

**EIGHTH EDITION**

# **MARKETING PLANS**

**HOW TO PREPARE THEM, HOW TO PROFIT FROM THEM**

**MALCOLM MCDONALD and HUGH WILSON**

**WILEY**



# Marketing Plans

## Eighth Edition



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How to Prepare Them,  
How to Profit From Them

**Eighth Edition**

Malcolm McDonald  
Hugh Wilson

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# Preface and acknowledgements

Please read this as it contains important information about this book.

The importance of marketing planning is demonstrated by the half million copies of this book that have been sold in English and many other languages since it was first published in 1984.

Since the book's launch, it has helped and encouraged hundreds of thousands of practising managers with the difficult task of marketing planning. Many of them have been kind enough to write expressing their thanks for the book's practical, no-nonsense style and approach to the subject. This has encouraged the first author, Malcolm McDonald, to update the book continually in previous editions, and after the sixth edition, to ask his esteemed colleague Professor Hugh Wilson to join him as co-author. Originally a computer scientist, Hugh brings to the book deep experience in the latest thinking on marketing in a digital world, including integrated marketing communications, e-commerce, multichannel strategy and customer relationship management (CRM). The authors have been working together on how to evolve marketing planning in a digital world for over 20 years.

The purpose of this book is quite simply to explain and demonstrate how to prepare and use a marketing plan. It is equally relevant for consumer, service and industrial goods companies, as well as not-for-profit organizations, since the process is universal.

It is based on our research into the marketing planning practices of industrial, service and retail companies, which has revealed marketing planning as an area of major weakness. Almost without exception, companies that thought they were planning were in fact only forecasting and budgeting, and suffered grave operational difficulties as a result. The problem, as companies face up to the opportunities and challenges of the twenty-first century is not that the philosophy of marketing is not believed; rather it is that most companies, particularly industrial goods companies and many service organizations, have difficulty in making it work.

This is largely because of ignorance about the process of planning their marketing activities, for which little help is provided in the extant body of literature. Books or articles often turn out to be about the management of the several elements of the marketing mix rather than about the process of combining them into a coherent plan. Others treat marketing planning in such a generalized way that it is difficult to distil from them any guidance of operational significance. Finally, there are many excellent papers about individual aspects of the marketing planning process.

The truth is, of course, that the actual *process* of marketing planning is simple in outline. Any book will tell us that it consists of: a situation review; assumptions; objectives; strategies; programmes; and measurement and review. What other books *do not* tell us is that there are a number of contextual issues that have to be considered that make marketing planning one of the most baffling of all management problems.

Here are some of those issues:

- *When* should it be done, *how often*, by *whom* and *how*?
- Is it different in a *large* and a *small* company?



- Is it different in a *diversified* and an *undiversified* company?
- Is it different in an *international* and a *domestic* company?
- What is the role of the *chief executive*?
- What is the role of the *marketing department*? Who else needs to be involved, and how?
- Should marketing planning be *top-down* or *bottom-up*?
- What is the relationship between *operational* (one year) and *strategic* (longer-term) planning?

Since effective marketing planning lies at the heart of a company's revenue-earning activities, it is not surprising that there is a great demand for a guide which strips away the confusion and mystery surrounding this subject and helps firms to get to grips with it in a practical and down-to-earth manner.

This book explains what marketing is, how the marketing planning process works, how to carry out a marketing audit, how to set marketing objectives and strategies, how to schedule and cost out what has to be done to achieve the objectives, and how to design and implement a simple marketing planning system.

Our approach is both logical and practical. This view has been confirmed by the hundreds of letters and e-mails referred to above, and by the fact that this book is now a standard text on many marketing courses in universities, and in-company training programmes around the world.

This book includes:

- Application questions, to help you personalize the learning.
- Exercises at the end of every chapter to enable practising managers to translate the theory into practice.
- Mini case studies to exemplify the points being made.
- A step-by-step process, with templates, for producing marketing plans.

