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# MK TG4



MKTG4

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# Guide to the text

As you read this text you will find a number of features in every chapter to enhance your study of marketing and help you understand how the theory is applied in the real world.

## CHAPTER OPENING FEATURES

**Learning objectives** at the start of each chapter identify key concepts that will be covered, and **Learning objective icons** appear throughout the chapter to identify where each objective is discussed.

**LO1 OVERVIEW OF MARKETING**

What does the term marketing mean to you? Many people think marketing is the same as personal selling. Others think it is the same as personal selling and advertising. Still others believe that it has something to do with making products available in stores, arranging displays and maintaining inventories of products for future sales. Actually, marketing includes all of these activities and more. Marketing has two facets. First, it can be considered a philosophy, an attitude, a perspective or a management orientation.

**LEARNING OBJECTIVES**

- 1 Gain an overview of marketing.
- 2 Explain the marketing exchange conditions and their influence on marketing.
- 3 Describe the four competing marketing orientations.

What is marketing?

## FEATURE BOXES

**Marketing in Practice** presents practical applications of key concepts discussed in the chapter.

**Real World Marketing** offers case vignettes featuring a scenario from a real company that demonstrates what you've learned.

**Ethical Marketing** gives you the opportunity to explore ethical issues relevant to each chapter.

**MARKETING IN PRACTICE**

**THE IPHONE GOES WIRELESS AT A COST TO CONSUMERS**

One of the dangers of a production or sales orientation is failing to understand what is important to the organisation's customers. When Apple was developing the iPhone 7, it decided to remove the headphone jack, a design decision that would free up internal space for other technologies. The decision played an integral role in making the iPhone 7 the first water-resistant iPhone, with its entire enclosure re-engineered. While the water-resistant feature may benefit Apple iPhone 7 users, it comes at a cost. Apple iPhone 7 users now require a headphone jack adaptor if they

**REAL WORLD MARKETING**

**KEY TENETS OF CUSTOMER VALUE**

Marketers interested in customer value ensure they do the following:

- 1 Offer products that perform. Product performance is the bare-minimum requirement. After grappling with the problems associated with its Vista operating system, Microsoft listened to its customers and made drastic changes to Windows 7, which received greatly improved reviews. Microsoft's subsequent release, Windows 8, had some good features, but was not widely adopted by the public. In 2015, the release of Windows 10 provided a platform for many users across a range of devices to come under one operating system.

**ETHICAL MARKETING**

**USING PRICE TO SELL OLD STOCK**

When an organisation adapts a sales orientation, the price is often a key component of the sale. As we will discover later in this text, the consumer often uses price as an indicator of quality when they are unsure or unfamiliar with the product.

An Australian hairdressing chain had products made to order under its brand name. Towards the end of the life of the product, the organisation realised it had more stock on hand than could be sold before the best-before date. Doing the right thing by its customers, the organisation placed this product in bins at the front of the stores at a reduced price. After the first week, a check of sales figures showed

## ICONS

Apply this icons in the text link you to MKTG4 online content, including interactive quizzes, videos and more.

**LOS DEVELOPING THE MARKETING PLAN**

The next stage is to identify the various target markets and the type of market coverage an organisation will adopt. (Again, this will be covered in Chapter 6.) Having identified the opportunity and the target markets, it is now relevant to consider the components of the marketing mix.

Check out the animated figure: Elements of the Marketing Mix

**NEXT STEP**

## END-OF-BOOK FEATURES

Chapter tear-out cards found at the back of the book provide a portable study tool, summarising each chapter for class preparation and revision.

**REVIEW**

**KEY TERMS**

- Marketing: The set of activities that create, communicate, and deliver value to customers.
- Marketing mix: The set of marketing tools that an organisation uses to achieve its marketing objectives.
- Marketing orientation: A philosophy that focuses on understanding and satisfying customer needs.
- Marketing strategy: A plan of action that guides the organisation's marketing efforts.
- Marketing plan: A document that outlines the organisation's marketing strategy and tactics.
- Marketing budget: The amount of money that an organisation allocates to its marketing activities.
- Marketing research: The process of gathering, analyzing, and interpreting information about a market.
- Marketing audit: A comprehensive, systematic, and periodic review of an organisation's marketing environment, objectives, strategies, and activities.
- Marketing ethics: The principles and standards that govern marketing behavior.
- Marketing law: The legal regulations that govern marketing activities.
- Marketing ethics: The principles and standards that govern marketing behavior.
- Marketing law: The legal regulations that govern marketing activities.

