ESSENTIALS OF MARKETING

Sixth Edition

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PREFACE

Essentials of Marketing has now been in print for almost 20 years. During that time marketing has undergone a radical change in its techniques: the Internet, social media, new communications methods such as texting, and a far greater range of communications channels have meant that marketers have had to adapt their approach to customers and consumers many times. The rise in interest in the environment, and in supporting small, sustainable businesses has also generated new challenges.

However, the basics remain the same. Marketing is still the discipline which seeks to create value by managing and fostering exchange, not just between consumers and producers, but between producers and other producers and even between consumers and other consumers. Services such as eBay exist to create exchange, and since every exchange results in both parties being better off, ultimately marketing exists to improve the standard of living and welfare of humanity at large. Marketers have, perhaps surprisingly, often been unable to get this message across to people. Perhaps this book will help to explain things better.

The aim of this book remains the same: to explain the basic theories and practices of marketing in straightforward language, without academic jargon and in a way that is clear and understandable. The book is aimed at those studying marketing as part of a broader business studies course, at those coming to marketing for the first time, and those who need a quick grasp of current marketing thinking without getting overloaded with obscure theories. We have tried to provide up-to-date examples and cases to illustrate practical aspects of the subject, because marketing is nothing if not a practical discipline, and we have also included the latest thinking from academics worldwide.

This edition has been a joint effort, not just between Jane Martin and Jim Blythe but also between our friends and colleagues at Pearson. We would like to thank everyone at Pearson for the professional way they have supported us in writing the book, and also we would like to thank our colleagues at our respective universities for their help and advice. Finally, we would like to thank our students: some have asked awkward questions that made us think, some have shown us new aspects of the subject, some have been the class comedians and have made us laugh, but all have enriched our working lives in some way.

Any errors or omissions are, of course, our own.

Jim Blythe and Jane Martin
November 2015

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Figures

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ESSENTIALS OF MARKETING

1

WHAT DO MARKETERS DO?

Objectives

After reading this chapter you should be able to:

- Describe the main roles marketers have
- Explain the responsibilities of various types of marketing manager
- Explain the core concepts of marketing
- Explain how marketing activities fit in with other business disciplines
- Describe the development of the marketing concept.

INTRODUCTION

This chapter is an introduction to the basic concepts of marketing, seen in terms of the roles that marketers carry out in their day-to-day jobs. Although marketers have many different job titles, what they have in common is the same orientation towards running the organisation; marketing is concerned with ensuring the closest possible fit between what the organisation does and what its customers need and want.

VIDEO CASE
www.pearsoned.co.uk/blythe

Electrolux

Electrolux is a long-established Swedish electrical goods manufacturer. The company prides itself on producing innovative products based on finding solutions for consumers. Often the company finds itself producing items that people were not aware they needed, but it does not seek to innovate for innovation's sake.

Understanding customers is therefore paramount for Electrolux. Aware that customers are the driving force of everything the company does, Electrolux know that they will only succeed in a cluttered market if they are able to offer real advantages that other manufacturers cannot match. Company representatives observe how people relate to their appliances and are aware of macro-trends in the market – for example, the move towards open-plan kitchen and dining areas, so that appliances are on show for guests and family.

Monitoring what competitors are doing is also important. The company watches what all the main competitors are doing, not for the purpose of copying them, but in order to find gaps in the market – areas where competitors are not meeting customer need.

Hans Stråbirg, President of the Electrolux Group

Watch the video clip, then try to answer the following questions. The answers are on the companion website.

Questions

1. How does Electrolux manage exchange?
2. What is the role of customer need in the Electrolux strategy?
3. How would a brand manager for Electrolux try to go about his or her job?

ABOUT MARKETING

Marketing is the term given to those activities which occur at the interface between the organisation and its customers. It comes from the original concept of a marketplace, where buyers and sellers would come together to conduct transactions (or exchanges) for their mutual benefit. The aim of marketing as a discipline is to ensure that customers will conduct exchanges with the marketer's organisation rather than with the other 'stallholders'. To do this effectively, marketers must provide those customers with what they want to buy, at prices which represent value for money.

This basic concept of managing exchange leads us on to the most important concept in marketing, that of customer centrality. Marketing, above all else, uses the customer (who is often also the consumer) and his or her needs as the starting point for all decisions. Of all the building blocks of marketing, in both theory and practice, this is far and away the most important: it is also often difficult to do because it involves thinking like someone else.

