



# MARKETING AND MANAGEMENT: Defined, Explained and Applied



Compiled by Malliga Marimuthu

# MARKETING AND MANAGEMENT: DEFINED, EXPLAINED AND APPLIED



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# Brief contents

<b>Session 1</b>	<b>Introduction to marketing and sustainable marketing</b>	<b>1</b>
	1 Marketing: Creating and capturing customer value	2
	2 Sustainable marketing: Social responsibility, ethics and legal compliance	36
<b>Session 2</b>	<b>Understanding the marketplace and buyer behaviour</b>	<b>67</b>
	3 The marketplace and customers: Analysing the environment	68
	4 Buyer behaviour: Understanding consumer and business buyers	102
<b>Session 3</b>	<b>Marketing analytics</b>	<b>139</b>
	5 Marketing analytics: Gaining customer insights	140
<b>Session 4</b>	<b>Products and services</b>	<b>175</b>
	6 Customer-driven marketing strategy: Creating value for target customers	176
	7 Products, services and brands: Offering customer value	204
	8 New products: Developing and managing innovation	228
<b>Session 5</b>	<b>Price and placement</b>	<b>251</b>
	9 Pricing: Capturing customer value	252
	10 Placement: Customer value fulfilment	276
<b>Session 6</b>	<b>Integrated marketing communication</b>	<b>319</b>
	11 Communicating customer value: Advertising and public relations	320
	12 Salespeople and sales promotion: Creating value in relationships	344
	13 Direct and digital marketing: Interactivity and fulfilment	370
<b>Session 7</b>	<b>Managers, management and managerial sustainable responsibilities</b>	<b>393</b>
	14 Managers and management	394
	History Module: A brief history of management's roots	416
	15 The managerial environment	424
	Ethics and Social Responsibility Module: Managing socially responsible and ethical behaviour	442
<b>Session 8</b>	<b>Managing the business</b>	<b>453</b>
	16 Foundations of planning	454
	17 Foundations of decision making	470

<b>Session 9</b>	<b>Managing the organisation and individual</b>	<b>489</b>
18	Organisational structure and design	490
19	Foundations of individual behaviour	520
<b>Session 10</b>	<b>Managing people</b>	<b>553</b>
20	Managing human resources	554
21	Motivating and rewarding employees	582
<b>Session 11</b>	<b>Leading and managing groups</b>	<b>603</b>
22	Leadership and trust	604
23	Understanding groups and managing work teams	630
<b>Session 12</b>	<b>Control and change management</b>	<b>655</b>
24	Foundations of control	656
25	Managing change and innovation	680
	Entrepreneurship Module: Managing entrepreneurial ventures	706
<b>Appendix 1</b>	Case studies	719
<b>Appendix 2</b>	The marketing plan: An introduction	732
<b>Appendix 3</b>	Marketing analytics spotlights	740
<b>Appendix 4</b>	Careers in marketing	764
<b>Glossary</b>		770
<b>Index</b>		790

# Contents

<b>Session 1</b>	<b>Introduction to marketing and sustainable marketing</b>	<b>1</b>		
<b>Chapter 1</b>	<b>Marketing: Creating and capturing customer value</b>	<b>2</b>		
	Learning Objectives	2		
	Concept map	3		
	<b>What is marketing?</b>	<b>4</b>		
	Marketing defined	4		
	The marketing process	4		
	<b>Understanding the marketplace and customer needs</b>	<b>5</b>		
	Customer needs, wants and demands	5		
	Market offerings: Goods, services and experiences	6		
	Customer value and satisfaction	7		
	Exchanges, transactions and relationships	8		
	Markets	8		
	<b>Designing a customer-driven marketing strategy</b>	<b>9</b>		
	Selecting customers to serve	9		
	Choosing a value proposition	10		
	Marketing management orientations	11		
	<b>Preparing an integrated marketing plan and program</b>	<b>13</b>		
	<b>Engaging customers and managing customer relationships</b>	<b>15</b>		
	Customer relationship management	15		
	Engaging customers	16		
	Consumer-generated marketing	17		
	Partner relationship management	18		
	<b>Capturing value from customers</b>	<b>18</b>		
	Creating customer loyalty and retention	18		
	Growing share of customer	19		
	Building customer equity	20		
	Building the right relationship with the right customers	20		
	<b>The changing marketing landscape</b>	<b>21</b>		
	The digital age: Online, mobile and social media marketing	21		
	The challenging world economy	23		
	Measuring marketing's contribution to organisational performance	24		
	<b>Marketing in Action 1.1</b>	<b>5</b>		
	Are marketers really that 'lousy at selling marketing'?	5		
	The growth of not-for-profit marketing	6		
	Rapid globalisation	7		
	Sustainable marketing: The call for more environmental and social responsibility	8		
	<b>So, what is marketing? Pulling it all together</b>	<b>9</b>		
	<b>Student Learning Centre</b>			
	• Reviewing the learning objectives		31	
	• Discussion questions		32	
	• Critical thinking exercises		32	
	• Mini cases		33	
	1.1 Digital technologies in marketing		33	
	1.2 Customer-driven marketing strategy		33	
	1.3 Marketing analytics at work		34	
	1.4 Ethical reflection		34	
	• References		34	

