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Marketing

John Mullins is Associate Professor of Management Practice in Marketing and Entrepreneurship at London Business School. He earned his MBA at the Stanford Graduate School of Business and, considerably later in life, his PhD in marketing from the University of Minnesota. An award-winning teacher, John brings to his teaching and research 20 years of executive experience in high-growth firms, including two ventures he founded, one of which he took public. Since becoming a business school professor in 1992, John has published more than 50 articles in a variety of outlets, including Harvard Business Review, MIT Sloan Management Review and The Wall Street Journal. His research has won national and international awards from the Marketing Science Institute, the American Marketing Association and the Richard D. Irwin Foundation. He has authored three best-selling trade books: The New Business Road Test (London: Prentice-Hall/FT, 4th edition 2013); Getting to Plan B: Breaking Through to a Better Business Model (Boston: Harvard Business Press, 2009), with noted author and venture capital investor Randy Komisar; and The Customer-Funded Business: Start, Finance, or Grow Your Company with Your Customers’ Cash (Jersey City: Wiley, 2014). He has served on the boards of fast-growing entrepreneurial companies in North America, Europe and Asia and is a frequent speaker on topics related to entrepreneurship and venture capital.

The late Professor Orville C. Walker, Jr was the James D. Watkins Professor of Marketing and Director of the PhD Programme, in the University of Minnesota’s Carlson School of Management. He held a Master’s degree in social psychology from the Ohio State University and a PhD in marketing from the University of Wisconsin-Madison. Orville was the co-author of three books and published more than 50 research articles in scholarly and business journals. He won several awards for his research, including the O’Dell award from the Journal of Marketing Research, the Maynard award from the Journal of Marketing and a lifetime achievement award from the Sales Management Interest Group of the American Marketing Association. Orville was a consultant to a number of business firms and not-for-profit organisations and taught in executive development programmes around the world, including programmes in Poland, Switzerland, Scotland and Hong Kong. Perhaps his biggest business challenge, however, was attempting to turn a profit as the owner-manager of a small vineyard in western Wisconsin.

Dr Barbara Jamieson is a Senior Teaching Fellow and Marketing course leader at the Edinburgh Business School. With an extensive career in industry and academia, she brings a wealth of practical and theoretical knowledge to her teaching. Before entering academia she built up more than 15 years’ commercial experience in advertising, marketing research and marketing consultancy. She holds an MBA, an honours degree in business organisation, and is a Chartered Marketer.

Barbara delivers a broad range of marketing-related courses across the MBA, MSc and DBA programmes. As well as her teaching roles, she supports faculty in the Edinburgh Business School international learning partner network to promote quality in programme delivery, with particular emphasis on using the case method approach.

Since 2005 she has played a leading role in several projects supported by the Global Business School Network to build management education capacity in Kenya, involving seminars and workshops to promote case method teaching and develop case writing skills among university faculty.

Her doctoral research focused on the relationship between distance-learning student characteristics, the student learning experience and learning outcomes. She has led related initiatives to explore how new technology can enrich the student learning experience.
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Preface

Why This Book?

Why did EBS choose this book? Chances are, it was for one or more of the following reasons:

- EBS wants to give you the necessary tools and frameworks to enable you to be an effective contributor to marketing decision making, whether as an entrepreneur or in an established firm. This book’s focus on decision making sets it apart from other texts that place greater emphasis on description of marketing phenomena than on the strategic and tactical marketing decisions that marketing managers and entrepreneurs must make each and every day.

- EBS wants to use the most current and most web-savvy book available. We integrate the latest digital marketing developments into each module, and we devote an entire module to the latest developments in that arena. In addition, we supplement the book with an interactive website to help you learn. Our goal is to make both the latest web-based tools as well as time-tested marketing principles relevant to those of you who will work in either old – or new – economy companies.

- EBS appreciates and believes you will benefit from the real-world, global perspectives offered by the authors of this book. Our combined entrepreneurial, marketing management and consulting experience spans a broad variety of manufacturing, service, software and distribution industries and has taken us – and thereby you, the reader – around the world many times over.

As the reader will see from the outset in Module 1, marketing decision making is a critical activity in every firm, including start-ups, not just in big companies with traditional marketing departments. Further, it is not just marketing managers who make marketing decisions. People in nearly every role in every company can have powerful influence on how happy its customers are – or are not – with the goods and services the company provides. Stockbrokers must attract new customers. Accounting and consulting firms must find ways to differentiate their services from other providers so their customers have reasons to give them their business. Software engineers developing the next great Internet or other technology must understand how their technology can benefit the intended customer, for without such benefits, customers will not buy. Thus, we have written this book to meet the marketing needs of readers who hope to make a difference in the long-term strategic success of their organisations – whether their principal roles are in marketing or otherwise.

In this brief preface, we want to say a bit more about each of the three distinctive benefits – bulleted above – that this book offers its readers.
A Focus on Decision Making

This revised edition of *Marketing* retains the strategic perspectives that have marked the earlier editions, while providing, in each module, specific tools and frameworks for making marketing decisions that take best advantage of the conditions in which the firm finds itself – both internally, in terms of the firm’s mission and competencies and externally, in terms of the market and competitive context in which it operates.

This decision-focused approach is important to the students and executives who are our readers. Our decision-focused approach is also important to employers, who tell us they want today’s graduates to be prepared to ‘hit the ground running’ and contribute to the firm’s decision making from day one. The ability to bring thoughtful and disciplined tools and frameworks – as opposed to seat-of-the-pants hunches or blind intuition – to marketing decision making is one of the key assets today’s business school graduates offer their employers. This book puts the tools in the toolbox to make this happen. In the end, employers want to know what their new hires can do, not just what they know.

Web-Savvy Insights

Because this book has been written by authors who teach at web-savvy institutions and work with web-savvy companies, it brings a realistic, informed and web-savvy perspective to an important question many students are asking: ‘Has the advent of the Internet changed all the rules?’ Our answer is, ‘Well, yes and no.’ On one hand, the Internet has made available a host of new marketing tools – from Google AdWords to email marketing to delivery of digital goods and services over the Internet – many of which are available to companies in the so-called old and new economies alike. On the other hand, time-tested marketing fundamentals – such as understanding one’s customers and competitors and meeting customer needs in ways that are differentiated from the offerings of those competitors – have become even more important in the fast-moving, dot-com world, as the many dot-com failures over the last decade or more attest.

Thus, throughout the book, we integrate examples of new-economy companies – both successful and otherwise – to show how both yesterday’s and today’s marketing tools and decision frameworks can most effectively be applied.

A Real-World, Global Perspective

Theory is important, because it enhances our understanding of business phenomena and helps managers think about what they should do. It is in the application of theory – the world of marketing practice – where we believe this book excels. Our decision focus is all about application. But we don’t just bring an academic perspective to the party, important as that perspective is.

Two of us on the author team, Orville Walker and John Mullins, have started successful entrepreneurial companies. One of these firms has ‘gone public’. Orville Walker worked for many years in the United States, at the University of Minnesota.
Preface

John Mullins works in Europe at the London Business School. Barbara Jamieson brings to this fully updated and revised edition her deep global understanding of distance learning to round out the picture. All of us have contributed the fruits of our research to the growing body of knowledge in the marketing management, marketing strategy, new products and entrepreneurship arenas. The result of our collective and varied experience and expertise is a book marked by its real-world, global perspective. The book’s many examples of real people from around the world making real strategic marketing decisions include examples of start-ups and high-growth companies as well as examples of larger, more established firms.
Introduction to this Course

This distance learning study programme in marketing is based on the eighth editions of the books *Marketing Management: A Strategic Decision-Making Approach* and *Marketing Strategy: A Decision-Focused Approach.*

The programme has the following objectives:

1. To provide a strategic, globally informed understanding of the marketing management process.
2. To develop an awareness of the analytical process used to identify opportunities and threats in the firm’s marketing environment which may influence profitability and market position.
3. To learn how to segment and target markets as well as position the firm’s product(s) against market needs and competitive offerings.
4. To develop appropriate marketing strategies for exploiting opportunities and overcoming threats, especially those relating to new entries, growth markets, mature/declining markets and global markets.
5. To prepare marketing strategies based on the components of product, price, channels and promotion.
6. To develop an understanding of the activities and organisational structures required to implement, monitor and measure the performance of marketing strategies.

The contents of this publication are organised around the above objectives on a sequential basis. It contains 18 modules that are structured around the chapters in the texts cited above. These modules are divided into five parts as follows:

1. An Overview of Marketing Management
2. Opportunity Analysis
3. Marketing Programme Decisions
4. Strategic Marketing Programmes for Selected Situations
5. Implementation and Control

In addition to an opening case of a real-world company that brings to life the key principles addressed in the module, each module contains seven sections: (1) a statement of module objectives; (2) the main text; (3) a learning summary; (4) end-of-module content questions; (5) end-of-module multiple choice questions; (6) end-of-module application questions and case(s); and (7) extensive endnotes that point the way to supplementary readings. Real-world case studies and examples are employed throughout to bring marketing principles and practices to life. They feature companies large and small from around the world, and are designed to facilitate learning about a particular marketing activity. They should also help individual students apply what is being learned to their own organisations.