The two most widely used definitions of marketing are these:

> **Marketing is the management process which identifies, anticipates, and supplies customer requirements efficiently and profitably.** (UK Chartered Institute of Marketing)

> **Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchange and satisfy individual and organisational objectives.** (American Marketing Association 2004)

Both of these definitions have been criticised. The Chartered Institute of Marketing (CIM) definition has been criticised because it takes profit as being the only outcome of marketing, whereas marketing approaches and techniques are widely used by organisations such as charities and government departments that do not have profit as their goal. The American Marketing Association (AMA) definition has also been criticised for failing to take account of the increasing role of marketing in a broader social context, and for appearing to regard consumers as being passive in the process. The same criticism could equally be applied to the CIM definition. Interestingly, neither definition includes the word 'consumer'. This may be because there are many customers who buy the product, but do not themselves consume it (for example, a grocery supermarket buyer might buy thousands of cans of beans, but dislike beans himself). Equally, someone can be a consumer without actually making the buying decision – an example would be a child whose parents make most of the decisions about food, clothing, entertainment and so forth on behalf of the child.

In 2013, the American Marketing Association updated their definition:

> **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.** (Approved July 2013)

This definition goes some way to developing the widening role of marketing, but the notion of the consumer having a more proactive role in the process has still not been fully addressed.

To the non-marketer, marketing often carries negative connotations; there is a popular view that marketing is about persuading people to buy things they do not want, or about cheating people. In fact, marketing practitioners have the responsibility for ensuring that the customer has to come first in the firm's thinking, whereas other professionals might be more concerned with getting the balance sheet to look right or getting the production line running smoothly. Marketers are well aware that the average customer will not keep coming back to a firm that does not provide good products and services at an acceptable price, and without customers there is no business.

Competition in many markets is fierce. If there is room for four companies in a given market, there will be five companies, each trying to maximise their market share; the customer is king in that situation, and firms that ignore the customer's needs will go out of business. Marketers therefore focus their attention entirely on the customer, and put the customer at the centre of the business.

THE DEVELOPMENT OF THE MARKETING CONCEPT

The marketing concept is a fairly recent one, and has been preceded by other business philosophies. These philosophies have not necessarily come about in the straight progression implied by the following section: although at different times there may have been a general way in which business was conducted, there have certainly been considerable overlaps between the different philosophies, and many firms have not been part of this general trend.

Production orientation

During the nineteenth century it was often thought that people would buy anything, provided it was cheap enough. This belief had some truth in it, since the invention of the steam engine allowed very much cheaper mass-produced items to be made. If an item was on sale at around one-tenth the price of the hand-made equivalent, most customers were prepared to accept poorer quality or an article that didn't exactly fit their needs. The prevailing attitude among manufacturers was that getting production right was all that mattered; this is called **production orientation**. This paradigm usually prevails in market conditions under which demand greatly exceeds supply, and is therefore somewhat rare in the twenty-first century (although it does exist in some markets, for example in some Communist countries).

With rising affluence, people are not prepared to accept standardised products, and global markets allow manufacturers to reap the benefits of mass production despite providing more specialised products; therefore the extra cost of having something that fits one's needs more exactly is not high enough to make much difference.

Product orientation

Because different people have different needs, some manufacturers thought that an ideal product could be made, one that all (or most) customers would want. Engineers and designers developed comprehensively equipped products, with more and 'better' features, in an attempt to please everybody. This philosophy is known as product orientation.

Product orientation tends to lead to ever-more complex products at ever-increasing prices; customers are being asked to pay for features that they may not need, or that may even be regarded as drawbacks.

Sales orientation

As manufacturing capacity increases, supply will tend to outstrip demand. In this scenario, some manufacturers take the view that a 'born salesman' can sell anything to anybody and therefore enough salesmen could get rid of the surplus products, provided they are determined enough and don't take no for an answer. This is called **sales orientation**, and relies on the premise that the customers can be fooled, the customer will not mind being fooled and will let you do it again later, and that if there are problems with the product these can be glossed over by a fast-talking sales representative. Up until the early 1950s, therefore, personal selling and advertising were regarded as the most important (often the only) marketing activities.