Additionally, a comprehensive online Tutors' Guide is available for those who wish to teach the subject to others. This Tutors' Guide contains lecture plans, PowerPoint masters, case studies, tutors' discussion points and additional assignments for use by tutors. Please visit [www.marketingplansbook.com](http://www.marketingplansbook.com).

We would like to thank our friends and colleagues for the advice they have given us and material they have generously allowed us to use during the life of this book. To the following we are especially grateful: Dr Chris Bailey, Dr Krista Bondy, Lindsay Bruce, Dave Chaffey, Professor Martin Christopher, Professor Moira Clark, Professor Elizabeth Daniel, Dr Iain Davies, Matt Hobbs, Professor Aamir Khan, Ardi Kolch, John Leppard, Associate Professor Dr Emma Macdonald, Professor Simon Majaro, Dr Stan Maklan, Anne Mollen, Aly Moore, Peter Mouncey, Professor Adrian Payne, Beth Rogers, Professor Lynette Ryals, Dr Brian Smith, Rod Street and Diana Woodburn. To them and the many other scholars and practitioners who have contributed invaluable ideas in specific sections we will always be grateful. Rather than updating the flow of the text by providing complete individual references, we restrict ourselves to a few references at the end of each chapter. For fuller bibliographies, please see the PhD research on which this book is primarily based: details are available from [m.mcdonald@cranfield.ac.uk](mailto:m.mcdonald@cranfield.ac.uk) or [hugh.wilson@cranfield.ac.uk](mailto:hugh.wilson@cranfield.ac.uk).

Professor Malcolm McDonald  
Professor Hugh Wilson  
Cranfield University School of Management  
October 2016

# How to use this book to achieve the best results

At the end of each chapter, you will find a number of application questions. More importantly, there are also a number of exercises designed to help you translate the theory into practice in the context of your own organization.

As you work through this book, you will find that some of the exercises are diagnostic and enable you to 'plot' where your company is. Some will help you to understand what might be happening to your organization. Other exercises are more concerned with generating factual information about your organization, its products, its markets or its planning processes. We find this combination of exercises not only provides you with insights and learning about many aspects of marketing planning, but it also helps you to assemble information, which can contribute to a marketing plan for your organization.

Whenever scoring and interpretation are required for an exercise, you will find the answers are provided at the end of each chapter.

This book is written to fulfil three principal needs. The first relates to the process of marketing planning, which, while theoretically simple, is in practice extraordinarily complex, involving, as it does, people, systems and organizational structures. One purpose, then, is to ensure that readers fully understand the process, what the pitfalls are and how to negotiate them.

The second purpose is to ensure that readers know which are the appropriate marketing diagnostic tools, structures and frameworks to use at each stage of the process.

The third and most important purpose, however, is to give both students and managers a non-nonsense, practical, step-by-step guide on how to prepare a really good, strategic marketing plan that will help their organizations to create sustainable competitive advantage for themselves and for their customers.

## KEY AREAS FOR IMPROVEMENTS IN STRATEGIC MARKETING PLANNING: WHERE TO LOOK IN THIS TEXT FOR PRACTICAL GUIDANCE

This help section is based on the analysis of over 700 strategic marketing plans from over fifty multinationals during a period of twenty-five years. A fee was charged for each analysis, so these comments are based on considerably more than just opinions.

### Summary of the book

A strategic marketing plan should be a clear and simple summary of key market trends, key target segments, the value required by each of them, how we intend to create superior value (to competitors), with a clear prioritization of marketing objectives and strategies, together with the financial consequences.

Alas, frequently, they come across as diffuse, confusing compilations of unconnected sections, masquerading as marketing plans.

