ASIA–PACIFIC EDITION

MKTG 5

CHARLES W. **LAMB** JOSEPH F. **HAIR** CARL **MCDANIEL**
JANE **SUMMERS** MICHAEL **GARDINER**

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JANE **SUMMERS** MICHAEL **GARDINER**

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Charles W. Lamb
Joseph F. Hair
Carl McDaniel
Jane Summers
Michael Gardiner

Portfolio lead: Fiona Hammond
Senior product manager: Michelle Aarons
Content developer: Eleanor Yeoell / Kylie Scott
Project editor: Sutha Surenddar
Editor: Craig MacKenzie /Anne Mulvaney
Proofreader: Julie Wicks
Permissions/Photo researcher: Debbie Gallagher/Brendan Gallagher
Cover designer: Nikita Bansal
Text designer: Mariana Maccarini (original design by Leigh Ashforth)
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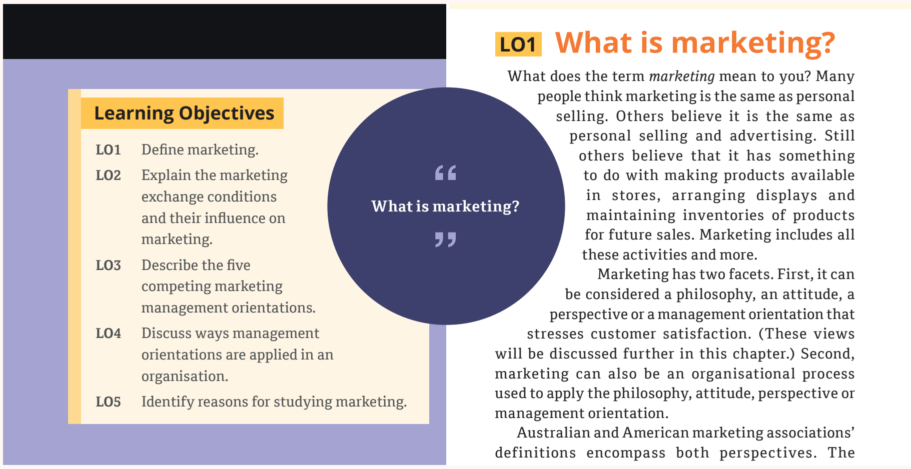
Tear-Out Review Cards

Guide to the text

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

CHAPTER OPENING FEATURES

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



Learning Objectives

LO1 Define marketing.
LO2 Explain the marketing exchange conditions and their influence on marketing.
LO3 Describe the five competing marketing management orientations.
LO4 Discuss ways management orientations are applied in an organisation.
LO5 Identify reasons for studying marketing.

“What is marketing?”

LO1 What is marketing?

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

Marketing has two facets. First, it can be considered a philosophy, an attitude, a perspective or a management orientation that stresses customer satisfaction. (These views will be discussed further in this chapter.) Second, marketing can also be an organisational process used to apply the philosophy, attitude, perspective or management orientation.

Australian and American marketing associations' definitions encompass both perspectives. The

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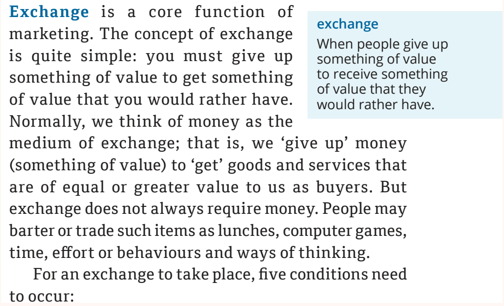
Important **Key terms** are marked in bold in the text and **defined in the margin** when they are used for the first time.



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

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

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

Examine how theoretical concepts have been used in practice through the **Marketing in practice** boxes.

Marketing in Practice

The iPhone goes wireless at a cost to consumers

One of the dangers of a production or sales orientation is failing to understand what is important to the organisation's customers. When Apple was developing the iPhone 7, it decided to remove the headphone jack, a design decision that would free up internal space for other technologies. The decision played an integral role in making the iPhone 7

Gain an insight into how marketing theories relate to the real world through the **Real world marketing** boxes.