## Chapter 2

### Sustainable marketing: Social responsibility, ethics and legal compliance

Learning Objectives 36

Concept map 37

**Sustainable marketing 38**

**Social criticisms of marketing 39**

Marketing's impact on individual customers 39

Marketing's impact on society as a whole 42

Marketing's impact on other businesses 44

**Consumer actions to promote sustainable marketing 45**

Consumerism 45

Environmentalism 46

Public actions to regulate marketing 49

**Business actions towards sustainable marketing 49**

Sustainable marketing principles 49

#### Marketing in Action 2.1

Peoples Coffee: Making a difference, one cup at a time 52

**The role of ethics in marketing 53**

Marketing ethics 53

The sustainable company 56

**Legal compliance in marketing 56**

Putting a compliance program in place 56

Legal education 57

Coverage of a legal compliance program 58

#### Student Learning Centre

• Reviewing the learning objectives 63

• Discussion questions 63

• Critical thinking exercises 64

• Mini cases 64

2.1 Consumerism 64

2.2 Role of ethics in marketing 64

2.3 Marketing analytics at work 65

2.4 Ethical reflection 65

• References 66

## Session 2 Understanding the marketplace and buyer behaviour 67

**36 Chapter 3**

**36 The marketplace and customers: Analysing the environment 68**

Learning Objectives 68

Concept map 69

**The marketing environment 70**

**The company's microenvironment 70**

The company 70

Suppliers 71

Marketing intermediaries 71

Competitors 72

Publics 72

Customers 73

**The company's macroenvironment 74**

Demographic environment 74

Economic environment 81

Natural environment 82

Technological environment 84

**Marketing in Action 3.1**

The quite real virtual experience 85

Political and social environment 86

Cultural environment 88

**Responding to the marketing environment 91**

**Managing the marketing effort 92**

Marketing analysis 92

Marketing planning 93

Marketing implementation 93

Marketing department organisation 95

Marketing control 96

**Student Learning Centre**

• Reviewing the learning objectives 97

• Discussion questions 97

• Critical thinking exercises 98

• Mini cases 98

3.1 Microeconomic environment 98

3.2 Technological environment 99

3.3 Marketing analytics at work 99

3.4 Ethical reflection 100

• References 100

<b>Chapter 4</b>	
<b>Buyer behaviour: Understanding consumer and business buyers</b>	<b>102</b>
Learning Objectives	102
Concept map	103
<b>Consumer markets and consumer buyer behaviour</b>	<b>104</b>
Model of consumer behaviour	104
Characteristics affecting consumer behaviour	105
<b>Marketing in Action 4.1</b>	
Consumer behaviour: A whole life story	111
<b>The buyer decision process</b>	<b>117</b>
Stages in the buyer decision process	117
<b>The buyer decision process for new products</b>	<b>120</b>
Stages in the adoption process	120
Individual differences in innovativeness	121
Influence of product characteristics on rate of adoption	121
<b>Business markets and business buyer behaviour</b>	<b>122</b>
Business markets	123
Business buyer behaviour	125
<b>The business buying process</b>	<b>128</b>
<b>E-procurement: Buying on the internet</b>	<b>131</b>
<b>Business-to-business digital and social media marketing</b>	<b>132</b>
<b>Student Learning Centre</b>	
• Reviewing the learning objectives	133
• Discussion questions	133
• Critical thinking exercises	134
• Mini cases	135
<b>4.1</b> Consumer behaviour	135
<b>4.2</b> Business buyer behaviour	135
<b>4.3</b> Marketing analytics at work	135
<b>4.4</b> Ethical reflection	136
• References	136
<b>Session 3 Marketing analytics</b>	<b>139</b>
<b>Chapter 5 Marketing analytics: Gaining customer insights</b>	<b>140</b>
Learning Objectives	140
Concept map	141
<b>Marketing information and customer insights</b>	<b>142</b>
Marketing information and today's 'big data'	142
Marketing analytics	143
Managing marketing information	143
<b>Marketing in Action 5.1</b>	
Netflix streams success with big data and marketing analytics	144
<b>Assessing marketing information needs</b>	<b>146</b>
<b>Developing marketing information</b>	<b>147</b>
Internal data	147
Competitive marketing intelligence	148
<b>Marketing research</b>	<b>149</b>
Defining the problem and research objectives	150
Developing the research plan	150
Primary data collection	153
Implementing the research plan	162
Interpreting and reporting the findings	162
<b>Customer database use in direct and digital marketing</b>	<b>163</b>
Customer database defined	163
Database use in direct and digital marketing	164
<b>Analysing and using marketing information</b>	<b>167</b>
Customer relationship management	167
Distributing and using marketing information	168
<b>Student Learning Centre</b>	
• Reviewing the learning objectives	170
• Discussion questions	171
• Critical thinking exercises	171
• Mini cases	171
<b>5.1</b> Gathering data	171
<b>5.2</b> Customer insights	172



5.3 Marketing analytics at work	172	<b>What is a product?</b>	<b>206</b>
5.4 Ethical reflection	173	Products, services and experiences	206
• References	173	Levels of products and services	207
		Product and service classifications	208
<b>Session 4 Products and services</b>	<b>175</b>	<b>Product and service decisions</b>	<b>211</b>
<b>Chapter 6</b>		Individual product and service decisions	211
<b>Customer-driven marketing strategy: Creating value for target customers</b>	<b>176</b>	<b>Marketing in Action 7.1</b>	
Learning Objectives	176	Headspace and the unsought product	212
Concept map	177	Product line decisions	217
<b>Customer-driven marketing strategy</b>	<b>178</b>	Product mix decisions	218
<b>Market segmentation</b>	<b>179</b>	<b>Services marketing</b>	<b>219</b>
Segmenting consumer markets	179	Nature and characteristics of a service	219
<b>Marketing in Action 6.1</b>		Marketing strategies for service firms	220
ALDI: Offering a 'same-for-less' value proposition	182	The service–profit chain	221
<b>Market targeting</b>	<b>186</b>	Managing service differentiation	222
Evaluating market segments	186	<b>Student Learning Centre</b>	
Selecting target market segments	187	• Reviewing the learning objectives	224
Socially responsible target marketing	190	• Discussion questions	224
<b>Differentiation and positioning</b>	<b>192</b>	• Critical thinking exercises	225
Positioning maps	192	• Mini cases	225
Choosing a differentiation and positioning strategy	192	7.1 Industrial products	225
Communicating and delivering the chosen position	198	7.2 Packaging	225
<b>Student Learning Centre</b>		7.3 Ethical reflection	226
• Reviewing the learning objectives	199	• References	226
• Discussion questions	199	<b>Chapter 8</b>	
• Critical thinking exercises	200	<b>New products: Developing and managing innovation</b>	<b>228</b>
• Mini cases	200	Learning Objectives	228
6.1 Target marketing	200	Concept map	229
6.2 Differentiation	201	<b>New-product development strategy</b>	<b>230</b>
6.3 Marketing analytics at work	202	<b>The new-product development process</b>	<b>230</b>
6.4 Ethical reflection	202	Idea generation	230
• References	203	Idea screening	232
		Concept development and testing	233
<b>Chapter 7</b>		Marketing strategy development	234
<b>Products, services and brands: Offering customer value</b>	<b>204</b>	Business analysis	235
Learning Objectives	204	Product development	235
Concept map	205	Test marketing	236
		Commercialisation	236
		<b>Managing new-product development</b>	<b>237</b>
		Customer-centred new-product development	237

Team-based new-product development	238	Psychological pricing	264
Systematic new-product development	238	Promotional pricing	265
<b>Product life-cycle strategies</b>	<b>239</b>	<b>Marketing in Action 9.1</b>	
<b>Marketing in Action 8.1</b>		Pricing cues are customer clues	266
Mattel: Managing the fun and games	240	Geographical pricing	268
Introduction stage	242	Dynamic and online pricing	269
Growth stage	243	International pricing	270
Maturity stage	243	<b>Student Learning Centre</b>	
Decline stage	244	• Reviewing the learning objectives	272
<b>Student Learning Centre</b>		• Discussion questions	272
• Reviewing the learning objectives	246	• Critical thinking exercises	273
• Discussion questions	246	• Mini cases	273
• Critical thinking exercises	247	9.1 Online price tracking	273
• Mini cases	247	9.2 Rebates under the microscope	273
8.1 Innovation	247	9.3 Marketing analytics at work	274
8.2 New-product development	247	9.4 Ethical reflection	274
8.3 Marketing analytics at work	248	• References	275
8.4 Ethical reflection	248		
• References	248	<b>Chapter 10</b>	
		<b>Placement: Customer value fulfilment</b>	<b>276</b>
<b>Session 5 Price and placement</b>	<b>251</b>	Learning Objectives	276
<b>Chapter 9</b>		Concept map	277
<b>Pricing: Capturing customer value</b>	<b>252</b>	<b>Supply chains and the value delivery network</b>	<b>278</b>
Learning Objectives	252	Supply chain goals	281
Concept map	253	Major supply chain functions	283
<b>What is a price?</b>	<b>254</b>	<b>The nature of marketing channels and value creation</b>	<b>286</b>
<b>Major pricing strategies</b>	<b>254</b>	How marketing channels add value	287
Customer value-based pricing	255	Number of channel levels	288
Cost-based pricing	257	Channels in the service sector	290
Competition-based pricing	259	<b>Channel behaviour and organisation</b>	<b>290</b>
<b>New-product pricing strategies</b>	<b>260</b>	Channel behaviour	290
Market-skimming pricing	260	Channel organisation	291
Market-penetration pricing	260	<b>Marketing in Action 10.1</b>	
<b>Product-mix pricing strategies</b>	<b>261</b>	Multichannel services marketing	296
Product-line pricing	261	<b>Channel design and management decisions</b>	<b>297</b>
Optional-product pricing	262	Analysing consumer needs	298
Captive-product pricing	262	Setting channel objectives	298
By-product pricing	263	Identifying major channel alternatives	298
Product-bundle pricing	263	Evaluating the major alternatives	299
<b>Price-adjustment strategies</b>	<b>263</b>	Channel management decisions	299
Discount and allowance pricing	263		
Segmented pricing	264		



