

# Chapter 1

## Introduction to Marketing

### Chapter Overview

The chapter one focuses on giving an understanding on what the marketing is including its nature and scope; role as a function and a philosophy; importance to different parties such as organisations, individuals and society. The chapter further explains what marketers can offer (market offerings) to achieve its ultimate goal while describing the terms 'Customer Perceived Value' and 'Customer Satisfaction'. Finally, the chapter discusses the importance of 'Relationship Marketing' while illustrating different customer groups based on their loyalty and profitability and ends with explaining the marketing management process.

### Learning outcomes

At the end of this chapter you should be able to,

- Define marketing
- Explain the role of marketing in business and society
- Distinguish different types of market offerings
- Recognise the components of Customer Delivered Value
- Define the term 'Customer Satisfaction' and its importance
- Identify the importance of Customer Relationship Marketing and different types of relationship groups.
- List down the steps in the marketing management process



*Marketing is the process by which companies create value for customers and build strong customers relationships in order to capture value from customers in return.  
(Kotler & Armstrong, 2016).*

## 1.1 What is Marketing?

Marketing is understood differently by different people. Some people narrowly define marketing as all the activities taking place between production and consumption. Others think marketing as just selling and advertising. These represent the tip of the ice burg of which the hidden part represents the most important area of marketing which is called “homework”. This part includes analysing marketing opportunities, identifying proper customers, designing appropriate products, pricing correctly, distributing and communicating effectively etc. Therefore, modern marketers show that marketing begins before the production and continues even after the consumption. If a company carries out this homework soundly, it makes selling and advertising unnecessary.

*Selling & Advertising is like the Tip of the marketing iceberg which is visible to everybody*

*The aim of marketing is to make selling unnecessary  
(Peter Drucker)*



Another simple yet better definition of marketing is that “Meeting needs profitably”. This draws the marketers’ attention to customers’ need and emphasise the exchange between customers and marketers. Considering the role of marketing in both business and society, Kotler (2016) defines marketing in a broad perspective as follows.

*“Marketing is a social and managerial process by which individuals and organizations obtain what they need and want through creating and exchanging value with others”*

This definition covers both micro marketing (as a managerial process) and macro marketing (as a social process). It highlights the concepts; needs, wants, products, value and exchange. From this managerial and social process people as individuals and as groups (e.g. families, firms) fulfil their needs and wants.

## 1.2 The nature of Marketing

Marketing is a discipline which has a direct impact on individuals, households, organizations and the whole societies nowadays. It is commonly believed that marketing is omnibuses. It is explained as a philosophy, art, science and a way of living of people. Every minute, we are influenced by marketing. Around fifty percent of a rupee we pay for a product is spent on marketing associated with that product. The level of consumption that we maintain is directly determined by marketing function of the society.

## 1.3 Role of Marketing in Business

Marketing plays a vital role behind the survival and growth of business organizations. It directly deals with the customer markets to bring prosperity to business organizations. It bears the responsibility to obtained and manage appropriate level of demand for the products and services of businesses.

Marketing is treated as both an overall ***business philosophy*** and an important ***functional area of management***, which recognizes that the identification, satisfaction and retention of customers are the key to prosperity. This is particularly important, as much of the problem of definition and misunderstanding over the term ‘marketing’ stems from the confusion between the function of marketing and its philosophy. The term ‘marketing’ is used to describe both the techniques used by the marketing department and the overall marketing orientation of the firm. Thus, Marketing is in fact both a function and a business philosophy.

### 1.3.1 Marketing as a functional area of management

One of the perspectives in understanding of marketing is; taking marketing as a managerial function called ‘marketing management’, similar to the other functions of the business organisation such as human resources management, financial management, operational management etc. Generally, a separate department is established in organisations to execute this marketing function called the ‘department of marketing management’.



Thus, many organisations have a marketing department made up of marketing generalists, e.g. the marketing manager, the purchasing manager, the sales manager, marketing research manager and so forth. Such a marketing department is obviously based in a physical location within the organisation and involved with handling marketing techniques and strategies. These techniques cover such areas as purchasing, sales, production, pricing, distributing, advertising and promotion, marketing research, planning and after sales services. Many of these functions of marketing offer separate career opportunities and are often undertaken by specialists, with the marketing manager who is responsible for coordinating all the separate but interrelated activities.

As a function, one of the important roles of marketing is to correctly identify both current and future needs and wants of specifically defined target markets and managing the marketing tasks to satisfy such needs and wants profitably. In fact, basically the process of marketing management is not different from any other functional area of management and essentially comprises of the following key tasks.