**LEARNING OBJECTIVES**

- 1 Gain an overview of marketing.
- 2 Explain the marketing exchange conditions and their influence on marketing.
- 3 Describe the four competing marketing orientations.

**THE FOUR BUSINESS ORIENTATIONS ARE:**

- 1 Production orientation focuses on the internal capabilities of an organisation.
- 2 Sales orientation focuses on aggressive sales techniques.
- 3 Market orientation focuses on customer decision-making.
- 4 Customer marketing orientation views the focus as in meeting the needs, wants and expectations of customers, and organisational objectives, while meeting individual and societal long-term best interests.

**1 AN OVERVIEW OF MARKETING**

# Guide to the online resources

## FOR THE INSTRUCTOR

Cengage is pleased to provide you with a selection of resources that will help you prepare your lectures and assessments. These teaching tools are accessible via [cengage.com.au/instructors](http://cengage.com.au/instructors) for Australia or [cengage.co.nz/instructors](http://cengage.co.nz/instructors) for New Zealand.

### MINDTAP

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To prescribe MindTap for your students, please contact your Learning Consultant.

### INSTRUCTOR'S MANUAL

The Instructor's Manual includes:

- Summary of Learning Objectives
- Lesson plans for lectures, for video case studies and for group work
- Review questions
- Application exercises and activities
- Ethics exercises, and solutions to the Ethical Marketing questions in the text
- Additional case studies for use in class.

### TEST BANK

This bank of questions has been developed in conjunction with the text for creating quizzes, tests and exams for your students. Deliver these through your LMS and in your classroom.

### POWERPOINT™ PRESENTATIONS

Use the chapter-by-chapter PowerPoint slides to enhance your lecture presentations and handouts by reinforcing the key principles of your subject.

### ARTWORK FROM THE TEXT

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# PART ONE

## AN INTRODUCTION TO MARKETING

- 1 An overview of marketing
- 2 Marketing strategy
- 3 Ethics and the marketing environment





# An overview of marketing

## LEARNING OBJECTIVES

- 1 Gain an overview of marketing.
- 2 Explain the marketing exchange conditions and their influence on marketing.
- 3 Describe the four competing marketing management orientations.
- 4 Appreciate the application of the management orientation to an organisation.
- 5 Describe the reasons for studying marketing.

## What is marketing?

In this chapter, we introduce the idea of marketing and explain how the study of marketing often covers a wider scope than people realise. We focus on the core principle of marketing – the exchange of value – and reflect on different orientations that have been used in the development of marketing practice. We also discuss why the study of marketing will help you in your studies and your career.

## LO1 OVERVIEW OF MARKETING

What does the term *marketing* mean to you?

Many people think marketing is the same as personal selling. Others think it is the same as personal selling and advertising. Still others believe that it has something to do with making products available in stores, arranging displays and maintaining inventories of products for future sales. Actually, marketing includes all of these activities and more.

Marketing has two facets. First, it can be considered a philosophy, an attitude, a perspective or a management orientation that stresses customer satisfaction. (These views will be discussed further in this chapter.) Second, marketing can also be a process used to apply the philosophy, attitude, perspective or management orientation of an organisation. Australian and American marketing associations' definitions encompass both perspectives. The American Marketing Association suggests that **marketing** is 'the activity, set of institutions, and processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society at large'.<sup>1</sup> The 'activity' and 'processes' include the planning and execution of the following concepts: pricing (price), promotion and distribution (place) of ideas, goods and services (i.e. product) to create exchanges that add value to the customer while achieving organisational goals. Marketing entails processes that focus on delivering value and benefits to customers, not just on selling goods, services and ideas. It uses communication, distribution and pricing strategies to provide customers and other stakeholders with the goods, services, ideas, values and benefits they desire, when and where they want them. It involves building long-term, mutually rewarding relationships that benefit all parties concerned. Marketing also entails an understanding that organisations have many connected stakeholder 'partners', including employees, suppliers, stockholders, distributors and others.

