FOURTH EDITION

Marketing Management

A RELATIONSHIP APPROACH

Svend Hollensen

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Pearson

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[1]

Each **Part introduction** lists the chapters and case studies within the part. It also includes a structure map that allows you to get a clearer picture of how the part relates to the other sections in the book.


PART III VIDEO CASE STUDY

Nivea: Segmentation of the sun-care market

Hamburg-based Beiersdorf AG can trace its origins back to a patent received for medical plasters in 1882 by the pharmacist Paul C. Beiersdorf. The business did not remain focused on this area alone: the first Labello lip-care stick was sold almost 100 years ago. In 1911, Nivea Creme (which literally means 'snow white') – the first stable, oil-and-water-based cream – was created. From early on, the company was looking abroad. Already by 1913 the company generated 42 per cent of its sales abroad.

The 1990s saw the start of Nivea's systematic expansion into an umbrella brand. Today, the process is regarded internationally as a classic example of successful brand development. Brand trust has been extended to a wide range of products: men's care, hair care, body care, face care, hand care, sun protection, bath and shower care, deodorants and make-up. Thanks to Nivea Sun, Beiersdorf is not just the European market leader for sun-care products; it was also the catalyst for the introduction of a sun protection factor as a new global standard.

For a long time, Beiersdorf was active in four business areas: cosmetics, toiletries, medicinal and pharmaceutical products. Since the 1990s, Beiersdorf has focused consistently on the growing market of skin and beauty care – a strategic decision that has now made Beiersdorf Germany's largest cosmetics company.

Today the company's skin-care products are sold in more than 100 countries.

Sales of the first full-spectrum range of men-care products for the mass market began in 1993. Today Nivea for Men also has a strong position on the global market and is consistently gaining market share.

The global market of cosmetics and toiletries totalled €250 billion in 2017. In the same year, Beiersdorf had total sales of nearly €7 billion, and €670 million in net income. The company had 17,700 employees as of 31 December 2017.

Nivea sun care

The Nivea Sun brand portfolio has grown to over 40 products, which can be characterised in four different categories:

1 **Sun protection**
It is vital that skin is adequately protected against the sun's harmful effects (although no sunscreen can provide total protection). Nivea Sun provides products that enable people to be as safe as possible. Nivea Sun also encourages the use of other forms of protection (e.g. wearing a sun hat and avoiding midday sun). Protection is the largest segment in the sun-care market.

2 **After-sun**
Providing cooling and refreshing effects for the skin after a whole day in the sun.

3 **Self-tan**
In contrast to protection and after-sun, the self-tan category is concerned mostly with cosmetic appeal. Many adults use self-tan to have an all-year-round sun-kissed glow.

4 **Whitening products**
The popularity of whitening products in Asia is based on the old Asian belief that 'white skin conceals facial defects' – a philosophy passed on for generations, and it reflects the traditional criteria for beauty.

The choice of product depends on usage occasion (when) – e.g. holiday, outdoor sports, gardening, working. This relates to the Sun Protection Factor (SPF) required, e.g. the SPF required for a holiday in Egypt differs greatly to outdoor work in the UK. This is one of the reasons why Nivea Sun includes a wide range of sun protection, from SPF 4 to 50+.

Source: Donka Zheleva/123RF.

[250] DEVELOPING MARKETING STRATEGIES

Source: Youyuenyong Budsawongkod/Shutterstock.

Source: Aimpol Buranet/Shutterstock.

Sun protection is the primary benefit, but the preference by which this is delivered will vary by segment, e.g. convenience is important to men (so they choose spray applicators). Parents want to provide maximum protection for children (high SPFs and coloured products are therefore important).

Women are the main purchasers of sun care for the family. This is reflected in above-the-line (advertising) communications, generally targeted towards a female audience.

Children are not purchasers of sun care. However, Nivea Sun recognises it can play an important part in educating children from a young age to be safer when in the sun.

In Asia, Nivea has considerable success with a combination of sun-care and whitening products in face care. While there may be a market for bleaching products in these zones, Nivea sticks to gentle formulas. In 2005, Nivea was the world's first brand to introduce whitening products for men in Thailand.

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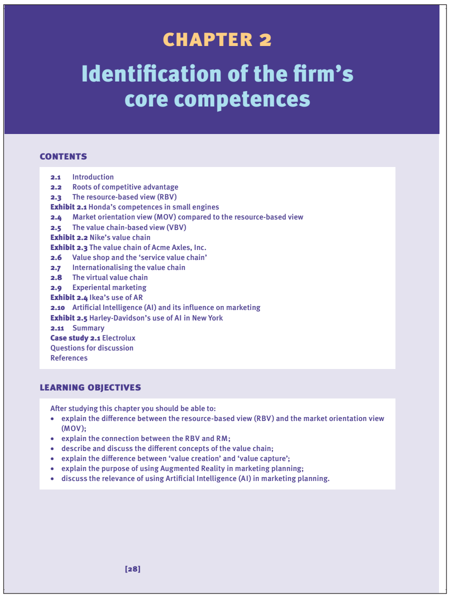
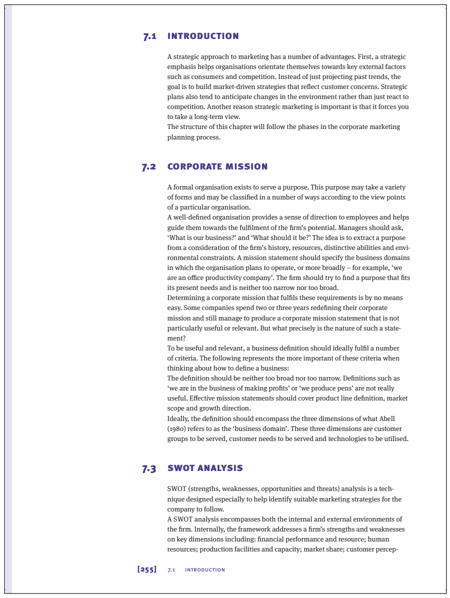
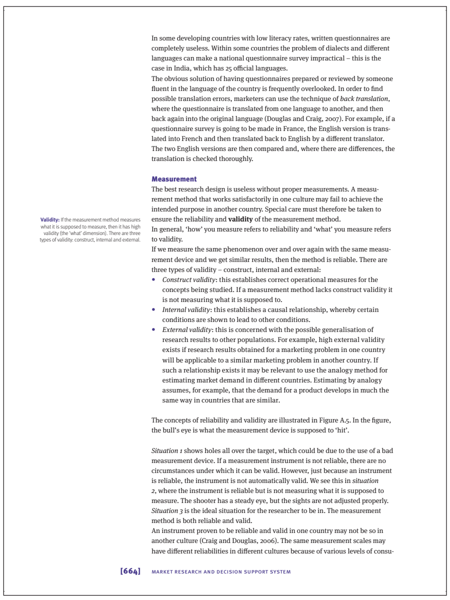
Following each part introduction, you will find a **video case study** from a leading international company. Read the case study, watch the video, which is available on the companion website via www.vitalsource.com, and then answer the questions.





Each chapter begins with a set of **learning objectives** that will enable you to focus on what you should have achieved by the end of the chapter.

Short chapter introductions concisely introduce the themes and issues that are built upon within the chapter.



Key terms are highlighted in the text with a brief explanation in the margin where they first appear. These terms are also included in the Glossary at the end of the book.

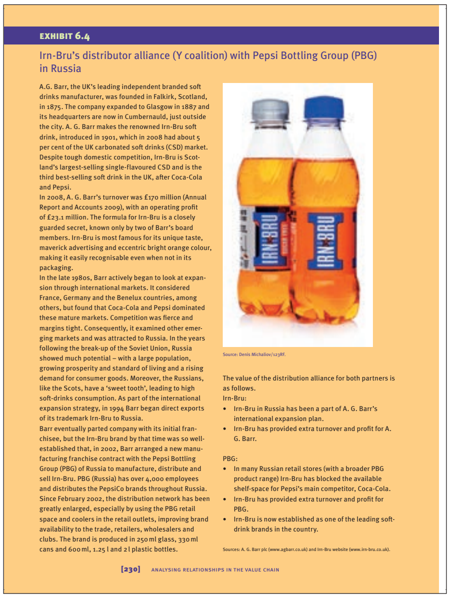


EXHIBIT 6.4

Irn-Bru's distributor alliance (Y coalition) with Pepsi Bottling Group (PBG) in Russia

A.G. Barr, the UK's leading independent branded soft drinks manufacturer, was founded in Falkirk, Scotland, in 1875. The company expanded to Glasgow in 1887 and its headquarters are now in Cumbernauld, just outside the city. A. G. Barr makes the renowned Irn-Bru soft drink, introduced in 1901, which in 2008 had about 5 per cent of the UK carbonated soft drinks (CSD) market. Despite tough domestic competition, Irn-Bru is Scotland's largest-selling single-flavoured CSD and is the third best-selling soft drink in the UK, after Coca-Cola and Pepsi.