---

Instructions on Using the Study Programme Materials

Before studying any of the module materials, we suggest that you read the Preface (reproduced before this Introduction) which discusses the authors’ rationale in using a strategic approach in writing (and revising) the text component of this study programme’s materials. The material in the Preface will help you understand how the course merges the traditional approach to marketing management with the authors’ newer, more relevant and more pragmatic strategic approach.

You should prepare yourself for studying Module 1 – and each successive module – by reading the first two sections of the module: the opening case and the learning objectives. In the process of doing so, try to relate the content of these sections – especially the one on the module’s learning objectives – to how marketing interacts with other functional areas in your organisation such as finance and operations.

When you finish this brief exercise, read carefully and thoroughly the main text of Module 1 (and each successive module). Some students find it desirable to read certain modules twice – once through quickly, and then a second, more careful reading. Some find it helpful to take notes or even outline the module. You should do whatever you feel provides the best results. Upon completion of your study of the module, you should proceed to the third section of the module which contains a learning summary of the module.

You are now ready to be examined on how well you understand the module and can apply its content to the real world. The answers to all three sets of test material in each module are contained in Appendix 1. The first two sets of test material involve the use of content and multiple choice questions which test – in different ways – your knowledge of the meaning of certain terms, your memory concerning important marketing concepts and facts and your ability to understand certain applications of the materials presented. You should write your answers down and then compare them to the answers contained in Appendix 1. Note any discrepancies between your answers and those provided and reconcile them by referring to the appropriate text material.

The next set of test material comprises application questions and minicases. They are concerned with how well you can apply module content to real-world problem situations. They are, by design, more analytical than the materials used in the first two sets of questions. Again, you should write down your answers and compare them with the answers given in Appendix 1. Since Appendix 1 gives the number of the module section where the correct answers to the content and multiple choice questions can be found, you should not have any difficulty in reconciling any differences with respect to these sets of materials. The summary outline of the text at the end of each module should prove helpful in enabling you to locate the appropriate materials in reconciling your answers to the application questions and the case studies.
Conclusion

The time required to complete a module will, of course, vary between students – and even for the same student with regard to different modules. On average, we would expect you to spend a relatively short period of time studying the first two sections of the module, including thinking about their application to your organisation. You should be prepared to spend at least two to three hours studying the module’s content. Some of this time will be spent in transferring what you are reading to your own job situation. The self-examination part of the learning procedure (the three batteries of questions at the end of each module) will take probably another two hours or more depending upon how much reviewing is necessary.

As you proceed through the modules, you may find it desirable, even necessary, to review certain parts of earlier modules. Thus, some of the later modules may well require additional study time. If you continuously try to apply what you are learning to your organisation, you will find yourself learning a great deal more not only about marketing, but about your organisation as well. We would hope that you will involve, where you feel it is appropriate, knowledgeable business people (including those in the organisation where you are employed) in your pursuit of an understanding of marketing management. We also hope that at the conclusion of the course you will be satisfied with what you have learned about this subject and feel confident in your ability to apply the basic concepts included in the text.

After completing your study of the 18 modules, you are now ready to take the two practice examinations (Appendix 2). *A word of caution* – be sure you thoroughly review all modules including the answers to the three test batteries before taking these exams.

For those of you wanting more exposure to certain marketing subjects, each module’s references represent a major resource. These references not only identify a large number of useful and recent articles from a wide range of academic journals and business publications, but also refer to the best specialised textbooks which are concerned with the various marketing areas such as product development, marketing research, sales management, channels of distribution and advertising.
Simply put, this book is not solely our work. Far from it. Many of our students, colleagues and those with whom we work in industry have made contributions that have significantly shaped our perspectives on marketing decision making. We are grateful to all of them.

We also thank a small army of talented people at Irwin/McGraw-Hill and Edinburgh Business School (EBS) for their work that has turned our rough manuscript into an attractive and readable book.

Finally, we thank the late Harper Boyd, co-author and originator of this course text’s first edition, without whom this book would not exist and our parents, without whom, of course, none of us would be here. To all of you we extend our love, our respect and our gratitude for passing on to us your curiosity and your passion for learning. We therefore dedicate this book to Harper Boyd, to Jeannette and Orville Walker, Sr, to Jack and Alice Mullins, and to Brian and Joan Jamieson.

John Mullins
Orville C. Walker, Jr
Barbara Jamieson
PART I

An Overview of Marketing Management

Module 1  The Marketing Management Process

Module 2  The Marketing Implications of Corporate and Business Strategies
Module 1

The Marketing Management Process

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Samsung – Building a Global Brand

Samsung Electronics is the largest component of South Korea’s largest chaebol – one of the giant family-controlled conglomerates that have been instrumental in building the country’s economy over the last half century. Samsung’s electronics unit started out in 1970 making cheap TV sets for the Sanyo label. Over time it morphed into a technically innovative company that was one of the pioneers in developing flat-screen displays, plasma TVs, multifunction mobile phones, and other digital devices. But until the mid-1990s, the unit competed primarily by (a) producing technical components or low-cost manufactured products for firms with better-known brands, such as Dell, Hewlett-Packard, and General Electric; and (b) selling me-too consumer products – like TVs and microwave ovens – under the Samsung brand through discount chains like Walmart at very low prices.

Samsung’s cost-driven competitive strategy worked well until 1996, but then several shocks in its market and competitive environments forced a major re-evaluation. First, the global market for memory chips and other components Samsung supplied for other electronics brands softened because of increased competition and excess capacity. At about the same time, sales of Samsung’s own branded products were also declining. As Yun Jong-yong – a company veteran who was brought in as CEO of the electronics unit – complained, Samsung could build a TV that was technically as good as a Sony, but because of the down-market image of the Samsung brand its sets sat at the back of the store or piled up in discount chains. Finally, the Asian financial crisis of 1997 made a major strategic shift essential for the unit’s survival.
New Competitive and Marketing Strategies

Mr Yun initiated an ambitious new competitive strategy aimed at developing and marketing technically superior products while building an image of Samsung as a stylish, high-quality brand commanding a premium price. The objective was to establish a unique competitive position using technical innovation and design to appeal to younger and relatively upscale customers around the world. 'If we were to continue competing only on price', Mr Yun argued, 'the Chinese would slaughter us.'

Technical Innovation and R&D

In order to implement its new competitive strategy, Samsung had to become a pioneer in developing new digital technologies. While Sony and other rivals held a substantial lead in consumer electronics, that lead was rooted in the analogue world. The digital world required new technical innovations. Consequently, the firm shifted substantial resources into R&D, focused on technologies such as large-area LCDs, display drivers and chip sets, and mobile telephony. By its 2009 fiscal year, Samsung's R&D spending had ramped up to some 7.6 trillion won (over $7 billion) – nearly 6 per cent of the unit's revenue. More than one-quarter of the company's workforce – some 44,000 people – were engaged in R&D activities in about 40 research centres around the world. By 2014, R&D spending had nearly doubled to $13.4 billion, making Samsung the top-ranked R&D spender in IT globally and second-ranked across all industries worldwide.

New Product Development and Design

But cutting-edge technology does not guarantee market success. It must be incorporated into products that deliver benefits that at least some segment of consumers will consider to be worth the price. And some of those benefits may be subjective – attractive styling, say, or a cool image. Therefore, new product development at Samsung usually involves a team of designers who collaborate closely with the firm's engineers, manufacturing people, and marketers. To ensure they stay in touch with consumer tastes in different countries, the firm's 450 designers are assigned to design centres in cities like London, Tokyo, Shanghai, and San Francisco, and the company's market researchers run focus groups and user surveys in many markets around the world.

New Marketing Programmes Build the Samsung Brand

Revamping Samsung's marketing efforts was also critical to the success of its new competitive strategy because even the most technically sophisticated and well-designed products are likely to fail unless potential customers know they exist, can acquire them easily, and think they're worth the money. Therefore, Eric Kim was recruited from outside the firm to head a global marketing effort. One of his first moves was to reorganise the firm's distribution channels. Consistent with the strategic objective of establishing Samsung as a high-quality brand worthy of a premium price, many of the company's products were pulled out of low-priced discount chains and distributed through service-oriented
electronics speciality stores and web retailers – like Best Buy and Amazon.com – instead.

To ensure consistency in Samsung’s marketing communications across world markets, Mr Kim consolidated the firm’s roster of advertising agencies from 55 down to a single global advertising group, British-based WPP. He then launched the firm’s first brand-building campaign with fashion-forward TV commercials showing off the company’s cool sense of style as well as the technical sophistication of its products.

The firm also made extensive use of more contemporary promotional tools such as product placements, sponsorships, and Internet advertising to strengthen its brand. For instance, Samsung provided both financial and technical support for a variety of sporting and cultural events in every major region of the world. It has been a sponsor of the Olympics, Asian games, and other international events, but it also supports regional and local events – such as the Montreal Jazz Festival and Chelsea Football Club in the UK – as a means of staying close to local customers.

**Delivering Results**

Samsung Electronics’ revamped competitive strategy and the marketing programmes designed to implement it have been a smashing success. In 2014, Forbes rated Samsung number 7 among the world’s most valuable brands, one spot ahead of Toyota and the top firm not headquartered in the United States. The company’s market cap followed suit, reaching $199 billion in May 2015.

