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MARKETING

Marketing is the interface between the organization and its customers. Put simply, marketing is how businesses attract and keep customers, who in turn pay for goods and services, which renders the business profitable and enables it to exist and grow. For not-for-profit organizations such as charities, marketing plays an equally important role, connecting them on the one hand with donors and supporters who provide funding, and on the other with those who need their services, creating awareness of the offer and encouraging people to take it up.

Marketing is proactive. Companies cannot wait for customers to come to them; they must do something to attract customers and to make the latter aware of the goods and services that are on sale. This does not necessarily mean high-profile brands and advertising. Other, more subtle means can be used to attract and hold customers. Definitions of what marketing is and how it is carried out have changed over the past century, but the basic notion that marketing is about getting and keeping customers – or clients, or service users – remains a constant theme.

DEFINITIONS

Customers At the simplest level, a customer is anyone who purchases goods or services. Customers who have already made one purchase and then habitually come back to purchase more goods and services from the same business are known as 'repeat customers', and are often considered more important than those who simply make one purchase and never return. People who are not

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currently customers but who have the potential to become so – that is, could be persuaded to buy – are termed 'potential customers'. Customers must in some cases be distinguished from consumers (see below). In some areas, such as professional services (accountancy, management consulting, law) and some not-for-profit sectors, customers are also known as clients.

Consumers Consumers are those who actually use (consume) a product or service. In some cases, such as retailing, customer and consumer are usually one and the same person (though even then there are exceptions, such as people buying goods and then giving them as gifts). In other cases, however, the customer and the consumer are quite different. This is particularly the case when businesses sell to other businesses, which in turn sell goods on to consumers. For example, publishers rarely sell books directly to readers; they sell through intermediaries such distributors, wholesalers and booksellers. These are the customers, the readers are the actual consumers. Even though the intermediaries do not pay directly, their end custom is essential for the whole process. Consumers who are not customers are sometimes also known as 'service users' or 'end-users'.

Consumer behaviour This is an umbrella term which includes a whole range of personal motivations, thought processes, decision-making and action on the part of consumers. Predicting and understanding consumer behaviour is one of the greatest challenges facing marketers.

Goods Goods are what a company produces for sale. Finished goods such as cars, soap powder, clothing, computers, books and so on are known as 'consumer goods', as they are intended to be delivered to an end-user. Components and raw materials – semiconductor chips, rolled steel, automotive driveshafts and processed chemicals for example – are known as 'industrial goods' as they can only be sold to other businesses, who will use them to manufacture consumer goods; on their own, these products are of no value to the consumer. Goods are usually divided into products and services.

Products and services Products, in marketing terms, are physical and tangible items such as computers or soap powder. Services are intangible, such as banking and financial services or insurance. Many services are actually a mix of product and service – for example, a restaurant meal consists of intangibles such as atmosphere, the way customers interact with the restaurant staff, and tangibles, the food and drink which are consumed – and many products also contain a service element, such as the after-sales service and warranty. In such cases, if a classification is necessary, it is usually done by the dominant element provided to the customer. Thus a car is a good, but car repair is a service: soap powder is a good, but laundry and dry-cleaning are services, and so on.

Bundle of benefits Regardless of whether the good provided is a product or a service, the customer expects certain benefits when making a purchase. These benefits are also known as the value received by the customer. The bundle of benefits concept recognizes that customers are often motivated by more than one need when making a purchase. A customer who buys a hamburger may do so simply because they are hungry, but a customer who goes out for an expensive restaurant meal will want more than just good food; they will expect good service and a pleasant atmosphere as well. Automobiles are well known examples of complex bundles of benefits: customers may be looking for style, comfort, safety, mechanical reliability, fuel economy, any combination of these or even all of them at once. Knowing that a product can offer more than one benefit to customers is critical when designing new products.

Selling Selling is sometimes confused with marketing. In fact, the term 'selling' refers to the transaction itself, the act of selling goods to customers and ensuring that customers pay for them in return. This is not always as simple as it sounds, and the act of generating a single sale can range from simple, instant transactions (buying a bar of chocolate in a corner store) to long and complex transactions that can take months to complete (selling an Airbus passenger jet to an airline). Marketing includes selling as one of its primary activities, but has many other fields of activity as well, as will become clear below.

Digital marketing First emerging in the 1990s, digital marketing is a still a rapidly evolving sub-discipline of marketing. Digital marketing refers specifically to online marketing, both online advertising and other forms of promotion. Initially digital marketing was seen as something quite different from conventional forms of marketing, but with the passage of time the two have become more integrated. Today most organizations, even very small ones, have an online presence. When this chapter refers to marketing, it can be taken for granted that we are also talking about digital marketing unless it is specifically exempted.

THE PURPOSE AND AIMS OF MARKETING

Marketing aims to connect organizations with their customers, to the mutual advantage of both. Although more than 50 definitions of marketing have been put forward, the idea of 'meeting customer needs profitably' has stood the test of time and remains the most commonly accepted meaning. This remains true whether we talk of marketing as a business process, an outlook or mindset on the part of the company and its managers, or a philosophy of social exchange. There has been debate over which of these three things marketing actually is, but the consensus which has built up around the work of leading marketing academics such as Philip Kotler is that it partakes of all three.

At the most practical level, marketing is a process that connects the organization with its customers (bearing in mind the various distinctions made above). But in order to do this successfully, marketing has also to do several other things. It must first try to determine what customers want, so that appropriate products and services can be designed and delivered. It must monitor changing customer wants and needs to make sure that products and services evolve to keep pace with changes. It must look for new potential markets that the business could enter. And, of course, it needs to monitor current customers to ensure that they are getting the value that they expect, so that they will continue to make purchases. At higher levels the marketing function can become still more complex, encompassing long-range market forecasting and global marketing planning.