In 2008, A. G. Barr's turnover was £170 million (Annual Report and Accounts 2009), with an operating profit of £23.1 million. The formula for Irn-Bru is a closely guarded secret, known only by two of Barr's board members. Irn-Bru is most famous for its unique taste, maverick advertising and eccentric bright orange colour, making it easily recognisable even when not in its packaging.

In the late 1980s, Barr actively began to look at expansion through international markets. It considered France, Germany and the Benelux countries, among others, but found that Coca-Cola and Pepsi dominated these mature markets. Competition was fierce and margins tight. Consequently, it examined other emerging markets and was attracted to Russia. In the years following the break-up of the Soviet Union, Russia showed much potential – with a large population, growing prosperity and standard of living and a rising demand for consumer goods. Moreover, the Russians, like the Scots, have a 'sweet tooth', leading to high soft-drinks consumption. As part of the international expansion strategy, in 1994 Barr began direct exports of its trademark Irn-Bru to Russia.

Barr eventually parted company with its initial franchisee, but the Irn-Bru brand by that time was so well-established that, in 2002, Barr arranged a new manufacturing franchise contract with the Pepsi Bottling Group (PBG) of Russia to manufacture, distribute and sell Irn-Bru. PBG (Russia) has over 4,000 employees and distributes the PepsiCo brands throughout Russia. Since February 2002, the distribution network has been greatly enlarged, especially by using the PBG retail space and coolers in the retail outlets, improving brand availability to the trade, retailers, wholesalers and clubs. The brand is produced in 250 ml glass, 330 ml cans and 600 ml, 1.25 l and 2 l plastic bottles.

Source: Denis Michaliov/123RF.

The value of the distribution alliance for both partners is as follows.

Irn-Bru:

- Irn-Bru in Russia has been a part of A. G. Barr's international expansion plan.
- Irn-Bru has provided extra turnover and profit for A. G. Barr.

PBG:

- In many Russian retail stores (with a broader PBG product range) Irn-Bru has blocked the available shelf-space for Pepsi's main competitor, Coca-Cola.
- Irn-Bru has provided extra turnover and profit for PBG.
- Irn-Bru is now established as one of the leading soft-drink brands in the country.

Sources: A. G. Barr plc (www.agbarr.co.uk) and Irn-Bru website (www.irn-bru.co.uk).

[230] ANALYSING RELATIONSHIPS IN THE VALUE CHAIN

EXHIBIT 15.1

Merger of Mars' European food, pet care and confectionery divisions

Mars Inc. is a diversified multi-functional company whose primary products include foods, pet care, confectionery, electronics and drinks. Owned and controlled by the Mars family, this US giant is one of the world's biggest private companies, but also one of the most secretive.

Mars' decision in January 2000 to merge its food, pet care and confectionery divisions across Europe – and eventually with headquarters in the UK – has split the marketing industry.

The most well-known brands within the three divisions are:

- Foods: Uncle Ben's Rice, Uncle Ben's sauces;
- Pet care: Whiskas, Pedigree;
- Confectionery: M&Ms, Snickers, Milky Way, Mars Bar.

Mars UK says the decision to pool the businesses was taken to strike at the company's international competitors in food and confectionery, such as Nestlé and Unilever. The move also coincides with plans to create a single European market and highlights the company's belief that its consumers' needs are the same across Europe.

But the combination of food and confectionery with pet care is not clear to all industry observers. One industry analyst made the comment: 'Generally speaking, Mars is doing the right thing by merging divisions to squeeze profits out of them. Before the advent of the euro it was acceptable to run separate companies in different European countries but not any more.'

Another analyst had this opinion:

> I can't imagine it marketing all three sides of the business together. They're too different. The only visible benefit appears to be an improvement in distribution. Tastes across European markets are very different, whether you're selling products for animals or people.
>
> It's all very well Mars saying it will tackle competitors such as Nestlé and Unilever, but they are only rivals in food and confectionery.
>
> If Mars starts laying down too many controls by merging all its businesses – and therefore also its marketing and management strategies – it may streamline communications, but could lose the creativity available in different regions.

Source: adapted from McCawley (2000).

strategy in the world cannot successfully proceed if the employees responsible for its implementation do not believe in it and are not committed to it.

Third, employee reward programmes must be linked to the implementation of the marketing strategy. This generally means that employees should be rewarded on the basis of their behaviours rather than on their work outcomes. In an organisation guided by a strong culture and a shared marketing plan, outcome-based control systems may not adequately capture the effort put in by employees.

Fourth, the organisation should be characterised by open communication among all employees, regardless of organisational level. Through open, interactive communication, employees come to understand the support and commitment of senior managers, and how their jobs fit into the overall marketing implementation process (Aaker, 2008).

Finally, organisational structures, policies and processes should match the marketing strategy effectively. Although eliminating these constraints may mean that employees should be empowered to creatively fine-tune the marketing strategy or its implementation, empowerment should be used only if the organisation's culture can support it. However, if used correctly as a part of the internal marketing approach, the organisation can gain more motivated, satisfied and committed employees, as well as enhanced customer satisfaction and improved business performance.

[601] 15.6 THE ROLE OF INTERNAL MARKETING

New and engaging exhibits analyse and discuss specific companies to show how the theories in the chapter are used by well known brands in the business world.

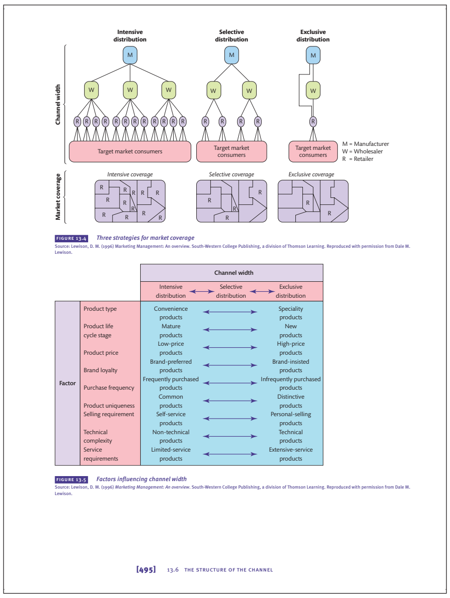


FIGURE 13.4 *Three strategies for market coverage*

Source: Lewison, D. M. (1996) Marketing Management: An overview. South-Western College Publishing, a division of Thomson Learning. Reproduced with permission from Dale M. Lewison.

		Channel width		
		Intensive distribution	Selective distribution	Exclusive distribution
Factor	Product type	Convenience products		Speciality products
	Product life cycle stage	Mature products		New products
	Product price	Low-price products		High-price products
	Brand loyalty	Brand-preferred products		Brand-insisted products
	Purchase frequency	Frequently purchased products		Infrequently purchased products
	Product uniqueness	Common products		Distinctive products
	Selling requirement	Self-service products		Personal-selling products
	Technical complexity	Non-technical products		Technical products
	Service requirements	Limited-service products		Extensive-service products

FIGURE 13.5 *Factors influencing channel width*

Source: Lewison, D. M. (1996) *Marketing Management: An overview*. South-Western College Publishing, a division of Thomson Learning. Reproduced with permission from Dale M. Lewison.

[495] 13.6 THE STRUCTURE OF THE CHANNEL

Source: LEGO.

FIGURE 1 *Different positioning in toy retailing*

In terms of sales, LEGO Friends has done surprisingly well since the launch. The LEGO Group sold twice as many LEGO Friends as expected in the first six months. As a result, LEGO increased production to meet the demand for LEGO Friends in the important pre-Christmas period.

The themes of LEGO Friends change over time:

> The 2018 season brought up a redesign of the LEGO Friends girls. Changes were slightly reflected in the mini-dolls, especially Olivia along with the new coloured packaging. The purpose of this colour-change was maybe to get people to stop moaning about the pink.

[329] 8.8 SUMMARY

Colour figures and photographs illustrate the key points and concepts and help clarify the topics discussed.

CASE STUDY 4.1

Spotify: The online music-streaming company is growing fast but is suffering financial imbalance

Spotify (the brand name is a combination of 'Spot' and 'Identify') is a digital music-streaming service that was launched in Sweden in 2008. Spotify was founded by Swedish Daniel Ek and Martin Lorenzen.

The company provides on-demand streaming of millions of songs which can be accessed on a range of devise. Users can listen to unlimited music on their desktop or laptop with no ads. Premium users can listen without advertisements or limits on all supported devices, including smartphones, tablets, and TVs. Around 70 per cent of Spotify's total revenues (including those from advertising and subscription fees) go to rights holders, including artists, labels, and publishers. Despite Spotify's success, the service faces competition from a host of other streaming services; for example, Apple, Pandora, Amazon and Deezer.

Spotify (www.spotify.com) principally operates under the so-called 'Freemium' model: basic services are free and more advanced, or additional, features are offered at a premium. This is augmented by income from music purchases within the player. As of 2017, Spotify offered a US$10 per month unlimited subscription package on all platforms (desktop, tablet and smartphone).

Spotify co-founder Daniel Ek.