<b>Retailing</b>	<b>300</b>	<b>Student Learning Centre</b>	
Retailing: Connecting brands with consumers	300	• Reviewing the learning objectives	339
Types of retailers	300	• Discussion questions	339
<b>Wholesaling</b>	<b>307</b>	• Critical thinking exercises	340
Types of wholesalers	307	• Mini cases	341
Wholesaler marketing decisions	309	<b>11.1</b> Integrated marketing communication	341
Wholesaling trends and developments	311	<b>11.2</b> Public relations	341
<b>Student Learning Centre</b>		<b>11.3</b> Marketing analytics at work	342
• Reviewing the learning objectives	312	<b>11.4</b> Ethical reflection	342
• Discussion questions	313	• References	342
• Critical thinking exercises	313		
• Mini cases	314	<b>Chapter 12</b>	
<b>10.1</b> Corporate VMN	314	<b>Salespeople and sales promotion: Creating value in relationships</b>	<b>344</b>
<b>10.2</b> Multichannel distribution networks	315	Learning Objectives	344
<b>10.3</b> Marketing analytics at work	315	Concept map	345
<b>10.4</b> Ethical reflection	316	<b>Personal selling</b>	<b>346</b>
• References	317	The nature of personal selling	346
		The role of the salesforce	347
<b>Session 6 Integrated marketing communication</b>	<b>319</b>	<b>Managing the salesforce</b>	<b>348</b>
<b>Chapter 11</b>		Designing salesforce strategy and structure	348
<b>Communicating customer value: Advertising and public relations</b>	<b>320</b>	Recruiting and selecting salespeople	352
Learning Objectives	320	Training salespeople	353
Concept map	321	Compensating salespeople	354
<b>The promotion mix</b>	<b>322</b>	Supervising and motivating salespeople	354
<b>Integrated marketing communications</b>	<b>322</b>	<b>Marketing in Action 12.1</b>	
The new marketing communications model	322	Social selling: Who needs salespeople?	357
The need for <i>integrated</i> marketing communications	324	Evaluating salespeople and salesforce performance	358
<b>Marketing in Action 11.1</b>		<b>Sales promotion</b>	<b>359</b>
It's content marketing, not advertising	325	Rapid growth of sales promotion	359
<b>Shaping the overall promotion mix</b>	<b>326</b>	Sales promotion objectives	360
The nature of each promotion tool	327	Major sales promotion tools	360
Promotion mix strategies	328	Developing the sales promotion program	363
<b>Advertising</b>	<b>329</b>	<b>Student Learning Centre</b>	
Setting advertising objectives	330	• Reviewing the learning objectives	365
Setting the advertising budget	332	• Discussion questions	365
Other advertising considerations	333	• Critical thinking exercises	366
<b>Public relations</b>	<b>335</b>	• Mini cases	366
The role and impact of public relations	336	<b>12.1</b> Supervising salespeople	366
The main public relations tools	337	<b>12.2</b> Sales promotion	367

12.3 Marketing analytics at work	367	<b>Session 7</b> Managers, management and managerial sustainable responsibilities	<b>393</b>
12.4 Ethical reflection	368		
• References	369		
<b>Chapter 13</b>		<b>Chapter 14</b>	
<b>Direct and digital marketing: Interactivity and fulfilment</b>	<b>370</b>	<b>Managers and management</b>	<b>394</b>
Learning Objectives	370	Learning objectives	394
Concept map	371	Concept map	395
<b>The direct and digital marketing model</b>	<b>372</b>	<b>Who are managers, and where do they work?</b>	<b>396</b>
Direct and digital marketing	372	What four characteristics do all organisations share?	396
<b>Benefits of direct and digital marketing to buyers and sellers</b>	<b>374</b>	How are managers different from non-managerial employees?	397
<b>Direct marketing</b>	<b>375</b>	What titles do managers have?	397
Direct print and reproduction	375	<b>What is management?</b>	<b>399</b>
Direct-response television and radio	375	<b>What do managers do?</b>	<b>400</b>
Telemarketing	375	What are the four management functions?	400
Kiosks and electronic dispensing	376	What are management roles?	401
<b>Digital marketing</b>	<b>377</b>	What characteristics do managers need?	402
Interacting in digital marketing	377	Is the manager's job universal?	403
Search-engine optimised websites	377	<b>Why study management?</b>	<b>406</b>
<b>Marketing in Action 13.1</b>		<b>What factors are reshaping and redefining management?</b>	<b>406</b>
Search engine marketing: Three reasons why search engines exist	379	Why are customers important to the manager's job?	407
Search engine marketing	381	Why is innovation important to the manager's job?	407
Online advertising	382	Why are ethics and social responsibility important to the manager's job?	408
Email	383	Why are social media tools important to the manager's job?	408
<b>Social media marketing</b>	<b>384</b>	Why is sustainability important to the manager's job?	408
<b>Other forms of online interaction</b>	<b>385</b>	<b>Student Learning Centre</b>	
<b>Interactivity</b>	<b>386</b>	• Reviewing the learning objectives	411
Customer-to-customer interaction	386	• Discussion questions	411
Customer-to-company interaction	387	• Management Skill Builder   Becoming politically adept	411
<b>Student Learning Centre</b>		• Mini cases	413
• Reviewing the learning objectives	388	14.1 Google: Building a better boss	413
• Discussion questions	388	14.2 Managing to create a better world	414
• Critical thinking exercises	388	• References	414
• Mini cases	389		
13.1 Location-based marketing	389		
13.2 Direct and digital marketing	389		
13.3 Marketing analytics at work	390		
13.4 Ethical reflection	390		
• References	391		

## History Module

### A brief history of management's roots 416

#### Learning objectives 416

- Early management (3000 BCE–1776) 417
- Behavioural approach (late 1700s–1950s) 418
- Classical approaches (1911–1947) 419
- Quantitative approach (1940s–1950s) 420
- Contemporary approaches (1960s–present) 421
- Choosing between management approaches 422
- References 423

## Chapter 15

### The managerial environment 424

#### Learning objectives 424

#### Concept map 425

#### What is the external environment of an organisation? 426

- What is the general environment of an organisation? 426
- What is the specific environment of an organisation? 429

#### How does the external environment affect managers? 432

#### What is organisational culture, and why is it important? 434

#### How does organisational culture affect managers? 435

#### Student Learning Centre

- Reviewing the learning objectives 437
- Discussion questions 437
- Management Skill Builder | Understanding Culture 438
- Mini cases 439
  - 15.1 Tragedy in fashion 439
  - 15.2 Getting a boost 439
- References 440

## Ethics and Social Responsibility Module

### Managing socially responsible and ethical behaviour 442

#### Learning objectives 442

#### How do organisations define their social responsibilities? 443

#### Should organisations be socially responsible? 443

#### How can managers identify the ethical thing to do? 444

- Ethical perspectives 445

#### What factors influence ethical and unethical behaviour? 446

#### How can managers encourage ethical behaviour? 447

- Codes of ethics 447
- Ethical leadership 448
- Ethics training 448
- Formal protective mechanisms 449
- References 451

## Session 8 Managing the business 453

### Chapter 16 Foundations of planning 454

#### Learning objectives 454

#### Concept map 455

#### What is planning, and why do managers need to plan? 456

- Why should managers formally plan? 456
- What are some criticisms of formal planning, and how should managers respond? 457
- Does formal planning improve organisational performance? 458

#### What do managers need to know about strategic management? 459

- What is strategic management? 459
- Why is strategic management important? 459
- What are the steps in the strategic management process? 459

#### What contemporary planning issues do managers face? 463

- How can managers plan effectively in dynamic environments? 463
- How can managers use environmental scanning? 463
- How can managers use benchmarking? 464