Always, however, marketing must remain focused on customers, who they are, what they want and how the business can meet their needs. The mistake marketers sometimes make – and this is where some of the early digital marketing ventures went badly wrong – is to design a product or service first and then attempt to figure out how to market it. This is like designing a bicycle with square wheels and then trying to sell it. Marketing should always start with the customer, and then work backwards to the design process.

MARKETING AND SALES

Marketing was originally thought of as synonymous with sales, but in the first decade of the twentieth century two American academics challenged this notion. The first, Walter Dill Scott of Northwestern University, applied the principles of psychology to marketing, especially advertising, and realized that rather than selling directly to customers, advertising could be scientifically designed to stimulate people to make purchases. With good marketing, the organization did not have to go out to its customers and persuade them to buy; instead, customers would come to the organization of their own volition. Scott embedded this concept in his early texts on consumer behaviour. The second was Paul Cherington of Harvard Business School, who looked at the variety of factors that influence customers when buying goods, and realized that a range of issues, including price, availability and product quality, came into play. Marketing was much more than just a matter of selling goods; it was also about designing goods that would sell, delivering them to the right place to make it easy for the consumer to buy, and stimulating demand through promotion.

Sales remains an important marketing function, and Peter Drucker's view that 'marketing makes selling superfluous' by stimulating demand so that goods sell themselves is a difficult goal to achieve. At some point the transaction has to be made, and in most industries this still requires contact with the customer, either physically or in a digital marketplace. Philip Kotler's description of selling as 'the tip of the marketing iceberg' is perhaps more accurate. In order for selling to work effectively, a whole host of other marketing activities must support it.

MARKETING OF SERVICES

In the definitions section above we noted that there are differences between physical goods and services. Although the principles behind the marketing of both are the same, services differ from goods in two important ways.

First, services cannot be stored, and there are distinct limitations on the times and places at which they can be delivered. By and large, customers consume services when and where it suits them.

In some cases the service has to be delivered where the customer is, either because of emergency (roadside assistance to motorists whose cars have broken down) or because that is what the customer wants (home delivery of shopping, pizzas, etc.) In some cases consumption takes place on the organization's premises, such as restaurants, where the customer comes to the premises of the business providing the service, or health care, where people go to see their doctor or to a hospital. However, these distinctions are breaking down; many restaurants now deliver food to people at home, and doctors are increasingly using video consultations to provide care to people at a distance.

The issue of time is even more critical. Consumers use services when it suits them, not when it suits the company. People want to eat when they feel hungry; they go to doctors when they feel ill; they go to garages when their cars break down; they have their hair cut when they feel the need to do so.

This leaves marketers of services with a dilemma. Services that are not used are wasted; they cannot be stored for another occasion. A restaurant may be open between ten in the morning and noon and have only 20 per cent of its tables occupied. Between noon and two pm, however, the occupancy rate may run at 100 per cent. The concept of efficiency would suggest a simple solution: close the restaurant between ten and twelve, when few people are using it, and remain open between twelve and two when the full capacity can be sold. But the people using the restaurant between ten and twelve, though few in number, might be regular customers who generate a steady income. The period between twelve and two may be very efficient in terms of service, but the restaurant may also be turning people away, thus losing potential customers.

Marketers need to ensure that capacity is available when required, but they can also try to manage demand, smoothing out peaks and troughs and trying to ensure a more even level of take-up of services by customers. In the example above, the restaurant might offer special deals on meals during the morning, hoping to persuade a few customers to switch their custom to this period and ease the pressure on the prime period after twelve. Similarly, hotels will offer lower prices mid-week, to encourage people to stay with them at off-peak times; airlines offer special deals at low times and retail outlets hold sales in January.

Second, the customer is always part of the service process. Customers themselves play a role in nearly every service. They consume meals, they use health care services, they learn in classrooms, they provide the hair that hairdressers cut, they choose the goods they buy in retail outlets. Customers are not passive: they choose what they want and when they want it. In doing so, they interact with members of staff provided by the business, and it is the interaction between them that determines the success of what marketers call 'the service encounter'.

The key point is this: the service is not what the business provides, it is what the customer receives. It is the customer's use of the service that makes it a service. Services marketers have another phrase for this: 'the customer is part of the factory'. A service that is offered but is not used is effectively not a service at all; no transaction has taken place, as the seller has not been met by a buyer.

The marketing of services, whether as a pure service or as part of a wider product – after-sales service for IT systems, for example – has some special features. First, services marketers need to work very closely with what are known as the contact people, the people who actually deliver the service (waiters, mechanics, hairdressers, etc.). These contact people themselves have much responsibility for marketing, as they are in closer contact with customers than anyone else in the business. How they present themselves, how they interact with customers and what they actually do determines the quality of the service and closely affects customer satisfaction. Contact people make the difference between good service and bad service, and marketers have a responsibility to support the contact people and ensure that they know what is expected of them.

Some writers on services marketing speak of the contact people as 'actors', who work to a 'script' prepared for them by marketing. Sometimes this really is a script (like the waiter who arrives at your table and says, 'Hello, my name is Mark and I will be your waiter for this evening'.) but more often it is a looser set of guidelines showing contact people how they can provide the best service in any given set of circumstances. The script helps contact people know what to do in order to provide the appropriate service.

Finally, because the customer is involved in the production of the service, and the customer cannot be controlled – customers, according to the theory above, bring their own 'scripts' to the service encounter, and these sometimes conflict with those provided to contact people by the business – it is not possible to satisfy every customer all the time. Even if the service is provided exactly according to specification, some customers will have different expectations and will feel unhappy or let down. This is known as service failure. To deal with service failures, marketers design recovery procedures. When a customer is known to be unhappy (such as a hotel guest complaining of uncomfortable beds), or it can be reasonably assumed that the customer is unhappy (such as a passenger on a late arriving plane), well-managed firms have systems for dealing with this. For example, some hotel chains monitor review sites like TripAdvisor on a 24-hour basis. As soon as a customer posts a complaint on TripAdvisor, staff at the hotel are alerted so they can make immediate contact with the customer and rectify the complaint.