**marketing** [T]he activity, set of institutions, and processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society at large'.<sup>1</sup>



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## TWO-WHEEL TOURISM

Ideas for new businesses come from many different places. Ron Bell watched a presentation for the various



models of Segway. He realised this mode of transport would allow more people to visit the Australian bush while using a device that would have minimal impact on the environment. He also recognised the value of a unique mode of transport as an attraction.

Ron had identified an unmet need for

his potential customers. Looking at the tourism market and regions in Australia, Ron chose to establish his business – Segway Central Coast – on the New South Wales Central Coast.

These days, Ron offers three ride events: one for those just wanting to use the Segway, and two others for those with more advanced skills on the machines and in the environment. Ron recognised the needs of potential customer groups and developed his business to meet those needs.

Source: Segway Central Coast, nd., 'Rides', <http://www.segwaycentralcoast.com.au/rides.php> (accessed 17 June 2015).

Marketing is a *social science*, meaning that things are not always as clear-cut as in, for instance, a field of science such as chemistry. And, because it is a relatively new area of business study, marketing is likely to evolve as academics and practitioners understand more about it.

You will find that you have a natural understanding of marketing, one developed through your everyday experiences. For example, suppose that one morning you decide to have some cereal for breakfast. The cereal you select will be a product you have chosen from a range of other offerings in the marketplace. You have decided that this product provides the value you require from cereal. Factors you may consider include your available time, the food's quality and taste, and its ability to sustain you until your next meal.

Another example is social marketing programs. In Hong Kong, as in most countries, there is a problem with the amount of household waste, in response to which the

government has established a promotional campaign encouraging residents to use less and waste less. Related to this promotional strategy is the development of Community Green Station, a site where recyclable materials can be left, and a centre to educate the Hong Kong residents about sustainable choices and waste minimisation.<sup>2</sup> Your local council probably has in place similar schemes.

As you can see, all individuals are actively involved in marketing. As a consumer, you make judgements about products that you believe offer the best value in each situation. As such, marketing is not a new area of study to you, because you have been participating in marketing activity for most of your life.

Why, then, study marketing if you are already a marketing participant? The answer is that, even though you participate in the marketing exchange (something we will discuss later in this chapter), there are a lot of strategies and tactics that organisations use to ensure you get the product you want, when you want it, in the size you want and at the time and place you want it. With this view, we see that producers are resource providers aiming to meet the expectations of the customer. So marketing can be viewed as personal reflection on the things you buy, acquire or are given; or it can be viewed from the perspective of how an organisation understands you as a customer and develops and refines products and offerings to meet your needs. It is this latter perspective that will be the focus of this text.

In the study of marketing, there are two downsides to already having experienced marketing. The first is that many people believe they know and understand marketing because of their experience. When asked to define marketing, people often respond that it is advertising and selling. These are two promotional activities an organisation may use, but there are many other promotional strategies and tactics, as well as other general strategies and tactics that can be applied to get a valued product to the market. This naïve understanding of marketing means that, at times, people undervalue what marketing can bring to an organisation, whether it is selling a product such as the iPhone 8 Plus or attempting to change social behaviour, such as by asking people to reduce their home waste.

The other downside is that during your study, you will discover many terms that may seem familiar, but actually have specialised meanings in a marketing context, so care needs to be taken to develop and use your marketing vocabulary correctly.

So when we look at marketing, there are many facets and intricacies to be explored. One of the easiest ways to do this is to look at the various concepts and theories that we will address in this text and think about how those

concepts and theories may describe the processes you follow when deciding whether to buy or adopt the latest product.

The remainder of this chapter will consider some key concepts: marketing exchange, marketing orientations, and the concepts of customer value and satisfaction.



Review the e-lecture: Marketing Defined

## LO2 MARKETING EXCHANGE

**exchange** When people give up something of value in order to receive something of value that they would rather have.

**Exchange** is a core function of marketing. The concept of exchange is quite simple: you must give up something of value to get something of value that you would rather have. Normally, we think of money as the medium of exchange; that is, we 'give up' money (something of value) to 'get' goods and services that are of equal or greater value to us as buyers. But exchange does not always require money. Two people may barter or trade such items as lunches, computer games, time, effort, or behaviours and ways of thinking.