**Learning Objectives**

The activities of Samsung’s managers as they worked to redefine the company’s brand image and supporting marketing strategy illustrate the variety of decisions that are crucial to the success of every organisation, whether large or small, profit or nonprofit, manufacturer, retailer, or service firm. The CEO of a high-tech firm like Samsung must decide what technologies to pursue, what goods or services to sell, to whom, with what features and benefits, at what price, and so on. A chief financial officer for a large multinational corporation must market the merits of the company to the capital markets to obtain the resources needed for continued growth. The executive director of a nonprofit community agency must pursue the resources necessary for the agency to achieve its mission, whether those resources come from fees for the services it delivers or from grants and contributions. And all of those managers must market their ideas for improving their organisations’ prospects and performance to their colleagues inside the firm as well as to customers, suppliers, strategic partners, and prospective employees. Thus, most managers engage in tasks involving marketing decisions virtually every day.

This course provides prospective managers and entrepreneurs with the marketing tools, perspectives, and analytical frameworks they’ll need to play an effective role in the marketing life and overall strategic development of their organisations, regardless of whether or not they occupy formal marketing jobs. Module 1 begins by addressing a number of broad but important questions all managers must resolve in
their own minds: Are marketing decisions important? Does marketing create value for customers and shareholders? What constitutes effective marketing practice? Who does what in marketing and how much does it cost? How might competitive advantage be sustained over a product’s life cycle? And finally, what decisions go into the development of a go-to-market strategy for a particular good or service and how can those decisions be summarised in a marketing plan?

1.1 Why Are Marketing Decisions Important?

The improved performance of Samsung Electronics following the retooling of its go-to-market strategy illustrates the importance of good marketing decisions in today’s business organisations. And according to many managers and expert observers around the world, a strong customer focus and well-conceived and executed marketing strategies will be even more crucial for the success of most organisations as the global marketplace becomes more crowded and competitive.2

The importance of marketing in a company’s ongoing success can be better appreciated when you consider the activities marketing embraces. Marketing attempts to measure and anticipate the needs and wants of a group of customers and respond with a flow of need-satisfying goods and services. Accomplishing this requires the firm to:

- target those customer groups whose needs are most consistent with the firm’s resources and capabilities;
- develop products and/or services that meet the needs of the target market better than competitors;
- make its products and services readily available to potential customers;
- develop customer awareness and appreciation of the value provided by the company’s offerings;
- obtain feedback from the market as a basis for continuing improvement in the firm’s offerings; and
- work to build long-term relationships with satisfied and loyal customers.

The most important characteristic of marketing as a business function is its focus on customers and their needs. This is a focus that all managers – not just marketers – need to adopt to ensure their organisations can build and sustain a healthy ‘top line’.

1.1.1 The Importance of the Top Line

In the financial markets it is often a company’s bottom line – its profitability – that is most important, though many Internet entrepreneurs would take issue with this statement (see Exhibit 1.1). In the long run, all firms must make a profit to survive. But as the managers at Samsung are well aware, there can never be a positive bottom line – nor financing, employees, or anything else – without the ability to build and sustain a healthy top line: sales revenue. As a wise observer once said, nothing happens until somebody sells something. Or to paraphrase management
guru Peter Drucker, everything a company does internally is a cost centre. The only profit centre is a customer whose cheque doesn’t bounce.

Exhibit 1.1 Who needs profits?

Old-economy financial analysts used to believe that companies were valued based on how much profit they earned and how fast they grew. Jeff Bezos and his company, Amazon.com, put an end to that idea long ago. Amazon does grow, of course, and it has, on occasion, earned a reported profit for a full fiscal year. But Bezos cares more about using his company’s cash flow to invest in new opportunities than he cares about delivering a profit, in accounting terms, at the end of the year.

Many other dot-com entrepreneurs have taken a similar view, and built businesses with very large numbers of users – take Twitter, for example – but with few paying customers and little revenue, and certainly no profits. Are revenue and profits required in the dot-com world, at least eventually? Ask Twitter’s Dick Costolo, who stepped down in mid-2015 after five years as CEO amid reports that the company’s strategy for winning advertising revenue was faltering and the company’s revenue growth was not meeting its own projections.

Twitter’s market cap remained in the billions, however, suggesting that, for at least some investors, the size of a company’s user base and the potential to monetise that user base, however uncertain, is highly valued. Eventually, though, users are not enough to save a CEO’s scalp, it appears. Paying customers are required!


That is why the customer focus inherent in the marketing function is important. When properly implemented, a customer focus enables firms to enjoy success by exploiting changes in the marketplace, by developing products and services that have superiority over what is currently available, and by taking a more focused and integrated cross-functional approach to their overall operations, as Samsung has done in its product-development process.

1.2 Marketing Creates Value by Facilitating Exchange Relationships

While we have described marketing activities from an individual organisation’s perspective, marketing also plays an important role in the broader context of the global economy. It helps facilitate exchange relationships among people, organisations, and nations.

Marketing is a social process involving the activities necessary to enable individuals and organisations to obtain what they need and want through exchanges with others and to develop ongoing exchange relationships.³

Increased division and specialisation of labour are some of the most important changes that occur as societies move from a primitive economy toward higher levels
of economic development. But while increased specialisation helps improve a society’s overall standard of living, it leads to a different problem: specialists are no longer self-sufficient. Artisans who specialise in making pots become very skilled and efficient at pot making, producing a surplus of pots, but they do not make any of the many other goods and services they need to survive and to improve their lifestyle. A society cannot reap the full benefits of specialisation until it develops the means to facilitate the trade and exchange of surpluses among its members. Similarly, a nation cannot partake of the full range of goods and services available around the world or penetrate all potential markets for the economic output of its citizens unless exchanges can occur across national boundaries.

1.2.1 What Factors Are Necessary for a Successful Exchange Relationship?

Many exchanges are necessary for people and organisations to reap the benefits of the increased specialisation and productivity that accompany economic development. But such exchanges do not happen automatically, nor does every exchange necessarily lead to a mutually satisfying long-term relationship. The conditions for a successful exchange transaction can be met only after the parties themselves – or marketing intermediaries such as a wholesale distributor or a retailer – have performed several tasks. These include identifying potential exchange partners, developing offerings, communicating information, delivering products, and collecting payments. This is what marketing is all about. Before we take a closer look at specific marketing activities and how they are planned and implemented by marketing managers, we will discuss some terms and concepts in our definition of marketing and the conditions necessary for exchange. Let’s examine the following questions:

1. Who are the parties involved in exchange relationships? Which organisations and people market things, and who are their customers?
2. Which needs and wants do parties try to satisfy through exchange, and what is the difference between the two?
3. What is exchanged?
4. How does exchange create value? Why is a buyer better off and more satisfied following an exchange?
5. How do potential exchange partners become a market for a particular good or service?

1.2.2 Who Markets and Who Buys? The Parties in an Exchange

Virtually every organisation and individual with a surplus of anything engages in marketing activities to identify, communicate, and negotiate with potential exchange partners. Some are more aggressive – and perhaps more effective – in their efforts than others. When considering extensive marketing efforts aimed at stimulating and facilitating exchange, we think first of the activities of goods manufacturers (Intel, BMW, Samsung), service producers (Air France, McDonald’s, Airbnb), and large retailers (Zara, Marks & Spencer, Walmart).
However, museums, hospitals, theatres, universities, and other social institutions – whether for profit or nonprofit – also carry out marketing activities to attract customers, students, and donors. In the past, their marketing efforts were sometimes not very extensive or well organised. Now, increasing competition, changing customer attitudes and demographics, and rising costs have caused many nonprofit organisations to look to more extensive marketing efforts to solve their problems.4 For example, some US churches are using marketing techniques to address social problems, as well as to increase church attendance. But, as discussed in Ethical Perspective 1.1, such efforts can also raise provocative questions.

**Ethical Perspective 1.1**

**Marketing Goes to Church in the United States**

What's old-time religion to do? Amid the competition for a piece of America's soul, many church denominations are searching for ways to reach new members. California's Saddleback Valley Community Church, for example, one of the largest religious institutions in America, has been aggressive in using marketing techniques to recruit new converts and to raise money for social projects like fighting poverty in Africa. These techniques focus not only on media advertising, but also on Internet ads, blogs, websites, and a variety of 'product enhancements' such as the formation of small interest and lifestyle groups within the congregation. But these techniques can provoke negative reactions from some elements of the churchgoing population. One study suggests that while many people approve of such contemporary approaches to religion, some others see 'the megachurches as too production-oriented … They want a more traditional understanding of religion and faith.'


1.2.2.1 Types of Customers

Both individuals and organisations seek goods and services obtained through exchange transactions. **Ultimate customers** buy goods and services for their own personal use or the use of others in their immediate household. These are called **consumer goods and services**. **Organisational customers** buy goods and services (1) for resale (as when Tesco buys orange juice for resale to individual consumers); (2) as inputs to the production of other goods or services (as when Toyota buys sheet steel to be stamped into car body parts); or (3) for use in the day-to-day operations of the organisation (as when a university buys paper and printer cartridges). These are called **industrial goods and services**. Throughout this course we examine differences in the buying behaviour of these two types of customers and the marketing strategies and programmes relevant for each.
1.2.3  **Customer Needs and Wants**

Needs are the basic forces that drive customers to take action and engage in exchanges. An unsatisfied need is a gap between a person’s actual and desired states on some physical or psychological dimension. We all have basic physical needs critical to our survival, such as food, drink, warmth, shelter, and sleep. We also have social and emotional needs critical to our psychological well-being, such as security, belonging, love, esteem, and self-fulfilment. These needs that motivate the consumption behaviour of individuals are few and basic. They are not created by marketers or other social forces; they flow from our basic biological and psychological makeup as human beings.