Unhappy hotel guests can be offered apologies, a different and better furnished room, a voucher for a future stay at the hotel free of charge, or any of a number of other benefits. Passengers on a delayed flight can be offered free or discounted tickets for future journeys. By offering effective compensation for the original problem, the services marketer can convert a dissatisfied customer into a satisfied one. Paradoxically, some studies have shown that customers who experience service failures but are then successfully compensated through the failure recovery process sometimes end up more satisfied than their fellow customers for whom everything went right!

CUSTOMERS

As the preceding sections of this chapter have hopefully made clear, customers are the focus of the marketing effort. Virtually everything in marketing is done with the customer in mind. Marketers know that, quite simply, the business depends on its customers. Without them, there is no revenue, and no profit.

In order to get and keep customers, therefore, marketers spend a great deal of time trying to understand them. They use many tools derived from psychology, neuropsychology and sociology, as well as research done within the field of marketing itself.

BEHAVIOUR

If marketers can correctly forecast what consumers will want, when and where they will want it, and what prices they are willing to pay, then the organization can design and deliver successful products and services. All too often they cannot, and this is what makes the launch of new products highly risky.

There is a direct relationship between the degree to which marketers can understand and predict how consumers will behave and react, and the level of risk the company faces in marketing. The more we know about our customers, the better we will be able to match our goods with their needs. So marketers spend a great deal of time studying their customers and what they do. Among the activities marketers look at are when and where people make purchases of particular goods; the frequency with which repeat purchases are made; how much they are willing to pay; what features they value about a certain type of goods; what current fashions may be motivating particular types of purchases; and the kind of lifestyles that customers lead.

As well as existing customers, of course, marketers also look at potential customers, that is, people who are not currently customers of the business but could be induced to become customers. These people might be customers of competitor firms, in which case the marketer needs to know what it is about the rival firm that people value. Or they might not be currently buying this good at all, in which case the marketer must determine why this is so and what might persuade them to change their mind. This is the challenge for the electric car market. Even environmentally conscious people may not be willing to switch to a relatively unknown new product like an electric car, preferring the certainty of their existing car. What might persuade them to change their minds? To answer the question, the marketer has to look at some of the barriers that might prevent people from switching to electric vehicles (cost, access to charge points, durability and range, concerns over the environmental costs of battery manufacture) and whether and how these might be overcome.

CUSTOMER DECISION-MAKING

At the heart of consumer behaviour is the decision-making process. Two questions need to be asked by marketers: why do customers make decisions to purchase (or not purchase), and how do they make those decisions?

The 'why' question is the most difficult one to answer. Why pick one product over another quite similar product, or one brand over a nearly identical brand? Why buy Nike instead of Adidas, McDonalds instead of Burger King? Answers can often be found in neuropsychology and psychology, exploring how our brains react to often very subtle cues. Certain shapes, colours or words may convey messages, often subconscious, that influence our decisions. Sometimes these cues vary between cultures: in the West, for example, red is a colour associated with strong emotions, danger, even anger, while in China it is associated with love and power. One of the problems most frequently encountered when marketing internationally is that consumer behaviour varies between cultures.

Culture, though, is by no means the only factor in answering the 'why' question. Individual perception, personality, attitude and background knowledge all play major roles. These things cannot be predicted, nor in many cases can they even be measured with any degree of accuracy.

'How' questions are somewhat easier to study. There are several models of consumer decision-making, all drawn to some extent from psychology but verified both experimentally and through practice in marketing. One of the most widely used of these is the AIDA model. AIDA stands for awareness-interest-desire-action and suggests that consumers go through a four-stage process when making a decision:

- **Awareness.** The consumer becomes aware of the possible range of goods that might satisfy a particular need, scanning the environment and mentally cataloguing the different possibilities.
- **Interest.** Of the available options, the consumer eliminates those which are less satisfactory, and focuses on one or a few that are likely to be most satisfactory.
- **Desire.** The consumer has now decided which option will be most satisfactory, and passes from a passive understanding or appreciation to an active desire for the good in question.
- **Action.** Following on awakened desire, the consumer then takes steps to make a purchase.

Advertisers have long been aware of AIDA, and use it to design advertising copy that appeals to as many of the four stages as possible. 'Honest Ed's car showroom is now open for business. Best cars in town. The solution to all your transportation needs. Come down and see us now!' is a crude example of this, but great advertising tends to be much more subtle. One of the most famous ad campaigns of all times, the 'Coke is it!' campaign partly designed by the late president of Coca-Cola, Roberto Goizueta (coincidentally, Mr Goizueta's mother was named Aida), appealed to all four stages in just three words, accompanied by some simple images of laughing, happy young people quenching their thirst by drinking Coke. In a split second, the viewer was reminded of the existence of Coke, interest was stimulated but the images, an information cue was passed to the effect that, if the viewer was thirsty, Coke would quench the thirst, and the need for action was correspondingly awakened. 'Coke is it!' was instrumental in defeating the challenge then being mounted by Coke's rival, Pepsi.

AIDA is not the only model of decision-making. There are others, such as ACU, or attention-comprehension-understanding, which relates to how consumers acquire information about goods without actually proceeding to purchase them, or ATR, awareness-trial-repeat, which focuses on consumers who make repeat purchases. All these models have in common the notion of consumers first gathering information, then making a choice, and finally proceeding to action.

CUSTOMER SATISFACTION

As well as understanding why consumers make purchases, marketers also look closely at how happy customers are once they have made a purchase. It is assumed that every customer, when making a purchase, has certain expectations of that product. The customer parted with his or her money to buy a good in order to meet a certain need, or group of needs. These needs can be more or less complex, depending on the product. When buying a soft drink, the customer is usually thinking along the lines of 'I need this to quench my thirst', although in the case of more fashionable drinks, image – 'I need this to give myself credibility in the eyes of my peers' – may also play a role. When buying soap powder, similarly, the customer is motivated by the desire to get his or her clothing clean. When buying a car, however, the needs become more complex, and the customer may sum up his or her needs along the lines of 'I need a safe but stylish car which will be mechanically reliable and have good fuel economy but also be comfortable to drive' (other issues like colour, or the presence of a sunroof, or Bluetooth capability may also enter into the mix).