Source: Michael Folmer/Alamy Stock Photo.

Streaming of Music

Streaming is a method of delivering media to an end-user. As opposed to downloading, whereby an end-user downloads a file, streamed music is readily available in 'real time' to the listener and is transferred as a continuous stream of data. Unlike in the case of downloading, it is difficult for users of streaming services to save the content and potentially illegally distribute it. Streaming requires a broadband or internet connection capable of transferring the data fast enough.

In order to minimize the bandwidth used, files encodes for streaming are often highly compressed. Audio and video players, such as Quick Time and Adobe Flash Player, tend to retrieve extra data faster than they play it. In order to reduce the problem of the audio or video stopping due to internet problems, extra data is stored as a 'buffer'. However, when the data runs out, the stream will stop and display a 'buffering' message.

[163] 4.10 SUMMARY

The world global music industry

The revenues in the global music industry is now growing again after some years of stagnation. In 2017, global music sales grew for the third consecutive year with streaming now the single largest revenue source for the record industry. The worldwide streaming of music represents a value of approximately *USD 8.0 billion* out of the total global music revenues of approximately *USD 20 billion*, which means that streaming by the end of 2018 would account for *40 per cent* of the total global music revenues.

Streaming is now established as the most prevalent and significant format in the modern music industry, fueling growth in almost all major markets and starting to unlock the phenomenal potential within developing territories. Physical sales remain significant in certain countries and for certain artists, and the vinyl comeback has been a headline grabber, but streaming is the growth driver that is revolutionising the music business.

By the end of 2018, the International Federation of the Phonographic Industry (IFPI) estimates that the number of paid subscription accounts (regarding all streaming providers) reached *180 million* worldwide (IFPI 2018). This trend is further solidified by the rapid growth of family plans, where several members of the same household can share a family subscription.

One key factor driving growth is increased competition. Spotify remains the global leader in streaming and Apple Music has made huge progress since its launch in 2015 – see also the overview of market shares in 2017 in Table 1.

TABLE 1 *World market share in music streaming – 2017 (based on number of subscribers)*

	WORLD MARKET SHARE – PAYING SUBSCRIBERS 2017
Spotify	35%
Apple Music	18%
Amazon	10%
QQ Music	6%
Deezer	4%
Melon	3%
Others	24%
Total	100%

Source: based on Dealogic.com, eMarkets.com and FT, 13 March 2018, p. 19, and general public information.

In China, Tencent Music Entertainment, owner of the country's leading streaming services, QQ Music, Kugou and Kuwo, is seeing its paid subscriber numbers soar. Amazon, meanwhile, launched Amazon Music Unlimited, while Pandora announced plans for an on-demand service (which it has now launched) and iHeart introduced beta versions of the US iHeart-Radio Plus (US $4.99, enhanced ad-free radio listening) and iHeartRadio All Access (US $9.99, radio + full streaming service). Alongside these developments, record companies have reached licensing agreements with Soundcloud and many other smaller services.

In May 2018, Google put forward their answer to Spotify, *YouTube Music*, which came with both a redesigned app and new desktop player, both designed specifically for playing music. Google argued that using YouTube for music needs had an advantage as it incorporated not just official versions of songs, but remixes, live versions, and covers. There was also the promise that Google's Artificial Intelligence would make YouTube Music a "lean back" experience. YouTube Music was available either for free with ads, for $9.99 per month without ads, or for $11.99 per month for YouTube Premium (previously YouTube Red), which includes original video content. Anyone who already has a Google Play Music subscription gets YouTube Music as part of that membership.

Spotify today

In April 2018, Spotify was listed on the New York Stock Exchange. The shares began trading on 3 April 2018. By the end of 2017, it was estimated that Spotify had 170 million active users, including *70 million paying subscribers*. All have access to Spotify's 35 million songs.

The subscription scheme

For the most individual countries the Spotify subscription scheme functions like this:

Free

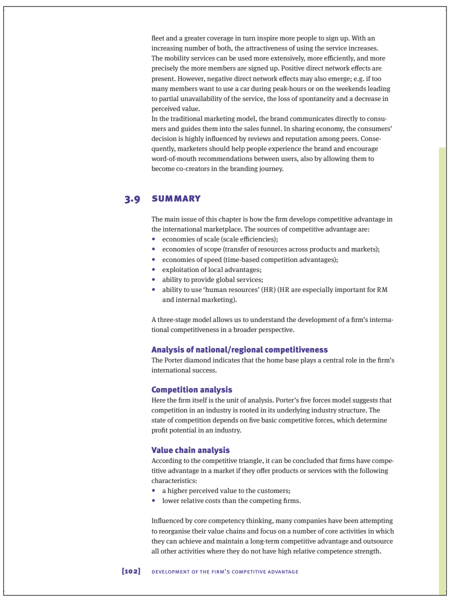
You can use Spotify for free if you are fine with some restrictions. With a free account and the desktop software downloaded, you can listen to anything you want on-demand, so long as you're willing to put up with ads. On the free mobile version, you can only skip six songs an hour, and cannot play specific songs on demand. You also cannot listen offline.

Spotify Student

If you're a student, you get an even sweeter price of $5 month. Just make sure you re-register as a student after a year, or Spotify will assume you have graduated and will start charging you the full price.

[164] CUSTOMER BEHAVIOUR

A **case study** concludes each chapter, providing a range of material for seminars and private study, by illustrating real-life applications and implications of the topics covered in the chapter. These also come with a set of questions to help you test your understanding of the case.



fleet and a greater coverage in turn inspire more people to sign up. With an increasing number of both, the attractiveness of using the service increases. The mobility services can be used more extensively, more efficiently, and more precisely the more members are signed up. Positive direct network effects are present. However, negative direct network effects may also emerge; e.g. if too many members want to use a car during peak-hours or on the weekends leading to partial unavailability of the service, the loss of spontaneity and a decrease in perceived value.

In the traditional marketing model, the brand communicates directly to consumers and guides them into the sales funnel. In sharing economy, the consumers' decision is highly influenced by reviews and reputation among peers. Consequently, marketers should help people experience the brand and encourage word-of-mouth recommendations between users, also by allowing them to become co-creators in the branding journey.

3.9 SUMMARY

The main issue of this chapter is how the firm develops competitive advantage in the international marketplace. The sources of competitive advantage are:

- economies of scale (scale efficiencies);
- economies of scope (transfer of resources across products and markets);
- economies of speed (time-based competition advantages);
- exploitation of local advantages;
- ability to provide global services;
- ability to use 'human resources' (HR) (HR are especially important for RM and internal marketing).

A three-stage model allows us to understand the development of a firm's international competitiveness in a broader perspective.

Analysis of national/regional competitiveness

The Porter diamond indicates that the home base plays a central role in the firm's international success.

Competition analysis

Here the firm itself is the unit of analysis. Porter's five forces model suggests that competition in an industry is rooted in its underlying industry structure. The state of competition depends on five basic competitive forces, which determine profit potential in an industry.

Value chain analysis

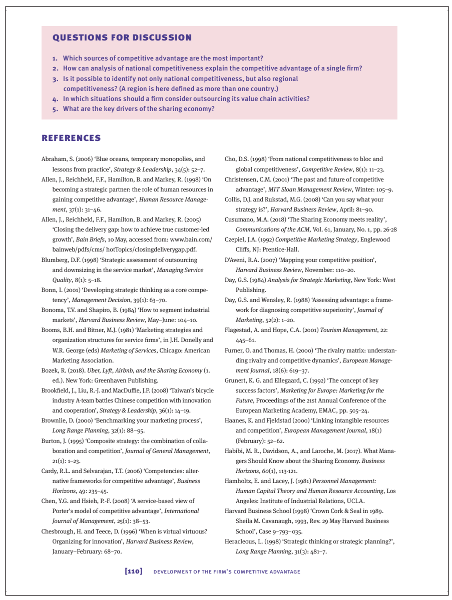
According to the competitive triangle, it can be concluded that firms have competitive advantage in a market if they offer products or services with the following characteristics:

- a higher perceived value to the customers;
- lower relative costs than the competing firms.

Influenced by core competency thinking, many companies have been attempting to reorganise their value chains and focus on a number of core activities in which they can achieve and maintain a long-term competitive advantage and outsource all other activities where they do not have high relative competence strength.

[102] DEVELOPMENT OF THE FIRM'S COMPETITIVE ADVANTAGE

Chapter summaries reflect on what the chapter has covered and will help you to consolidate your learning and provide an important revision tool.



QUESTIONS FOR DISCUSSION

1. Which sources of competitive advantage are the most important?
2. How can analysis of national competitiveness explain the competitive advantage of a single firm?
3. Is it possible to identify not only national competitiveness, but also regional competitiveness? (A region is here defined as more than one country.)
4. In which situations should a firm consider outsourcing its value chain activities?
5. What are the key drivers of the sharing economy?

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[110] DEVELOPMENT OF THE FIRM'S COMPETITIVE ADVANTAGE

Questions for discussion provide a useful assessment to test your knowledge and encourage you to review and/or critically discuss your understanding of the main topics and issues covered in each chapter.