Organisations also must satisfy needs to assure their survival and well-being. Shaped by the organisation’s strategic objectives, these needs relate to the resource inputs, capital equipment, supplies, and services necessary to meet those objectives.

Wants reflect a person’s desires or preferences for specific ways of satisfying a basic need. Thus, a person wants particular products, brands, or services to satisfy a need. A person is thirsty and wants a Coke. A venture capital-backed start-up needs office space and its founders want an office at a prestigious address in San Francisco’s Mission District.

Basic needs are relatively few, but people’s many wants are shaped by social influences, their past history, and consumption experiences. Different people may have very different wants to satisfy the same need. Everyone needs to keep warm on cold winter nights, for instance. But some people want electric blankets, while others prefer old-fashioned down comforters.

This distinction between needs and wants helps put into perspective the charge that ‘marketers create needs’, or that ‘marketers make people want things they don’t need’. Neither marketers nor any other single social force can create needs deriving from the biological and emotional imperatives of human nature. On the other hand, marketers – and many other social forces – influence people’s wants. A major part of a marketer’s job is to develop a new product or service and then to stimulate customer wants for it by convincing people it can help them better satisfy one or more of their needs.

1.2.3.1  **Do Customers Always Know What They Want?**

Some managers – particularly entrepreneurs in path-breaking high-tech firms – question whether a strong focus on customer needs and wants is always a good thing. They argue that customers cannot always articulate their needs and wants, in part because they do not know what kinds of products or services are technically possible. As Steve Jobs, founder of Apple, once said:

- **You can’t just ask customers what they want and then try to give that to them.**
- **By the time you get it built, they’ll want something new.**

Others have pointed out that some very successful new products, such as Facebook and the Chrysler minivan, were developed with little or no market research. On the other hand, some famous duds, like Ford’s Edsel and New Coke, were developed with a great deal of customer input.
The laws of probability dictate that some new products will succeed and more will fail regardless of how much is spent on marketing research. But the critics of a strong customer focus argue that paying too much attention to customer needs and wants can stifle innovation and lead firms to produce nothing but marginal improvements or line extensions of products and services that already exist.

However, a customer focus is often critical to effective product development. Someone – or some development team – within the organisation must have either the insight and market experience or the substantial customer input necessary to decide what product to develop from a new technology, what benefits it will offer to customers, and whether customers will value those benefits sufficiently to make the product a commercial success. The importance of a customer focus often becomes clear when a firm attempts to develop a variety of successful new product offerings from a single well-established technology as illustrated by the travails of Lego, the Danish toy company, described in Exhibit 1.2.

**Exhibit 1.2 How Lego revived its brand**

Not many toy companies in the world have as much brand recognition as Lego. Three generations of kids around the world have built cars, fire trucks, even entire cities, with the Danish company’s plastic bricks. But despite its widely known and respected brand, the firm’s profits declined dramatically in the early to mid-2000s.

One reason for the decline was a loss of strategic focus. Lego launched a kid’s TV series, a set of action figures drawn from that series, and other products in highly competitive categories which were largely unrelated to the firm’s popular bricks and where the firm had no experience or special expertise.

More critically, Lego began foundering within its core product line as well. Top management had given free rein to the firm’s designers to develop more imaginative creations for kids to build with Lego bricks. The designers happily embraced their new freedom and developed many increasingly complex and artistic designs. Unfortunately, those complex designs incorporated thousands of new components, many of which were not interchangeable with those of other products in the line. As a result, parts inventories exploded and supply costs went through the roof. To make matters worse, many of the new designs did not appeal to the kids who are the firm’s ultimate consumers, and sales of the company’s core products went downhill.

Paradoxically, the solution to Lego’s product design and profitability problems involved reducing the creative freedom of the firm’s designers. Top executives decreed that new product development projects should be managed by teams involving marketing managers familiar with tastes, preferences, and purchase behaviours in different countries; manufacturing managers who could help control production and supply costs; market researchers who could test kids’ reactions to various product prototypes; as well as designers.

While innovative product design is Lego’s primary competitive strength, the company has found that designers function most successfully when placed under some constraints; namely that the products being designed appeal to the customers who will use them. As Mads Nipper, Lego’s VP of Products and Markets points out, ‘Children are . . . very demanding about what they want to buy. If your offer does not stack up, they will go somewhere else.’
1.2.4 **What Gets Exchanged? Products and Services**

Products and services help satisfy a customer’s need when they are acquired, used, or consumed. **Products** are essentially tangible physical objects (such as cars, watches, and mobile phones) that provide a benefit. For example, a car provides transportation; a watch tells the time. **Services** are less tangible and, in addition to being provided by physical objects, can be provided by **people** (doctors, lawyers, architects), **institutions** (the Roman Catholic Church, the United Way), **places** (Disneyland Paris), even **activities** (a contest or a stop-smoking programme).

1.2.5 **How Exchanges Create Value**

1.2.5.1 **Customers Buy Benefits, Not Products**

Exhibit 1.3 **Customers buy benefits, not products or features**

As argued earlier, when people buy products to satisfy their needs, they are really buying the **benefits** they believe the products provide, rather than the products per se. For instance, you buy headache relief, not aspirin. The specific benefits sought vary among customers depending on the needs to be satisfied and the situations where products are used. Because different customers seek different benefits, they use different choice criteria and attach different importance to product features when choosing models and brands within a product category. (This is diagrammed in 1.2.5.2.) For example, a car buyer with strong needs for social acceptance and esteem might seek a socially prestigious automobile. Such a buyer would be likely to attach great importance to criteria relating to social image and engineering sophisti-
cation such as a high-powered motor, European-road-car styling, all-leather interior, and a state-of-the-art sound system.

1.2.5.2 Product Benefits, Service, and Price Determine Value

A customer’s estimate of a product’s or service’s benefits and capacity to satisfy specific needs and wants determines the value he or she will attach to it. Generally, after comparing alternative products, brands, or suppliers, customers choose those they think provide the most need-satisfying benefits per dollar. Thus, value is a function of intrinsic product features, service, and price, and it means different things to different people.

Customers’ estimates of products’ benefits and value are not always accurate, however. For example, after buying an air-conditioning installation for its premises, a company may find that the product’s cost of operation is higher than expected, its response time to changes in the outside temperature is slow, and the blower is not strong enough to heat or cool remote areas in the building.

A customer’s ultimate satisfaction with a purchase, then, depends on whether the product actually lives up to expectations and delivers the anticipated benefits. This is why customer services – particularly those occurring after a sale, such as delivery, installation, operating instruction, and repair – are often critical for maintaining satisfied customers.

1.2.5.3 The Value of Long-Term Customer Relationships

Firms have traditionally focused on the individual transaction with a customer as the fruition of their marketing efforts. But as global markets have become increasingly competitive and volatile, many firms have turned their attention to building a continuing long-term relationship between the organisation and the customer as the ultimate objective of a successful marketing strategy. They are taking action to increase lifetime customer value – the present value of a stream of revenue that can be produced by a customer over time. For an automobile manufacturer, for instance, the lifetime value of a first-time car buyer who can be kept satisfied and loyal to the manufacturer – buying all future new cars from the same company – is well over a million dollars.

Throughout this course we will discuss marketing decisions and activities geared to increasing the satisfaction and loyalty – and therefore the lifetime value – of customers. While such activities can add to a company’s marketing costs, they can also produce big dividends, not only in terms of long-term revenues and market share, but also in terms of profitability. The reason is simple: it costs more to attract a new customer than to keep an existing one. Cost-effectively attracting and retaining customers with high lifetime values lies at the heart of many of today’s e-commerce marketers (see Exhibit 1.4). To persuade a customer to leave a competitor and buy your product or service instead often takes either a financial inducement (a lower price or special promotional deal) or an extensive and convincing communication programme (advertising, sales force effort, or online marketing), all of which can be costly. Consequently, the increased loyalty that comes through developing long-term customer relationships translates into higher profits.
Exhibit 1.4  Online remittances take the fat out of bankers’ fees

About $500 billion in migrant remittances are sent around the world each year, according to the World Bank – a figure that dwarfs the global aid budget threefold. Traditionally, migrant workers sending money home to their families would use banks or bricks-and-mortar money exchange companies like Western Union or MoneyGram to move their money. But that world is changing.

These days, remitters are going online to upstart providers like WorldRemit and TransferWise and getting the job done with a few taps on their PCs or mobile phones. Doing it this way is cheaper, easier, and safer, too, with many transactions going directly from a bank account or debit card in, say, London, to a mobile phone in Africa. According to WorldRemit founder and CEO Ismail Ahmed, some 85 per cent of his company’s transactions are made by existing customers, with the cost to acquire a new customer paid back within four to five months.