Real World Marketing

'SUNBURNT COUNTRY' DRIVING PRODUCT INNOVATION

Australians love the outdoors. Enjoying our 'sunburnt country', however, has led to increasing rates of skin cancer. Australia and New Zealand now have the highest incidence of skin cancer globally, which is attributed to a combination of our outdoor lifestyles, common skin types and high-UV index. In 2020, there were an estimated 16 211 new cases of melanoma skin cancer diagnosed, with an

Explore the real-world ethical issues faced by marketers in the **Ethical marketing** boxes throughout the chapters.

Ethical Marketing

USING PRICE TO SELL OLD STOCK

When an organisation adopts a sales orientation, the price is often a key component of the sale. As we will discover later in this text, the consumer often uses price as an indicator of quality when they are unsure or unfamiliar with the product. In a marketing orientation the organisation looks to satisfy the needs and wants of the consumer. In the example below the wholesaler/retailer has unused stock with a

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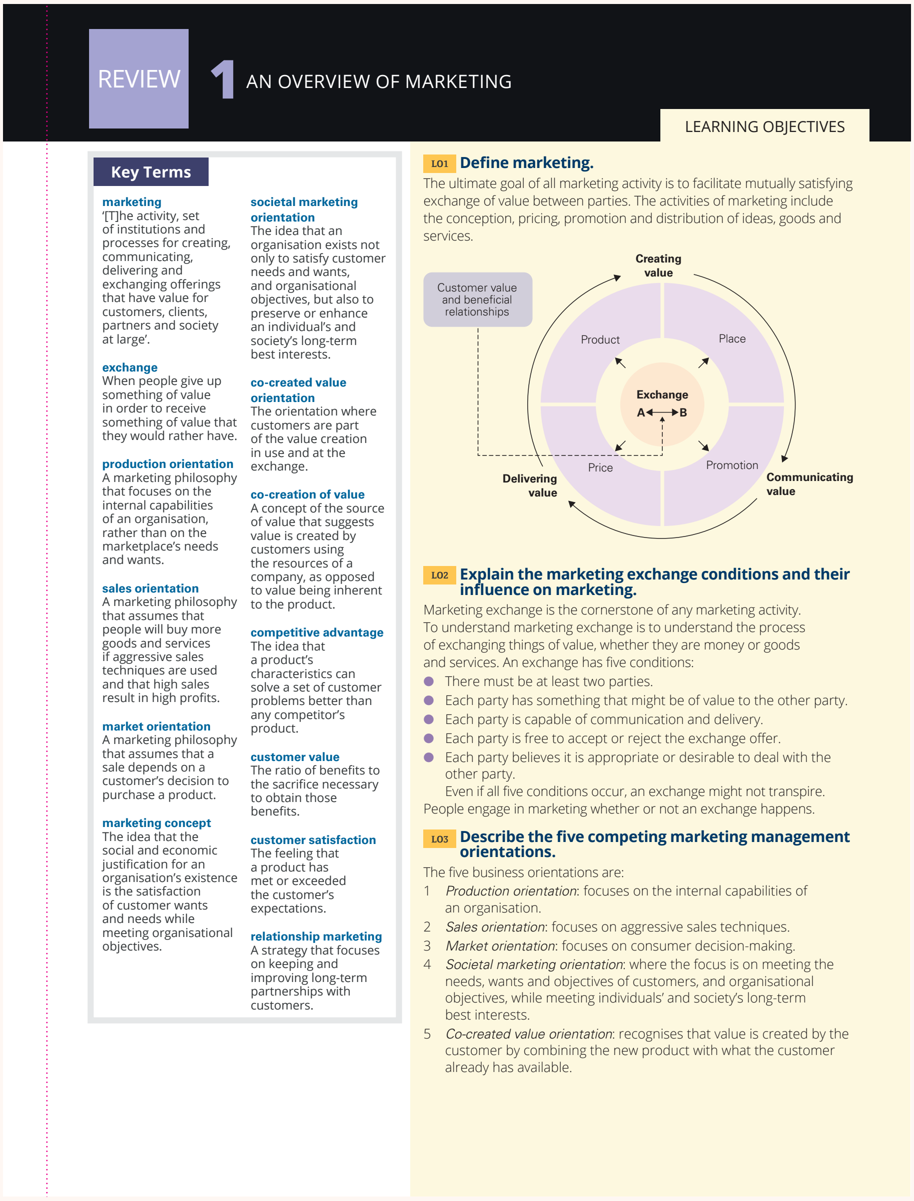

REVIEW 1 AN OVERVIEW OF MARKETING

Key Terms

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

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

production orientation
A marketing philosophy that focuses on the internal capabilities of an organisation, rather than on the marketplace's needs and wants.