An extensive list of **references** at the end of each chapter directs you to other books, journal articles and websites, which will help you develop your understanding and inspire independent learning.

Digital resources

To access your digital resources, follow the instructions given below:

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Marketing Management, 4th edition, Svend Hollensen

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PREFACE

The World Is Flat. This was the title of an international bestselling book by Thomas L. Friedman, published in first edition in 2005. It analyses globalisation, primarily in the early twenty-first century, and the picture has changed dramatically. The title is a metaphor for viewing the world as a level playing field in terms of commerce, where all players and competitors have an equal opportunity. We are entering a new phase of globalisation, in which there will be no single geographic centre, no ultimate model for success, no sure-fire strategy for innovation and growth. Companies from every part of the world will be competing with each other – for customers, resources, talent and intellectual capital – in every corner of the world's markets. Products and services will flow from many locations to many destinations. Friedman mentions that many companies in, for example, the Ukraine, India and China provide human-based sub-supplies for multinational companies, from typists and call centres to accountants and computer programmers. In this way these companies in emerging and developing countries are becoming integral parts of complex global supply chains for large multinational companies such as Dell, SAP, IBM and Microsoft.

As this new scene unfolds, the new global leaders increasingly will be forced to defend the ground they thought they had won and secured long ago. And their expansion into new markets will be challenged as never before. Their established processes and traditional business philosophies will be turned upside down by challengers whose experiences in new emerging markets cause them to see the world very differently and to do business in completely new ways. Many executives of developed-country companies are not prepared to deal with the massive wave of competition from skilled and determined new rivals. As the world is becoming a flat playing field, there is also an increasing need in different industry supply chains for creating relationships between the involved companies in the industry value chains. This has important implications for the way that we look at the marketing discipline in the individual firm. The consequence is that the development of marketing theory and practice is undergoing a paradigm shift from a transactional to a relationship orientation. As many companies are still relying on the traditional marketing approach, this book will bridge the gap between **relationship marketing (RM)** and **traditional (transactional) marketing (TM)**.

Relationship marketing (RM): The process of creating, maintaining and enhancing strong longterm relationships with customers and other stakeholders through mutual exchange and trust. RM seeks to build a chain of relationships between the firm and its main stakeholders.

Transactional marketing (TM): The major focus of the marketing programme (the 4 Ps) is to make customers buy. Independence among marketing actors ('arm's length') is considered vital for marketing efficiency.

Marketing management: The process of planning, executing and controlling marketing activities to attain marketing goals and objectives effectively and efficiently.

In the traditional transactional approach, **marketing management** is about planning, coordinating and controlling marketing activities that are aimed at satisfying customer needs and desires – and receiving money from sales.

In recent years, marketing has been undergoing considerable self-examination and internal debate. The overriding emphasis in the 'traditional' marketing approach is on acquiring as many customers as possible. Evidence is mounting, however, that traditional marketing is becoming too expensive and is less effective.

Many leading marketing academics and practitioners have concluded that a number of the long-standing practices and operating modes in marketing need to be evaluated, and we need to move towards a relationship approach that is based on repeated market transactions and mutual gain for buyers and sellers.

The 'new paradigm' is commonly referred to as relationship marketing (RM). Relationship marketing is not a new idea. Before the advent of mass production and mass media, relationship marketing was the norm; sellers usually had first-hand knowledge of buyers, and the successful ones used this knowledge to help keep customers for life.

Relationship marketing reflects a strategy and process that integrates customers, suppliers and other partners into the company's design, development, manufacturing and sales processes.

Fundamentally, relationship marketing draws from traditional marketing principles. Marketing can be defined as the process of identifying and satisfying customers' needs in a competitively superior manner in order to achieve the organisation's objectives. Relationship marketing builds on this.

The customer is still fundamental to a marketing relationship. Marketing exists to meet efficiently the satisfaction of customer needs, as well as those of the marketing organisation. There is a considerable body of knowledge in social sciences that sheds light on the many facets of human relationships. We draw from these sources to further our understanding of consumer relationships.

Marketing exchange seeks to achieve satisfaction for the consumer and the marketing organisation (or company). In this latter group we include employees, shareholders and managers. Other stakeholders (such as competitors, financial and governmental institutions) are also important. As we shall see later, relationships can cover a wide range of organisations in the environment, for example:

- governmental institutions
- industry associations
- European Union (EU) institutions
- religious groups.

However, the main focus of this book is still on the relationships between the firm and its closest external bodies, primarily the customers.

In the transactional approach, participants focus exclusively on the economic benefits of the exchange. Even though in relational exchange the focus widens, economic benefits remain important to all of the partners in marketing relationships.

With the relationship approach in mind, an integrated view of marketing management will be presented. To do this, the latest research findings in marketing management and related disciplines are summarised. Yet, marketing management is still a very practical discipline. People still have practical needs, firms still face practical problems and solutions still have to work in real life. Most marketers cannot and should not hide in labs. Marketing is a social science based on theories and concepts, but it also requires that most marketers meet with people, observe them, talk to them and understand their activities. In essence, marketing is a dialogue between sellers (marketers) and buyers (customers). This book reflects this applied approach. Together with important concepts and theories, my experience that has been obtained through work for many years with numerous companies – large and small, domestic and international – will be drawn on.

TARGET AUDIENCE

This book is written for people who want to know how the relationship and the traditional marketing approach (in combination) affect the development of effective and efficient marketing plans. This book is aimed primarily at students, MBA/graduate students and advanced undergraduates who wish to go into business. It will provide the information, perspectives and tools necessary to get the job done. My aim is to enable you to make better marketing decisions. A second audience for this book is the large group of practitioners who want to build on the existing skills and knowledge already possessed. The book is of special interest to the manager who wishes to keep abreast of the most recent developments in the 'marketing management' field.

UNIQUE FEATURES OF THIS BOOK

This marketing text tries to integrate the 'new' relationship approach in the traditional process of developing effective marketing plans. Compared to other marketing management books, this text will attach more importance to the following themes.

Buyer–seller relationships

The guiding principle of this text is that of building relationships between buyers and sellers. Relationships is a growing trend, and for good reason. Dramatic changes in the marketing environment are presenting immense new opportunities for companies that really build and retain relationships with customers. Relationship marketing emphasises the tremendous importance of satisfied, loyal customers. Good customer relationships happen when all employees within the organisation develop the sensitivity and desire to satisfy customers' needs and wants. It may be argued that the traditional concept of marketing (as exemplified later in Chapter 1) does not adequately reflect the recognition of the long-term value of a customer. The argument is that many of the traditional definitions of marketing, although stressing the importance of customer needs and satisfaction, are essentially concerned with maximising the profitability of each transaction. Instead they should seek to develop longterm relationships with customers that cannot easily be duplicated by competitors.

Buyer–seller interaction on a global scale

Today's companies are facing fierce and aggressive competition. Today, most firms compete not only locally and nationally, but globally as well. Companies that have never given a thought to internationalisation now also face competition in their home market from international companies. Thinking globally also requires an understanding of the international diversity in buying behaviour and the importance of cross-cultural differences in both the **B2C** and **B2B** markets. This cross-cultural approach is centred on the study of the interaction between buyers and sellers (and their companies), who have different national and/or cultural backgrounds.

Business-to-consumer (B2C): Marketing that involves exchange relationships between a firm and its end customers, perhaps via retailers.
Business-to-business (B2B): Marketing that involves exchange relationships between two or more business customers and suppliers.

Creating competitive advantage through relationships with other companies

Greater emphasis is given to the development of competitive advantage, and consequently to the development of resources and capabilities and competences within the organisation and with other companies. Relationship marketing seeks to build a chain of relationships (networks or value net) between the organisation and its main stakeholders, including customers, suppliers, distribution channel intermediaries and firms producing complementary products and services. Relationships to competitors are also considered.

Cross-functionalism

Marketing is not an isolated function. A marketer's ability to implement effectively a strategic marketing programme depends largely on the cooperation and competence of other functional areas within the organisation. Consequently, substantial attention is given to the interfunctional approach of marketing management. This includes: the concept of competitive advantages, **cross-functional teams** in the development of new products, **supply chain management**, internationalisation, quality management and ethics.

Cross-functional team: A team made up of individuals from various organisational departments, who share a common purpose.
Supply chain management: How products are moved from the producer to the ultimate consumer, with a view to achieving the most effective and efficient delivery system

What is new in the fourth edition?

The main theme of this edition is how to build and retain B2B and B2C marketing relationships in the value chain, both offline but increasingly also online. Consequently, an important aspect of this edition is the strengthening of the online theme (social media, e-commerce, etc.), which is now incorporated in all the chapters and in many cases and exhibits.

In addition, there is a focus on marketing-related themes in connection with new technologies, like Artificial Intelligence (AI), Sharing economy, Gamification, 3-D Printing, Internet-of-Things (IoT), Omni-channel distribution and Blockchain technology.

There is also a focus on Chinese business cases (BYD electric, DJI drones and Huawei smartphones) as China is now the world's second largest economy, after the USA.