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

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

**Implementation:** Both strategic and tactical plans must of course be acted upon if they are to have any effect. The implementation tasks of marketing management involve such activities as staffing, allocating tasks and responsibilities, budgeting and securing any financial and other resources needed to translate plans into action.

**Control:** The final task of marketing manager is measuring and evaluating progress against objectives and targets established the plans.

Although marketing is a very important functional role within the organisation, the influence of marketing should not be restricted to the marketing department. A marketing –oriented business has implications for the way people throughout the organisation respond to the initiatives that as an overall business philosophy.

### 1.3.2 Marketing as an overall business philosophy

Many firms do not see marketing as another functional area of management but more as an overall business philosophy, a way of thinking about business and a way of working which runs through every aspect of the firm's activities. Therefore, many successful companies see marketing as the keystone of their business. They are not viewed it as a separate function, but rather as a profit – oriented approach to business that permeates not just the marketing department but the *entire business*. From this point of view, marketing is seen as an attitude of mind or an approach to business rather than a specific discipline. It highlights the customer centred thinking throughout the organization and a sound inter-functional support and coordination. It further emphasises that business managers should look through a window rather than a mirror. i.e. should focus on effectiveness rather than efficiency!



*“Marketing is not only much broader than selling, it is not a specialized activity at all. It encompasses the entire business. It cannot be considered a separate function. It is the whole business seen from the point of view of its final result, that is, from the customer's point of view. Concern and responsibility for marketing must therefore permeate all areas of the enterprise”*  
(Peter F. Drucker)

Therefore, marketing cannot begin to be effective within a firm unless it has the firm support of all managers and employees in every area of an organization.

### 1.4 Role of Marketing as both a Business Philosophy and a Business Function:

Marketing as a **business philosophy** is concerned with the achievement of **effectiveness** - the ability to achieve appropriate objectives (“doing the right thing”). In other words, it reflects the ability to create and keep a profitable customer. It brings right products, right markets, and right strategies to the minds of marketers. It highlights outside-in thinking rather than inside-out thinking. Therefore, it directly affects the growth of the business.

Functional management is concerned with the management of the marketing functions including product, price, place and promotion activities. Thus, marketing functions are dedicated to efficiency (“doing things right”). Efficiency means the ability to minimize the use of resources in achieving organizational objectives (input-output ratio). Figure 1 summarizes the principle combinations of effectiveness and efficiency.

Figure 1.1: Principle combination of Effectiveness and Efficiency

Principle Combinations of Effectiveness & Efficiency	
	Effective      Ineffective
Efficient	Thrive      Die Slowly
Inefficient	Survive      Die Quickly

Business organizations, which are operationally efficient and strategically effective, will thrive, but even a relatively inefficient organization will at least survive if it can create and keep customers. Companies which are ineffective, which are unable to adapt as their market changes, are designed to die, increasing efficiency ultimately delay this. “In business, the followers are customers. To produce these customers, the entire organization must be viewed as a customer – creating, and a customer – satisfying organism. Management must think of itself not as producing products but as providing customer-creating value satisfaction”. Marketing as a philosophy should be embraced by entire organization.



*Carefully look at few organisations operating in Sri Lanka. Considering their level of efficiency and effectiveness, try to identify them under ‘thrive’, ‘die slowly’, ‘die quickly’ and ‘survive’ categories.*

## 1.5 Types of organizations which use marketing

It is a common view that marketing is very much essential for business organizations, at presents all most all type of organizations is viable to adopt marketing. Companies like Hemas, Tobacco, and Unilever which are selling physical products are heavily using marketing in their business. The service providing companies are also increasingly adopting marketing to sell their services. No matter the scale i.e. large, medium or small, any business needs to apply marketing strategies for survival and improvements. However, marketing is not only for profit-oriented business organisations. Not for profit organisations also use marketing to achieve their objectives such as communicating with their target customers, build awareness of an issue and gain financial support from the public fir its cause etc.