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

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

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

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

co-created value orientation
The orientation where customers are part of the value creation in use and at the exchange.

co-creation of value
A concept of the source of value that suggests value is created by customers using the resources of a company, as opposed to value being inherent to the product.

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

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

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

relationship marketing
A strategy that focuses on keeping and improving long-term partnerships with customers.

LEARNING OBJECTIVES

LO1 Define marketing.

The ultimate goal of all marketing activity is to facilitate mutually satisfying exchange of value between parties. The activities of marketing include the conception, pricing, promotion and distribution of ideas, goods and services.

LO2 Explain the marketing exchange conditions and their influence on marketing.

Marketing exchange is the cornerstone of any marketing activity. To understand marketing exchange is to understand the process of exchanging things of value, whether they are money or goods and services. An exchange has five conditions:

- There must be at least two parties.
- Each party has something that might be of value to the other party.
- Each party is capable of communication and delivery.
- Each party is free to accept or reject the exchange offer.
- Each party believes it is appropriate or desirable to deal with the other party.

Even if all five conditions occur, an exchange might not transpire. People engage in marketing whether or not an exchange happens.

LO3 Describe the five competing marketing management orientations.

The five business orientations are:

1. *Production orientation*: focuses on the internal capabilities of an organisation.
2. *Sales orientation*: focuses on aggressive sales techniques.
3. *Market orientation*: focuses on consumer decision-making.
4. *Societal marketing orientation*: where the focus is on meeting the needs, wants and objectives of customers, and organisational objectives, while meeting individuals' and society's long-term best interests.
5. *Co-created value orientation*: recognises that value is created by the customer by combining the new product with what the customer already has available.

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PART ONE

AN INTRODUCTION TO MARKETING

1 An overview of marketing

2 Ethics and the marketing environment

1

AN OVERVIEW OF MARKETING

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

Learning Objectives

LO1	Define marketing.
LO2	Explain the marketing exchange conditions and their influence on marketing.
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> “What is marketing?”

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Marketing has two facets. First, it can be considered a philosophy, an attitude, a perspective or a management orientation that stresses customer satisfaction. (These views will be discussed further in this chapter.) Second, marketing can also be an organisational process used to apply the philosophy, attitude, perspective or management orientation.

Australian and American marketing associations' definitions encompass both perspectives. The American Marketing Association suggests that **marketing** is 'the activity, set of institutions, and processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society at large'.[1] The 'activity' and 'processes' include the planning and execution of the following concepts: pricing (price), promotion and distribution (place) of ideas, goods and services (i.e. product) to create exchanges that add value to the customer while achieving organisational goals.

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

Marketing entails processes that focus on delivering value and benefits to customers, not just selling goods, services and ideas. It uses communication, distribution and pricing strategies to provide customers and other stakeholders with the goods, services, ideas, values and benefits they desire, when and where they want them. It involves building long-term, mutually rewarding relationships that benefit all parties concerned. Marketing also entails an understanding that organisations have many connected stakeholder 'partners', including employees, suppliers, stockholders, distributors and others.

Marketing also helps find customer-focused solutions to new and emerging problems. Consider the following 'Real World Marketing' box to learn how restaurateurs used marketing principles to adapt during the COVID-19 pandemic.

A social and evolving science

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

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

Another example is social marketing programs. In Hong Kong, as in most countries, there is a problem with the amount of household waste. The government has established a promotional campaign encouraging

Real World Marketing

DISHING UP FINE DINING AT HOME

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The hospitality industry has taken a hit in many countries as COVID-19 restrictions have forced fine-dining restaurants to close their doors or limit customer numbers. While physical doors were closing, restaurant owners were opening the door to new and innovative ways of delivering the fine dining experience while upholding the quality of their service offering.