#### Student Learning Centre

- Reviewing the learning objectives 465

• Discussion questions	465	<b>Session 9</b>	<b>Managing the organisation and individual</b>	<b>489</b>
• Management Skill Builder   Being a good goal setter	466	<b>Chapter 18</b>	<b>Organisational structure and design</b>	<b>490</b>
• Mini cases	467	Learning objectives		490
16.1 Less is more	467	Concept map		491
16.2 Spy games	467	<b>What are the six key elements in organisational design?</b>		<b>492</b>
• References	468	What is work specialisation?		492
<b>Chapter 17</b>		What is departmentalisation?		493
<b>Foundations of decision making</b>	<b>470</b>	What are authority and responsibility?		495
Learning objectives	470	What is span of control?		499
Concept map	471	<b>A question of ethics</b>		<b>500</b>
<b>How do managers make decisions?</b>	<b>472</b>	How do centralisation and decentralisation differ?		500
What defines a decision problem?	472	What is formalisation?		501
What is relevant in the decision-making process?	472	<b>How is a mechanistic organisation different from an organic organisation?</b>		<b>501</b>
How does the decision maker weight the criteria and analyse alternatives?	473	<b>What are some common organisational designs?</b>		<b>503</b>
What determines the best choice?	475	What traditional organisational designs can managers use?		503
What happens in decision implementation?	475	What contemporary organisational designs can managers use?		505
What is the last step in the decision process?	475	<b>What are today's organisational design challenges?</b>		<b>508</b>
What common errors are committed in the decision-making process?	475	How do you keep employees connected?		508
<b>How do groups make decisions?</b>	<b>477</b>	How do you delegate effectively?		508
What are the advantages and disadvantages of group decision making?	477	How do global differences affect organisational structure?		510
When are groups most effective?	479	How do you build a learning organisation?		511
How can you improve group decision making?	479	How can managers design efficient and effective flexible work arrangements?		512
<b>What contemporary decision-making issues do managers face?</b>	<b>480</b>	<b>Student Learning Centre</b>		
How does national culture affect managers' decision making?	480	• Reviewing the learning objectives		514
Why are creativity and design thinking important in decision making?	481	• Discussion questions		514
<b>Student Learning Centre</b>		• Management Skill Builder   Increasing your power		515
• Reviewing the learning objectives	484	• Mini cases		516
• Discussion questions	484	18.1 Structural renewal at the Australian Red Cross		516
• Management Skill Builder   Being a creative decision maker	485	18.2 Shortening the corporate ladder		517
• Mini cases	486	• References		518
17.1 Going greener	486			
17.2 Dramatic decisions	486			
• References	487			

<b>Chapter 19</b>			
<b>Foundations of individual behaviour</b>	<b>520</b>	<b>What contemporary OB issues do managers face?</b>	<b>540</b>
Learning objectives	520	How do generational differences affect the workplace?	540
Concept map	521	How do ability, disability and mental health affect the workplace?	541
<b>What are the focus and goals of organisational behaviour?</b>	<b>522</b>	How do managers deal with bullying in the workplace?	543
What is the focus of OB?	522	<b>Student Learning Centre</b>	
What are the goals of organisational behaviour?	522	• Reviewing the learning objectives	545
<b>What role do attitudes play in job performance?</b>	<b>523</b>	• Discussion questions	546
What are the three components of an attitude?	523	• Management Skill Builder   Understanding employee emotions	546
What attitudes might employees hold?	524	• Mini cases	547
Do individuals' attitudes and behaviours need to be consistent?	525	19.1 Troubling texts	547
What is cognitive dissonance theory?	525	19.2 A fighting chance at a fair go	548
How can an understanding of attitudes help managers be more effective?	526	• References	548
<b>What do managers need to know about personality?</b>	<b>527</b>	<b>Session 10 Managing people</b>	<b>553</b>
How can we best describe personality?	527	<b>Chapter 20</b>	
Can personality traits predict practical work-related behaviours?	530	<b>Managing human resources</b>	<b>554</b>
How do we match personalities and jobs?	531	Learning objectives	554
Do personality attributes differ across cultures?	532	Concept map	555
How can an understanding of personality help managers be more effective?	533	<b>What is the human resource management process, and what influences it?</b>	<b>556</b>
<b>What is perception, and what factors influence it?</b>	<b>533</b>	What is the legal environment of HRM?	557
What influences perception?	534	<b>How do managers identify and select competent employees?</b>	<b>559</b>
How do managers judge employees?	534	What is employment planning?	559
How can an understanding of perception help managers be more effective?	537	How do managers reduce their workforce?	561
<b>How do learning theories explain behaviour?</b>	<b>538</b>	How do organisations recruit employees?	561
What is operant conditioning?	538	How do managers select job applicants?	562
What is social learning theory?	539	<b>How are employees provided with needed skills and knowledge?</b>	<b>566</b>
How can managers shape behaviour?	539	How are new employees introduced to the organisation?	567
How can an understanding of learning help managers be more effective?	540	What is employee training?	567
		<b>How do organisations provide a safe working environment?</b>	<b>570</b>
		<b>What contemporary HRM issues do managers face?</b>	<b>571</b>
		How can managers manage downsizing?	571
		How can workforce diversity be managed?	572
		What is sexual harassment?	573

What is career development?	574		
<b>Student Learning Centre</b>			
• Reviewing the learning objectives	576		
• Discussion questions	576		
• Management Skill Builder   Providing good feedback	577		
• Mini cases	578		
<b>20.1</b> Managing diversity at PwC	578		
<b>20.2</b> Producing CHAMPS at KFC	578		
• References	579		
<b>Chapter 21</b>			
<b>Motivating and rewarding employees</b>	<b>582</b>		
Learning objectives	582		
Concept map	583		
<b>What is motivation?</b>	<b>584</b>		
<b>What do the early theories of motivation say?</b>	<b>584</b>		
What is Maslow's hierarchy of needs theory?	584		
What is McClelland's three-needs theory?	585		
What are McGregor's Theory X and Theory Y?	586		
What is Herzberg's two-factor theory?	586		
<b>How do the contemporary theories explain motivation?</b>	<b>588</b>		
What is goal-setting theory?	588		
How does job design influence motivation?	590		
What is equity theory?	592		
How does expectancy theory explain motivation?	593		
How can we integrate contemporary motivation theories?	594		
<b>Student Learning Centre</b>			
• Reviewing the learning objectives	596		
• Discussion questions	596		
• Management Skill Builder   Being a good motivator	596		
• Mini cases	598		
<b>21.1</b> Battling bugs and vanquishing viruses	598		
<b>21.2</b> One for the money . . .	598		
• References	599		
		<b>Session 11</b>	<b>Leading and managing groups 603</b>
		<b>Chapter 22</b>	<b>Leadership and trust 604</b>
		Learning objectives	604
		Concept map	605
		<b>Who are leaders, and what is leadership?</b>	<b>606</b>
		<b>What do early leadership theories tell us about leadership?</b>	<b>606</b>
		What traits do leaders have?	606
		What behaviours do leaders exhibit?	606
		<b>What do the contingency theories of leadership tell us?</b>	<b>610</b>
		What was the first comprehensive contingency model?	610
		How do followers' willingness and ability influence leaders?	612
		How participative should a leader be?	613
		How do leaders help followers?	614
		<b>What is leadership like today?</b>	<b>616</b>
		What do the four contemporary views of leadership tell us?	616
		What issues do today's leaders face?	620
		<b>Student Learning Centre</b>	
		• Reviewing the learning objectives	623
		• Discussion questions	623
		• Management Skill Builder   Being a good leader	624
		• Mini cases	625
		<b>22.1</b> Gearing up and reaching out	625
		<b>22.2</b> Top-down leadership	625
		• References	626
		<b>Chapter 23</b>	<b>Understanding groups and managing work teams 630</b>
		Learning objectives	630
		Concept map	631
		<b>What is a group, and what stages of development do groups go through?</b>	<b>632</b>
		What is a group?	632
		What are the stages of group development?	632
		<b>What are the main concepts of group behaviour?</b>	<b>634</b>
		What are roles?	634