Therefore, marketing is for,

For-profit organizations

Not-for-profit organizations

NGOs

Government organizations

Universities, Schools, Hospitals

Associations, Societies, Religious institutions



*Application of marketing in profit-oriented business organisations are noticeable. However, why and how not-for profit-oriented organisations use marketing is not well revealed. Identify Five (05) not -for- profit organisations and recognise how and why do they use marketing with appropriate reasoning.*

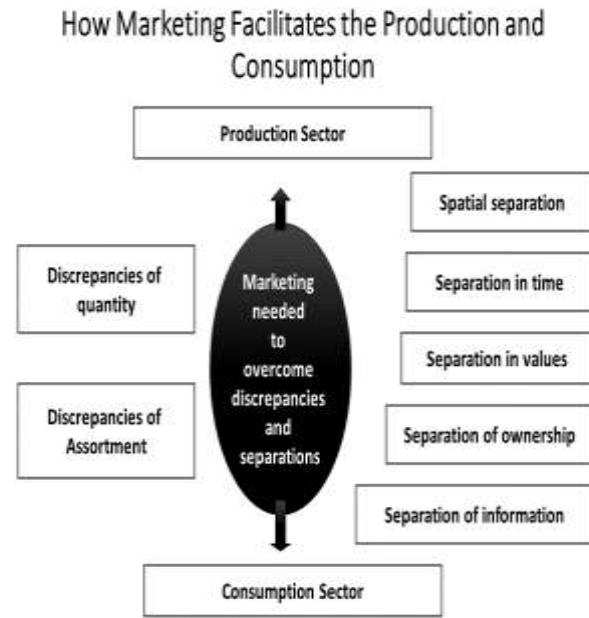
## 1.6 The importance of Marketing in a Society

It is generally accepted that the standard of living of people of any society is determined by the level and quality of marketing activities carried out by various parties within a society. Individuals and households are fulfilling their needs and want through the marketing function taking place within the society. Unless such a marketing function, it would not have been able to match the heterogeneous supply of the production sector with the heterogeneous demand of the households of any economy.

There are a number of discrepancies and gaps between this heterogeneous supply and demand which is illustrated by the following diagram. Unless these discrepancies and gaps are eliminated, we cannot expect a continuous and smooth flow of products moving from the production sector to household sector. If so, the level and quality of products consumed by the household sector is shrinking and thus reducing their level of standard of living. However, any society or economy has a macro marketing system comprising manufacturers, suppliers and various intermediaries who perform various marketing activities such as manufacturing, pricing, distributing, promoting, selling etc which are called universal marketing functions. By performing these functions, macro marketing system can eliminate such discrepancies and gaps between producers and consumers and continue a flow of need satisfying goods and services. Thus, if any society has a poor macro marketing system, it leads to a low standard of living among people of that particular society.

On the other hand, by eliminating such gaps and discrepancies, marketing functions provide a several type of utilities in addition to form utility provided by manufacturing.

For instances, by eliminating special gap, marketing delivers a place utility to consumers. A time utility is created and delivered by marketing by eliminating time discrepancies between producers and consumers.



Buying and selling activities provide title utility by overcoming title gap. Whole selling and retailing try to eliminate discrepancies of quantity and assortment between sellers and households. This implies that production itself is not sufficient to meet households' needs and wants. It must be supported by marketing functions in order to deliver a bundle of benefits (utilities) to consumers (households)

## 1.7 The importance of marketing to you

Marketing have an impact on you by several ways. Firstly, it directs a flow of products and services toward you for acquisition and consumption which determine your standard of living. A greater deal of products we consume is a result of marketing taking place in every moment in the world. Secondly, around 50 percent of each rupee you pay for a product is spent on marketing associated with it. It is essentials to pay such an amount on marketing as it delivers time, place, title and information utilities to you. Finally, marketing offers you a wide variety of employment opportunities in the fields such as advertising, selling, product management, branding, marketing research etc.



## 1.8 What marketers can offer to satisfy customer needs/ wants and demand (Market offerings)

Consumer needs and wants are fulfilled through market offerings. The marketer must try to understand the target market's needs, wants and demands. *Needs are the basic human requirements.* People need food, air, water, clothing and shelter to survive. People also have strong needs for education, recreation, and other services. These needs are not created by society or by marketers. They exist in the very texture of human biology and the human condition.

These needs become wants when they are directed to specific objects that might satisfy the given need. A Sri Lankan need food but wants a rice and curry, noodles etc. Although people's needs are few, their wants are many. Wants of a particular society are shaped and reshaped by the culture of that society.