Sydney fine-dining restaurant Sixpenny, owned by three-hat chef Dan Puskas, turned its dining room into a general store, offering everything from house-made passatas and fluffy Japanese cheesecakes to four-course take-home set menus. In the UK, acclaimed chef Adam Handling, owner of multiple award-winning restaurants including Frog, turned to creating menus that could be finished and enjoyed at home. Through business venture Hame, Adam now delivers his signature dishes in the form of make-at-home meal kits. All dishes require varying levels of at-home preparation and come with recipe cards featuring QR codes that link to a step-by-step video of Adam finishing and plating the dishes. A Hame menu for two can cost upward of $260 and may include courses such as Lobster Wagyu and Champagne truffles. Customers are encouraged to share their Hame dishes online using the hashtag #Hamebyah. While other meal kit providers such as Hello Fresh and Marley Spoon cater for the value-conscious consumer, these emerging fine-dining meal kits target those seeking the taste of a restaurant experience in the comfort of home.

Whether through live-streamed cooking demonstrations on Instagram, online cooking class subscriptions or cook-at-home recipe cards and meal kits, fine dining restaurants are leveraging content creation and new distribution channels to support their core product offering. Furthermore, as customers are provided with more opportunities to bring fine dining experiences into their own homes, they are concurrently becoming co-creators in the dining experience, and then sharing these experiences online.

Source: Rigby, M, 2020, 'Hats off to top Sydney chefs and providores changing with the new world order', *Good Food*, 20 April, https://www.goodfood.com.au/eat-out/news/hats-off-to-top-sydney-chefs-and-providores-changing-with-the-new-world-order-20200415-h1ndm9; Adam Handling, 2022, https://www.adamhandling.co.uk/hame/

residents to use less and waste less. Related to this promotional strategy is the development of Recycling Stations, sites where recyclable materials can be left, and a centre to educate the Hong Kong residents about sustainable choices and waste minimisation. To further encourage residents to use the recycling facilities, the government introduced the GREEN$ Smart Card, allowing residents to earn GREEN$ when they recycle, which can be redeemed in the form of gifts such as recycling bags and environmentally friendly products.[2] Your local council probably has in place similar schemes.

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

Participating in marketing

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

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

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

Accordingly, when we look at marketing, there are many facets and intricacies to be explored. One of the easiest ways to do this is to look at the various concepts and theories that we will address in this text and think about how those concepts and theories may describe the processes you follow when deciding whether to buy or adopt the latest product.

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

LO2 Marketing exchange

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

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

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

Step 1 There must be at least two parties (that is, people or groups of people/organisations)

Step 2 Each party must have something of value that the other party also wants

Step 3 Each party must be able to communicate with the other party and deliver the goods or services sought by the other party

Step 4 Each party must be free to accept or reject the other's offer

Step 5 Each party must want to deal with the other party[3]

Exchange won't always take place even if these conditions exist – however, all five conditions must exist for an exchange to be possible. For example, suppose you place an advertisement on http://carsales.com.au stating that your used car is for sale at a certain price. Several people may contact you to ask about the car; some may test-drive it; and one or more may even make you an offer. Some people might even offer you a like-value car, or another item, in trade. All five conditions that are necessary for an exchange to occur are present in this scenario. But unless you reach an agreement with a buyer and actually sell the car, an exchange will not take place.

Notice that marketing activities can occur even if an exchange does not result. In this example, you would have engaged in some marketing activities by uploading the car's details onto the website, even if no one bought it.

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

LO3 Marketing management philosophies

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

1. A *production orientation*. The focus is on an organisation's internal capabilities to develop and produce better and cheaper products.
2. A *sales orientation*. An organisation focuses on aggressive sales techniques to encourage high sales volume and, it is hoped, high profits.
3. A *market orientation*. An organisation focuses on satisfying customers' needs and wants as well as organisational goals, thereby developing the social and economic objectives of an organisation.
4. A *societal marketing orientation* is a derivative of the marketing orientation. It focuses on customers' wants and needs, and embraces the notion of preserving, or improving, an individual's or society's long-term best interest.
5. A *co-created value orientation* is the recognition that value is not given to the customer when they buy a product. Value is created by the customer by combining the new product with what the customer already has available.