When the customer makes the purchase, he or she then carries out what is known to marketers as a post-purchase evaluation. Of course, few of us as customers think of it in those terms; we think of it rather as making up our mind whether we like something or not. Basically, three outcomes of this process are possible:

1 The customer does not receive the value that he or she expected; the good purchased falls short in some way of what is wanted and does not wholly satisfy needs. There is then a gap between expectation and value received. This result is known as customer dissatisfaction.
2 The customer does receive the value that he or she expected, and the good purchased matches needs exactly. There is no gap between expectation and value received. This is known as customer satisfaction.
3 The customer receives all the value he or she expected, and then received additional value over and above that expected; other needs which the customer had not considered are also fulfilled. This excess of value received over expectation is known as customer delight.

Customer delight is what marketers would achieve in an ideal world. However, this cannot be done by simply building on extra product features that add value. Some of these features might not necessarily result in customer delight; customers might instead be baffled or irritated by features they did not want or did not ask for. Adding extra features also raises costs, and customers may be reluctant to pay a correspondingly higher price. Achieving customer delight requires fine judgement and understanding of what customers truly value; and of course, this will be different not only from product to product but also from customer to customer.

CUSTOMER RETENTION

Another area of concern for marketing is customer retention. This means ensuring that customers, having visited the organization's premises or bought its goods once will continue to do so. This is important, as research has consistently shown that repeat customers provide the majority of revenue in almost every industry.

Research has also shown that it is much more expensive to acquire customers than it is to keep them. Persuading people to buy in the first place is an expensive business, requiring substantial investment in research, advertising and other promotions. Keeping them, however, is usually a matter of ensuring continued customer satisfaction (although advertising and promotions can play a role in ensuring that customers remain loyal, particularly if competitors are trying to woo them away). The American academics Earl Sasser and Frederick Reichheld argued some years ago, in an article in *Harvard Business Review*, that 80 per cent of revenue is provided by 20 per cent of customers. Focusing on these customers and ensuring they remain loyal is a major area of marketing activity.

Sometimes repeat business is not a good idea. In health care, for example, a patient returning repeatedly for treatment is not the best outcome; even where health care is provided on a fee-paying basis, the optimal result should be to ensure that the patient is cured and no longer needs to return. Ultimately, the decision about whether to adopt a customer retention strategy needs – like any other strategy – to be geared to the goals of the business.

MARKET RESEARCH

Market research is the study and analysis of markets, usually with the aim of determining the current state of the market and what changes may be about to occur, and then the study and analysis of consumer behaviour within the market. Market research can itself be divided into two primary types, strategic and behavioural.

Questions commonly asked in strategic market research include:

- What is the total size of the market? How many actual and potential customers are there, what volume of products is sold, how much revenue is generated?

- What is the rate of growth in the market; in particular in terms of percentage points per year?
- Who are the major competitors, and what market share does each have? What is the total number of customers, sales, etc; what percentage is accounted for by each competitor?
- Who are the customers? What is their disposable income, and what might their buying patterns be, including frequency of purchase?
- What is the likelihood of new competitors entering the market?
- What is the likelihood of major changes in the market or in competing products thanks to new innovations, technology, etc.?
- Where might the best opportunities lie for any organization seeking to enter or expand in the market?

The information generated by this research is then considered when formulating marketing strategy (see below). Much of strategic marketing research is known as 'desk research' and involves trawling through previously published material in print or through the internet, although telephone interviews with major competitors, distributors, etc. are also commonly used. For this reason, organizations often contract out strategic market research to independent agencies, so as to keep their own identities secret.

However, organizations can also analyze the data they capture themselves through electronic point-of-sale (EPOS) systems or other data systems. EPOS has the capacity to generate vast amounts of data, but few businesses have the time and resources to analyze this in full. Analyzing EPOS data can be particularly valuable for confirming the information customers give through interviews or questionnaires. What people say they will buy is not always the same as what they do buy, and identifying the gaps and understanding why they occur can lead to a still better understanding of consumer behaviour.

Behavioural research looks at customer behaviour and decision-making as described above. Behavioural studies conducted by university or business school academics will often look at behaviour and decision-making in general terms, but that conducted by businesses, or by agencies on their behalf, usually focuses on the business's own primary markets. Within those markets, the organization seeks to understand what product or service features are valued by customers, what stimulates them to make purchases, and how they choose between competing products and services when buying.

Behavioural research is often qualitative rather than quantitative; that is, it seeks to generate in-depth information from a relatively small number of people, rather than large-scale data that can be analyzed numerically. Information can be gathered through a variety of methods. Postal questionnaires are cheap and easy to mail out, although response rates are often very low; usually only a small minority of those to whom questionnaires are sent can be bothered to fill them out and send them back. Face-to-face interviews, either conducted quickly on street corners or in more depth in an office or interview room, can also generate information from individuals about their own preferences. Focus groups, discussions with a small group of customers or potential customers led by a researcher, can also be helpful in that the synergy of a group discussion can throw up ideas that might not come out in individual interviews. However, great care must be taken when putting together a focus group to ensure that a variety of views are fairly represented.

Behavioural research uses small 'samples' of the population, ranging from a few dozen to a few thousand at most; research using larger groups is usually too time-consuming and too expensive. How this sample is chosen is a matter of major concern, and must reflect the key questions the business wants answered. For example, if the organization wants to find out how its current customers are feeling, it can choose a random sample from its customer database (assuming it has one), which should give names, addresses and details about products purchased and so on. If it wants to study prospective customers, then the issue becomes more complicated. There are databases of the population at large, and of specific segments of the population, which can be purchased from agencies, but some companies use simple public databases such as telephone books or voter registration lists.