Wants include only willingness to buy the product/s. For a want to become a demand, it should be backed by ability to buy the product (purchasing power of the customer). Marketing management is primarily dealing with demand. The ultimate responsibility of Marketing Management is to obtain a desired demand level from the market to the products of the company

### Product or Market Offering:

Product is anything that can satisfy a need or want. It may be,

Physical products	- Eg: Car, T.V. , Radio
Services	- Eg: Transportation service
Persons	- Eg: Malini Fonseka
Places	- Eg: Kataragama
Activities/events	- Eg: Physical exercise
Organization	- Eg: Fitness centre / Health club
Properties	-Eg : Lands, Buildings, Shares
Information	-Eg : Research, Educational Materials
Experiences	-Eg. OBT programs, Rock climbing, Surfing

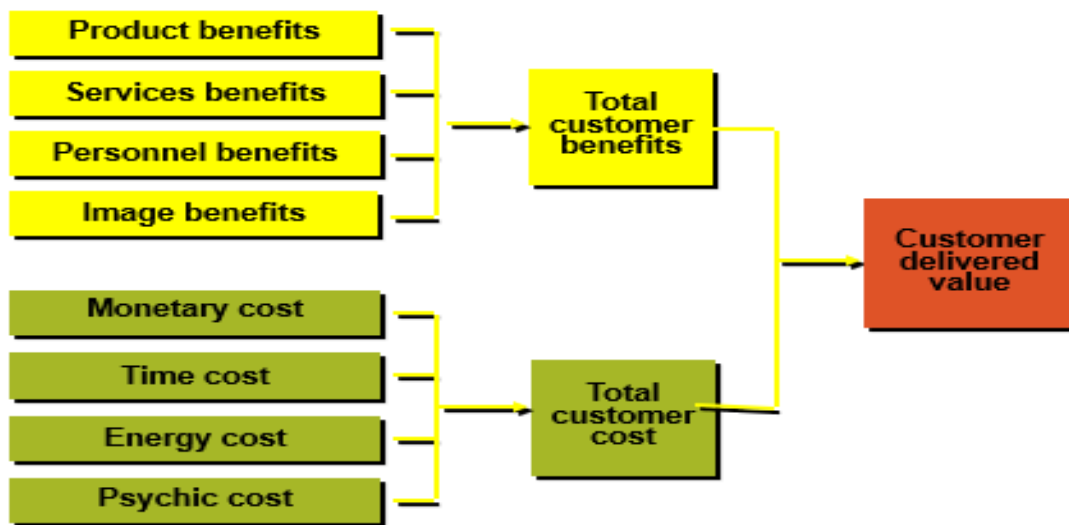
## 1.9 Customer Delivered Value

### Value, Cost and Benefits

Customer value of a product is the product's perceived ability to satisfy the customer's need or need set. A total Customer value is the "bundle of benefits" Customers expect from a given product or service. Customers compare value of alternative products with costs of obtaining and purchasing these alternatives. Total customer cost is the "bundle of costs" that customers expect to incur from a given product or service.

Net customer value (Customer Delivered Value) is the difference between the total customer benefits that the consumer gains from owning and using a product and total customer cost of obtaining the product. This is illustrated in the following diagram.

**Figure 1.2 Determinants of Customer Delivered Value**



Basically, marketing argues that the central point of any organization is its customer. Given this context, the organization as a social entity looks forward to serving their customers well so that other objectives of the organizations are met.

$$\text{Customer Net Value} = \text{TCV} - \text{TCC}$$

Actual value is the value that the consumer places upon the good or the service after consuming it. It is the actual experience of satisfaction or dissatisfaction. Perceived value refers to the value that the consumers perceive before the actual consumption. It is the psychological expectation. This perception of value is affected by the aesthetic and unique appearance of the product, type of distribution channels, promotions, as well as the price of the product.



*Select an organisation that you have recently visited to purchase product/ or a service. Recognise what they have done to provide more benefits to you. Which type of costs (sacrifices) involved with your purchase decision? How would you evaluate your perceived Value?*

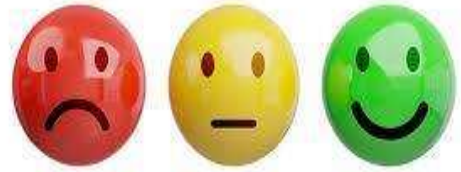
## 1.10 Customer Satisfaction

Customer satisfaction occurs when a product's perceived performance matches a buyer's expectations.

\*If the product performance fails to meet customer expectation the buyer is dissatisfied.

\*If the product performance matches the buyer expectation, the buyer is satisfied

\*If the product performance exceeds the buyer expectation, the buyer is delighted.



### Tracking and Measuring customer satisfaction

For customer centred companies, customer satisfaction is both a goal and marketing tool. Companies use the following four methods to measure how much customer satisfaction they are creating.

**Complaints and Suggestion Systems:** Provide forms for customer to report their likes and dislikes about the product, service, Company etc.