For exchange to take place, five conditions need to occur:

- 1 There must be at least two parties (that is, people or groups of people/organisations).
- 2 Each party must have something of value that the other party also wants.
- 3 Each party must be able to communicate with the other party and deliver the goods or services sought by the other party.
- 4 Each party must be free to accept or reject the other's offer.
- 5 Each party must want to deal with the other party.<sup>3</sup>

Exchange won't always take place even if all of these conditions exist – however, they must exist for an exchange to be possible. For example, suppose you place an advertisement on <http://carsales.com.au> stating that your used car is for sale at a certain price. Several people may call you to ask about the car; some may test-drive it; and one or more may even make you an offer. All five conditions that are necessary for an exchange to occur are present in this scenario. But unless you reach an agreement with a buyer and actually sell the car, an exchange will not take place. Notice that marketing activities can occur even if an exchange does not result. In this example, you would have engaged in some marketing activities by uploading the car's details

onto the website, even if no one bought it.



View the Concept Video on Marketing

Now that you have a basic understanding of marketing exchange, it is important to understand how an organisation's marketing orientations will influence the way it deals with you as a customer.

## LO3 MARKETING MANAGEMENT PHILOSOPHIES

An organisation's marketing management philosophy influences its behaviour and characteristics, and how it interacts with its customers. Organisations may adopt any number of marketing management philosophies, but we will focus on four of the major orientations (see also **Exhibit 1.1**):

- 1 A *production orientation* is where the focus is on the internal capabilities of an organisation to develop and produce better and cheaper products.
- 2 A *sales orientation* is when an organisation focuses on aggressive sales techniques to encourage high sales volume and, it is hoped, high profits.
- 3 A *market orientation* is where the focus is on satisfying customers' needs and wants as well as organisational goals, thereby helping to develop the social and economic objectives of an organisation.
- 4 A *societal marketing orientation* is a derivative of the marketing orientation which, in addition to focusing on customers' wants and needs, also embraces the notion of preserving or improving an individual's or society's long-term best interest.





## PRODUCTION ORIENTATION

### production orientation

A marketing philosophy that focuses on the internal capabilities of an organisation, rather than on the desires and needs of the marketplace.

A **production orientation** is an organisational philosophy that focuses on the internal capabilities of an organisation, rather than on the desires and needs of the marketplace. A production orientation means that

management assesses its resources and asks these questions:

- 'What can we do best?'
- 'What can our engineers design?'
- 'What is easy to produce, given our equipment?'

In the case of a service organisation, managers ask:

- 'What services are most convenient for the organisation to offer?'
- 'Where do our talents lie?'

Some organisations have the belief that if they produce something, the market will want to buy it.

There is nothing wrong with assessing an organisation's capabilities; in fact, such assessments are major considerations in strategic marketing planning (as discussed later in this chapter). The only downfall of the production orientation is that it doesn't consider whether the products an organisation efficiently produces also meet the needs of the marketplace. Sometimes what an organisation can best produce is just what the market wants. Apple has a history of production orientation – creating computers, operating systems and other gadgetry 'because it can', with the hope of selling the resulting products. Some items have found a waiting market (early computers, the iPod and iPhone). Other Apple products, though, simply flopped. An example is the Newton Message Pad, one of the first versions of a personal digital assistant, which featured handwriting recognition technology: an innovative feature in technological terms, but one that, from the perspective of the market, simply replicated the functionality of a paper notebook and pen for a considerably higher price.<sup>4</sup>

## SALES ORIENTATION

### sales orientation

A marketing philosophy that assumes that people will buy more goods and services if aggressive sales techniques are used, and that high sales result in high profits.

A **sales orientation** is based on the belief that people will buy more products if aggressive sales techniques are used, and that high sales result in high profits. Not only are sales to the ultimate buyer emphasised, but intermediaries are encouraged to push manufacturers'

products more aggressively. To sales-oriented organisations, marketing means selling things and collecting money (see the following 'Marketing in practice' box).

## MARKETING IN PRACTICE



### THE IPHONE GOES WIRELESS AT A COST TO CONSUMERS

One of the dangers of a production or sales orientation is failing to understand what is important to the organisation's customers. When Apple was developing the iPhone 7, it decided to remove the headphone jack, a design decision that would free up internal space for other technologies. The decision played an integral role in making the iPhone 7 the first water-resistant iPhone, with its entire enclosure re-engineered. While the water-resistant feature may benefit Apple iPhone 7 users, it comes at a cost. Apple iPhone 7 users now require a headphone jack adaptor if they want to use their existing earphones. The iPhone 7 comes with a single adaptor; this means that consumers can no longer listen to music while charging their phone. The solution to this problem involves purchasing an additional dual adaptor. Alternatively, customers have the option to purchase wireless headphones. Strategically, Apple timed the iPhone 7 release with the release of its Apple AirPods, the company's latest innovation in wireless headphone technology.