The book's chapters, cases and exhibits are totally updated with the latest journal articles and company information. Besides that, the following new concepts are introduced in the single chapters:

- Chapter 1 – discusses The SOSMAC model and gives an introduction to the KPI 'regime'.
- Chapter 2 - discusses how Artificial Intelligence (AI) can help marketers to create customer value.
- Chapter 3 – introduces the Sharing Economy.
- The intro to Part II– discusses the PESTEL analysis.
- Chapter 4 – discusses gamification and its use for marketeers.
- Chapter 11 – discusses 3-D Printing – a possible industrial revolution in customization. In addition, it also discusses global mobile app marketing an introduces the Internet-of-Things (IoT) and its use for marketers.
- Chapter 12 – discusses subscription-based pricing.
- Chapter 13 – discusses multiple distribution and omni-channel strategy and introduces Blockchain technology and its influence on marketing and SCM.
- Chapter 14 – discusses a categorization of Social Media, the Social Media funnel and the development of the Social Media Marketing plan.

This edition presents 10 new case studies:

1. Part I Video case study: BYD electric cars – The Chinese electric car manufacturer is considering sales world-wide.
2. Chapter 2 case study: 2.1 Electrolux – A white goods manufacturer is considering growth opportunities worldwide.
3. Chapter 3 case study: 3.1 Nintendo Switch – Is this the 'Blue Ocean' come-back.

4. Part II Video case Study: Müller – Müller yoghurts are penetrating the US market and leaving again by a split-up with the Quaker Joint Venture.
5. Chapter 4 case study: 4.1 Spotify – The online streaming company is growing fast but suffering from financial imbalance.
6. Chapter 7 case study: 7.1 William Demant - One of the world's market leaders in hearing aids is defending its position with the Oticon Brand.
7. Chapter 11 case study: 11.1 Tinder dating app - The famous dating app brand is facing increasing competition from e.g. Badoo.
8. Chapter 12 case study: 12.1 Harley Davidson – How should the pricing strategy be affected by the new EU tariffs in 2018.
9. Chapter 15 case study: 15.1 DJI Technology Co. Ltd. – A Chinese 'born global' dominating the world market for drones with its Phantom and Marvic drones.
10. Chapter 16 case study: 16.1Huawei Smartphones – Expanding into International markets for smartphones.

Furthermore, several new exhibits have been added to the book.

OUTLINE

The book is structured around the two main steps involved in marketing management – that is, the decision-making process regarding formulating, implementing and controlling a marketing plan:
- Step 1: Analysis of the internal and external situation (Parts I and II)
- Step 2: Planning and implementation of marketing activities (Parts III, IV and V).

The schematic outline of the book in figure 1 shows how the two main steps are divided into five parts. The book has a clear structure according to the marketing planning process of the firm. Based on an analysis of the competitive advantages of the firm (Part I) and the analysis of the external situation (Part II), the firm is able to develop marketing strategies (Part III) and marketing programmes (Part IV). Finally, the firm has to implement and control its activity in the market and, if necessary, make changes in the marketing strategy (Part V). Throughout the book this marketing planning process is seen in a relationship approach, as a supplement to the transactional approach.
The market research function gives a very important input to all five phases (parts) of this decision-making process, with a possible feedback to the marketing information system (MIS). Therefore, this section of the book is an Appendix, but a very important one, as the past marketing experiences are stored in the marketing information system, which may add important contributions to new marketing decision-making processes – i.e., for making better marketing decisions.

Pedagogical/learning aids

Many aids to student learning come with the book. These include:
- Chapter learning objectives: these tell the reader what he/she should be able to do after completing each chapter.
- Case studies: there is a case study at the end of each chapter and each case study contains questions.

- Video case studies: each part starts with a video case study, which can be accessed on the book's website (via www.vitalsource.com).
- Exhibits: these examples from the real world illustrate the text and the marketing models.
- Summaries: each chapter ends with a summary of the main concepts.
- Discussion questions: at the end of each chapter the discussion issues are presented as questions.
- Marginal definitions: key concepts from the glossary are defined in the margins of the text.
- Glossary: a glossary provides a quick reference to the key terms in the book.

Supplementary material to accompany the book can be downloaded by lecturers via www.vitalsource.com.
Tables 1 and 2 show the video case studies and the chapter case studies in this book.

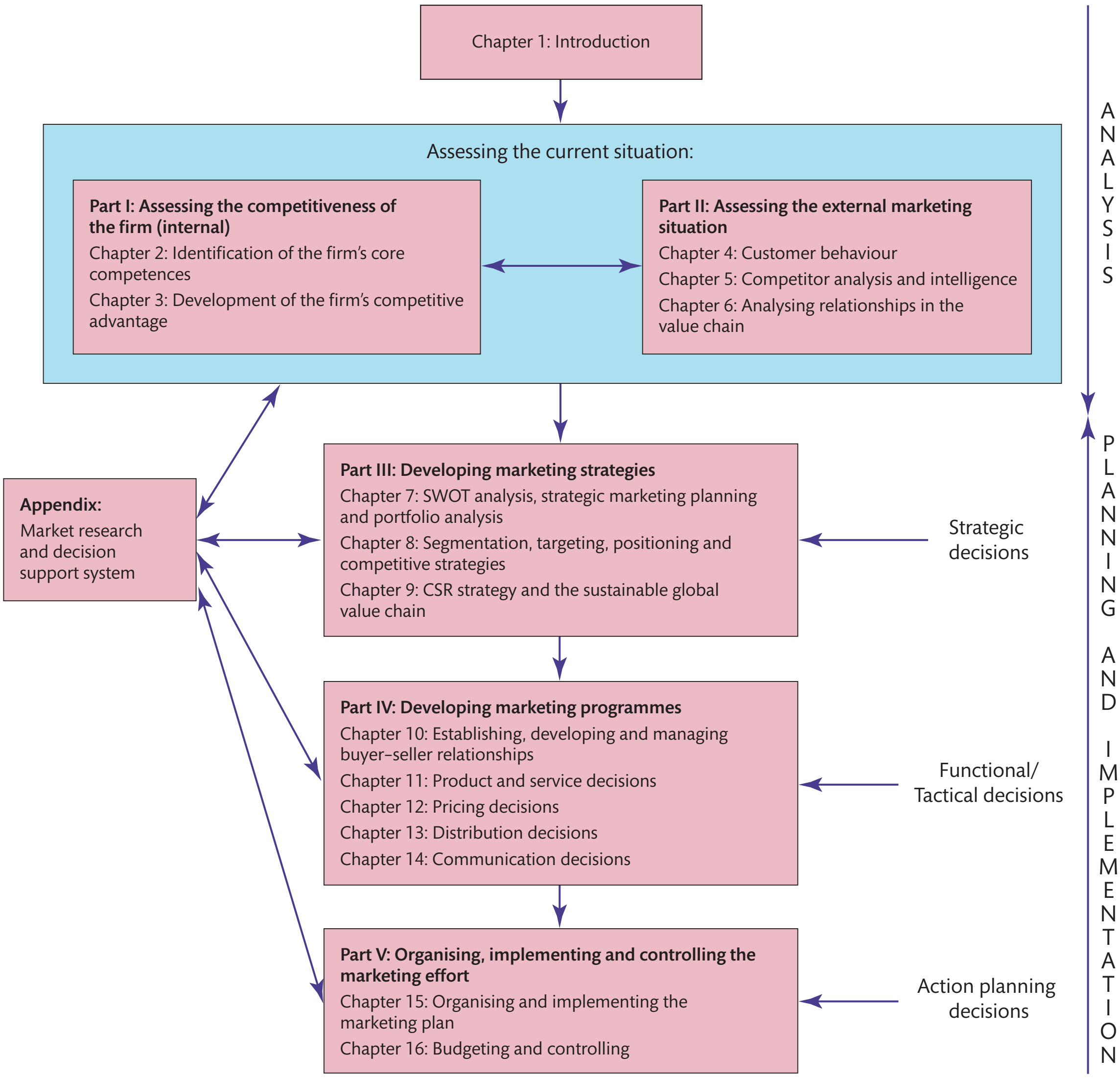

TABLE 1 *Video case studies in the book: overview*

PART	VIDEO CASE STUDY	LOCATION OF HEADQUARTERS	TARGET MARKET AREA AND TYPE
Part I Assessing the competitiveness of the firm (internal)	**BYD electrical cars** The Chinese electric car manufacturer is considering sales worldwide	China	World B2C/B2B
Part II Assessing the external marketing situation	**Müller yogurts** Penetrating the US market	Germany	USA B2C/B2B
Part III Developing marketing strategies	**Nivea** Segmentation of the sun-care market	Germany	World B2C
Part IV Developing marketing programmes	**Tequila Avión** A premium tequila is introduced	USA	USA/World B2C
Part V Organising, implementing and controlling the marketing effort	**Pret A Manger** How to control the expansion of an international restaurant chain	UK	UK/USA/World B2C/B2B