MARKETING STRATEGY

Marketing strategy is a subset of strategy (see Chapter 2) which decides how marketing resources should be allocated and what objectives should be set. Some writers make a distinction between marketing strategy, which looks at marketing objectives only, and strategic marketing, which integrates marketing into overall corporate strategy. Others hold this to be a meaningless distinction.

Marketing strategies will of course vary depending on the organization, but at the most basic level we can say that marketing strategy decides the following:

- what segments of the market the organization will concentrate on (see below);
- what goods will be offered to the market, and at what price;
- how goods will be distributed and reach the customer;
- what methods of promotion and advertising will be used and what resources will be devoted to this.

These decisions are then written into a marketing plan.

SEGMENTATION

Segmentation is the process of identifying which groups of people within wider society are most likely to become customers. This allows the organization to target its advertising and promotional activities more effectively by appealing directly to these groups rather than trying to design 'one size fits all' promotions.

Segmentation defines people by certain characteristics, such as age, geographical location, social background, income, lifestyle and so on. The most effective form of segmentation uses several of these characteristics together. A famous method of segmentation uses socio-economic class which groups people by income and lifestyle into the categories A, B, C1, C2, D and E. Class A consumers are comparatively wealthy and are primary purchases of luxury goods, while Class E consumers are the poorest strata in society with little purchasing power. This system has been around for a long time – Aldous Huxley satirized it in his novel *Brave New World* in the 1930s – but is still in widespread use today. Postcode or zipcode segmentation, which assumes that people sharing a common postal address will have roughly similar tastes and values, is also widely used.

Segmentation is also partly determined by the product or service being sold. Starting with the basic classifications mentioned above, marketers then try to determine which groups their goods are most likely to appeal to. An alternative approach is to look at the market, determine which groups have the most disposable income and are mostly likely to consume, and then design products or services that can be sold to that market. A combination of the two is also possible: the marketer might start with a basic good or range of goods, assess several market segments, determine which is likely to be most profitable, and then adapt the goods to fit the needs of that market.

Segments can be as small or as large as seems reasonable. Examples might range from all women over 40, all families with children, or all car drivers, to affluent young men, teenagers living in the New York area, or people interested in extreme sports. The choice is up to the marketer, so long as the goods being offered will fill the needs of this particular segment.

MARKETING PLANS

Marketing plans are documents which set out the marketing strategy, including what segments the company will target with what products, and what resources will be devoted to this effort. Marketing plans generally set targets for sales and revenue. Once the plan has been set in motion, actual sales or revenue growth is monitored and checked against the targets set in the plan. If sales or revenue fall short of the targets, then clearly something has gone wrong; either the plan has not been properly implemented, or the targets were set wrongly in the first place. A revised strategy or even a completely new strategy may then have to be developed.

Marketing plans, like most plans, tend to work on a planning cycle, with new plans developed at regular intervals, anywhere from six months to two years apart. Some companies prefer what is known as ‘rolling planning’ with plans constantly being revised and updated as time passes. It is also common for plans to exist for several different time periods: there might, for example, be a long-range plan that looks five years into the future, and within the framework of this plan, one or more short-range plans covering the next six months or year.

- **Product.** What products and services will be delivered to customers?
- **Place.** Where and how will the products and services be delivered to customers?
- **Price.** What will the customer be required to give in exchange for products and services?
- **Promotion**: |How will customers be made aware of and encouraged to buy products and services?

Figure 5.1 The Four Ps of the marketing mix

PRODUCTS

One of the most famous methods of determining marketing strategy involves planning for what are known as the 4Ps: product, price, place and promotion (or communication). As we discussed earlier, 'product' also includes services as the same principles apply no matter whether we are marketing tangible or intangible goods.

There are many different types of products, and the distinction between goods and services is just one of many. Some of the following classifications may be encountered:

- **Industrial products.** These are products which are only sold to other businesses, never to consumers. This category includes raw materials, finished goods such as steel or microchips, or large capital purchases such as cargo ships and wide-bodied passenger jets.
- **Luxury products.** These are top-of-the market products such as luxury cars, clothes, suitcases, jewellery, etc. The market for these is primarily the A classification of consumers, as they are the only ones with the disposable income to afford these products on a regular basis. Class A consumers know this, of course, and regularly purchase luxury products to confirm their own status in the eyes of their peers.
- **Fast-moving consumer goods (FMCG).** These products are used on a regular basis and frequently consumed, making regular repeat purchases necessary. Laundry soap and breakfast cereals are two classic FMCGs that have been widely studied.

PRODUCT LIFE CYCLES

Every product has what is known as a life cycle. When first introduced, the product is seen as new and exciting by customers, and can be marketed as a novelty. People will pay higher prices for this novelty, and the product will be highly profitable; Apple iPhones are an example.

As time passes, the product reaches what is known as maturity. Competitors, seeing the success of the product, may introduce their own versions of it. The novelty buyers have moved on to the next new thing, and in their place has come a different type of customer, more conscious of value for money and less willing to pay higher prices. There are generally many more of these customers than there are of the novelty buyers, so the business can use economies of scale to reduce prices.

Finally, the product reaches what is known as saturation. The majority of people who might reasonably be expected to purchase the product have now done so. Sales growth remains static or even begins to decline. Responses to this situation can include reducing the price still further to stimulate sales, adding new features to the product, withdrawing the product from its core market and trying again in another market, or withdrawing the product altogether and ceasing production. The latter, or course, requires that other products be available to fill the gap.

Very few products never reach saturation. Most of these are fast-moving consumer goods, where repeat purchase is a major factor. Some brands of laundry soap and breakfast cereal have been on the market for over 50 years; Kellogg's Corn Flakes and Coca-Cola are both more than 100 years old.