Consumers may be left questioning the motivation behind Apple's decision to remove the headphone jack. Do you think this represents the company embracing an increasingly wireless future, or forcing one upon customers for its own gain?

As with the production orientation, the fundamental issue facing a sales-oriented organisation is that it risks a lack of understanding of the needs and wants of the market. Often, these organisations find that, despite the quality of their sales teams, they cannot convince people to buy products they don't need or want – for example, life insurance and other products presented in early-morning and late-evening television infomercials. Some sales-oriented organisations simply lack the understanding of what is important to their customers.

## MARKET ORIENTATION

Organisations that have a **market orientation** focus on the needs of the customer that contribute to their decision to purchase a product. This approach recognises that a sale does not depend on an aggressive sales team, but rather on a customer's decision to purchase a product.

### market orientation

A marketing philosophy that assumes that a sale depends on a customer's decision to purchase a product.



## USING PRICE TO SELL OLD STOCK

When an organisation adopts a sales orientation, the price is often a key component of the sale. As we will discover later in this text, the consumer often uses price as an indicator of quality when they are unsure or unfamiliar with the product.

An Australian hairdressing chain had products made to order under its brand name. Towards the end of the life of the product, the organisation realised it had more stock on hand than could be sold before the best-before date. Doing the right thing by its customers, the organisation placed this product in bins at the front of the stores at a reduced price. After the first week, a check of sales figures showed the stock was not moving.

The following week, the organisation removed the bins. They redressed their product shelves with all their own-brand products positioned next to well-known brands, put the price of their branded stock back to full retail price, and placed a 10 per cent discount sticker on the old stock. Within two weeks, most of the old stock was sold; within six weeks, it was all sold.

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### QUESTIONS:

*Is it ethical to sell a product with a limited life at a high price?*

What is of primary importance is that an organisation is defined not by what the business thinks it produces, but by what the customer thinks they are buying – that is, the perceived value.

Organisations that are market-oriented adopt and

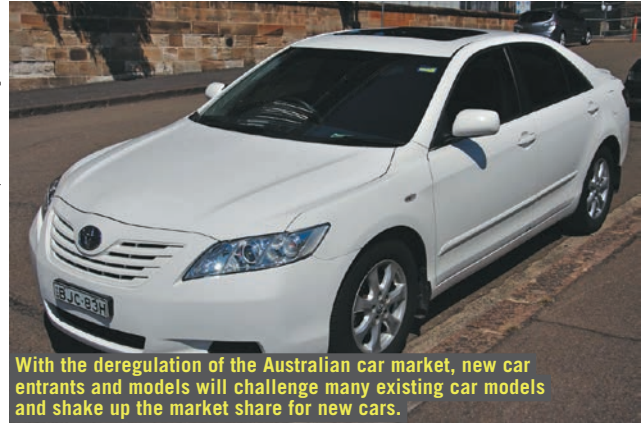
implement the **marketing concept**, which is the idea that the social and economic justification for an organisation's existence is the satisfaction of customer wants and needs while meeting organisational objectives. This means they recognise that there is no reason that

customers should buy one organisation's offerings over

#### marketing concept

The idea that the social and economic justification for an organisation's existence is the satisfaction of customer wants and needs while meeting organisational objectives.

Alamy Stock Photo/Greg BaFour Evans



**With the deregulation of the Australian car market, new car entrants and models will challenge many existing car models and shake up the market share for new cars.**

those of another unless they are receiving a perceived better value from the exchange.

The marketing concept includes:

- focusing on customer wants and needs so that the organisation can distinguish its product(s) from competitors' offerings
- integrating all of an organisation's activities, including production, to satisfy these wants and needs
- achieving an organisation's long-term goals by satisfying customer wants and needs legally and responsibly.

Achieving a marketing orientation involves obtaining information about customers, competitors, and markets; examining the information from a total business perspective; determining how to deliver superior customer value; and implementing actions to provide value to customers. It also entails establishing and maintaining mutually rewarding relationships with customers.