Keep suggestion boxes in front of the company.

Supply comment cards to customers.

Establish customer hotlines with free phone numbers by which customer can inquire, make suggestions or complaints.

**Customer Satisfaction Survey:** Company can obtain a direct measure of customer satisfaction by conducting periodic surveys. They can send questionnaires or make telephone or personal interviews to a random sample of their potential customers to find out how they feel about various aspects of the company's product/service and its performance.

### Lost Customer Analysis:

Companies can contact customers who have stopped buying or who have switched to another supplier to learn why this happened



**Ghost Shopping:** A company can hire persons to pose as potential buyers to report their findings on strong and weak points they experienced in buying the company's and competitor's products.

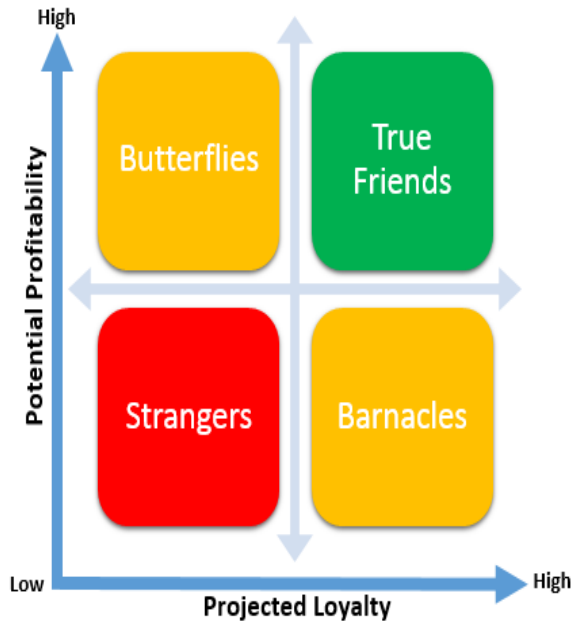
## 1.11 Building Customer Relationships

Now we can understand that successful marketers try to build up long – term trusting “win – win” relationships with valued customers. Kotler defines (2000) “relationship marketing as the process of creating, maintaining and enhancing strong value – based relationships with customers and other stakeholders”. This is accomplished by promising and delivering high quality goods and services and fair prices to the customers overtime. It is also accomplished by building strong economic, technical and other social ties with other parties – distributors, dealers, suppliers etc. Therefore, the task of creating strong customer loyalty is called ‘relationship marketing’ The relationship marketing explains four different levels of relations to customers.

Four groups of customers have been recognised based on their profitability and projected loyalty.

**True Friends:** True friends are highly profitable and loyal; therefore, businesses should treasure these customers, constantly delight them, nurture them and retain their loyalty by communicating with them in a regular but yet unobtrusive manner.

**Butterflies:** Are potentially profitable but not loyal. There is a good fit between the company's offerings and their needs. However, like real butterflies, we can enjoy them for only a short while and then they are gone. An example is stock market investors who trade shares often and in large amounts but who enjoy hunting out the best deals without building a regular relationship with any single brokerage company. The strategy to deal with butterflies is to "Make them happy while they are interested, enjoy them while they last. After that, cease investment in them".



**Barnacles:** Are customers who are loyal but give little profit to the company. For an example, some savings accounts in banks for a long time period with few moneys in it. In this case, the bank does not profit much; in fact, the bank might lose money because of the maintenance costs of keeping the customer's banking account. The relationship management for these customers would be to try to cross-sell or up-sell to them, i.e. encourage the customers to buy more or different types of products such as promoting same banks credit cards, loans etc.

**Strangers:** Are customers who are neither loyal nor profitable, an example of a stranger is a passer-by who does not stay, work or study in the area, but just makes a one-time purchase of a can of soft drink at a shop. The key to dealing with strangers is to differentiate them quickly, and do not invest in them at all.



The ultimate outcome of relationship marketing is the building of a unique company asset called a **“marketing network”**. A marketing network consists of the company and its customers, suppliers, distributors with whom it has built mutually profitable business relationships.