## Specific problems encountered and where to look for guidance

- Market overviews contain substantially more information than is necessary, with no hint of the implications for marketing activity. See Chapters 2 and 3.
- Key segments are rarely identified. ‘Segments’ are often sectors or products, rather than groups of customers with similar needs. See Chapter 3.
- The competitive situation is not well analysed and plans appear to assume no activity or reaction by competitors. See Chapter 6.
- SWOT analyses rarely pin down convincingly the value that is required by segments. They are frequently too general to lead to any actionable propositions. See Chapter 4.
- Our own distinctive competences are rarely isolated and built on. See Chapter 5.
- SWOTs are rarely summarized clearly and logically in a portfolio which provides a categorization of the relative potential of each and our relative strengths in each. See Chapter 5.
- Marketing objectives are frequently confused with marketing strategies and do not follow logically from the portfolio summary. See Chapter 6.
- The resource implications of effecting the marketing plans are not always clear. See Chapter 13.
- Communications such as advertising are fragmented and based on habit, rather than being integrated with each other and targeted on the value required by attractive segments. See Chapter 7.
- The sales plan is developed in isolation from the marketing plan. See Chapter 8.
- Channels are taken for granted, rather than used as a key source of innovation and differentiation. See Chapter 9.
- CRM is delegated to IT or operations. See Chapter 10.
- There is no particular logic behind pricing. See Chapter 11.

## Main differences between the Seventh Edition and this Eighth Edition

Whilst all the chapters have been extensively updated, the most significant changes in this edition are as follows:

A new chapter on understanding needs and developing value propositions has been added as Chapter 4.

The accelerative impact of digital has been reflected in Chapters 7–10.

A new chapter has been added at the end of the book – this is called ‘Marketing Planning; Yes, it works! Experiences from the real world’. It is written by two former directors of multinational companies who have since worked extensively in small and medium enterprises (SMEs). They spell out how the processes set out in this book work perfectly in either domain.

# Learning features

This Eighth Edition of *Marketing Plans* has full pedagogical features as follows:

## Summary

Each chapter begins with bullet points which highlight the main features and learning to be covered in the chapter.

## Key Concepts

Principal marketing ideas and themes are highlighted as snapshots throughout the text.

## Crucial Terms

Concise definitions of important terms and vocabulary are provided in the margin to allow for a smoother, easier reading of the text.

## Examples

These provide additional illustrative marketing accounts to contextualize learning.

## Marketing Insights

Real-life marketing anecdotes contextualize learning.

## Headlines

Highlights taken from the text as marginalized notes bring important points to the attention of the reader.

## Case Studies

In-depth studies of marketing experiences show how the theories work in real-world companies.

## Application Questions

These appear at the end of each chapter and relate the theory to practice by asking the reader to apply the theory to real-life situations.

## Chapter Review

This condenses the main themes of the chapter and directs the reader to relevant exercises for each topic for them to try.

## Exercises

These appear at the end of each chapter and are preceded, where necessary, by a brief introduction which informs the reader of the issues and concepts they will find within each exercise. Each exercise helps the reader to translate the theory into practice and reinforces the learning gained from each chapter. Many exercises also end with an ‘interpretation’ to guide the reader in their workings.

## Simulation Practice

You now have a great opportunity to practice the ideas in this book. We have teamed up with Market2Win to provide the key tools from the book and give you an opportunity to learn how to use them in a safe environment. This is done by testing your skills against other marketers in a strategic marketing game called Marketing2Win. The game is built on the core ideas in this book and has been played by thousands of students and executives. At the end of each chapter you will see new exercises that are linked to the game. To find out more, go to [www.market2win.com/mp](http://www.market2win.com/mp).

# Tutors' guide

A password protected tutor support site for using *Marketing Plans* Eighth Edition for teaching and learning can be found at [www.marketingplansbook.com](http://www.marketingplansbook.com).