Understanding your competitive arena and competitors' strengths and weaknesses is a critical component of market orientation. This includes assessing what existing or potential competitors might be intending to do tomorrow as well as what they are doing today.

For example, BlackBerry (formerly Research in Motion) failed to realise it was competing against computer companies as well as telecommunications companies, and its wireless handsets were quickly eclipsed by offerings from Google, Samsung and Apple. Had BlackBerry been a market-oriented company, its management might have better understood the changes taking place in the market, seen a competitive threat and developed strategies to counter the threat. Instead, after a five-year slump it re-entered the market with the wholly redesigned BlackBerry 10 operating system, which launched alongside two new handsets in 2013. These strategies did not work, and the company underwent a slow decline in market share. New life was brought to the company with its adoption of Android and iOS operating systems and newly designed devices – however, the decision to stop production came in 2017. (BlackBerry phones will still be available in the market, but will be manufactured by the companies' partners.)<sup>5</sup> By contrast,



American Express' success has rested largely on the company's ability to focus on customers and adapt to their changing needs over the past 160 years – for example, by continuously developing enhanced security and safety measures for online shopping, enabling efficient contactless and mobile payments, and rewarding purchase behaviours with a points-based loyalty system.



Take this opportunity to view the Company Clip for this chapter: Geoffrey B. Small

## SOCIETAL MARKETING ORIENTATION

In some cases, a market-oriented organisation may choose *not* to deliver the benefits sought by customers on the grounds that these benefits may not be good for individuals or

**societal marketing orientation** The idea that an organisation exists not only to satisfy customer needs and wants, and organisational objectives, but also to preserve or enhance an individual's and society's long-term best interests.

society. This philosophy is called a **societal marketing orientation**. Organisations adopting this philosophy believe that an organisation exists not only to satisfy customer wants and needs and to meet organisational objectives – in these respects it is the same as a market orientation – but

also to preserve or enhance individuals' and society's long-term best interests.

For example, organisations that adopt this orientation often strive to help less privileged communities receive fair and equitable payment for their goods and labour by dealing only with other like-minded organisations.

Although the societal marketing concept has been discussed for more than 30 years, it did not receive widespread support until the early 2000s. Concerns such as climate change, the depletion of the ozone layer, fuel shortages, pollution and health issues have caused consumers and legislators to become more aware of the need for companies and consumers to adopt measures that conserve resources and cause less damage to the environment. Studies reporting consumers' attitudes towards, and intentions to buy, environmentally friendly products show widely varying results. A 2014 Roy Morgan study found that more than six out of 10 New Zealanders and 58 per cent of Australian's claim to be 'environmentalists at heart'. However, this sentiment is not reflected in their shopping habits. An underlying explanation may be that three-quarters of New Zealanders and 68 per cent of Australian's also believe that 'environmentally friendly products are overpriced'.<sup>6</sup> The challenge for retailers and manufacturers of environmentally friendly products is how to overcome this perception. This study highlights the opportunity for companies to offer environmentally friendly products at a reasonable price, in turn dispelling these widespread attitudes.

From this review, you should appreciate that not all organisations are in the business of meeting and satisfying customers' needs and wants. Furthermore, the orientation that organisations adopt will influence how they react to

the customer and their needs. In the next section, we will look at the impact of an organisation's orientation.

Review the e-lecture: Marketing Orientations



## WHO'S IN CHARGE?

The Internet and the widespread use of social media have accelerated the shift in power from producers and retailers to consumers and business users. This change began when customers started using catalogues, electronics, and the Internet to access information, goods and services. Customers use their widespread knowledge to 'shop smarter', leading executives such as former Procter & Gamble CEO AG Lafley to conclude that 'the customer is boss'.<sup>7</sup>

As use of the Internet and mobile devices becomes increasingly pervasive, that control will continue to grow. This means that companies must create strategy from the outside in by offering distinct and compelling customer value.<sup>8</sup> This can be accomplished only by carefully studying customers and using deep market insights to inform and guide companies' outside-in view,<sup>9</sup> which is why most successful businesses today tend to adopt a market or social marketing orientation.