TABLE 2 *Chapter case studies in the book: overview*

CHAPTER	CHAPTER CASE STUDY	LOCATION OF HEADQUARTERS	TARGET MARKET AREA AND TYPE
1 Introduction	**1.1 Hunter Boot Ltd** The iconic British brand is moving into exclusive fashions	UK	World B2C
2 Identification of the firm's core competences	**2.1 Electrolux** A white goods manufacturer is considering growth opportunities worldwide	Sweden	World B2C
3 Development of the firm's competitive advantage	**3.1 Nintendo Switch** Is this the 'Blue Ocean' come-back?	Japan	World B2C
4 Customer behavior	**4.1 Spotify** The online music-streaming company is growing fast but is suffering financial imbalance	Sweden/UK	World B2B
5 Competitor analysis and intelligence	**5.1 Cereal Partners Worldwide (CPW)** The no. 2 world player is challenging the no. 1 – Kellogg	UK/Switzerland	World B2C
6 Analysing relationships in the value chain	**6.1 ARM** Challenging Intel in the world market of computer chips	UK	World B2B
7 SWOT analysis, strategic marketing planning and portfolio analysis	**7.1 William Demant** One of the world's market leaders in hearing aids is defending its position with the Oticon Brand	Denmark	World B2C/B2B
8 Segmentation, targeting, positioning and competitive strategies	**8.1 LEGO Friends** The world's third-largest toy manufacturer is moving into the girls' domain	Denmark	World B2C

9 CSR strategy and the sustainable global value chain	**9.1 YouthAIDS** Social marketing in a private, non-profit organisation	USA	World B2C/B2B
10 Establishing, developing and managing buyer–seller relationships	**10.1 Dassault Falcon** The private business jet, Falcon, is navigating in the global corporate business sector	France	World B2B
11 Product and service decisions	**11.1 Tinder** The famous dating app brand is facing increasing competition from e.g. Badoo	USA	World B2C
12 Pricing decisions	**12.1 Harley-Davidson** Is the image justifying the price level in a time of recession?	USA	World B2C
13 Distribution decisions	**13.1** Bosch Indego How to build B2B and B2C relationships in a new global product market - robotic lawnmowers	Germany	World B2C/B2B
14 Communication decisions	**14.1** Orabrush Inc. How a 'pull' B2C YouTube marketing strategy helped consumers to focus on the 'bad breath' problem	USA	World B2C
15 Organising and implementing the marketing plan	**15.1** DJI Technology Co. Ltd. A Chinese 'born global' is dominating the world market for drones with its Phantom and Marvic drones	China	World/Western Europe/USA B2C/B2B
16 Budgeting and controlling	**16.1** Huawei smartphones Expanding into the international markets for smartphones	China	World B2C/B2B

ABOUT THE AUTHOR

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Svend Hollensen
Sønderborg, Denmark
December 2018

CHAPTER 1

Introduction

CONTENTS

LEARNING OBJECTIVES

After studying this chapter you should be able to:

- describe how marketing management is placed in the overall company strategy;
- compare and discuss the differences and similarities between the traditional (transactional) marketing approach and the relationship marketing approach;
- explain the concept of SOSMAC;
- explain what implications the relationship marketing approach has on the traditional (transactional) marketing mix (the four Ps).

1.1 INTRODUCTION

In recent years, we have witnessed a steep decline in the effectiveness of traditional marketing tools (such as mass media advertising) with customers, who now actively seek ways to avoid the thousands of marketing messages they are bombarded with every day. At the same time, a dramatic shift has occurred in the way customers communicate with one another, for example in connection with the growth of social media. In response, marketing practices have moved to promote a more interactive dialogue between firms and customers, where both are actively involved in the exchange of information. Such a two-way communication approach – from here on termed **relationship marketing (RM)** – is facilitated when both entities are in regular contact with one another and the quality of communication channels between them is high. This transformation from traditional or **transactional marketing (TM)** to a focus on building and improving high-quality relationships can lead to a number of desirable marketing outcomes (Clark and Melancon, 2013).

Transactional marketing (TM): The idea that the major focus of the marketing programme (the 4 Ps) is to make customers buy. TM considers independence among marketing actors ('arm's length') to be vital for marketing efficiency.

Relationship marketing (RM): The process of creating, maintaining and enhancing strong long-term relationships with customers and other stakeholders through mutual exchange and trust. RM seeks to build a chain of relationships between the firm and its main stakeholders.

This aim of this book as a whole is to bridge the gap between the traditional, transactional marketing planning approach and the 'new' relational marketing approach. The book is structured according to the marketing management process in Figure 1.1, which is here shown as an iterative SOSMAC approach.

The planning process is iterative because we constantly have to monitor the **KPIs** in the control stage in order to see to which degree the company fulfills the objectives of key processes. If the fulfillment of a given process is too low we will have to go back to the earlier stages (boxes) and make adjustments. If the 'gap' between current performance and the objective is very big, we may even have to lower the original objectives. All the KPIs that are measured at the end of the year will then be used as input for the next year's situation analysis.

KPIs (Key Performance Indicators): KPIs are measurable values that show how effectively a company is achieving key business objectives. KPIs may be used at different levels of the company. High-level KPIs focus on the overall performance of the company, while low-level KPIs may focus on processes in departments (such as sales or customer satisfaction) or even at individual level.

1.2 THE MARKETING MANAGEMENT PROCESS

Though it is not always the case, the starting point for the marketing management process and the **marketing plan** should be the marketing strategy.

Marketing plan: A marketing plan is a written document that details the necessary actions to achieve the company's marketing objectives. It can be for a product or service, a brand or a product line. Basically, a marketing plan describes the marketing activities of a company in order to produce sales at the customer level. Marketing plans cover between one and five years. A marketing plan may be part of an overall business plan.

Marketing strategy

Although 'marketing strategy' first became a popular business buzzword during the 1960s, it continues to be the subject of widely differing definitions and interpretations. The following definition, however, captures the essence of the term:

> *A marketing strategy is a fundamental pattern of present and planned objectives, resource deployments and interactions of an organisation with markets, competitors and other environmental factors.*

This definition suggests that a strategy should specify what (objectives to be accomplished), where (on which industries and product markets to focus), and how (which resources and activities to allocate to each product/market to meet environmental opportunities and threats) in order to gain a competitive advantage.

Rather than enforcing a single comprehensive strategy, many organisations have a hierarchy of interrelated strategies, each formulated at a different level of the

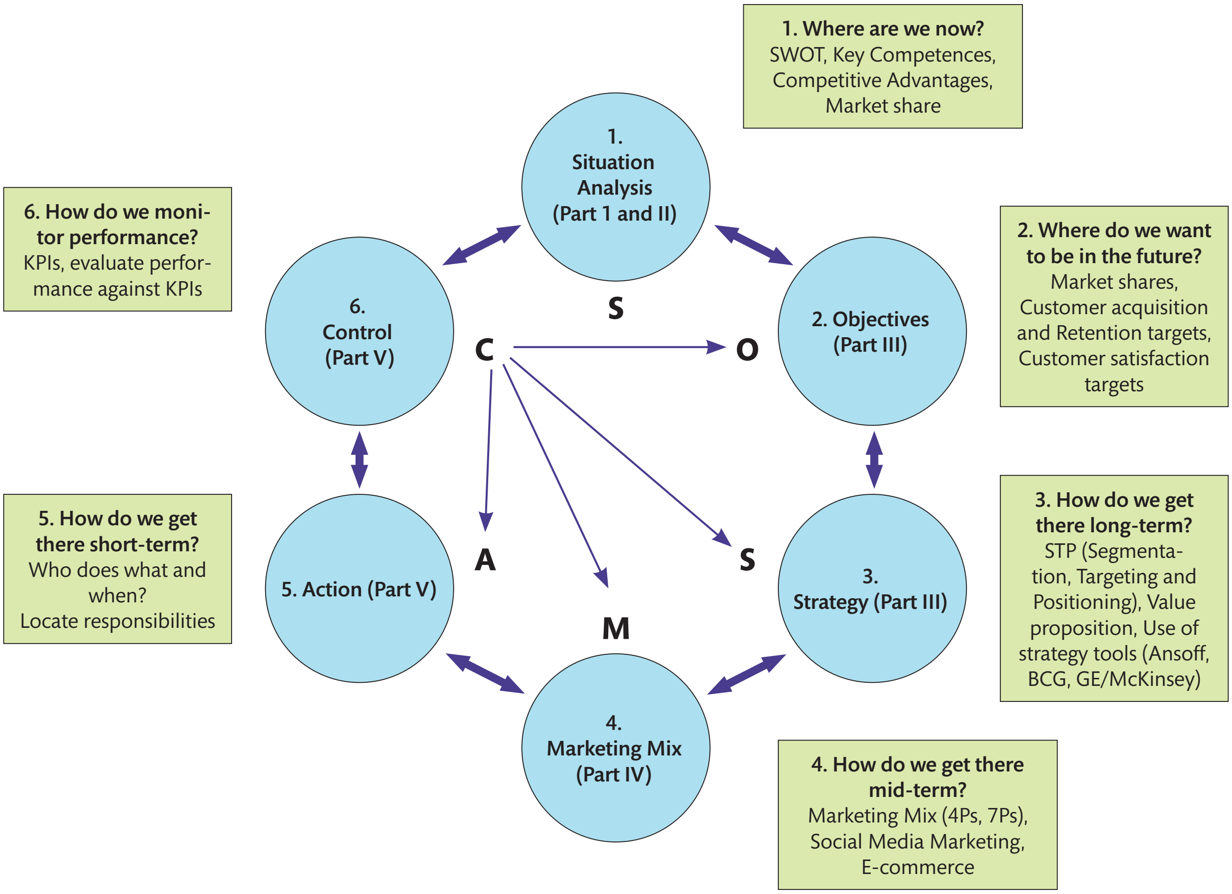

FIGURE 1.1 *The SOSMAC process*

Source: based on the *PR Smith's SOSTAC® Digital Marketing Plan*, 2e, 2016.

firm. The three major levels of strategy in most large, multi-product organisations are:

1. corporate strategy;
2. business-level strategy;
3. functional strategies, e.g. marketing strategy.

