. Q: Do we need a marketing department?
   A: Not necessarily. It will depend upon the size and complexity of the company's range of products and services. The higher the complexity, the more difficult it is to coordinate activities and achieve the 'matching' of a company to its customers.

EXERCISES

The exercises are intended to give you an opportunity to explore ways of looking at marketing. Exercise 1.1 enables you to make an assessment of your own beliefs about marketing; the remaining exercises can be applied to your organization.

Exercise 1.1 Marketing orientation

Below are a number of definitions of marketing that have appeared in books and journals over the last 20 or so years. Read through them carefully and note on a piece of paper the numbers of those which most accurately reflect your own views.

While there is no upper limit to the number of definitions you can choose, try, if you can, to limit your choice to a maximum of nine or ten definitions.

1. ‘The planning and execution of all aspects and activities of a product so as to exert optimum influence on the consumer, to result in maximum consumption at the optimum price and thereby producing the maximum long-term profit.’
2. ‘Deciding what the customer wants; arranging to make it; distributing and selling it at a profit.’
3. ‘Marketing perceives consumption as a democratic process in which consumers have the right to select preferred candidates. They elect them by casting their money votes to those who supply the goods or services that satisfy their needs.’
4. ‘The planning, executing and evaluating of the external factors related to a company’s profit objectives.’
5. ‘Adjusting the whole activity of a business to the needs of the customer or potential customer.’
6. ‘. . . marketing is concerned with the idea of satisfying the needs of customers by means of the product and a whole cluster of things associated with creating, delivering and, finally, consuming it.’
7. ‘The total system of interacting business activities designed to plan, price, promote and distribute products and services to present and potential customers.’
8. ‘(Marketing is) the world of business seen from the point of view of its final result, that is from the customer’s viewpoint. Concern and responsibility for marketing must therefore permeate all areas of the enterprise.’
9. ‘The activity that can keep in constant touch with an organization’s consumers, read their needs and build a programme of communications to express the organization’s purposes.’
10. ‘The management function which organizes and directs all those business activities involved in assessing and converting customer purchasing power into effective demand for a specific product or service and moving the product or service to the final customer or user so as to achieve the profit target or other objectives set by the company.’

(*Continued*)

11. 'The marketing concept emphasizes the vital importance to effective corporate planning and control, of monitoring both the environment in which the offering is made and the needs of the customers, in order that the process may operate as effectively as is humanly possible.'
12. 'The organization and performance of those business activities that facilitate the exchange of goods and services between maker and user.'
13. 'The process of: (1) Identifying customer needs, (2) Conceptualizing these needs in terms of the organization's capacity to produce, (3) Communicating that conceptualization to the appropriate locus of power in the organization, (4) Conceptualizing the consequent output in terms of the customer needs earlier identified, (5) Communicating that conceptualization to the customer.'
14. '(In a marketing company) all activities – from finance to production to marketing – should be geared to profitable consumer satisfaction.'
15. 'The performance of those business activities that direct the flow of goods from producer to consumer or user.'
16. 'The skill of selecting and fulfilling consumer wants so as to maximize the profitability per unit of capital employed in the enterprise.'
17. 'The economic process by means of which goods and services are exchanged and their values determined in terms of money prices.'
18. 'The performance of business activities that direct the flow of goods and services from producer to consumer in order to accomplish the firm's objectives.'
19. 'Marketing is concerned with preventing the accumulation of non-moving stocks.'
20. 'The process of understanding markets and the present and future value required by the different groups within these markets, of communicating it to all customer-impacting functions within the organization and of measuring the value actually delivered.'

Scoring for Exercise 1.1

You should have selected a number of definitions that you identify with. To work out your score, tick the boxes in the table below which equate to your chosen statements. Now add the number of ticks in each group and enter the total in the boxes at the end of each row.

For example, if you selected definitions 1, 3, 5, 6, 10 and 14, then 1 and 10 would score a total of 2 in Group A and 3, 5, 6 and 14 would score a total of 4 in Group B.

Group A	1	2	4	7	10	12	15	16	18	19	
Group B	3	5	6	8	9	11	13	14	16	20	

Interpretation of Exercise 1.1

If you study the various definitions, you will find that the essential difference between those in Group A and those in Group B is that Group B definitions make an *unambiguous reference* about identifying and satisfying customer needs and building systems around this principle. This is generally accepted as true marketing orientation, and is the stance taken throughout this book about marketing.

Group A definitions tend to focus far less on the customer (unless it is to decide what customers want, or to *exert influence* on the customer – that is, to do things to the customer) and more on the company's own systems and profit motives. Thus, Group A definitions could be described as being more traditional views about managing a business. Therefore, the more Group B and the fewer Group A answers you have, the higher your marketing orientation and the less at odds you should be with the ideas put forward in this book.

Please note that this is your personal orientation towards marketing and nothing to do with your company.