Sales orientation takes the view that customers will not ordinarily buy enough of the firm's products to meet the firm's needs, and therefore they will need to be persuaded to buy more. Sales orientation is therefore concerned with the needs of the seller, not with the needs of the buyer (Levitt 1960). Essentially, what these businesses try to do is to produce a product with given characteristics, then change the consumers to fit it. This is, of course, extremely difficult to do in practice.

Selling orientation and the practice of selling are two different things – modern salespeople are usually concerned with establishing long-term relationships with customers who will come back and buy more (Singh and Koshy 2012). This is an important distinction that is often missed by marketing theorists; there is more on this later in the book (Chapter 9). In the meantime, though, selling skills are a necessary factor in successful marketing (Wachner *et al.* 2009, Troilo *et al.* 2009, Le Meunier-Fitzhugh & Piercy, 2010).

Customer orientation

Modern marketers take the view that the customers are intelligent enough to know what they need, can recognise value for money when they see it, and will not buy again from the firm if they do not get value for money. This is the basis of the *marketing concept.*

Putting the customer at the centre of all the organisation's activities is more easily said than done. The marketing concept affects all areas of the business, from production (where the engineers and designers have to produce items that meet customers' needs) through to after-sales services (where customer complaints need to be taken seriously). The marketing concept is hard to implement because, unlike the sales orientation approach which seeks to change the customers' behaviour to fit the organisation's aims, the marketing concept seeks to change the organisation's behaviour to fit one or more groups of customers who have similar needs. This means that marketers often meet resistance from within their own organisations.

At this point, it may be useful to remind ourselves of the distinction between customers and consumers. Customers are the people who buy the product; consumers are those who consume it. Customers could therefore be professional buyers who are purchasing supplies for a company, or possibly a parent buying toys for a child. The customer might also be the consumer, of course, but the consumer could equally be the recipient of a gift or the user of a service which is paid for by others.

Critical thinking

Many companies say that they are customer (or consumer) orientated, but how true is this? Do companies seriously expect us to believe that the customers come first when they reserve the best parking space for the managing director? Or that the customer comes first when they raise their prices? Or that the customer comes first when the call centre closes at weekends?

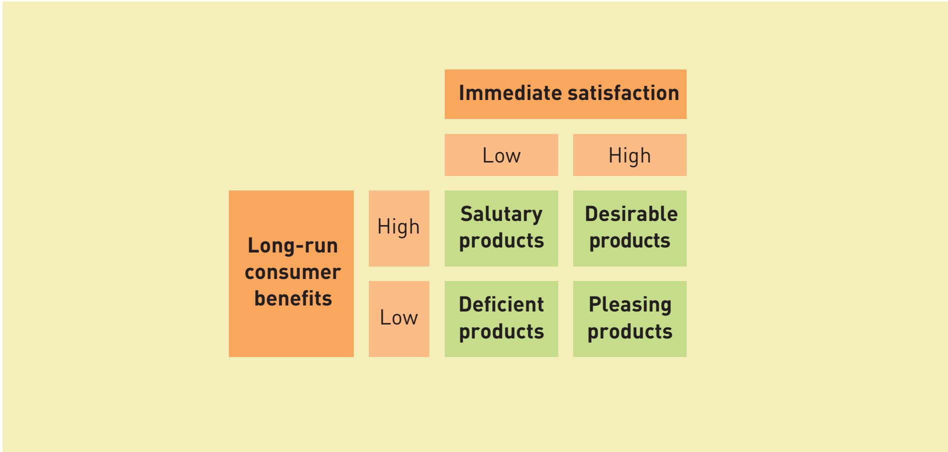
In fact, would it be fairer to say that we always consider the customer's needs, since this is the best way of getting their money off them?

Societal marketing

Societal marketing holds that marketers should take some responsibility for the needs of society at large, and for the sustainability of their production activities. This orientation moves the focus away from the immediate exchanges between an organisation and its customers, and even away from the relationship between the organisation and its consumers, and towards the long-term effects on society at large. This need not conflict with the immediate needs of the organisation's consumers: for example, Body Shop operates a highly successful consumer-orientated business while still promising (and delivering) low environmental impact.