In small, single-product companies, corporate and business-level strategic issues merge. Our primary focus is on the development of marketing strategies and programmes for individual product-market entries, but other functional departments – such as R&D and production – also have strategies and plans for each of the firm's product markets. Table 1.1 summarises the specific focus and issues dealt with at each strategy level.

Mission and vision

Mission: The purpose of the company. It is what the company wants to do for its customers. The mission statement should answer who the customers are and what value (products and services) should be provided to the customers.

Objective: A desired result at some future point in time. Objective should be specific, measurable, attainable, realistic and time-specific (SMART).

The traditional strategy literature operates with a *hierarchical* definition of strategic marketing management. In this context, the terms **mission** and **objectives** have specific meanings. The corporate mission can be considered as a brief statement of the purpose of the company – what the organisation is and what it does ('Who are we?').

TABLE 1.1 Different planning levels in the company

STRATEGY COMPONENTS	CORPORATE STRATEGY	BUSINESS STRATEGY	MARKETING STRATEGY
Scope/mission	Corporate domain – which businesses should we be in?	Business domain – which product markets should we be in within this business or industry?	• Target market definition • Product-line depth and breadth • Branding policies
Strategy	Corporate development strategy • Conglomerate **diversification** (expansion into unrelated businesses) • Vertical integration • Acquisition and divestiture policies	Business development strategy Concentric (new products for existing customers or new customers for existing products)	• Product-market development plan • **Line extension** and product elimination plans
Goals and objectives	Overall corporate objectives aggregated across businesses • Revenue growth • Profitability • **Return on investment (ROI)** • Earnings per share • Contributions to other • stakeholders	Constrained by corporate goals Objectives aggregated across product-market entries in the business unit • Sales growth • New product or market growth • Profitability • ROI • Cash flow • Strengthening bases of competitive advantage	Constrained by corporate and business goals Objectives for a specific product-market entry • Sales • Market share • Contribution margin • Customer satisfaction
Allocation of resources	• Allocation among businesses in the corporate portfolio • Allocation across functions shared by multiple businesses (corporate R&D, MIS)	• Allocation among product-market entries in the business unit • Allocation across functional departments within the business unit	Allocation across components of the marketing plan (elements of the marketing mix) for a specific product-market entry
Sources of competitive advantage	Primarily through superior corporate financial or human resources; more corporate R&D; better organisational processes or synergies relative to competitors across all industries in which the firm operates	Primarily through competitive strategy; business unit's competences relative to competitors in its industry	Primarily through effective product positioning; superiority on one or more components of the marketing mix relative to competitors within a specific product market
Sources of synergy	Shared resources, technologies, or functional competences across businesses within the firm	Shared resources (including favourable customer image) or functional competences across product markets within an industry	Shared marketing resources, competences, or activities across product-market entries

Diversification: The market and product development strategy that involves expansion to a relatively large number of markets and products.

Line extension: Using a successful brand name to introduce additional items in a given product category under the same brand name, such as new flavours, forms, colours, added ingredients or package sizes.

Return on investment (ROI): A common measure of managerial effectiveness – the ratio of net profit to investment.

As an example, consider the mission statement of Coca-Cola, which sets out their mission and objectives as follows:

> *Our Roadmap starts with our mission, which is enduring. It declares our purpose as a company and serves as the standard against which we weigh our actions and decisions.*
>
> - *To refresh the world . . .*
> - *To inspire moments of optimism and happiness . . .*
> - *To create value and make a difference.*
>
> Source: www.thecoca-colacompany.com.

The mission statement may change if the company outlives the industry it started in, but it should still tie back to the core values. For example: 'Google's mission is to organise the world's information and make it universally accessible and useful.'

Ideally, the definition could cover Abell's three dimensions for defining the business: customer groups to be served, customer needs to be served and technologies to be utilised (Abell, 1980).

A vision statement is what the enterprise wants to become ('Where do we wish to go?'). The vision is a description of the company's 'desired future state'. Thus, the company may create a vision statement describing the organisation as it may be in, say, ten or more years. Note the emphasis on the future; the **vision** statement is not true today. Rather, it describes the organisation as it could become in the future.

Vision: What the company wants to become, i.e. the description of the company's desired future state.

A vision statement should build enthusiasm. It should provoke inspiration. It should stimulate people to care. It should 'rally the troops to action.' That is what President Kennedy accomplished with the vision statement he offered in early 1961. Kennedy said:

> *I believe that this nation should commit itself to achieving the goal, before this decade is out, of landing a man on the moon, and returning him safely to earth.*

Continuing with my running example in this chapter, the vision of Coca-Cola is:

> *Our vision serves as the framework for our Roadmap and guides every aspect of our business by describing what we need to accomplish in order to continue achieving sustainable, quality growth.*
>
> - *People: Be a great place to work where people are inspired to be the best they can be.*
> - *Portfolio: Bring to the world a portfolio of quality beverage brands that anticipate and satisfy people's desires and needs.*
> - *Partners: Nurture a winning network of customers and suppliers, together we create mutual, enduring value.*
> - *Planet: Be a responsible citizen that makes a difference by helping build and support sustainable communities.*
> - *Profit: Maximise long-term return to shareowners while being mindful of our overall responsibilities.*
> - *Productivity: Be a highly effective, lean and fast-moving organisation.*
>
> Source: www.thecoca-colacompany.com.

McDonald's combine their mission with a vision statement:

> *Our vision is to be the world's best 'quick service restaurant.' This means opening and running great restaurants and providing exceptional quality, service, cleanliness and value.*
>
> Source: www.mcdonalds.com.

Objectives

Objectives in the hierarchical definition of strategy are the specific performance targets that firms aspire to in each of the areas included in a firm's mission statement. It is usually not enough for a firm just to assert that it wants to be a leader in its industry or that it wants to become a major diversified company. In addition, a firm needs to specify what it means to be a leader in its industry or what being a major diversified company means. Often, objectives are stated in financial or economic terms. Thus, for one firm being a 'leader' in an industry may mean having the largest market share, but for other firms leadership might mean being the most profitable firm in the industry, having the highest-quality products, or being the most innovative. In the same way, being a major diversified company may mean unrelated diversification across a wide variety of industries for one firm and a relatively narrow product and industry focus for another.

With respect to the hierarchical definition of strategy, comparing actual behaviour with objectives is one way that managers can come to know whether or not they have fulfilled a firm's mission. With a mission and objectives in place, a firm (according to the hierarchical definition of strategy) can then turn its attention to strategies. Strategies thus become the means through which firms accomplish their objectives and mission.

Marketing plan

In most organisations, strategic planning is an annual process, typically covering just the year ahead. Occasionally, organisations may look at a practical plan that stretches three or more years ahead. To be most effective, the plan must be formalised, usually in written form, as an identifiable marketing plan.

The process of marketing management and the development of a marketing plan is no different from any other functional area of management in that it essentially comprises four key tasks: analysis, planning, implementation and control.

Analysis

The starting point of marketing management decisions is analysis. Customers, competitors, trends and changes in the environment and internal strengths and weaknesses must each be fully understood by the marketer before effective marketing plans can be established. Analysis, in turn, requires information using systematic market research and a **marketing information system (MIS)**.

Marketing information system (MIS): A system in which marketing information is formally gathered, stored, analysed and distributed to managers in accord with their informational needs on a regular, planned basis.

Big Data: The vast collection of data from traditional and digital sources (inside and outside the company). It refers to the marketer's ability to aggregate, segment and use these data sets to ensure that the right message is being delivered to the right segment of customers.

The volume of digital data accessible for the marketer is now growing at an exponential rate. The use of **Big Data** – large pools of data that can be brought together and analysed to discern patterns and make better decisions – will become the basis of competition and growth for individual companies (McAfee and Brynjolfsson, 2012; Mazzei and Noble, 2017).