1.2.5.4  The Storehouse of Value Creation: Brand Equity

The assets – including customers’ perceptions of a product’s benefits and value, their positive past experiences, and their loyalty over time – linked to a brand’s name and symbol constitute the brand’s equity. Brand equity reflects the value of the brand name and logo as promotional tools for attracting future buyers and building market share and profitability. That is why Samsung’s recent marketing efforts have concentrated on building the equity of the Samsung brand in global markets by incorporating innovative technologies and stylish design in the firm’s offerings and advertising them as appropriate products for modern lifestyles. Ultimately, in other words, a brand’s value to the company depends on how much value customers think the brand provides for them; value creation cuts both ways.

1.2.6  Defining a Market

A market consists of (a) individuals and organisations who (b) are interested and willing to buy a particular product to obtain benefits that will satisfy a specific need or want, and who (c) have the resources (time, money) to engage in such a transaction. Some markets are sufficiently homogeneous that a company can practise undifferentiated marketing in them. That is, the company attempts to market a line of products using a single marketing programme. But because people have different needs, wants, and resources, the entire population of a society is seldom a viable market for a single product or service. Also, people or organisations often seek different benefits to satisfy needs and wants from the same type of product (e.g., one car buyer may seek social status and prestige while someone else wants economical basic transportation).

The total market for a given product category thus is often fragmented into several distinct market segments. Each segment contains people who are relatively
homogeneous in their needs, their wants, and the product benefits they seek. Also, each segment seeks a different set of benefits from the same product category.

The marketing management process typically involves a seller trying to determine the following points in an effort to define the target market:
1. Which customer needs and wants are currently not being satisfied by competitive product offerings.
2. How desired benefits and choice criteria vary among potential customers and how to identify the resulting segments by demographic variables such as age, sex, lifestyle, or some other characteristics.
3. Which segments to target, and which product offerings and marketing programmes appeal most to customers in those segments.
4. How to position the product to differentiate it from competitors’ offerings and give the firm a sustainable competitive advantage.

Exhibit 1.5: Haier – a Chinese manufacturer pursues segments of the appliance market

Haier, the rapidly growing Chinese manufacturer of washing machines, refrigerators, and other household appliances, uses extensive market research to modify product designs and marketing programmes to fit the unique needs and preferences of a variety of geographic, socioeconomic, and lifestyle segments. For instance, customer surveys discovered that people in Saudi Arabia desired extra-large washing machines to hold the flowing robes that are commonly worn there. Consequently, Haier developed a machine with a 26-pound capacity – more than double that of the average washer. The product was a hit, selling more than 10,000 units in its first year. At the other extreme, the firm also offers a miniwasher, aimed at developing economies, that costs only $38. Another washing machine, designed to handle fluctuations in voltage and pick up where it left off if the power goes out, is marketed in rural areas of Asia where the power supply is not always reliable.


1.3 What Does Effective Marketing Practice Look Like? The Marketing Management Process

This course examines the development and implementation of marketing strategies for individual product-market entries, whether products or services. Exhibit 1.6 briefly diagrams the activities and decisions involved in this process, and it also serves as the organisational framework for the rest of this text. For that reason, it is important to note the basic focus of this framework and the sequence of events within it.
1.3.1 A Decision-Making Focus

The framework has a distinct decision-making focus. Planning and executing a marketing strategy involves many interrelated decisions about what to do, when to do it, and how. Those decisions are the primary focus of this course. Every module details either the decisions to be made and actions to be taken when designing and implementing strategies for various market situations or the analytical tools and
frameworks you will need to make those decisions intelligently and in an evidence-based manner (see Exhibit 1.6).

### 1.3.2 Analysing Comes First – the 4 Cs

Exhibit 1.6 suggests that a substantial amount of analysis of customers, competitors, and the company itself should occur before designing a marketing strategy. This reflects our view that successful marketing decisions usually rest on an objective, detailed, and evidence-based understanding of the market and the environmental context. Of course, most marketing strategies never get implemented in quite the same way as they were drawn on paper. Adjustments are made, and new activities undertaken in response to rapid changes in customer demands, competitive actions, and shifting economic conditions. But a thorough and ongoing analysis of the market and the broader environment enables managers to make such adjustments in a well-reasoned and consistent way rather than by the seat of their pants.

The analysis necessary to provide the foundation for a good strategic marketing plan should focus on four elements of the overall environment that may influence its appropriateness and ultimate success: (1) the company's internal resources, capabilities, and strategies; (2) the environmental context – such as broad social, economic, and technology trends – in which the firm will compete; (3) the needs, wants, and characteristics of current and potential customers; and (4) the relative strengths and weaknesses of competitors and trends in the competitive environment. Marketers refer to these elements as the **4 Cs**. They are the focus of a market opportunity analysis and are discussed briefly on the following pages and in considerably greater depth in Modules 3 to 8.

### 1.3.3 Integrating Marketing Plans with the Company’s Strategies and Resources

A major part of the marketing manager’s job – or an entrepreneur’s job, for that matter – is to monitor and analyse customers’ needs and wants and the emerging opportunities and threats posed by competitors and trends in the external environment. Therefore, because all levels of strategy must consider such factors, marketers often play a major role in providing inputs to – and influencing the development of – corporate and business strategies. Conversely, general managers and senior managers in other functions need a solid understanding of marketing in order to craft effective organisational strategies.

Marketing managers also bear the primary responsibility for formulating and implementing strategic marketing plans for individual product-market entries or product lines. But, as we have seen, such marketing strategies are not created in a vacuum. Indeed, the marketing objectives and strategy for a particular product-market entry must be achievable with the company’s available resources and capabilities and consistent with the direction and allocation of resources inherent in the firm’s corporate and business-level strategies. In other words, there should be a good fit – or internal consistency – among the elements of all three levels of strategy. Module 2 describes in more detail the components of corporate and
business strategies, their implications for marketing decision making, and the roles marketers and other functional managers play in shaping the strategic direction of their organisations and business units.

1.3.4 **Market Opportunity Analysis**

A major factor in the success or failure of companies young and old is whether the strategy elements are consistent with the realities of the firm’s external environment and its own capabilities and resources. Thus, the first step in developing a strategic marketing plan – for a new venture, a new product, or an existing product or product line – is to undertake an analysis of the 4 Cs, so that the nature and attractiveness of the market opportunity is well understood. Marketing managers in various line or staff positions – or entrepreneurs themselves, in start-up settings – typically carry out this responsibility.

1.3.4.1 **Understanding Market Opportunities**

Understanding the nature and attractiveness of any opportunity requires conducting an examination of the external environment, including the markets served and the industry of which the firm is a part. In turn, this examination involves a look at broad macro issues such as environmental trends that are driving or constraining market demand and the structural characteristics of the industry as a whole, as well as specific aspects of the target customers and their needs and of the particular firm and what it brings to the party. It’s also necessary to examine the management team that will be charged with implementing whatever strategy is developed in order to determine if they have what it takes to get the job done. Module 3 provides a framework, the seven domains, for examining these issues and dramatises how different the attractiveness of one’s market and one’s industry can be, an insight that is easily (and often) overlooked.

1.3.4.2 **Customer Analysis**

The primary purpose of marketing activities is to facilitate and encourage exchange transactions with potential customers. One of a marketing manager’s major responsibilities is to analyse the motivations and behaviour of present and potential customers. What are their needs and wants? How do those needs and wants affect the product benefits they seek and the criteria they use in choosing products and brands? Where do they shop? How are they likely to react to specific price, promotion, and service policies? To answer such questions, a marketing manager must have some notion of the mental processes customers go through when making purchase decisions and of the psychological and social factors that influence those processes. For new products and new ventures, doing so is much more difficult than it looks; failure to achieve good product-market fit is a primary reason for new product and new venture failure (see Exhibit 1.7). Module 4 discusses the processes and influences that shape consumers’ buying behaviour. Because some aspects of the purchase process differ for organisations, Module 5 examines the buying behaviour of organisational customers.
Exhibit 1.7 Why the lean start-up changes everything

Long-time entrepreneur, investor, and part-time Stanford professor Steve Blank has been at the forefront of what is known as the ‘lean start-up methodology’. This methodology, in his words, ‘favours experimentation over elaborate planning, customer feedback over intuition, and iterative design over traditional “big design up-front” development’. Lean start-up principles have taken root in Silicon Valley and wherever entrepreneurship flourishes, but Blank argues that many large companies are missing the lean start-up boat. At its core, the methodology works like this:

- develop and test hypotheses about what customers are likely to want;
- build a prototype – a minimum viable product or MVP – and gather customer feedback;
- based on what is learned from the customer, iterate (or pivot); and
- continue until you ‘discover a customer’ who likes your updated product and you’re reasonably certain you’ve got the business model right.

Here’s what the sceptical Blank has to say about business plans. ‘No one besides venture capitalists and the late Soviet Union requires five-year plans to forecast complete unknowns. These plans are generally fiction, and dreaming them up is almost always a waste of time.’ His ideas are worth pondering as we discuss marketing plans later in this module.


1.3.4.3 Measuring Market Opportunities

Understanding the overall attractiveness of a market opportunity is one thing. Preparing an evidence-based forecast of the sales that can be achieved over the short and intermediate term is quite another and is a particularly difficult task for new products, especially those of the new-to-the-world variety. In Module 6, we outline several approaches to evidence-based forecasting, and we examine the factors that drive the pace at which innovations are adopted over time. We also briefly explore where to obtain the market knowledge required – the data to fill in the holes in one’s understanding of any market opportunity – including sources both inside and outside the firm.