Exhibit 1.1 FIVE MARKETING MANAGEMENT PHILOSOPHIES

Orientation	Focus
Production	What can we make or do best?
Sales	How can we sell more aggressively?
Market	What do customers want and need?
Societal	What do customers want and need, and how can we benefit society?
Co-created	What resources does the product present to the customer so that they can create value?

Production orientation

A **production orientation** is an organisational philosophy that focuses on an organisation's internal capabilities, rather than on the marketplace's needs and wants. A production orientation means that management assesses its resources and asks these questions:

production orientation
A marketing philosophy that focuses on an organisation's internal capabilities, rather than on the marketplace's needs and wants.

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

In the case of a service organisation, managers ask:

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

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

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

Sales orientation

A **sales orientation** is based on the belief that people will buy more products if aggressive sales techniques are used, and that high sales result in high profits. Not only are sales to the ultimate buyer emphasised, but intermediaries are encouraged to push manufacturers' products more aggressively. To sales-oriented organisations, marketing means selling things and collecting money (see the following 'Marketing in Practice' box).

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

Marketing in Practice

The iPhone goes wireless at a cost to consumers

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

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

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

Market orientation

Organisations that have a **market orientation** focus on the needs of the customer that contribute to their decision to purchase a product. This approach recognises that a sale does not depend on an aggressive sales team, but rather on a customer's decision to purchase a product. What is of primary importance is that an organisation is defined not by what the business thinks it produces, but by what the customer thinks they are buying – that is, the perceived value.

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

Ethical Marketing

USING PRICE TO SELL OLD STOCK

When an organisation adopts a sales orientation, the price is often a key component of the sale. As we will discover later in this text, the consumer often uses price as an indicator of quality when they are unsure or unfamiliar with the product. In a marketing orientation the organisation looks to satisfy the needs and wants of the consumer. In the example below the wholesaler/retailer has unused stock with a looming expiry date. How they choose to deal with the matter depends on their orientation. A sales orientation philosophy will look to price, while a marketing orientation will look to value as to the key for the quick sale of the product.

During the COVID-19 pandemic many food retail outlets suffered slow or low sales, and some businesses needed to shift operation from instore to takeaway, or close. The outcome of this change in the marketplace meant that wholesalers, who supply these businesses, were holding more stock. It is common for wholesalers to use a six-month lead time when ordering stock from manufacturers. With slowing demand from their customers, and previously ordered and paid-for stock arriving, wholesalers needed to move old stock to have space for the arriving stock and to move stock before it reached its used-by date.

Wholesalers' first response was to offer sales deals such as buy 10 cases and get one free, but the take-up was slow and did not resolve the problem. Next, they went to hard selling but with a greatly reduced price. In some cases, they had to sell below cost price to recover some sales before the stock would have to be destroyed.

Question:

Do you think it is ethical to sell a product with a limited life at a very low price? Explain your answer.

Organisations that are market-oriented adopt and implement the **marketing concept**, which is the idea that the social and economic justification for an organisation's existence is the satisfaction of customer wants and needs while meeting organisational objectives. This means these organisations recognise that there is no reason why customers should buy their product offerings over those of another, unless they are receiving a perceived better value from the exchange.

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

The marketing concept includes:

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

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

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Tesla vehicles, that are both futuristic and eco-friendly, are growing in popularity in Australia. These cars appeal to customers who desire a cleaner and more economical luxury car.

Competitor analysis

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

BlackBerry (formerly Research in Motion) failed to realise it was competing against computer companies as well as telecommunications companies, and its wireless handsets were quickly eclipsed by offerings from Google, Samsung and Apple. Had BlackBerry been a market-oriented company, its management might have better understood the changes taking place in the market, seen a competitive threat and developed strategies to counter the threat. Instead, after a five-year slump, it re-entered the market with the wholly redesigned BlackBerry 10 operating system, which launched alongside two new handsets in 2013. These strategies did not work, and the company underwent a slow decline in market share. New life was brought to the company with its adoption of Android and iOS operating systems and newly designed devices – however, the decision to stop production came in 2017. In 2021, there were rumours that Blackberry will return with a 5G smartphone. Time will tell if this relaunch will be a success.[5] By contrast, Tesla recognised the need for an electric vehicle, but more importantly an electric vehicle that complemented existing needs and aspirations when buying a new car. However, they also offered additional value items such as the over air software updates, automised driving and, of course, no CO_2 emissions.