NEW PRODUCT DEVELOPMENT

The tastes, wants and needs of customers are constantly changing, and this means that marketers have to spend time developing new products if they are to stay abreast of consumer demand. New product development is typically undertaken in collaboration with the research and development (R&D) function of the business (see Chapter 6), but marketing plays a pivotal role in understanding current and future customer needs and passing that information to the rest of the company. Long-lived brands are rare; the majority of brands have a lifespan of less than ten years, and for many it is less than five years. There is also evidence that product life cycles are shortening and products are becoming obsolete more quickly, as the pace of technological innovation quickens. New product development must thus be a constant and continuous activity if marketing is to stay in touch with the market.

PRICING

The art of pricing a product or service for the market is a fine one. Two factors come into play. First, there is the need to make a profit; that is, the product or service must sell for more than it cost to make or provide. Second, there is the price that customers will find acceptable. If the price is too high, few or no customers will buy it, especially if there are lower priced alternatives on offer. If the price is too low, then paradoxically customers will turn away from the product too. Customers expect to pay a fair price and not be ripped off, but at the same time they believe that if goods are priced cheaply then they are probably also made cheaply and will not provide value; 'you get what you pay for'. The concept of 'value for money', often a major factor in consumer decision-making, works both ways.

Another important issue is price sensitivity, the degree to which customers will react when the price of a good changes. If customers will react at once to even small price changes, meaning that sales rise sharply if the price falls and drop sharply if the price goes up, the good is said to be price-sensitive. If there is very little reaction to price changes, then the good is said to be price-insensitive. This is in part a function of how conscious of price customers are when making their purchasing decision, and also of the number and quality of alternative products on the market. Rolls-Royce cars are price-insensitive because raising the price even by several thousand dollars would probably make little difference to sales. If a coffee chain raises its price by a dollar a cup or a pound a cup, however, customers will disappear in search of cheaper options (unless the quality of the coffee more than compensates for the higher price).

There are many different approaches to pricing. Price skimming involves introducing new products at a high price and then gradually lowering the price in order to attract more customers. Discounting involves lowering prices in order to increase the volume of customers. Predatory pricing involves undercutting competitor prices so as to win market share away from them; there may be legal restrictions on predatory pricing in some jurisdictions.

PLACE

Place refers to where the goods are sold and how they reach the consumer. For manufacturing companies, place is usually referred to as distribution, or sometimes logistics, and encompasses the delivery of finished goods from the factory gate to the customer. For retail and service businesses, place means either a physical location, an online platform or increasingly common, a mixture of the two.

In both physical and digital marketing, place has to be somewhere that is easy for the customer to visit. In physical terms, customers are not always willing to travel long distances to shop, and businesses have to find locations at outlets that suit their customers. This is why shops tend to cluster in certain locations, such as high streets of small towns, or retail parks; these are locations that customers are known to favour. Site selection is thus a very important activity for retailers in particular, who need to be in prime locations where customers will find them easily. One measure of a site's desirability is 'footfall', that is, the number of people who go in and out of the store regardless of whether they make a purchase. A store with a high footfall is obviously in a location that customers find easy to reach, and has a larger number of potential customers.

For these retailers, however, there is still the physical problem of distribution to solve. Goods do not arrive in shops of their own volition; they must be transported to the shops. A variety of solutions are possible. An arrangement can be made with the manufacturer or the latter's distributor to ship goods as needed directly to each retail site. More commonly, the retailer will have a series of central distribution sites where goods are brought together, warehoused and then sent on to the retail outlets as needed. Companies try to keep the quantity of goods stored in this way to a minimum, as these goods have been paid for but not yet sold and thus represent money sitting idle.

In digital marketing the principles are slightly different. All websites are in theory easy to find once we know the web address. The challenges here are twofold: first, achieving visibility in a highly crowded digital marketplace, and second, ensuring that the website is easy to navigate and use. The first requires techniques such as internet search optimization to make websites easy to find on search engines. The second requires websites that will quickly direct customers to what they are looking for. One study estimates that the average web attention span of customers is 3.4 seconds; if they have not found what they are looking for in that time, they will move on to another website.

COMMUNICATION

Communication or promotion is the means by which the business makes customers aware of its goods and the value they offer. Communication is probably the most complex aspect of marketing, and is also probably the hardest to get right. Failed communications can result not only in lost sales but bad publicity for the business as a whole; successful communications can make the company hugely profitable.

Every communication of no matter what type requires four elements:

- the communicator, the person sending the message (in this case the business and any advertising agencies working on its behalf);
- the message, the information that is to be conveyed to the audience;
- the channel, the path by which this is conveyed to the audience;
- the audience itself, in this case potential customers.

When designing communications, marketers can usually take the first element as given. They will know who and what the business is. If they have done their market research and planning, they will know at least in outline form who and where the audience is. It is the message and the channel that are the most problematic.

Getting the message right is tricky because in most cases the marketer has only a limited amount of time and space in which to attract the customer's attention: 30 seconds of television airtime, a quarter of a page of newspaper space, a single sheet of paper pushed through a letterbox. Websites theoretically offer the opportunity to convey information, but in addition to the 3.4 second rule, there is evidence that most people don't scroll down or click on buttons unless they are sure they will find something; the information that captures the new customer's interest has to be on the first screen. Getting that information is difficult enough on laptop or tablet screen, but even more difficult in the relatively small confines of a mobile phone screen. In that small space or time, marketers must convey as much information as possible about the good, the company providing it and the value it offers to customers; ideally it should also seek to stimulate a purchase, as in the AIDA model above.

The channel is equally important. As Marshall McLuhan famously said, 'the medium is the message'. Tests have shown that people not only have different perceptions of goods advertised on television from those advertised in newspapers, but also have different perceptions of goods advertised in different newspapers. People will view an advertisement in *Business Week* rather differently from one appearing in the *National Enquirer*. They also have different views about goods and services advertised on websites; a significant number of people do not feel they should have to pay for web-based content such as news or music, for example. More prosaically, there is the matter which channels or media people use. If it is known that a significant number of potential customers read *Business Week* but very few read *National Enquirer*, then the former would appear to be a natural choice of channel. If it were to be known that potential customers read both indiscriminately, then advertising in both might be sensible; the appearance of the ad in the second channel would validate the first and provide readers with more cues and stimuli to purchase.