How do norms and conformity affect group behaviour?	634	<b>What should managers control?</b>	<b>664</b>
What is status, and why is it important?	635	When does control take place?	664
Does group size affect group behaviour?	636	In what areas might managers need controls?	666
Are cohesive groups more effective?	636	<b>What contemporary control issues do managers confront?</b>	<b>668</b>
<b>How are groups turned into effective teams?</b>	<b>637</b>	Using feedback to control employee performance	669
Are work groups and work teams the same thing?	638	Do controls need to be adjusted for cultural differences?	669
What are the different types of work teams?	639	What challenges do managers face in controlling the workplace?	670
What makes a team effective?	639	Controlling workplace conflict	671
How can a manager shape team behaviour?	644	<b>Student Learning Centre</b>	
<b>What current issues do managers face in managing teams?</b>	<b>645</b>	• Reviewing the learning objectives	675
What's involved with managing global teams?	645	• Discussion questions	675
When are teams not the answer?	647	• Management Skill Builder   Disciplining difficult employees	676
<b>Student Learning Centre</b>		• Mini cases	677
• Reviewing the learning objectives	648	<b>24.1</b> In the can	677
• Discussion questions	648	<b>24.2</b> Driving better decisions	678
• Management Skill Builder   Understanding how teams work	649	• References	678
• Mini cases	650	<b>Chapter 25</b>	
<b>23.1</b> Working together anywhere, anytime	650	<b>Managing change and innovation</b>	<b>680</b>
<b>23.2</b> Intel inside . . . and far away	650	Learning objectives	680
• References	651	Concept map	681
		<b>How can managers encourage innovation in an organisation?</b>	<b>682</b>
		How are creativity and innovation related?	682
		How can organisations stimulate creativity?	682
		What's involved in turning creativity into innovation?	683
		How can a manager foster innovation?	683
		How does design thinking influence innovation?	686
		<b>What is change, and how do managers deal with it?</b>	<b>687</b>
		Why do organisations need to change?	688
		Who initiates organisational change?	689
		How does organisational change happen?	689
		<b>Reasons why change fails</b>	<b>693</b>
		What are some techniques for overcoming barriers to organisational change?	694
<b>Session 12 Control and change management</b>	<b>655</b>		
<b>Chapter 24</b>			
<b>Foundations of control</b>	<b>656</b>		
Learning objectives	656		
Concept map	657		
<b>What is control, and why is it important?</b>	<b>658</b>		
What is control?	658		
Why is control important?	658		
<b>What takes place as managers control?</b>	<b>659</b>		
What is 'measuring'?	659		
How do managers compare actual performance to planned goals?	662		
What managerial action can be taken?	664		

<b>What reaction do employees have to organisational change?</b>	<b>695</b>	What human resource management (HRM) issues do entrepreneurs face?	712
What is stress?	695	<b>What issues do entrepreneurs face in leading an entrepreneurial venture?</b>	<b>712</b>
What are the symptoms of stress?	695	How can entrepreneurs motivate employees?	712
What causes stress?	696	How can entrepreneurs be leaders?	713
How can stress be reduced?	697	<b>What controlling issues do entrepreneurs face?</b>	<b>714</b>
<b>Student Learning Centre</b>		How is growth managed?	714
• Reviewing the learning objectives	699	How are downturns managed?	714
• Discussion questions	699	What's involved with exiting the venture?	714
• Management Skill Builder   Stress management	700	<b>Why is it important to think about managing personal challenges as an entrepreneur?</b>	<b>715</b>
• Mini cases	701	References	717
<b>25.1</b> Turning Coles around	701	<b>Appendix 1</b>	
<b>25.2</b> Saving mates	702	<b>Case studies</b>	<b>719</b>
• References	702	<b>Appendix 2</b>	
<b>Entrepreneurship Module</b>		<b>The marketing plan: An introduction</b>	<b>732</b>
<b>Managing entrepreneurial ventures</b>	<b>706</b>	<b>Appendix 3</b>	
Learning objectives	706	<b>Marketing analytics spotlights</b>	<b>740</b>
<b>Who engages in entrepreneurship?</b>	<b>707</b>	<b>Appendix 4</b>	
Who's starting entrepreneurial ventures?	707	<b>Careers in marketing</b>	<b>764</b>
What do entrepreneurs do?	708	Glossary	770
<b>What planning do entrepreneurs need to do?</b>	<b>708</b>	Index	790
What's in a full business plan?	709		
<b>What issues are involved in organising an entrepreneurial venture?</b>	<b>710</b>		
What are the legal forms of organisation for entrepreneurial ventures?	710		
What type of organisational structure should entrepreneurial ventures use?	711		





## Introduction to marketing and sustainable marketing

- Marketing: Creating and capturing customer value
- Sustainable marketing: Social responsibility, ethics and legal compliance



## Chapter



# Marketing: Creating and capturing customer value

You are beginning a journey into the science and practice of marketing – a journey that is both exciting and vital in the preparation for the career that awaits you. In this chapter, we start with the question, ‘What *is* marketing?’. Simply put, marketing is managing profitable customer relationships. The aim of marketing is to create value *for* customers and to capture value *from* customers in return. We start with a definition of marketing before proceeding to discuss the five steps in the marketing process – from understanding customer needs, to designing customer-driven marketing strategies and integrated marketing programs, to building customer relationships and capturing value for the firm, as shown in Figure 1.1. Finally, we discuss the major trends and forces affecting marketing in this age of customer relationships. Understanding these basic concepts, and forming your own ideas about what they really mean to you, will give you a solid foundation for all that follows.

As you start this chapter, we suggest you pay close attention to the visual representation on the next page, which is designed to give you a ‘helicopter’ view of the main concepts covered. You will find such a visual representation, or concept map, at the start of each chapter.



### Learning Objectives

- Learning Objective 1** Define marketing, and outline the steps in the marketing process.  
What is marketing? pp. 4–5
- Learning Objective 2** Explain the importance of understanding the marketplace and customers, and identify the five core marketplace concepts.  
Understanding the marketplace and customer needs pp. 5–9
- Learning Objective 3** Identify the key elements of a customer-driven marketing strategy, and discuss the marketing management orientations that guide marketing strategy.  
Designing a customer-driven marketing strategy pp. 9–13  
Preparing an integrated marketing plan and program pp. 13–15
- Learning Objective 4** Discuss customer relationship management, and identify strategies for creating value *for* customers and capturing value *from* customers in return.  
Engaging customers and managing customer relationships pp. 15–18  
Capturing value from customers pp. 18–21
- Learning Objective 5** Describe the major trends and forces that are changing the marketing landscape in this age of relationships.  
The changing marketing landscape pp. 21–28  
So, what is marketing? Pulling it all together pp. 28–30

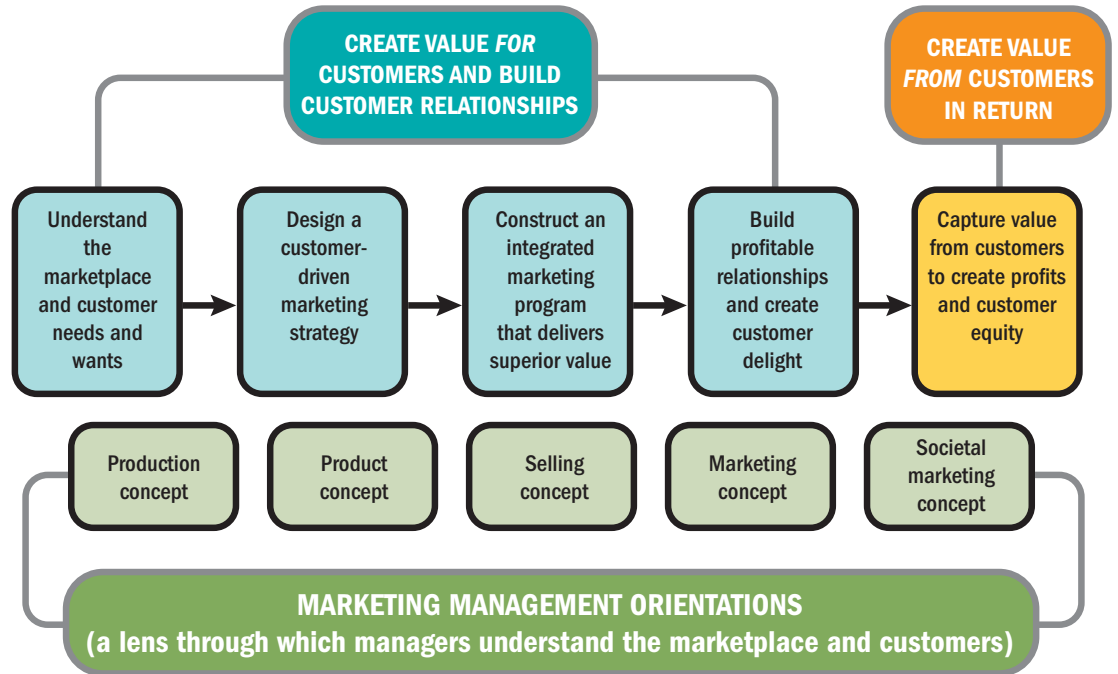
**LO 1**  
Define marketing, and outline the steps in the marketing process.