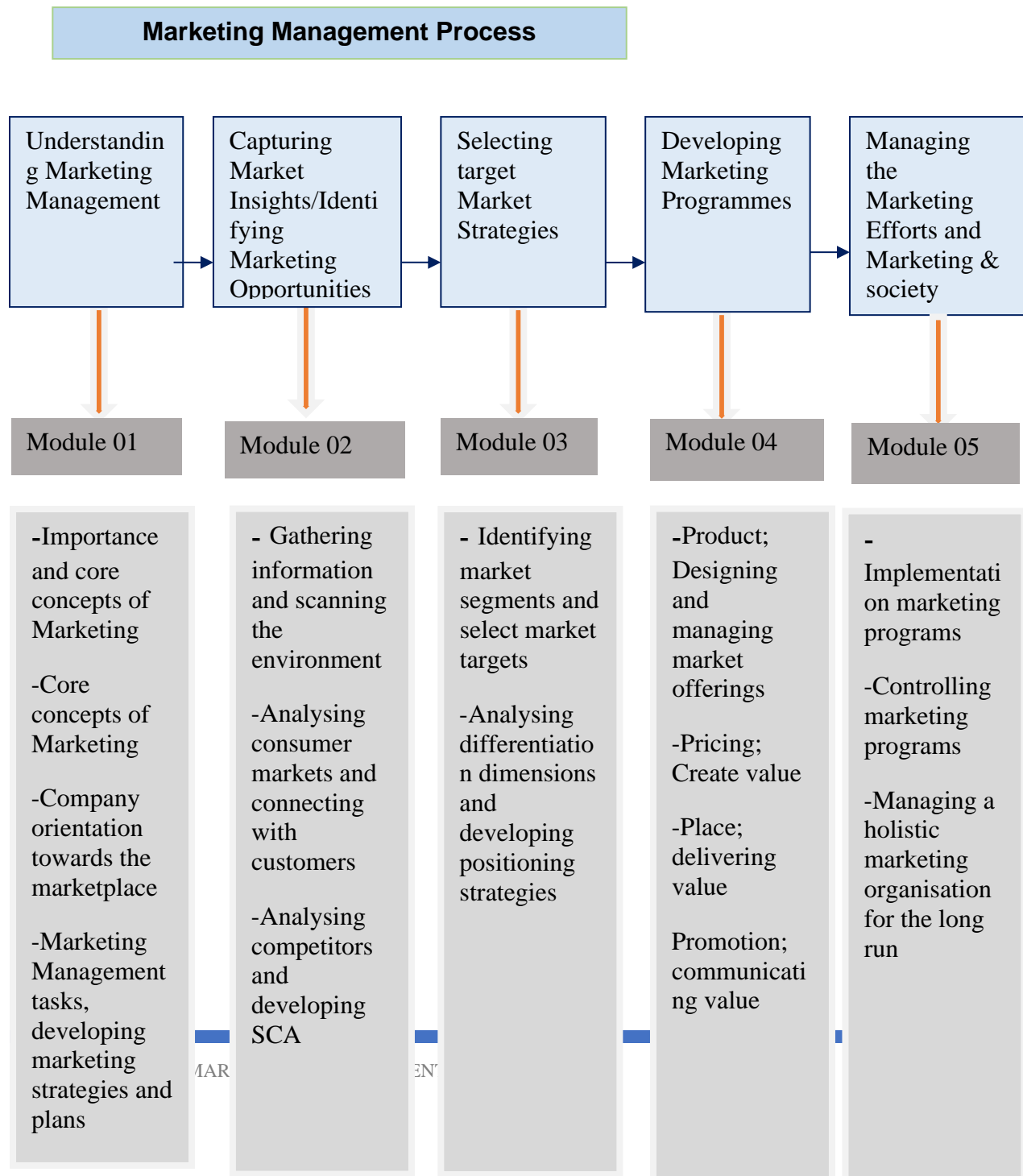


*Consider any business organisation that you are currently engaging with. Are they practicing relationship marketing with you? If so how? According to your own evaluation, which type of a customer you are? (true friend, stranger, barnacle, butterfly). Try to recognise some other customers in the same business who belong to other relational groups and try to understand how does the business organisation maintain relationship with them? Is it different to yours?*



## 1.12 Marketing Management Process

Marketing process includes ways in which value can be created for the customers to satisfy their requirements. It is an endless series of actions and reactions between the customers and the companies making attempt to create value for and satisfy the needs of customers. In marketing process, the situation is examined to identify opportunities, the strategy is formulated for a value proposition, tactical decisions are taken, plan is executed, and results are monitored.





## ***Think Deep***

Assume that you are working as a marketing manager for the 'My Kitchen'; a newly established restaurant located in Nugegoda, which provide dinner menus in the restaurant premises as well as deliver to customer doorsteps upon their request.

You are supposed to recognise the possible approaches to enhance 'Customer Delivered Value' and 'Customer Satisfaction'