LO4

## HOW ORGANISATIONS APPLY THE DIFFERENT ORIENTATIONS

As we saw in Exhibit 1.1 earlier in the chapter, the four management orientations each have a different focus. The sales and market orientations are those most commonly adopted by organisations. The customer's experience, in terms of the attention they receive and the delivery of the product, will vary depending on the orientation adopted by an organisation.

In this section, we review several key themes which distinguish one organisation from another based on their adopted orientations.

## THE ORGANISATION'S FOCUS

Employees in production- or sales-oriented organisations tend to be 'inward-looking', focusing on producing or selling what an organisation makes, rather than thinking about what the market wants. Historically, companies have successfully gained competitive advantages by focusing on new technology, innovation and economies of scale. These allowed companies to prosper by simply focusing their efforts internally on what they could do better. Today, however, many successful organisations find themselves operating in markets where the product is already highly developed, with little scope for significant improvement, so they must instead derive their

**competitive advantage** The idea that the characteristics of a product can solve a set of customer problems better than any competitor's product.

**competitive advantage** from an external, market-oriented focus. A market orientation, or a derivative such as societal orientation, helps companies like Facebook and Samsung outperform their competitors in such an

environment. Today, key issues in developing competitive advantage include creating customer value, maintaining customer satisfaction and building long-term relationships.

## THE ORGANISATION'S UNDERSTANDING OF CUSTOMER VALUE

Production- or sales-oriented organisations equate customer value with the customer being satisfied with what they get, rather than getting what they want. For example, Henry Ford is often quoted as having once said, 'Any customer can have a car painted any colour that he wants, so long as it is black.' He was focusing on providing a cheap and reliable means of transport, and customers had to accept that for a car to be cheap, variety had to be sacrificed.

**customer value** The ratio of benefits to the sacrifice necessary to obtain those benefits.

For the other orientations, **customer value** is the ratio of benefits that the customer receives versus the sacrifices they must make in order to obtain those

benefits. The customer determines the value of both the benefits and sacrifices. Customer value is not merely a matter of high quality. A high-quality product that is available only at a high price may not be perceived as good value; nor will bare-bones services or low-quality goods selling for a low price. Instead, customers value goods and services that are of the quality they expect, and that are sold at prices they are willing to pay. Value can be used to sell a \$200,000 luxury car as well as a \$10 pizza.

### REAL WORLD MARKETING

#### KEY TENETS OF CUSTOMER VALUE

Marketers interested in customer value ensure they do the following:

- 1 *Offer products that perform.* Product performance is the bare-minimum requirement. After grappling with the problems associated with its Vista operating system, Microsoft listened to its customers and made drastic changes to Windows 7, which received greatly improved reviews. Microsoft's subsequent release, Windows 8, had some good features, but was not widely adopted by the public. In 2015, the release of Windows 10 provided a platform for many users across a range of devices to come under one operating system.
- 2 *Earn trust.* A stable base of loyal customers can help an organisation grow and prosper. To attract customers, eyewear company Specsavers offers two pairs of glasses for one low price,

and provides special discounts for kids, students and people over 60 years of age. Moreover, the company offers returns and encourages its staff members to do whatever it takes to ensure a smooth and stress-free experience for the customer. Specsavers' focus on earning customers' trust is evident.

- 3 *Avoid unrealistic pricing.* E-marketers are leveraging Internet technology to redefine how prices are set and negotiated. With lower costs, e-marketers can often offer lower prices than their brick-and-mortar counterparts. In fact, as smartphone usage grows, brick-and-mortar stores are facing customers who compare prices using their smartphones and purchase items for less online while standing in the store.
- 4 *Give the buyer facts.* Today's sophisticated consumer wants informative advertising and knowledgeable salespeople. It is becoming tough for business marketers to differentiate themselves from competitors. Rather than trying to sell products, salespeople need to find out what the customer needs, which is usually a combination of goods, services and thought leadership. In other words, salespeople need to start with the needs of the customer and work towards the solution.
- 5 *Offer organisation-wide commitment in service and after-sales support.* Eyewear retailer Sunglass Hut is widely known for its company-wide support system. As part of its 'Perfect Pair Promise', customers are offered a lifetime of free personalised adjustments and custom cleaning services. Customer service agents at each of Sunglass Hut's 192 locations in Australia are knowledgeable and eager to assist customers before, during and after a sale, and strive to make the return process as stress-free as possible. Sunglass Hut also offers 'Oops Coverage', a 50 per cent replacement discount promise. This attention to customer service is carried through to Sunglass Hut's online store, as well, with free delivery on all orders within Australia and New Zealand, and free returns within 90 days of purchase. However and wherever they place their orders, customers know that Sunglass Hut will support them throughout, and long after, the checkout process.