Exercise 1.2 Company capabilities and the matching process

1. Reflect on your company's recent history, say the last five years. Over that period, what would you say have been the key strengths that have carried the company to its present position?
   a) Make a list of these below. Note: In a small company, among the strengths might be listed key people. Where this happens, expand on what the person actually brings to the organization, e.g. sales director – his/her contacts in the industry.

      (i) ____________________
      (ii) ____________________
      (iii) ____________________

   b) What would you say are the three main weaknesses at present?

      (i) ____________________
      (ii) ____________________
      (iii) ____________________

2. Again, considering the last five-year period, has the company got better at matching its strengths to customers and to its business environment, or worse? Often there are both positive and negative forces at work.
   a) In the space below make a note of the factors which led to improvements.

   b) In the space below make a note of the factors which led to a deterioration.

(*Continued*)

At this stage you do not need to draw any specific conclusions from this exercise, although you will probably find it useful to return to this information as you progress through the book.

Exercise 1.3 The marketing environment

You will be asked to consider the marketing environment in more detail later. For now, think back over the last five years of the company's history and answer these questions:

1. Which were the three most significant opportunities in the environment that contributed to the company's success/present situation?

   a) ____ ( )

   b) ____ ( )

   c) ____ ( )

Put a score against each factor listed, in the brackets, using a 1–10 scale (where 10 is extremely significant).

2. Which were the three most significant threats that operated against the company over this period and which inhibited its success?

   a) ____ ( )

   b) ____ ( )

   c) ____ ( )

Again, score these threats on a 1–10 scale as above.

3. Reflect on what you have written above and consider whether or not these opportunities and threats are increasing or decreasing in significance, or if new ones are on the horizon. Make notes below, looking ahead for, say, the next three years.

   Opportunities → ____

   Threats → ____

Again, at this stage, you do not need to draw any specific conclusions from this exercise, although you will probably find it useful to return to this information as you progress through the book.

Exercise 1.4 Marketing quiz*

Place a tick after each statement in the column which most accurately describes your company situation.

* Adapted by Professor Malcolm McDonald from a questionnaire devised by Harry Henry Associates.

	Very true	*True*	*Don't know*	*Untrue*	*Very untrue*
1. a) Our return on invested capital is satisfactory.					
b) There is good evidence it will stay that way for the next five years.					
c) Detailed analysis indicates that it is probably incapable of being materially improved.					
2. a) Our market share is not declining.					
b) This is a fact, based on objective evidence.					
c) There is objective evidence that it will stay that way.					
3. a) Our turnover is increasing.					
b) At a rate faster than inflation.					
c) But not at the expense of profitability.					
4. I know for sure that our sales organization is only allowed to push less profitable lines at the expense of more profitable ones if there are rational reasons for doing so.					
5. a) I understand why the company has performed the way it has during the past five years.					
b) I know (apart from hoping) where it is heading during the next five years.					
6. a) I am wholly satisfied that we make what the market wants, not what we prefer to produce.					
b) Our functional strategies (such as production, finance, IT, HR, operations, R&D, etc.) are based on a clear understanding of the required customer value, rather than for self-serving functional reasons.					
c) I am satisfied that we do not use short-term tactics which are injurious to our long-term interests.					
7. a) I know that sales and profit forecasts presented by operating management are realistic.					
b) I know they are as exacting as they can reasonably be.					
c) If anyone insists that they are raised, it is because a higher level is attainable not just because a better-looking budget is required.					

(Continued)

	Very true	*True*	*Don't know*	*Untrue*	*Very untrue*
8. a) The detailed data generated internally are analysed to provide timely information about what is happening in the key areas of the business.					
b) Marketing research data which operating management acquire are synthesized into plain English and are actually needed and used in the key decision-making process.					
9. a) We do not sell unprofitably to any customer.					
b) We analyse our figures to be sure of this.					
c) If we do, it is for rational reasons known to us all.					
10. Our marketing policies are based on market-centred opportunities which we have fully researched, not on vague hopes of doing better.					

Join up the ticks down the page and count how many are to the left of the *Don't know* position and how many are at the *Don't know* position or to the right of it.

Interpretation of Exercise 1.4

If you have 11 or more answers in the *Don't know* position or to the right of it, then the chances are that your company isn't very marketing orientated. It needs to take a closer look at itself in the ways suggested by this book.

Scores between 12 and 20 to the left of the *Don't know* position indicate an organization that appears to have reasonable control of many of the significant ingredients of commercial success. Nonetheless, there is clearly still room for improvement, and this book should be useful in bringing about such an improvement.

Scores above 20 to the left of the *Don't know* position indicate an organization completely in command of the key success variables. Are you certain that this is a true reflection of your organization's situation? If you are, then the chances are that its marketing skills are already highly developed. However, this book will still be useful for newcomers to the marketing function who wish to learn about the marketing process, and it will certainly help to maintain your high standards.

Exercise 1.5 Simulation practice

Complete any of the Exercises above (Exercises 1.1 to 1.4) for your company in the game. What conclusions can you draw about your company, yourself and your team?

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