This includes:

- Introduction to the Tutors' Guide and Use of the Text
  - PowerPoint slides
  - Case studies and detailed Tutors' Guides
  - Examples of Marketing Plans
  - Exercises
  - Tutors' Notes
1. Understanding the marketing process
  2. The marketing planning process: The main steps
  3. The customer and market audit Part 1: Understanding markets and market segmentation
  4. The customer and market audit Part 2: Understanding customer needs and developing value propositions
  5. The customer and market audit Part 3: The product audit
  6. Setting marketing objectives and strategies
  7. The integrated marketing communications plan
  8. The sales and key account plan
  9. The multichannel plan: The route to market
  10. The CRM plan
  11. The pricing plan
  12. Implementation issues in marketing planning
  13. Measuring the effectiveness of marketing planning
  14. A step-by-step marketing planning system
- Working with Case Studies/Case Studies
- Case 1: Eindhoven Containers  
Case 2: Multi-electronique et Cie  
Case 3: Property Services International  
Case 4: International Electrical Supplies  
Case 5: Rentlow Cars SA  
Case 6: The Dynamic Manager  
Case 7: Cranchem marketing plan  
Case 8: Lockwell Company Ltd  
Case 9: Hydraulic Industries Ltd: Acquisition in West Germany

This website also hosts freely accessible student resources including application questions, exercises and a test bank.

# An important note to the reader from the authors

## MARKETING PLANNING AND DIGITAL

Since the Seventh Edition, digital marketing, especially in the form of social media, has made great strides forward.

This book, however, is unashamedly NOT about digital, although particularly in the chapters on communications it features prominently and is totally up to date. The reason is simple. Strategic marketing is NOT digital marketing, which is just another communication channel.

In November 2013, Nicola Kemp wrote in *Marketing* (p.52):

For many companies, the greatest threat is not being out of touch with digital development, but losing sight of the fundamental needs of their customers and the underlying long-term drivers of their business.

In 2014, Helen Edwards, of London Business School, wrote in *Marketing* (pp. 36–37):

Yes, the fourth wave of digital marketing has arrived, but consumers are drowning in an ocean of branded pap and the interactive lifeline they really want to be thrown is the one whereby companies answer calls promptly, answer calls in person, keep their promises, make better products and contribute to a better world.

The point, dear reader, is that without a robust marketing strategy, it just isn't possible to have any kind of meaningful digital strategy. This book is about how to develop a winning marketing strategy for what is sold and to whom. Only when this has been done is it possible to develop a winning digital strategy.

Producing an effective marketing plan that will give your organization competitive advantage is not easy. It takes knowledge, skills, intellect, creativity and, above all, time.

Everything you need to succeed is in this book, but you must be prepared to devote time to it. It is most definitely not a quick read!

## FAST TRACK

However, for those who need a fast track to producing a marketing plan, Chapter 14 will help you. Be careful, however:

A little learning is a dangerous thing. Drink deep, or taste not the Pierian Spring.

(Alexander Pope)

## INTERMEDIATE TRACK

For those interested principally in how to tie all marketing initiative together in a strategic marketing plan, it is possible to omit Chapters 7–11, as these contain a level of detail on specific areas of the marketing mix. Again, however, be careful and only omit these chapters if you feel that you already know enough about promotion, pricing, sales, channels, CRM and customer service to be able to outline appropriate strategies in your strategic marketing plan. Also, particularly in Chapters 7, 9 and 10 there are some crucially important state-of-the-art developments in digital marketing described in some detail, each of which is substantially changing the face of marketing.

### An important test to help you decide which track you need

It is important that you complete the questionnaire which follows before you start Chapter 1. This test was developed by the authors for the president of a global IT company, who asked what he should be looking for in a world class strategic marketing plan.

### Interpretation

In our experience, it is unlikely that many readers will score above five on many of these questions. This is not the point, however. The purpose of the questionnaire is to focus your attention at the beginning of the book on what essential deliverables a marketing plan should produce. If you work carefully through this book and implement it in your organization, you will be able to give yourself high scores in all boxes. Then, you will be a truly market-driven organization!

We have just one more suggestion for readers of this book, which is that they should also complete the very last questionnaire in this book, at the end of Chapter 14. This will most certainly alert readers to the need to focus on the contents of this research-based book.