Shutterstock.com/Heather Shimm



6 **Co-creation.** Many companies are creating products that allow customers to contribute to creating their own experience. For example, Vistaprint, a printing organisation that produces marketing materials, makes form-fitting cases for mobile phones, laptops, and other personal devices. Customers can design their cases by uploading photos or by manipulating art from designers using the 'design with' feature at Vistaprint. Either way, customers produce unique covers for their devices.

Sources: Inc., 2010, '10 Ways to support your best customers', 3 August, <http://www.inc.com/guides/2010/07/10-ways-to-support-your-bestcustomers.html> (accessed 16 April 2012); Sunglass Hut, 2018, 'We offer more than a great pair of shades', <http://www.sunglasshut.com/au/trends/Perfect-Pair-Promise?cvsorc=yext.undefiend&cid=Nav-Footer-PPP> (accessed 25 March 2018); Specsavers, nd., <http://www.specsavers.com.au/> (accessed 6 July, 2015).

## THE ORGANISATION'S ATTITUDE TO CUSTOMER SATISFACTION

As noted earlier, for production- or sales-oriented organisations, customer satisfaction is not considered, since they are focused on producing at the most efficient price or selling whatever is produced. Other orientations

### customer satisfaction

The feeling that a product has met or exceeded the customer's expectations.

recognise **customer satisfaction** as the feeling that a product has met or exceeded the customer's expectations. Keeping current customers satisfied is just as

important as attracting new ones – and a lot less expensive. Organisations that have a reputation for delivering high levels of customer satisfaction do things differently from their competitors. Top management places a high value on customer satisfaction, and employees in these organisations understand the link between their job and satisfied customers. The culture of these organisations is to focus on delighting customers, rather than on selling products.

In response, clients tend to become loyal to a product or brand, or both, and this is advantageous for both the customer and the producer. Good examples of customer loyalty often occur with smartphones, which are very personal items. Apple buyers will camp outside stores to get the latest Apple device. Equally, Samsung saw many devoted Note device owners' loyalty tested with the failure of its Galaxy Note 7 smartphone, but many of these customers were also willing to wait for the Note 8, rather than seek a different brand or operating system.<sup>10</sup>



View the Concept Video on Customer Satisfaction

## DEFINING THE ORGANISATION'S BUSINESS

Production- and sales-oriented organisations define their business (or mission) in terms of goods and services. Market-oriented organisations define their business in terms of the benefits their customers seek. People who spend their money, time and energy expect to receive benefits, not just goods and services. This distinction has enormous implications.

When customers predominantly seek benefits rather than goods and services, there are three significant advantages:

- 1 It ensures that organisations keep focusing on customers and avoid becoming preoccupied with goods, services or internal needs.
- 2 It encourages innovation and creativity by reminding people that there are many ways to satisfy customer wants.
- 3 It stimulates an awareness of changes in customer desires and preferences so that product offerings are more likely to remain relevant.

Having a market orientation and a focus on customers' wants does not mean offering customers anything they desire. It is not possible, for example, to profitably manufacture and market car tyres that will last for 200 000 kilometres for \$25. Furthermore, customers' preferences must be mediated by sound, professional judgement as to how to deliver the benefits they seek. As one traditional adage suggests, 'People don't know what they want – they only want what they know.' Consumers have a limited set of experiences. They are unlikely to request anything beyond those experiences, because they are not aware of the benefits they may gain from other potential offerings. For example, before the Internet, many people thought that shopping for some types of products was boring and time-consuming; but, because the concept of electronic shopping didn't yet exist, they could not express their need for it as an alternative.

## IDENTIFYING THE PRODUCT'S TARGET AUDIENCE

A sales-oriented organisation targets its product at 'everybody' or 'the average customer', while a production-oriented organisation does not target anyone; it simply produces the most efficient product for the whole market. A market-oriented organisation aims at specific groups of people. The fallacy of developing products directed at the average user is that relatively few 'average users' actually exist.

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When you understand marketing, you can achieve better value outcomes from the products you buy.