**LO 2**  
Explain the importance of understanding the marketplace and customers, and identify the five core marketplace concepts.

**LO 3**  
Identify the key elements of a customer-driven marketing strategy, and discuss the marketing management orientations that guide marketing strategy.

**LO 4**  
Discuss customer relationship management, and identify strategies for creating value for customers and capturing value from customers in return.

**LO 5**  
Describe the major trends and forces that are changing the marketing landscape in this age of relationships.



## ■ What is marketing?

Marketing, more than any other business function, deals with customers. Although we will soon explore more-detailed definitions of marketing, perhaps the simplest definition is this one: *Marketing is engaging customers and managing profitable customer relationships*. The twofold goal of marketing is to attract new customers by promising superior value, and to keep and grow current customers by delivering satisfaction.

Marketing comes to you in traditional forms, such as the products you see on supermarket shelves and in the windows of shopping-centre boutiques, as well as in the advertising you see and hear in newspapers and magazines, and on television and radio. However, in recent years, marketers have adopted a host of new marketing approaches, using everything from imaginative websites and social networks to smartphone apps. These new approaches do more than just blast out messages to the masses. They reach you directly and personally. Today's marketers want to become a part of your life and enrich your experiences with their brands – to help you *engage with* their brands.

When we examine successful marketing organisations, we see that many factors contribute to making a business or other organisational type successful. These factors include great strategy, dedicated employees, good information systems and excellent implementation, among others. However, today's successful organisations have one thing in common – they have a strong market orientation, which means they are focused on their customers, their competitors and their profits (or surpluses in the case of those not operating for profit), and they have a commitment to sharing this marketing information with all parts of the organisation.<sup>1</sup> These organisations share an absolute dedication to understanding and satisfying the needs of customers in well-defined target markets. They motivate everyone in the organisation to produce superior value for their customers, leading to high levels of customer satisfaction.

At home, at school, where you work and where you play, you see marketing in almost everything you do. Yet, there is much more to marketing than meets the consumer's casual eye. Behind it all is a massive network of people, technologies and activities competing for your attention and purchases.

This book will give you a complete introduction to the basic concepts and practices of today's marketing. In this chapter, we begin by defining marketing and the marketing process.

### Marketing defined

What is marketing? Many people think of marketing as only selling and advertising. We are bombarded every day with television commercials, catalogues, spiels from salespeople and online pitches. However, selling and advertising are but the tip of the marketing iceberg.

Today, marketing must be understood not in the old sense of making a sale – 'telling and selling' – but in the new sense of *satisfying customer needs*. If the marketer engages consumers effectively, understands their needs, develops products that provide superior customer value, and prices, distributes and promotes them well, these products will sell easily. In fact, according to management guru Peter Drucker, 'The aim of marketing is to make selling unnecessary.'<sup>2</sup>

Selling and advertising are only a part of a larger *marketing mix* – a set of marketing tools that work together to engage customers, satisfy customer needs and build customer relationships.

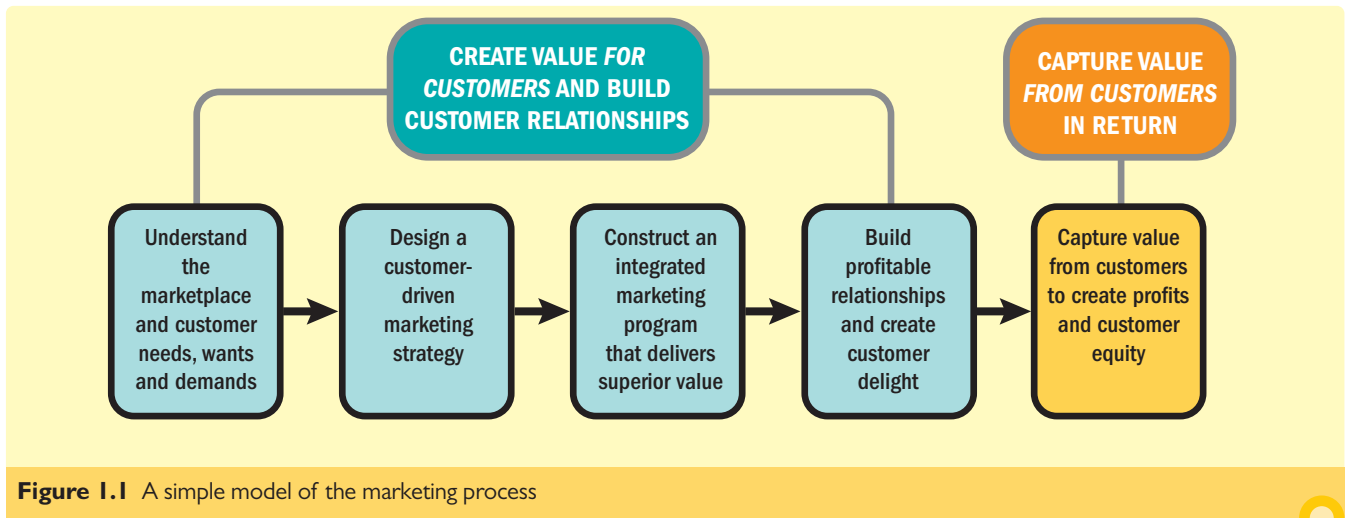
Broadly defined, marketing is a social and managerial process by which individuals and organisations obtain what they need and want through creating and exchanging value with others. In a narrower business context, marketing involves building profitable, value-laden exchange relationships with customers. Hence, we define **marketing** as the process by which marketing organisations engage customers, build strong customer relationships and create customer value in order to capture value from customers in return.<sup>3</sup>

### The marketing process

Figure 1.1 presents a simple five-step model of the marketing process. In the first four steps, marketing organisations uncover knowledge about consumers, create customer value and build strong customer

#### marketing

The process by which marketing organisations engage customers, build strong customer relationships and create customer value in order to capture value from customers in return.



**Figure 1.1** A simple model of the marketing process

relationships. In the final step, companies reap the rewards of creating superior customer value. By creating value *for* consumers, companies, in turn, capture value *from* consumers in the form of sales, profits and long-term customer equity.

In this chapter, we begin to examine the steps in this model of the marketing process. We review each step but focus more on the customer relationship management steps – understanding customers, building customer relationships and capturing value from customers.

## Understanding the marketplace and customer needs

As a first step, marketers need to understand customer needs, wants and demands, and the marketplace within which they operate. We now examine five core customer and marketplace concepts: (1) *customer needs, wants and demands*; (2) *market offerings – goods, services and experiences*; (3) *customer value and satisfaction*; (4) *exchanges and relationships*; and (5) *markets*.

Figure 1.2 shows how these core marketing concepts are linked, with each concept building on the one before. Market offerings are the various product forms we examine in detail in Chapters 7 and 8. We discuss value, satisfaction and quality throughout the book. We begin our discussion of customer needs, wants and demands in this chapter, and examine them further in Chapters 4 and 5. The nature of exchange, transactions, relationships and markets is examined in this chapter and throughout the book.

### Customer needs, wants and demands

The most basic concept underlying marketing is that of human needs. Human **needs** are states of felt deprivation. Humans have many complex needs. These include basic *physical* needs for food, clothing, warmth and safety; *social* needs for belonging and affection; and *individual* needs for knowledge and self-expression. While marketers may stimulate these needs, they do not create them for they are a basic part of human makeup.

**Wants** are the form taken by human needs as they are shaped by culture and individual personality. A hungry person in Australia, Singapore or Hong Kong might want a rice or noodle dish for a quick lunch, accompanied by green tea. A hungry person in the South Pacific might want mangoes, suckling pig and beans. Wants are described in terms of objects that will satisfy needs. As a society evolves, the wants of its members expand. As people are exposed to more objects that arouse their interest and desire, producers try to provide more want-satisfying goods and services.