With those basic points in mind, communications with customers or potential customers can be divided into four main types:

- ***Advertising.*** Advertising is communication through the mass media for which the company has paid. It can include radio and television advertising, newspaper advertising, billboards, websites or any other form of media. Companies usually employ specialist advertising agencies to design ads for them. Advertising is designed to appeal to large groups of potential or actual customers, and not directly to individuals. Extremely expensive to design and place, advertisements rely on reaching the largest possible audience in order to ensure their effectiveness.

- ***Direct selling.*** This is personal selling, either face-to-face, over the telephone (telemarketing) or by post or e-mail (direct mail). Direct selling attempts to stimulate a rapid consumer buying decision, whereas advertising lays the information in front of consumers and assume the latter will make the decision in their own time.
- ***Promotions.*** Sometimes known as 'below-the-line' promotions – media advertising and direct selling are conversely 'above-the-line' promotions – this class of communication is based on a range of incentives that can include in-store advertising, price discounts, coupons or vouchers offering discounts on later purchases, 'buy one get one free' offers, offers by the seller to make a charitable donation for each purchase and so on. These promotions are usually aimed to stimulate volume sales, and are particularly common with fast-moving consumer goods.
- ***Publicity.*** Publicity refers to the placing of news stories in the media – television, radio, newspapers, magazines, online – which give positive information about the business and its products and services.

BRANDS

A brand is a good, and more than a good. It brings together the whole bundle of benefits and ties these to an easily recognizable symbol, such as an image or logo. Successful brands are considered very valuable for their ability to attract and retain customers.

It is sometimes popularly assumed that the brand *is* the image or logo: that the Nike brand is simply the 'swoosh' symbol, or that Coca-Cola is simply the famous red and white logo. In fact, these are merely the outward symbols of the brand. The reality of the brand is all the qualities and benefits that consumers associate with those symbols, including utility, style, reliability, quality and so on.

The Coca-Cola brand is based not only on the red and white logo, but on the design of the containers in which the drink comes – the famous curved Coca-Cola bottle became a style icon, and is still in use in some parts of the world – and the taste of the drink. Famously, when Coca-Cola tried in the 1980s to change the recipe of the drink and create a new brand, New Coke, customers objected and deserted the brand in thousands, and did not come back until the old brand was restored. Coca-Cola's managers protested that not only had the recipe already been changed many times to keep pace with changing tastes, and that the recipe also differed in other parts of the world (Coke in Asia often has more sugar than in Europe, etc.), but to no avail. People had their own image of the brand, and when the company changed that image, the brand lost its appeal.

Brands are very subtle things. They are not created overnight; they often take a long time to emerge. They are built on (1) a combination of goods whose features have been carefully tailored to the needs of a particular market, (2) carefully designed and targeted promotions that spell out these features and link them to the brand image and logo and (3) the willing participation of consumers who 'buy into' the brand by accepting the linkage and supporting the brand. This latter is very important; the best designed brand in the world will fail if consumers do not accept it. A brand can only be a brand if consumers see it as one.

Because brands take so long to develop and have many development costs, not least in advertising, it is important for the business to get as much value out of the brand as possible. One way to do this to try to ensure 'brand loyalty'; that is, once consumers have chosen a brand, they will want to stick with it as long as possible. There is an entire sub-set of marketing theory which deals with brands and ensuring brand loyalty. The manufacturers of famous brands such as Coke and Nike of course do not sell their products directly, but instead sell through a complex network of distributors and retailers. This entire network is mobilised in order to attract and keep customers. The famous 'cola wars' of the 1980s and 1990s, when Coca-Cola and Pepsi sought both to keep their own customers loyal and to win customers away from their rival, saw not only some of the most expensive advertising campaigns in history, but also a whole range of promotional and publicity activities undertaken by retailers and others, usually in concert with the main rivals.

MARKETING ACROSS CULTURES

Another problem which all marketers face is the problem of marketing from one culture to another, or marketing the same product in different cultures. There has been for some time a considerable debate about the importance of culture and whether it should influence marketing practices. Proponents of global marketing believe that globalization is leading to convergence in people's tastes, customs and manners, and point out that products like music CDs, films and running shoes can already be marketed to virtually the same segments the world over.

Others, however, believe that localization is essential, as many cultural barriers remain and brands which have instant recognition and appeal in one culture meet with incomprehension in others. The Nova car, manufactured by General Motors in the USA and its European subsidiary Vauxhall, was very successful in North America and Britain. But when the car was sold into Spanish and Latin American markets, it was an utter failure. Why? Because Nova, or 'no va' in Spanish, means 'doesn't go'.

Even brands which appear to be global are recognized differently in different countries. Kentucky Fried Chicken (KFC) in the USA is seen as a family eating place, but in Europe most customers are young adults. De Beers, the world-wide marketer of diamonds, has been expert at coming to terms with different perceptions of what is essentially a uniform product. In North America and Europe, diamonds equate with romance, so De Beers markets diamonds for engagement and wedding rings and as gifts to loved ones. In Japan, notions of courtship and marriage are different, so De Beers turned instead to marketing diamonds directly to affluent women, to adorn rather than to give to others. In China the perception was different again; De Beers was able to come back to the wedding ring market, but here the emphasis has been on the longevity of diamonds, as a symbol of a long and lasting marriage rather than courtship and romance.

While the academic debate about globalization and localization in marketing carries on, in practice most companies adopt a mix of the two. Global marketing has many advantages. It allows resources to be concentrated in order to achieve a bigger budget for, say, advertising; this means that more and better ads can be produced, and probably more cheaply than if every national subsidiary did its own ads. Big international businesses usually start off with a global marketing strategy, and then tailor elements of it where necessary to meet different local needs and conditions. This policy of 'thinking global, acting local' appears to be the most successful response to the problem.