Kotler *et al*. (2001) say that products can be classified according to their immediate satisfaction and their long-run consumer benefits. Figure 1.1 illustrates this. In the diagram, a product which has high long-term benefits and is also highly satisfying is classified as a desirable product. For example, a natural fruit juice which is high in vitamins and also tastes good might fit this category. A product which has long-term benefits but which is not immediately satisfying, for example a household smoke alarm, is a salutary product. Products which are bad for consumers in the long run, but which are immediately satisfying (such as alcohol, cigarettes and

Figure 1.1 Societal classification of new products



Source: Kotler, P., Armstrong, G., Saunders, J. and Wong, V., 2001, *Principles of Marketing*. Pearson Education Limited.

confectionery) are called pleasing products: research shows that people believe that 'unhealthy' foods taste better (Raghunathan *et al*. 2006, Anderson & Mirosa, 2014). Finally, products which are neither good for consumers nor satisfying are called deficient products; examples might include ineffective slimming products, or exercise equipment which is poorly designed and causes injury. In theory, firms should aim to produce desirable products – but consumers often choose the pleasing products instead; for example, eating unhealthy foods when they feel unhappy or stressed (Garg *et al*. 2006, Gamble *et al*. 2010).

The societal marketing concept includes the marketing concept in that it recognises the needs of individual consumers, but it goes further in that it aims to improve the well-being of the wider society in which the firm operates. This means that the organisation takes on responsibility for good citizenship, rather than expecting consumers to understand or take account of the wider implications of their consumption behaviour. The problem is that firms need to balance three factors: customer needs, company profits (or other objectives) and the needs of society as a whole. Since competing companies may not be so concerned about society at large, it is not clear how societal marketing will contribute to creating competitive advantage; it is very clear how customer orientation helps firms to compete, however.

Ultimately, consumer orientation and societal marketing both seek to ensure that the organisation (whether a business or a non-profit organisation) should be looking to create greater value for customers, and thus meet the competition better (or even create competition in new markets).

Relationship marketing

During the 1990s, marketing thinking moved towards the **relationship marketing** concept. Traditional marketing has tended to concentrate on the single transaction with a short-term focus. Relationship marketing focuses on the 'lifetime' value of the customer. For example, a motor manufacturer might have one model aimed at young drivers, another aimed at families with children, and another aimed at middle-aged motorists. Each segment might be treated as a separate and unique entity. Under a relationship marketing paradigm, the organisation recognises that the young motorist will pass through each lifestyle stage in turn, and is then a customer for a different model each time. Relationship marketing aims to determine who will be (or could be) the most loyal customer throughout his or her life: marketers are responsible for establishing and maintaining these relationships.

In practice, relationship marketing has met with its greatest success in the business-to-business world. Companies which sell to other companies have generally been most proactive in establishing long-term cooperative relationships; for example, aircraft engine manufacturers such as Rolls-Royce and Pratt & Whitney need to establish close relationships with aircraft manufacturers such as Airbus Industrie and Boeing, since the designs of airframes and engines need to be coordinated. The ability to adapt the designs to meet the needs of the other company has obvious advantages in terms of cost savings and (eventually) greater profits, but it also has an advantage from the supplier's viewpoint in that close cooperation makes it harder for competitors to enter the market. Customers that have committed to a shared design process are unlikely to want to start the process all over again with another supplier. Creating this kind of loyalty has a significant effect on future revenues (Andreassen 1995).

The key elements in relationship marketing are the creation of customer loyalty (Ravald and Gronroos 1996), the establishment of a mutually rewarding connection, and a willingness to adapt behaviour to maintain the relationship (Takala and Uusitalo 1996).

Critical thinking

Do we really want to have a relationship with the companies which supply our needs? Of course politeness is one thing – but we aren't going to go on a long walking holiday with our bank, are we? Maybe the relationship is a bit one-sided: the company wants to lock us in to a long-term deal, and offers us all kinds of incentives to do so, whereas actually we would rather be free to choose between firms. We soon learn that threatening to leave means we get freebies, so the more they try to hang on to us, the more we take advantage!

Hardly the basis for a long-term relationship, is it?

There is more on relationship marketing throughout the text: it has become, like the Internet, central to marketing practice in recent years.

MARKETING AND OTHER BUSINESS DISCIPLINES

As the marketing concept has evolved from production orientation through to customer orientation, the role marketing occupies relative to other business functions has also evolved. Under a production-orientated regime, marketing