For example, manufacturers will be able to analyse incoming data and, in some cases, automatically repair software damage. In the retailing sector, it will be possible to track the behaviour of individual customers from internet click streams, update the customers' preferences and model their likely behaviour in real time. When the customers are then nearing the purchase decision regarding a specific product in the store, the retailer may automatically offer a bundle of products (cross-selling), together with reward programme benefits. Another example is McDonald's, which has equipped some stores with devices that gather operational data as they track customer interactions, traffic in stores and ordering patterns. Researchers can model the impact of variations in menus, restaurants designs and training on, among other things, sales and profitability.

Planning

The second task of the manager is the planning process. The marketing manager must plan both long-term marketing direction for the organisation (strategic planning), including, for example, the selection of target markets, and the marketing programmes and tactics that will be used to support these strategic plans.

Implementation

Both strategic and tactical plans must, of course, be acted upon if they are to have any effect. The implementation tasks of marketing management involve such activities as staffing, allocating tasks and responsibilities, budgeting and securing any financial and other resources needed to carry out the plans. Actions include activities such as placing an advert in the right media, delivering products, carrying out customer surveys and so on.

Control

Control: The process by which managers ensure that planned activities are completely and properly executed.

Effectiveness: Doing the right thing – making the correct strategic choice.

Marketing audit: An analysis and evaluation of the internal and external marketing environment of the company.

The fourth, and sometimes neglected, task of the manager is measuring and evaluating progress against objectives and targets established in plans. **Control** of marketing plans can be problematical, with difficulties associated with both measuring marketing performance and pinpointing cause and effect. For example, market share – a frequently used measure of marketing performance and hence a basis for marketing control – needs very careful analysis and interpretation if it is to provide a useful basis for controlling the **effectiveness** of marketing strategies and plans. Both qualitative and quantitative techniques of control should be used by the marketing manager and include budgetary control, control of marketing mix effectiveness and, from time to time, a full **marketing audit**.

In the following section, the strengths and weaknesses of the hierarchical approach to marketing planning will be highlighted.

Strengths of the hierarchical approach to marketing planning

The hierarchical approach has three important strengths. First, it emphasises the link between strategy and performance. Virtually all strategic management researchers – and most practising managers – are interested in the relationship between the actions taken by a firm and a firm's performance. The hierarchical definition provides explicit criteria for judging the performance quality of a firm's strategies – good strategies enable an organisation to reach its objectives and fulfil its mission; bad strategies make it more difficult for a firm to reach its objectives and fulfil its mission.

Second, this hierarchical definition focuses on the multiple levels of analysis that are important in formulating and implementing strategies. These levels of analysis vary in their degree of abstraction. Company missions are very abstract concepts. They specify what a firm wants to become but say little about how a firm will get to where it wants to go. Objectives translate missions into specific goals and targets and thus are less abstract. Strategies specify which actions firms will take to meet their objectives. Plans (the least abstract concept) focus on specific actions that need to be taken to implement strategies.

By emphasising the multiple levels of analysis in the strategic management process, hierarchical definitions appropriately emphasise the need in organisations to gather information, ideas, and suggestions from all parts of the firm in order to formulate effective strategies. In this conception of strategy, each part of a firm plays an important role. Senior managers specialise in establishing missions and objectives, divisional managers specialise in strategy formulation, and functional managers focus their efforts on tactics. No one of these tasks is more important than any other. Missions and objectives will never be achieved without strategies and tactics. Strategies without missions and objectives will be unfocused. Strategies without tactics are usually not implemented. And plans without strategies or missions are not likely to improve a firm's performance.

A third strength of the hierarchical definition is that it emphasises the fact that strategy, in order to have an impact on performance, cannot remain simply an idea in an organisation. Rather, it must be translated, through resource allocation, into action. An organisation's mission is often a statement of an idea, or a manifestation of the values, of top management. However, by itself a mission statement is likely to have little impact on a firm's performance. Rather, this mission statement must be linked with objectives, strategies and tactics. In choosing objectives, strategies and tactics, managers must make tough decisions, set priorities and allocate resources. Firms that translate their mission into actions increase the probability that they will improve their performance (McGuire et al., 2012).

Weaknesses of the hierarchical approach to marketing planning

The most important weaknesses of the hierarchical approach are as follows. First, it has a very underdeveloped notion of the external competitive environment's impact on strategy formulation and implementation. Mission statements summarise where the senior management want an organisation to be in the long run, but the development of these statements is encouraged to focus inward. In choosing a mission, senior managers are encouraged to look inward, evaluating their own personal priorities and values. Certainly, this kind of analysis is an important step in developing a firm's mission.

Indeed, part of this book is devoted to this kind of internal analysis. Such an analysis, however, must be linked with the external analysis (Part II) in order for firms to choose missions, objectives, strategies and thus marketing plans that will add value to the firm.

A second weakness of the hierarchical definition is that it tends to focus, almost exclusively, on formal, routine, bureaucratic strategy-making processes. In this definition, strategic choices are made through systematic study and analysis. These analyses result in coherent, self-reinforcing sets of strategies that, taken together, lead a firm to reach its objectives and mission. There is little doubt that many organisations choose at least some of their strategies in this logical and systematic way. An enormous amount of research on formal strategic planning suggests that more and more firms are adopting explicit and formal planning systems to choose their strategies. The hierarchical definitions presented in Figure 1.1 tend to emphasise this formal, systematic aspect of choosing and implementing strategies.

Yet not all strategies are chosen in this way. Small and medium-sized enterprises **(SMEs)** choose strategies by discovering an unanticipated opportunity and exploiting that opportunity to improve performance, resulting in 'emerging strategies' (Mintzberg, 1987; Mintzberg and Waters, 1985). Firms also choose strategies 'retroactively' – that is, they engage in certain kinds of behaviour over time, and then, only after that pattern of behaviour is in existence, senior managers label these actions as a coherent or consistent strategy. Some firms stumble into their strategy by chance. All these are ways that firms can choose strategies, yet none of them is consistent with the formal, systematic strategic management process presented in Figure 1.1.

SMEs: Small and medium-sized enterprises. In the EU, SMEs are characterised as having 250 employees or less; they comprise approximately 99 per cent of all firms.

A third weakness of hierarchical approaches to defining strategy and strategic management is that, despite their apparent rigour and clarity, they often fail to give significant guidance to managers when they are applied in real organisations. There are literally thousands of objectives that an organisation could choose to support any given mission statement. Which objectives a firm should choose, which should be given priority and which should be ignored are questions that must be answered logically and with ideas that are not provided in the hierarchical definition. Moreover, there may be thousands of different strategies that firms could choose to support any given set of objectives. Which particular strategies a firm should choose goes beyond the hierarchical model.

1.3 THE TRADITIONAL (TRANSACTIONAL) MARKETING (TM) CONCEPT VERSUS THE RELATIONSHIP MARKETING (RM) CONCEPT

The traditional (transactional) marketing concept

The American Marketing Association (AMA) – an international organisation of practitioners and academicians – defines marketing as follows:

> *Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives.*

This definition describes what the traditional (transactional) marketing concept is: the conception, pricing, promotion and distribution of ideas, goods, and services. Moreover, the definition implies a list of activities for the marketer to undertake: the planning and execution of these four elements of competition so that individual and organisational objectives are satisfied.

Another characteristic of transactional marketing is the belief that independence of choice among marketing players provides a more efficient system for creating and distributing marketing value. Maintaining an arm's length relationship is considered vital for marketing efficiency. Industrial organisations and government policy makers believe that independence of marketing players provides each player freedom to choose his/her transactional partners on the basis of preserving their own self-interests at each decision point. This results in the **efficiency** of lowest-cost purchases through bargaining and bidding.

Efficiency: A way of managing business processes to a high standard, usually concerned with cost reduction.

The so-called **4Ps** are the epitome of what should be done and are also known as the 'marketing mix'. This transactional, micro-economic, and teacher-friendly marketing framework is straightforward to understand and use. Indeed, in the 1950s and 1960s the 4Ps approach proved very successful. In the USA, this was the era of mass manufacturing and **mass marketing** of packaged consumer goods and, because of that, marketing was often more about attracting than retaining customers.

4Ps: The basic elements of the marketing mix: product, place (distribution), price and promotion; also called the controllable variables of marketing, because they can be controlled and manipulated by the marketer.

Mass marketing: One-to-many communications between a company and potential customers with limited tailoring of the message.

The model of transaction marketing (as in the 4Ps) rests on three assumptions:

1. there is a large number of potential customers;
2. the customers and their needs are fairly homogeneous;
3. it is rather easy to replace lost customers with new customers.

Looking at today's markets and certainly when moving from consumer markets to industrial and service markets, this approach may not be appropriate.

The relationship marketing (RM) concept

According to the traditional (transactional) marketing concept, the major focus of marketing programmes has been to make customers buy, regardless of whether they are existing or new customers. Often only a small part of the marketing budget has explicitly been allocated directly towards existing customers.

Since the 1980s, academics have been questioning this approach to marketing (for example, Grönroos, 1996 and 2006 and Gummesson, 1999). They argue that