1.3.4.4 Market Segmentation, Targeting, and Positioning Decisions

Not all customers with similar needs seek the same products or services to satisfy those needs. Their purchase decisions may be influenced by individual preferences, personal characteristics, social circumstances, and so forth. On the other hand, customers who do purchase the same product may be motivated by different needs, seek different benefits from the product, rely on different sources of information about products, and obtain the product from different distribution channels. Thus, one of the manager’s most crucial tasks is to divide customers into market segments – distinct subsets of people with similar needs, circumstances, and characteristics that lead them to respond in a similar way to a particular product or service offering or to a particular marketing strategy. Module 7 examines dimensions for measure-
ment and analytical techniques that can help managers identify and define market segments in both consumer (B2C) and organisational (B2B) markets.

After defining market segments and exploring customer needs and the firm’s competitive strengths and weaknesses within segments, the manager must decide which segments represent attractive and viable opportunities for the company; that is, on which segments to focus a strategic marketing programme. Thus, Module 7 also discusses some of the considerations in selecting a target segment.

Finally, the manager must decide how to position the product or service offering and its brand within a target segment; that is, to design the product and its marketing programme to emphasise attributes and benefits that appeal to customers in the target segment and at once distinguish the company’s offering from those of competitors. We address issues and analytical techniques involved in brand positioning decisions in Module 8.

1.3.5 Marketing Programme Components

Dozens of specific tactical decisions must be made in designing a marketing strategy for a product-market entry. These decisions fall into four categories of major marketing variables that a manager has some ability to control over the short term. Often called the 4 Ps, the controllable elements of a marketing programme are the product offering (including the breadth of the product line, quality levels, and customer services); price; promotion (advertising, sales promotion, and salesforce decisions); and place (or distribution). Because decisions about each element should be consistent and integrated with decisions concerning the other three, the four components are often referred to as the marketing mix.

The marketing mix is the combination of controllable marketing variables that a manager uses to carry out a marketing strategy in pursuit of the firm’s objectives in a given target market.

Exhibit 1.8 outlines some of the key decisions that must be made within each of the four elements of the marketing mix. Modules 9 to 12 discuss in more detail the various methods and criteria for making such decisions, whilst Module 13 specifically addresses the use of digital tools in promotion and brand building.
Exhibit 1.8  Decisions within the four elements of the marketing mix

1.3.6  Formulating Marketing Strategies for Specific Situations

The marketing strategy for any product or service should, of course, reflect market demand and the competitive situation within the target market. But demand and competitive conditions don’t stand still. They change over time as a product moves through its life cycle. Therefore, different strategies are typically more appropriate and successful for different market conditions and at different life-cycle stages. We briefly introduce the **product life cycle (PLC)**, a fundamental concept in marketing practice, later in this chapter, and we address marketing decision making across the life-cycle stages in greater depth later in the book. Module 14 examines marketing strategies for introducing new goods or services, i.e., the outset of the PLC. Module 15 addresses marketing strategies for serving rapidly growing markets. Module 16 considers strategies a manager might adopt in mature or declining markets, the latter stages of the PLC. Module 13 explores the growing importance of digital marketing strategies and some of the new tools for putting such strategies into effect, wherever the product might be in its life cycle.
1.3.7 Managing the Implementation and Performance of Marketing Strategies

A critical determinant of a strategy’s success is the firm’s ability to implement it effectively. This depends in part on whether the strategy is consistent with the resources, the organisational structure, the coordination and control systems, and the skills and experience of company personnel. Managers must design a strategy to fit the company’s existing resources, competencies, and procedures— or try to construct new structures and systems to fit the chosen strategy. For example, Samsung’s brand-building programme would not have been so successful without its substantial investments in digital R&D, market research, and product design and the development of cross-functional product teams to encourage communication among the firm’s engineers, designers, and marketers. Module 17 discusses the structural variables, planning and coordination processes, and personnel and corporate culture characteristics related to the successful implementation of various marketing strategies.

The final tasks in the marketing management process are determining whether the strategic marketing programme is meeting objectives and adjusting the programme when performance varies from plan. This performance monitoring process provides feedback to managers and serves as a basis for a market opportunity analysis in the next planning period. Module 18 examines ways to evaluate marketing performance and develop contingency plans when things go wrong.

1.4 The Product Life Cycle

The product life cycle is concerned with the sales history of a product or product class. The concept holds that a product’s revenues change over time in a predictable way and that products go through a series of five distinct stages: introduction, growth, shakeout, maturity, and decline (see Exhibit 1.9). Each of these stages provides distinct opportunities and threats, thereby affecting the firm’s strategy as well as its marketing programmes. The product life-cycle concept can be extremely valuable in helping management look into the future and better anticipate what changes will need to be made in marketing strategies.

At the beginning (the introductory stage), a new product’s sales are limited, perhaps because many members of the target market are unaware of its existence; also, a new product often lacks easy availability. As more people learn about the product and it becomes more readily available, sales increase at a progressively faster rate (the growth stage). Growth eventually slows as the number of buyers nears the maximum and repeat sales become increasingly more important than first-time sales. As the number of both buyers and their purchases stabilise, growth can become largely a function of population growth in the target market. At the end of the growth period—just before the advent of maturity—the shakeout or competitive turbulence stage occurs. This is typically characterised by a decreasing growth rate that results in strong price competition, forcing many firms to exit the industry or sell out. The mature stage is reached when the net adoption rate holds steady—that is, when adopters approximate dropouts. When the latter begin to exceed new
first-time users, the sales rate declines, and the product is said to have reached its final or **decline stage**.

### Exhibit 1.9 The product life cycle

Many products do not go through the product life-cycle curve shown in Exhibit 1.9 because a high percentage is aborted after an unsatisfactory introductory period – they fail, often early! Other products seemingly never die (coffee, automobiles). The shape of the life-cycle curve varies considerably between and within industries and product categories but is typically described as S-shaped. Because the challenges of developing and implementing suitable marketing strategies vary across the life-cycle stages, later in this book we devote three entire modules to the challenges of doing so (Module 14, Module 15, and Module 16).

#### 1.4.1 Limitations of the Product Life-Cycle Framework

The product life-cycle model’s major weakness lies in its normative approach to prescribing strategies based on assumptions about the features or characteristics of each stage. It fails to take into account that the product life cycle is, in reality, driven by market forces expressing the evolution of consumer preferences (the market), technology (the product), and competition (the supply side). In other words, the length of the life cycle and the market and competitive conditions at each stage can vary substantially across different product and service categories. As we shall see, there’s usually more than one viable strategy a marketing manager might pursue at each stage, and the best choice – as always – depends on the specific situation in the marketplace.
1.5 The Marketing Plan – A Blueprint for Action

The results of the various analyses and marketing programme decisions discussed previously should be summarised periodically in a detailed go-to-market strategy or formal marketing plan.

A marketing plan is a written document detailing the current situation with respect to customers, competitors, and the external environment and providing guidelines for objectives, marketing actions, and resource allocations over the planning period for either an existing or a proposed product or service.

Although some firms – particularly smaller ones – do not bother to write their marketing plans, most observers believe that unless all the key elements of a plan are written down, loopholes for ambiguity or misunderstanding of strategies and objectives, or of assigned responsibilities for taking action, will arise. This suggests that even small organisations with limited resources can benefit from preparing a written plan, however brief. Written plans also provide a concrete history of a product’s strategies and performance over time, which aids institutional memory and helps educate new managers assigned to the product. Written plans are necessary in most larger organisations because a marketing manager’s proposals usually must be reviewed and approved at higher levels of management and because the approved plan provides the benchmark against which the manager’s performance will be judged. Finally, the discipline involved in producing a formal plan helps ensure that the proposed objectives, strategy, and marketing actions are based on rigorous analysis of the 4 Cs and sound reasoning.

Because a written marketing plan is such an important tool for communicating and coordinating expectations and responsibilities throughout the firm, we will say more about it in Module 17 when we discuss the implementation of marketing strategies in detail. But because the written plan attempts to summarise and communicate an overview of the marketing management process we have been examining, it is worthwhile to briefly examine the contents of such plans here in this module.