BUSINESS-TO-BUSINESS MARKETING

Business-to-business (B2B) marketing (marketing to consumers is sometimes known as B2C) is often regarded as a special subset of marketing activity because of the different nature of the customer. Business customers usually have a much clearer idea of what it is they want, and will often go to suppliers with exact specifications; it is up to the supplier to then work to develop a product that will meet that specification. Business customers are also fewer in number, and it is usually possible to develop a much more detailed customer database with information about each customer's characteristics; this makes highly individualized marketing possible.

Business-to-business marketing focuses heavily on developing long-term partnerships between customers and suppliers. This is both a means of creating repeat sales, with all the benefits of customer retention noted above, and of ensuring close contact between buyers and suppliers so that the latter can meet the former's needs more exactly. These long-term relationships form a crucial part of just-in-time supply management (see Chapter 6). Unsurprisingly, personal selling is a major form of marketing communication in this area.

SOCIAL AND ETHICAL MARKETING

For many years, it was believed that marketing could be applied only to commercial businesses. But Philip Kotler's work on marketing in the late 1960s showed that marketing can be used in a variety of situations where profit is not involved. Charities and governmental agencies providing health, education, Third World aid and a whole variety of other worthy causes can also use marketing to raise money and create awareness of their causes. Kotler's breakthrough in this field was to show that virtually anything could be a 'product'. If people cared about their children's education, or their own health, or victims of civil war in Syria, they could find a campaign or charity that would meet their 'need' to do something about this by promoting better education, doing research on cures for cancer, or sending food aid overseas, for example.

What the charity then had to do was market this 'product' by promoting it and themselves in very much the same way as a business would. Kotler showed how, with very little adaptation, the basic principles of marketing discussed above could be used to market good causes without a profit needing to be involved. This view was heavily contested when Kotler and his colleagues first introduced it, but is now accepted as orthodox thinking, and nearly every major charity has professional marketers on its staff. Health care institutions and universities have similarly taken marketing on board.

Marketing works for non-profit organizations because the heart of marketing is the direct connection between consumer and supplier. Profit is involved in business marketing because there is an economic imperative to make money; so the *purpose* of marketing for businesses is to make a profit. But the purpose is not the same as the thing itself. In any kind of marketing, the ultimate aim is to allow an organization to contact its customers, users or consumers. If marketing does not reach its audience, it fails. If it does reach the audience, then it can be put to any purpose the organization desires.

By the 1990s a separate but related branch of marketing had emerged. *Ethical marketing* refers to the idea, supported by data, that consumers are increasingly concerned about more than just value for money. They also want to know how products are made, whether the profits are being distributed fairly and whether the workers who made them are being well-treated. These 'compassionate consumers' tend to gravitate towards brands they know are in line with their values, such as Fair Trade products or free range meat. On the other side of the coin, they may also participate in boycotts of products or brands that do not meet their own ethical standards.

Ethical marketing seeks to reach out to these consumers and provide them with products and brands that meet their social and personal needs. Fair Trade is again a good example of this, but there have been other examples in recent years; Unilever's Sustainable Living Plan is another high-profile example, while campaigns promoting vegan food satisfy the needs of those who care about animal welfare and the environment. Ethical marketers must take care, however, to get their facts right and not over-promise. Any campaign which claims to be ethical but then has ethical shortcomings is likely to provoke a backlash.

SUMMARY

- Marketing is the interface between the organization and its customers, without whom there can be no revenue and no profit.
- Marketing is both a function, with certain tasks and responsibilities, and a way of thinking about customers and markets.
- Understanding customer behaviour and how customers make decisions is the first important step in successful marketing.
- Once this understanding is achieved, the organization then must design goods that meet customer needs, at a price they will pay, deliver them where customers will buy them, and promote the availability of those goods to make customers aware and interested in buying.
- Marketing must be flexible, in order to accommodate marketing to different customer groups, different cultures and even in situations where the profit motive is not paramount.

SUGGESTIONS FOR FURTHER READING

Alberts, R.C., *The Good Provider: H.J. Heinz and His 57 Varieties*, London: Arthur Barker, 1973. This biography of Heinz, one of the great marketing men of all time, not only shows marketing principles in action but is an entertaining and thoughtful study of an inspirational business leader.

Arnold, C., *Ethical Marketing and the New Consumer*, New York: Wiley, 2009. Describes how consumers are increasingly considering more than just benefit to themselves when making purchases, and how marketing needs to respond to more ethical consumption.

Bateson, J.E.G. and Hoffman, K.D., *Managing Services Marketing*, Fort Worth, TX: Dryden, 1998. One of the best textbooks on services marketing, showing differences and similarities to 'traditional' marketing of tangible products.

Hatch, M.J. and Schultz, M., *Taking Brand Initiative: How Companies Can Align Strategy, Culture and Identity Through Corporate Branding*, San Francisco: Jossey-Bass, 2008. Describes in detail how brands can be used as a strategic tool across the organization.

Kingsnorth, S., *Digital Marketing: An Integrated Approach to Online Marketing*, London: Kogan Page, 2019. Good, accessible work on how online marketing can become part of core marketing strategy for all organizations.

Kotler, P., *Marketing Management*, Englewood Cliffs, NJ: Prentice-Hall, 1997. The classic textbook on marketing, much of which is devoted to methods and tools. The opening two chapters define marketing and set out the basic concepts, and are worth reading as an introduction to the subject.

Lee, N.R. and Kotler, P., *Social Marketing: Influencing Behaviors For Good*, London: Sage, 2011. Important work on showing how marketing techniques can also be used for social influence by charities and other organizations.

Levitt, T., *The Marketing Imagination*, New York: The Free Press, 1983. After Kotler, Levitt is probably the world's best-known marketing guru, and this book about the creative aspects of marketing contains many thoughtful ideas.