**needs**  
States of felt deprivation.

**wants**  
The form human needs take, as shaped by culture and individual personality.



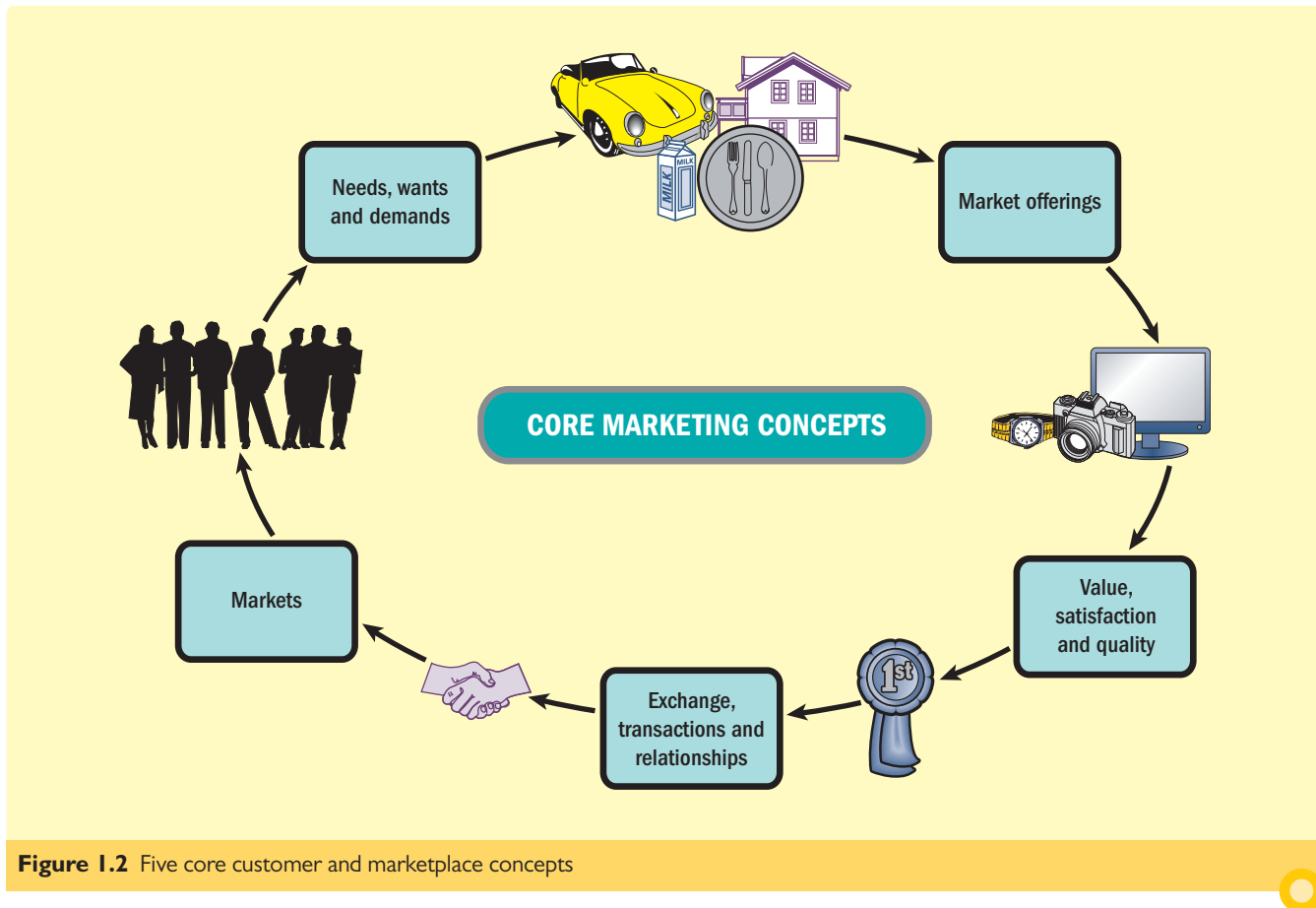


Figure 1.2 Five core customer and marketplace concepts

### demands

Human wants that are backed by buying power.

People have almost unlimited wants but limited resources. Thus, they want to choose products that provide the most value and satisfaction for their money. When backed by buying power, wants become **demands**. A simple way to look at needs, wants and demands is that a person needs water to survive (thirst). The person may want a carbonated beverage to satisfy his or her thirst. If the person has the resources, he or she may demand a particular brand of carbonated beverage, such as Coca-Cola, Pepsi or another local brand.

Outstanding marketers, whether profit-oriented companies, citizen-focused government or not-for-profit organisations, go to great lengths to learn about and understand their customers' needs, wants and demands. They conduct qualitative research, such as small focus groups and customer clinics, to ascertain if there are unmet needs, wants and demands. They conduct quantitative research on a larger scale to ascertain the magnitude of the unmet needs, wants and demands. They seek customer insights when they examine their databases for patterns hidden in purchase data, customer complaints, inquiries, warranty claims and service performance data. They train salespeople and other frontline personnel to be on the lookout for unfulfilled customer needs. They observe customers using their own and competing products, and interview them in depth about their likes and dislikes. They conduct consumer research, analyse mountains of customer data and observe customers as they shop and interact, offline and online. Understanding customer needs, wants and demands in detail provides important input for designing marketing strategies. People at all levels of the company – including top management – stay close to customers.<sup>4</sup>

### market offering

Some combination of goods, services, information or experiences offered to a market to satisfy a need or want.

## Market offerings: Goods, services and experiences

Consumers' needs and wants are fulfilled through **market offerings** – some combination of goods, services, information or experiences offered to a market to satisfy a need or a want. Usually, the word *product* suggests a physical object such as a car, an iPad or a bar of soap. However, the concept of product is not

limited to physical objects; anything capable of satisfying a need can be called a product. The importance of products that are physical objects lies not so much in owning them as in the benefits they provide. We buy food not to look at, but because it satisfies our hunger. We buy a microwave not to admire its utility, but because it defrosts or cooks our food.

Marketers often use the expressions *goods* and *services/experiences* to distinguish between products that have physical form and those that do not – that is, those that are intangible. However, in Chapter 9 we show that there is a continuum involved and not a clear-cut dichotomy. Consumers also obtain benefits through experiences, people, places, organisations, activities and ideas, and so we call these products, too. Consumers decide which entertainers to watch at the movies and on television, which places to visit on holiday, which organisations to support through contributions and which ideas to adopt. Thus, the term *product* covers physical goods, services, experiences and a variety of other offerings that satisfy consumers' needs and wants. If at times the term seems not to fit, we could substitute words such as *satisfier*, *resource* or *offer*. In the broadest sense, market offerings also include other entities, such as *persons*, *places*, *organisations*, *information* and *ideas*.

Many sellers make the mistake of paying more attention to the attributes of the products they offer than to the benefits produced by these products. They see themselves as selling a product, rather than providing a solution to a need. A manufacturer of drill bits may think that the customer wants a 6 mm drill bit, but what the customer *really* wants is a 6 mm hole. These sellers suffer from **marketing myopia**.<sup>5</sup> They are so taken with their products that they focus only on existing wants and lose sight of underlying customer needs. They forget that a product is only a tool to solve a consumer's problem and they will have trouble if a new product comes along that serves the need better or less expensively. The customer with the same need will, all things being equal, want the new product.

Smart marketers look beyond the attributes of the products and services they sell. By orchestrating several services and products, they create *brand experiences* for consumers. For example, you do not just watch a V8 Supercar or MotoGP motorcycle race; you immerse yourself in the exhilarating, high-octane experience that the many on-board mini-cameras now provide.

## Customer value and satisfaction

Consumers usually face a broad array of products and services that might satisfy a given need. How do they choose among these many market offerings? Customers form expectations about the value and satisfaction that various market offerings will deliver, and buy accordingly. Satisfied customers buy again and tell others about their good experiences. Dissatisfied customers often switch to competitors and disparage the original product to others.