Marketing plans vary in timing, content, and organisation across companies. In general, in large established companies, marketing plans are developed annually, though planning periods for some big-ticket industrial products such as commercial aircrafts may be longer, and in some highly volatile industries such as telecommunications or electronics, they can be shorter. Plans typically follow a format similar to that outlined in Exhibit 1.10.
### Exhibit 1.10  Contents of a marketing plan

<table>
<thead>
<tr>
<th>Section</th>
<th>Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Executive summary</td>
<td>Presents a short overview of the issues, objectives, strategy and actions incorporated in the plan and their expected outcomes for quick management review.</td>
</tr>
<tr>
<td>II Current situation and trends</td>
<td>Reports the results of a 4 Cs analysis to summarise relevant background information on the market, competition and the macroenvironment and trends therein, including size and growth rates for the overall market and key segments.</td>
</tr>
<tr>
<td>III Performance review</td>
<td>Examines the past performance of the product and the elements of its marketing programme (e.g., distribution, promotions, etc.).</td>
</tr>
<tr>
<td>IV Key issues</td>
<td>Identifies the main opportunities and threats to the product that the plan must deal with in the coming period and the relative strengths and weaknesses of the product and business unit that must be taken into account in facing those issues.</td>
</tr>
<tr>
<td>V Objectives</td>
<td>Specifies the goals to be accomplished in terms of sales volume, market share and profit.</td>
</tr>
<tr>
<td>VI Marketing strategy</td>
<td>Summarises the overall strategic approach that will be used to meet the plan’s objectives.</td>
</tr>
</tbody>
</table>
| VII Action plans              | This is the most critical section of the annual plan for helping to ensure effective implementation and coordination of activities across functional departments. It specifies:  
- the target market to be pursued;  
- what specific actions are to be taken with respect to each of the 4 Ps;  
- who is responsible for each action;  
- when the action will be engaged in; and  
- how much will be budgeted for each action. |
| VIII Projected profit-and-loss statement | Presents the expected financial payoff from the plan.                                                                                   |
| IX Controls                   | Discusses how the plan’s progress will be monitored; may present contingency plans to be used if performance falls below expectations or the situation changes. |
| X Contingency plans           | Describes actions to be taken if specific threats or opportunities materialise during the planning period.                            |

There are three major parts to the plan. First, the marketing manager details his or her assessment of the current situation. This is the homework portion of the plan where the manager summarises the results of his or her analysis of current and potential customers, the company’s relative strengths and weaknesses, the competitive situation, the major trends in the broader environment that may affect the product and, for existing products, past performance outcomes. This section typically also includes forecasts, estimates of sales potential, and other assumptions underlying the plan, which are especially important for proposed new products or services. Based on these analyses, the manager may also call attention to several key
issues – major opportunities or threats that should be dealt with during the planning period.

The second part of the plan details the strategy for the coming period. This part usually starts by specifying the objectives (e.g., sales volume, market share, profits, customer satisfaction levels) to be achieved by the product or service during the planning period. It then outlines the overall marketing strategy, the actions associated with each of the 4 Ps necessary to implement the strategy, and the timing and locus of responsibility for each action.

Finally, the plan details the financial and resource implications of the strategy and the key performance indicators (KPIs) to be employed to monitor the plan’s implementation and progress over the period. Some plans also specify some contingencies: how the plan will be modified if certain changes occur in the market, competitive, or external environments.

1.6 Who Does What?

A marketing strategy involves a large number of activities aimed at encouraging and facilitating exchanges and building relationships with customers. And all of those activities must be performed by somebody for exchanges to happen. One of the few eternal truths in marketing is that ‘you can eliminate the middlemen, but you can’t eliminate their functions’. Somebody has to gather information or feedback from customers concerning their needs and wants; use that information to design product or service offerings that will provide valued benefits; communicate the existence and benefits of the offering to the market; perform the storage, order fulfilment, and transportation activities necessary to make the product conveniently available to customers; finance purchases; collect payment; and resolve customer problems or complaints after the sale. The major flows of the physical product, payment, and information that occur during an exchange are summarised in Exhibit 1.11.

In a few cases, nearly all these activities are performed by a single organisation and its employees. Such internal control of the full range of marketing functions and activities is referred to as vertical integration. Dell’s reliance on the Internet to attract customers and process orders together with a flexible manufacturing system that produces computers to order and minimises finished inventories, and Canon’s reliance on its own factories, salesforce, and distribution facilities to produce and market its copiers and printers are examples of highly integrated marketing organisations.
The majority of goods and services in most developed economies, in both B2C and B2B settings, however, are marketed through alliances or networks involving multiple institutions or middlemen, including various kinds of wholesalers or distributors and retailers. These networks are commonly referred to as marketing channels or channels of distribution. Each institution within the channel specialises in performing only a part of the activities or functions necessary to conduct exchanges with the end user. We will examine these institutions and the nature of their interactions with one another in more detail in Module 11.

There are also many kinds of marketing organisations that perform other activities shown in Exhibit 1.11, including advertising agencies, marketing research firms, collection agencies, railroads and truckers, and numerous web services, all of which specialise in one or more marketing functions on a fee-for-service basis to help their clients perform those functions more effectively and efficiently.

1.6.1 Who Pays the Cost of Marketing Activities – and Are They Worth It?

The final selling price of any product reflects the costs of performing the activities necessary for exchange transactions. Those costs vary widely across different products and customers. They account for a relatively high proportion of the price of frequently purchased consumer package goods such as cereals and cosmetics. Extensive transportation, storage, and promotional activities facilitate the millions of consumer purchases that occur every year. In most developed economies, on average, as much as 50 per cent of the retail price of such products is made up of marketing and distribution costs, sometimes even more. For an example of one company that is taking the high costs of middlemen out of consumers’ diamond purchases, see Exhibit 1.12. For nontechnical industrial goods, on the other hand, such as sheet steel or basic chemicals, marketing costs tend to be much lower because such products are sold in large quantities directly to a small number of regular customers.
Exhibit 1.12  Blue Nile takes costs out of getting engaged

Pete Dignan had fallen in love and was about to propose to his girlfriend, Kelly Gilmore. By going online to BlueNile.com to buy an engagement ring, he figured he saved about $4000. Investing some of his savings in a fancy limousine ride to a park overlooking Colorado’s Rocky Mountains made for ‘a really romantic proposal, and that was more important’, he says. The Dignan–Gilmore engagement occurred in the early days of e-commerce, when companies like Blue Nile were just beginning to show consumers that they could save lots of money by shopping online, thanks to the Internet’s ability to disintermediate long-established distribution channels. The tangled supply chain of the jewellery industry, where a cut diamond might pass through as many as five or more middlemen before reaching the consumer, was a prime target.

Fast-forwarding to 2015, Blue Nile has become NASDAQ-listed and the leading online retailer of diamonds and fine jewellery, with a market cap north of $300 million. It serves consumers in more than 40 countries and territories from fulfilment centres in the US and in Dublin. It’s accomplished all this by providing consumers with in-depth educational materials and online tools that put them in control of their own destiny in the jewellery shopping process. And by cutting out the costs of bricks-and-mortar retail establishments and many of the middlemen, Blue Nile saves its customers money, too.


Though both individual and organisational customers pay for the marketing activities of manufacturers and their middlemen, they are still usually better off than if they were to undertake all the functions themselves. This is true for two reasons: first, the purchasing, storage, promotion, and selling activities of wholesalers and retailers allow customers to buy a wide variety of goods from a single source in one transaction, thereby increasing **transactional efficiency**. For example, a consumer may buy a week’s groceries on a single trip to the supermarket (or perhaps even over the Internet for home-delivery) rather than engage in separate transactions with a butcher, a baker, and a variety of farmers or food processors. Thus, the number of exchanges necessary for a consumer to acquire a desired assortment of goods and services is reduced and efficiency is generally increased when middlemen are added to an economic system.

A second benefit of an extensive marketing system is that specialisation of labour and economies of scale lead to **functional efficiency**. Manufacturers and their agents can usually perform many of the exchange activities more cheaply than can individual customers. A railway, for instance, can ship a load of new tyres from a plant in Akron to a wholesaler in Tucson more cheaply than an individual consumer in Arizona could transport them in the family minivan.

From the customer’s viewpoint, then, the increased transactional and functional efficiency of exchange produced by members of the marketing system increases the value – the **utility/price** relationship – of goods and services. A product has greater utility for a potential customer when it can be purchased with a minimum of risk.
and shopping time (possession utility), at a convenient location (place utility), and at the time the customer is ready to use the product (time utility).

1.6.2 Room for Improvement in Marketing Efficiency

While the existence of specialised institutions in our economy’s marketing system has greatly increased the efficiency and value of most exchange transactions from the customer’s point of view, that does not mean the current system is nearly as efficient as it could be. That’s one reason why disruptors such as Blue Nile have been able to use the power of the Internet to build fast-growing and very valuable businesses.

Despite the success of e-commerce players like Blue Nile, Amazon.com, and many more, the reality is that, for too many marketers, the practice of marketing remains in the Stone Age. Marketing managers have been slow to develop accurate measures and metrics of marketing performance and, therefore, slow to understand the effectiveness of various marketing actions relative to their costs, and thus their impact on a firm’s bottom line.9

In a recent survey of over 100 marketing executives in global companies in the United States, United Kingdom, and Germany, for instance, nearly all respondents agreed that improving the effectiveness of their marketing investments was one of their corporation’s top three business priorities. But 84 per cent of those respondents admitted that marketing return on investment (MROI) is not well understood in their businesses, and only 54 per cent said they measured any of their marketing activities consistently.10

1.6.3 The Role of the Marketing Decision Maker

The title marketing manager is necessarily and intentionally vague because many people are directly involved with an organisation’s marketing activities. This can include people not formally located in a marketing or sales department or even within the company. The exact nature of the marketing manager’s job will vary widely depending on the industry involved, the organisation’s structure, and its position in the managerial hierarchy.

While the marketing manager bears the primary responsibility for formulating and implementing a marketing strategy for a product or service, a single marketing manager (1) seldom does all the analysis or makes all the decisions involved in such plans all alone and (2) almost never has the formal authority to demand that all the activities specified in the plan be carried out by subordinates exactly as they are written down.