Societal marketing orientation

A market-oriented organisation may choose *not* to deliver the benefits sought by customers on the grounds that these benefits may not be good for individuals or society. This philosophy is called a **societal marketing orientation**. Organisations adopting this philosophy believe that an organisation exists to satisfy customer needs and wants and meet organisational objectives – in this respect, it is the same as a market orientation – but also to preserve or enhance individuals' and society's long-term best interests.

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

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

Although the societal marketing concept has been discussed for more than 30 years, it did not receive widespread support until the early 2000s. Concerns such as climate change, the depletion of the ozone layer, fuel shortages, pollution and health issues have caused consumers and legislators to become more aware of companies' and consumers' needs to adopt measures that conserve resources and cause less damage to the environment. Studies reporting consumers' attitudes towards, and intentions to buy, environmentally friendly products show widely varying results. The 2020 pandemic made all consumers change their behaviour, but researchers speculated on if the changes would stick. A study from October 2020 to March 2021 found that consumers are more digital, more health conscious, more eco-friendly, more price sensitive and want to buy more local.[6]

Co-created value orientation

An organisation adopting a **co-created value orientation** can adopt the philosophies of market and societal marketing orientations but differs in that these organisations see value being co-created rather than a component of the product provided by the producer.

co-created value orientation
The orientation where customers are part of the value creation in use and at the exchange.

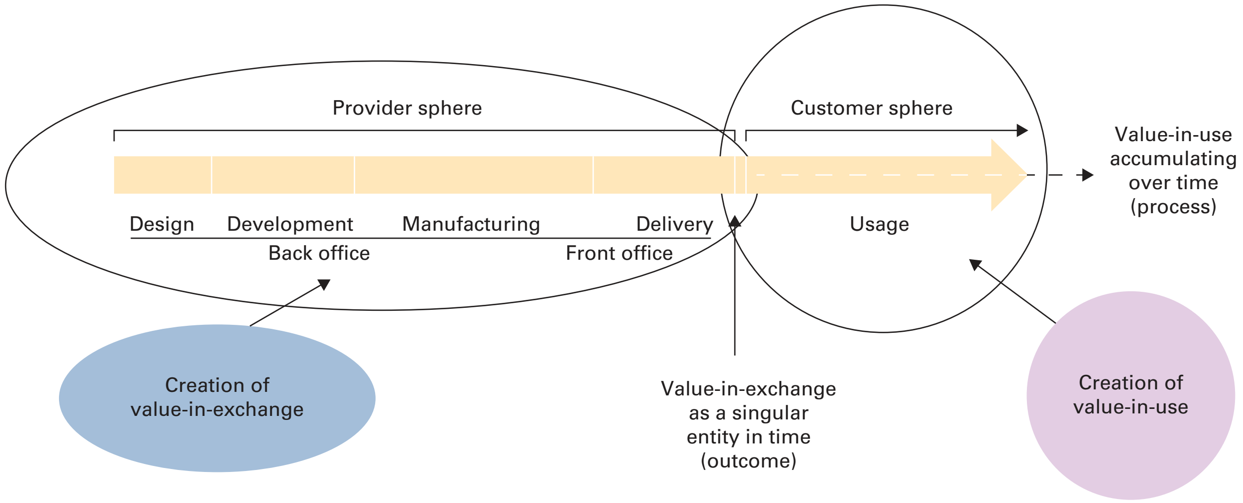
In order to understand this orientation we first need to unpack the concept of value. The exchange of value is the cornerstone of marketing. But what exactly is value, and how is it explained? Unfortunately, a precise definition of marketing value does not exist. Instead, there are several themes related to the term; this led one group of researchers to conclude the term has a 'fuzzy definitional problem'.[7] In spite of this, all those who have attempted to define value agree on the premise that some form of assessment of benefits against sacrifices occurs in the creation of value.[8]

Today, value creation is seen as the process through which a customer is made better off in some respect, or their wellbeing is increased, as a result of consuming the good or service they purchase.[9] Thus, value creation emerges when a customer uses or possesses resources (goods) or achieves particular mental states (services). This is known as *value-in-use*. Because this process will be unique for everyone, the process of value creation will differ for every individual, and this makes it challenging for marketers to fully utilise this concept. So why is it important?