Marketers must be careful to set the right level of expectations. If they set expectations too low, they may satisfy those who buy but may fail to attract enough buyers. If they set expectations too high, buyers will be disappointed. Customer value and customer satisfaction are key building blocks for developing and managing customer relationships. We revisit these core concepts later in the chapter.

**MADE USING DRAIN CLEANER, BATTERY ACID OR EVEN HAIR BLEACH. THEN POPPED IN YOUR MOUTH.**

**ECSTASY. FACE FACTS.**



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NATIONAL DRUGS CAMPAIGN Australian Government

Product offerings: Social causes are products ... Often demarketing is involved.

Department of Health

### marketing myopia

The mistake of paying more attention to the specific products a company offers than to the benefits and experiences produced by these products.

**exchange**

The act of obtaining a desired object from someone by offering something in return.

**transaction**

A trade between two parties that involves at least two things of value, agreed-upon conditions, and a time and place of agreement.

**market**

The set of all actual and potential buyers of a product or service.

## Exchanges, transactions and relationships

Marketing occurs when people decide to satisfy needs and wants through exchange relationships. **Exchange** is the act of obtaining a desired object from someone by offering something in return. In the broadest sense, the marketer tries to bring about a response to some market offering. The response may be more than simply buying or trading products and services. A political candidate, for instance, wants votes; a golf club wants members; an orchestra wants an audience; an online community of practice, such as BimmerPost (BMW owners), wants subscribers who help each other; and a social action group, such as Amnesty Australia, wants idea acceptance.

Whereas exchange is the core concept of marketing, a **transaction** is marketing's unit of measurement. A transaction consists of a trade of values between two parties. In a transaction, we must be able to say that one party gives X to another party and gets Y in return. For example, if you pay \$1650 for a television set to Harvey Norman in Sydney or Singapore, you are engaged in a classic monetary transaction.

Marketing consists of actions taken to build and maintain desirable exchange *relationships* with target audiences involving a product, service, idea or other object. Beyond simply attracting new customers and creating transactions, the company wants to retain customers and grow their business. Marketers want to build strong relationships by consistently delivering superior customer value. We expand on the important concept of managing customer relationships later in this chapter.

## Markets

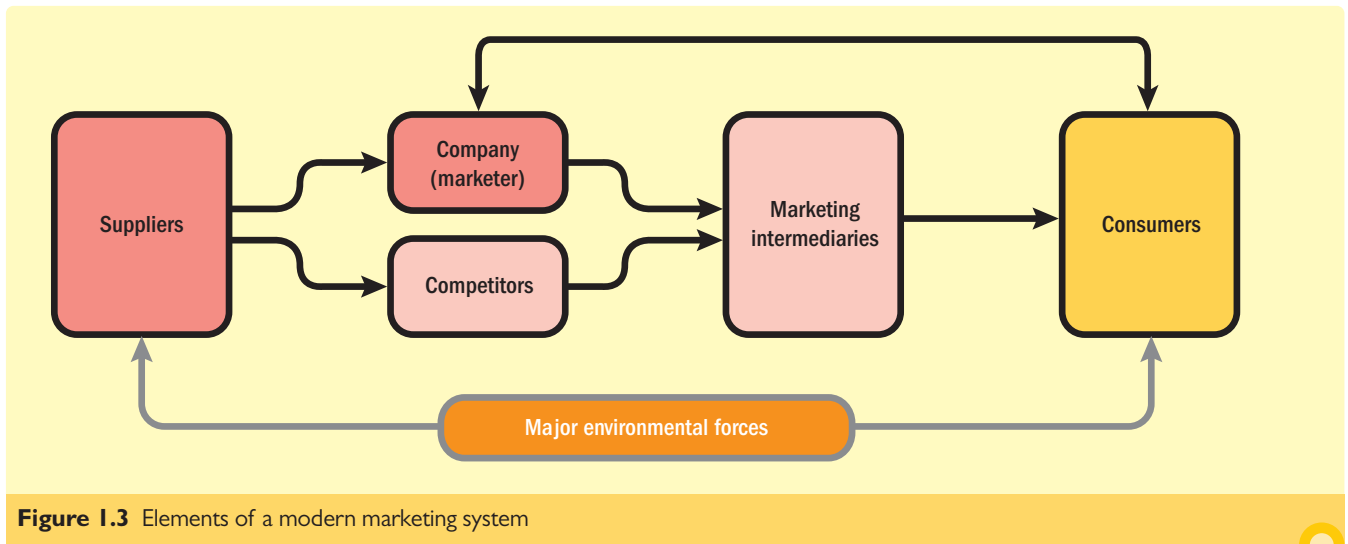
The concepts of exchange and relationships lead to the concept of a market. A **market** is the set of actual and potential buyers of a product. These buyers share a particular need or want that can be satisfied through exchange relationships.

Marketing means managing markets to bring about profitable customer relationships. However, creating these relationships takes work. Sellers must search for buyers, identify their needs, design good market offerings, set prices for those offerings, promote them, and store and deliver them. Activities such as consumer research, product development, communication, distribution, pricing and service are core marketing activities.

Although we normally think of marketing as being carried out by sellers, buyers also carry out marketing. Consumers market when they search for products, interact with companies, obtain information and make their purchases. In fact, today's digital technologies, from websites and online social networks to tablets and smartphones, have empowered consumers and made marketing a truly interactive affair. Thus, in addition to customer relationship management, today's marketers must also deal effectively with *customer-managed relationships*. Marketers are no longer asking only, 'How can we reach our customers?' but also, 'How can our customers reach us?' and even, 'How can our customers reach each other?'

Figure 1.3 shows the main elements in a marketing system. Marketing involves serving a market of final consumers in the face of competitors. The company and competitors research the market and interact with consumers to understand their needs. They then create and send their market offerings and messages to consumers, either directly or through marketing intermediaries. All of the parties in the system are affected by major environmental forces (demographic, economic, physical, technological, political/legal and social/cultural).

Each party in the system adds value for the next level. In the figure, the arrows represent relationships that must be developed and managed. Thus, a company's success at building profitable relationships depends not only on its own actions but also on how well the entire system serves the needs of final consumers. Coles Supermarkets cannot fulfil its promise of everyday low prices unless its suppliers provide



**Figure 1.3** Elements of a modern marketing system

merchandise at low costs. And Toyota cannot deliver a high-quality car-ownership experience unless its dealers provide outstanding sales and service.

## ■ Designing a customer-driven marketing strategy

Once marketing management fully understands consumers and the marketplace, it can design a customer-driven marketing strategy. We define **marketing management** as the art and science of choosing target markets and building profitable relationships with them. The marketing manager's aim is to attract, engage, keep and grow target customers by creating, delivering and communicating superior customer value.

To design a winning marketing strategy, the marketing manager must answer two important questions: (1) *What customers will we serve? (Who is our target market?)* and (2) *How can we serve these customers best? (What is our value proposition?)*. We introduce these aspects of marketing strategy here, and discuss them further in later chapters.

### Selecting customers to serve

Marketing management first decides *who* the organisation will serve. This is done by examining the various segments into which the market naturally falls, based on the appropriate factors that can be used to analyse a market. We discuss this aspect in depth in Chapter 6. Marketers know they cannot serve all customers in every way with a single market offering. They know it is necessary to select customers they can serve well and profitably. This may not involve continuously seeking increasing market demand; at times, it may be necessary to seek fewer customers and reduce demand.

Most people think of marketing management as finding enough customers for the company's current output, but this is too limited a view. The organisation has a desired level of demand for its products. At any point in time there may be no demand, adequate demand, irregular demand or too much demand, and marketing management must find ways to deal with these different demand states. (See Table 1.1 for a demand management ready-reckoner.) Marketing management is concerned not only with finding and increasing demand but also with changing or even reducing it. For example, Uluru (Ayers Rock) might have too many tourists wanting to climb it, and Daintree National Park in North Queensland can become

**marketing management**  
The art and science of choosing target markets and building profitable relationships with them.