Many marketing activities are contracted out to independent middlemen or facilitating agencies or are performed in concert with a firm’s suppliers, major customers, or other organisational partners. A marketing manager has no formal authority over these outsiders. Thus, the development and nurturing of long-term relationships with suppliers, channel members, and major customers can do more than simply improve marketing efficiency; they can provide the information, advice, and cooperation necessary to devise and carry out successful marketing strategies.
Even those marketing activities that are performed in-house are seldom all within the domain of the marketing department or under the authority of a single marketing executive. Implementing a marketing plan requires cooperation and coordination across many specialised functional areas. Marketing is – or should be – everybody’s business. After all, delivering superior value to customers is the key to business success, and that superior value flows from a combination of well-designed products or services, produced with high quality; efficient operations that enable low costs and competitive prices; and reliable customer service. Creating value is a cross-functional endeavour, and marketing and nonmarketing executives alike must operate with a clear customer focus to make it happen.

**Learning Summary**

- Marketing is pervasive. It is a social process involving the activities that facilitate exchanges of goods and services among individuals and organisations.
- Customers buy benefits, not products. The benefits a customer receives from a firm’s offering, less the costs he or she must bear to receive those benefits, determine the offering’s value to that customer.
- Delivering superior value to one’s customers is the essence of business success. Because delivering superior value is a multifunctional endeavour, both marketing and nonmarketing managers must adopt a strong focus on the customer and coordinate their efforts to make it happen.
- The marketing management process requires an understanding of the 4 Cs: the company and its mission, strategies, and resources; the macroenvironmental context in which it operates; customers and their needs and wants; and competitors. Obtaining an objective, detailed, evidence-based understanding of these factors is critical to effective marketing decision making.
- Marketing decisions – such as choices about what goods or services to sell, to whom, and with what strategy – are made or approved at the highest levels in most firms, whether large or small. Therefore, managers who occupy or aspire to strategic positions in their organisations need marketing perspectives and analytical skills.
Review Questions

Content Questions

1.1 Define marketing.

1.2 What conditions are necessary for an exchange to take place?

1.3 Distinguish between a need and a want.

1.4 What is a market?

1.5 What does the marketing management process involve?

1.6 What flows are necessary for an exchange transaction to take place?

Multiple Choice Questions

1.7 A society cannot reap the full benefits of specialisation until it develops the means to facilitate:
   A. importation of essentials from other societies.
   B. production of essentials by each member of society.
   C. the trade and exchange of surpluses among its members.
   D. countertrade with other societies.
   E. production of services in addition to goods.

1.8 ‘A social process involving the activities necessary to enable individuals and organisations to obtain what they need and want through exchanges with others’ is a definition of:
   A. distribution.
   B. marketing.
   C. barter.
   D. countertrade.
   E. industrialisation.

1.9 The core functional focus of marketing is the ____ of goods and services.
   A. creation.
   B. distribution.
   C. pricing.
   D. promoting.
   E. exchange.
1.10 The utilisation of marketing approaches by hospitals, theatres, universities and nonprofit organisations:
   A. has not changed compared to practices in the past.
   B. has increased substantially in the past decade.
   C. is outside the domain of marketing per se.
   D. is only appropriate in for-profit situations.
   E. has decreased substantially in the past decade.

1.11 Those who buy goods and services for their own personal use or the use of others in their immediate household are:
   A. utilitarian consumers.
   B. organisational customers.
   C. intermediaries.
   D. industrial customers.
   E. ultimate consumers.

1.12 Those who buy goods and services for resale, as inputs to production of other goods or services, or for use in the day-to-day operations of the organisation are:
   A. intermediaries.
   B. ultimate customers.
   C. organisational customers.
   D. utilitarian consumers.
   E. countertraders.

1.13 A gap between a person’s actual and desired state on some physical or psychological dimension is a(n):
   A. unsatisfied need.
   B. want state.
   C. market inefficiency.
   D. demand function.
   E. intermediary.

1.14 Factors not created by marketers or other social forces, but flowing from basic biological and psychological human makeup, are:
   A. needs.
   B. wants.
   C. demands.
   D. urges.
   E. requirements.

1.15 The desire to drink a Coke instead of orange juice is an example of a(n):
   A. urge.
   B. need.
   C. demand.
   D. want.
   E. requirement.
1.16 For some brand-loyal customers what does wearing Levi’s 501 jeans provide that other jeans cannot?
   A. Need fulfilment.
   B. Need creation.
   C. Need recognition.
   D. Want satisfaction.
   E. Either B or C above.

1.17 In addition to being provided with physical objects, people’s needs may be satisfied in a less tangible form through:
   A. differential forms.
   B. products.
   C. goods.
   D. services.
   E. product modifications.

1.18 Whether the product actually lives up to expectations and delivers the anticipated benefits determines the customer’s ultimate:
   A. satisfaction.
   B. credence qualities.
   C. salience.
   D. demand function.
   E. choice criteria.

1.19 ‘Individuals and organisations who are interested in buying and willing to buy a particular product to obtain benefits that will satisfy a specific need or want, and who have the resources to engage in such a transaction’ is the definition of a(n):
   A. industrial buyer.
   B. segment.
   C. opportunity.
   D. focus group.
   E. market.

1.20 In developing marketing strategy, when a company is attempting to define its ‘niche’ in the market as part of its strategic management planning activities, which of the following is it attempting to establish?
   A. Why its competitors have not already exploited this niche.
   B. What is the best promotion vehicle for this market.
   C. Which segments to target.
   D. How to position the product.
   E. Its distribution strategy.
1.21 Avon’s marketing of cosmetics through thousands of part-time door-to-door sales representatives and IBM’s marketing of mainframe computers are examples of:
A. vertically integrated distribution systems, in that they involve manufacturers who sell their own product lines direct.
B. horizontally integrated distribution systems, in that the same product is sold in the same setting throughout the areas in which it is available.
C. wheel-and-spoke distribution systems, in that a central manufacturer ‘spins out’ the product from a central point to surrounding distribution points.
D. cohesive distribution systems, in that the distribution network is bound together through a common control framework.
E. pyramid selling systems, in that these marketers reply upon a system of ‘others enlisting others’ to increase sales.

1.22 Groups of institutions or middlemen that distribute goods are known as:
A. pyramid distribution systems.
B. cartels.
C. horizontal distribution systems.
D. wheel-and-spoke distribution systems.
E. marketing channels.

1.23 All of the following are stages of the normal product life-cycle curve EXCEPT:
A. growth.
B. maturity.
C. introduction.
D. decline.
E. monopoly.

1.24 At which stage of the normal product life cycle is purchase of the product limited because consumers in the target market are unaware of the product’s existence or because of its lack of availability?
A. Growth.
B. Maturity.
C. Decline.
D. Introduction.
E. Shakeout.

1.25 A drop in the overall growth rate first occurs during the ____ period of the product life cycle.
A. decline.
B. shakeout.
C. introduction.
D. growth.
E. maturity.
1.26 About what percentage of the retail price of consumer products consists of the costs of marketing and distribution of these products?
A. 10 per cent.
B. 30 per cent.
C. 50 per cent.
D. 70 per cent.
E. 90 per cent.

1.27 Because manufacturers and their agents can perform exchange activities at a lower cost than individual consumers, we say that they have achieved:
A. price efficiency.
B. functional efficiency.
C. transaction efficiency.
D. vertical integration.
E. horizontal integration.

1.28 When a consumer purchases a product at a convenient location and when she is ready to use the product, we say that the product has achieved _____ utility and _____ utility, respectively.
A. time; place.
B. place; time.
C. possession; place.
D. possession; functional.
E. time; possession.

1.29 Which of the following BEST summarises the way marketing managers communicate to potential customers about their offerings?
A. Advertising.
B. Pricing.
C. The product’s features.
D. Publicity.
E. The marketing mix.

1.30 Advertising, personal selling, point-of-purchase displays and publicity are related to which elements of the marketing mix?
A. Place.
B. Product.
C. Price.
D. Promotion.
E. Personnel.
1.31 Quality, features, style, options, brand name, packaging, guarantees and warranties, and service are related to which element of the marketing mix?
A. Place.
B. Price.
C. Product.
D. Promotion.
E. Personnel.

1.32 A(n) ____ is a written document detailing the current situation with respect to customers, competitors, and the external environment and providing guidelines for objectives, marketing actions, and resource allocations over the planning period for either an existing or a proposed product or service.
A. strategic programme.
B. marketing plan.
C. marketing mix.
D. opportunity analysis.
E. marketing programme.

Application Questions and Cases

1.33 You have just made a substantial monetary contribution to a well-known charitable organisation. Was this an exchange transaction? If so, what was exchanged? What need(s) or want(s) did you satisfy by making your contribution? Which marketing activities do managers of charitable organisations engage in to facilitate a transaction?

1.34 What is the difference between a customer’s need and a customer’s want? State which needs (or benefits) might be met by each of the following:
   a. Toujours Moi perfume.
   b. a BMW car.
   c. a physical examination at a local hospital.
   d. a laptop computer.

1.35 Distinguish between an ultimate customer and an organisational customer. Provide an example of each.
References


3. The American Marketing Association offers a similar, though more detailed, definition of marketing, as follows: ‘Marketing is the process of planning and executing the conception, pricing, promotion, and distributing of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.’