Customers have an increasing abundance of choice in most of their purchases, and this creates a buyer's market of high customer expectations and limited loyalty. If a brand cannot accurately create, communicate and deliver potential value to customers, it will quickly be rejected – or, worse, not even considered for purchase. So, it is increasingly important for brands to understand what customer value is and, more importantly, what it is not. Remember from the previous paragraph that customer value is determined by the customer, and not by the seller or producer of a good or service. People buy things because *they* like them or need them, not because they exist or because the company that sells them likes them.

When we think about value creation this way, it becomes clear that the design, development and manufacturing of resources and back-office processes are not part of the value-creation process for customers (remember, value creation comes from the use or experience of the resource, not from its production). While these processes are important to enable a customer to create or perceive value, they are not part of the value-creation process for the customer. We can say that these activities provide real value to the company and *potential value* to the customer, since the customer can only achieve true value creation through their use of these resources.

Exhibit 1.2 A DIAGRAMMATIC EXAMPLE OF HOW TO THINK ABOUT THE CREATION OF VALUE


Provider sphere
Customer sphere
Value-in-use accumulating over time (process)
Design
Development
Manufacturing
Delivery
Usage
Back office
Front office
Creation of value-in-exchange
Value-in-exchange as a singular entity in time (outcome)
Creation of value-in-use

Source: Gronroos, C, 2011, 'Value co-creation in service logic: A critical analysis', *Marketing Theory,* 11(3), 279–301: 283; permission conveyed through Copyright Clearance Center, Inc.

Exhibit 1.2 shows this diagrammatically. When the customer uses or consumes the resources on offer by the organisation, they can experience value creation in use. This process is considered to be in the *customer sphere* of influence. You can see in the exhibit that the *provider sphere* (or back-office processes) is where potential value is created.

The only exception to this rule is when the customer is intrinsically involved in these production activities. In these situations, customers play a role in both the provider and the customer spheres of influence. This process is known as **co-creation of value**. In this case, value creation is considered to be an all-encompassing process.

co-creation of value
A concept of the source of value that suggests value is created by customers using the resources of a company, as opposed to value being inherent to the product.

One company that has fully embraced this concept of co-creation of value is The LEGO Group, makers of LEGO-brand toys. LEGO has recognised that its customers are the greatest resource for innovation, and so encourages its online communities to submit ideas for new LEGO projects. If a project gets 10 000 votes, LEGO will review the idea and create new sets based on it, which are then offered worldwide to its market. In return for the idea, the creator is involved in final approval of the design and production of the sets, as well as receiving a royalty on sales and being recognised for their input on the product's packaging and marketing. This approach has not only helped LEGO grow its market appeal but has also increased the strength of the company's relationship with its customers all over the world.[10]

The co-creation theory, like most marketing theories, is still developing, but it provides an understanding of the exchange of value that was not possible from previous theoretical perspectives, and can give customers and enterprises a better understanding of how to manage the marketing interface at the point of exchange.

From this review, you should appreciate that not all organisations are in the business of meeting and satisfying customers' needs and wants. Furthermore, the orientation that organisations adopt will influence how they react to the customer and their needs. In the next section, we will look at the impact of an organisation's orientation.

Who's in charge?

The Internet and the widespread use of social media have accelerated the shift in power from producers and retailers to consumers and business users. This change began when customers started using catalogues, electronics and the Internet to access information, goods and services. Customers use their widespread knowledge to 'shop smarter', leading executives such as former Procter & Gamble CEO AG Lafley to conclude that 'the customer is boss'.[11]

As the use of the Internet and mobile devices becomes increasingly pervasive, the shift of control from producer to customer will continue to grow. This means that organisations must create strategy