Professor Malcolm McDonald  
Professor Hugh Wilson



## ARE YOU GETTING THESE ESSENTIAL DELIVERABLES FROM YOUR STRATEGIC MARKETING PLAN?

### Market structure and segmentation

Score out of 10

- Is there a clear and unambiguous definition of the market you are interested in serving?
- Is it clearly mapped, showing product/service flows, volumes/values in total, your shares and critical conclusions for your organization?
- Are the segments clearly described and quantified? These must be groups of customers with the same or similar needs, not sectors or demographic groups.
- Are the real needs of these segments properly quantified, with the relative importance of these needs clearly identified?





### Differentiation

- Is there a clear and quantified analysis of how well your company satisfies these needs compared to competitors?
- Are the opportunities and threats clearly identified by segment?



### Scope

- Are all the segments classified according to their relative potential for growth in profits over the next three years and according to your company's relative competitive position in each?
- Are the objectives consistent with their position in the portfolio (volume, value, market share, profit)?
- Are the strategies (including products, price, place and service) consistent with these objectives?
- Are the key issues for action for all departments clearly spelled out as key issues to be addressed?





### Value capture

- Do the objectives and strategies add up to the profit goals required by your company?
- Does the budget follow on logically from all of the above, or is it merely an add on?



**Total score**



# Part One

## The marketing planning process and the output

### INTRODUCTION TO CHAPTERS 1–6

Chapters 1–6 constitute the main purpose of this book, which is to spell out in detail what is required at each stage of the strategic marketing planning process. Each chapter leads logically on to the following chapter until a complete picture is provided of the actions required at each stage. Worksheets are provided to enable users to build their plan as they proceed.



# Chapter



# 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.<sup>1</sup>

## 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.

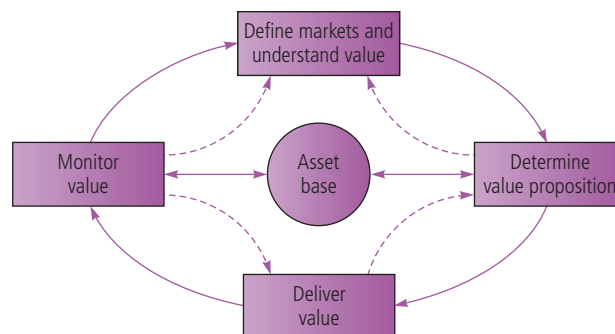


Figure 1.1: A map of marketing.

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<sup>2</sup> 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.

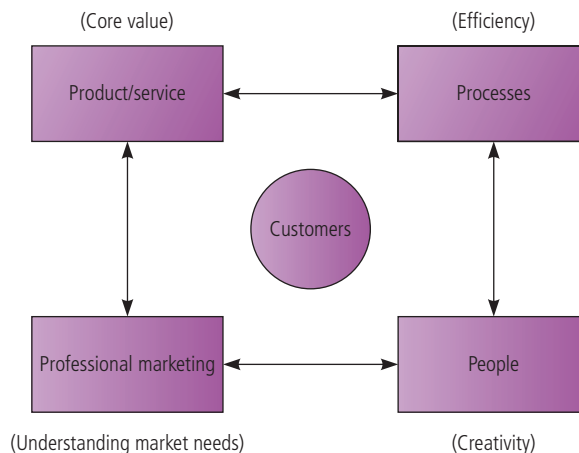


Figure 1.2: Business success.



## 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.

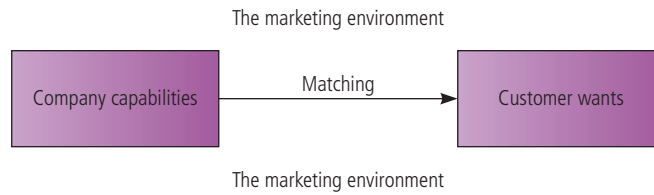


Figure 1.3: The matching process.

## 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.<sup>3</sup> 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.<sup>4</sup> 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.