key concepts

SAGE

Key Concepts in Marketing

JIM BLYTHE

Key Concepts in Marketing

Recent volumes include:

Key Concepts in Social Research
Geoff Payne and Judy Payne

Fifty Key Concepts in Gender Studies
Jane Pilcher and ImeldaWhelehan

Key Concepts in Medical Sociology
Jonathan Gabe, Mike Bury and Mary Ann Elston

Key Concepts in Leisure Studies
David Harris

Key Concepts in Critical Social Theory
Nick Crossley

Key Concepts in Urban Studies
Mark Gottdiener and Leslie Budd

Key Concepts in Mental Health
David Pilgrim

Key Concepts in Journalism Studies
Bob Franklin, Martin Hamer, Mark Hanna, Marie Kinsey and John Richardson

Key Concepts in Political Communication
Darren G. Lilleker

Key Concepts in Teaching Primary Mathematics
Derek Haylock

Key Concepts in Work
Paul Blyton and Jean Jenkins

Key Concepts in Nursing
Edited by Elizabeth Mason-Whitehead, Annette McIntosh, Ann Bryan, Tom Mason

Key Concepts in Childhood Studies
Allison James and Adrian James

The SAGE Key Concepts series provides students with accessible and authoritative knowledge of the essential topics in a variety of disciplines. Cross-referenced throughout, the format encourages critical evaluation through understanding. Written by experienced and respected academics, the books are indispensable study aids and guides to comprehension.

JIM BLYTHE

Key Concepts in Marketing

SAGE

Los Angeles • London • New Delhi • Singapore • Washington DC

First published 2009

SAGE Publications Ltd
1 Oliver's Yard
55 City Road
London EC1Y 1SP

SAGE Publications Inc.
2455 Teller Road
Thousand Oaks, California 91320

SAGE Publications India Pvt Ltd
B 1/I 1 Mohan Cooperative Industrial Area
Mathura Road, Post Bag 7
New Delhi 110 044

SAGE Publications Asia-Pacific Pte Ltd
33 Pekin Street #02-01
Far East Square
Singapore 048763

Library of Congress Control Number: 2008932105

British Library Cataloguing in Publication data

A catalogue record for this book is available from the British Library

ISBN 978-1-84787-498-6
ISBN 978-1-84787-499-3 (pbk)

Typeset by C&M Digitals (P) Ltd, Chennai, India
Printed in Great Britain by CPI Antony Rowe, Chippenham, Wiltshire
Printed on paper from sustainable resources

contents

alphabetical list of concepts

preface

In the hundred or so years of its existence as an academic subject, marketing has become a complex area of study. At the same time, the practice of marketing has become more sophisticated and a great deal more important in the business world – the old assumption that all a firm needed to do was produce a better product than its competitors has long been discredited.

For students of marketing, the subject is complicated further by the academic debate: as a young discipline, marketing still has to work out its basic concepts, and there is widespread disagreement in the academic community as to what these concepts should be. The aim of this book is to provide a quick reference guide for marketing students, practitioners and academics: it is not a textbook, and does not replace a textbook, but it does provide a quick cross-check so that anyone studying marketing can check the basic definition and academic arguments surrounding the most common concepts in marketing.

The concepts are grouped under four main headings: customers and markets (which outlines the background on which marketing is based), the offer (which is about what the supplier aims to provide in exchange for the customer's cash), approaching customers (which is concerned with the preparation for making the exchange) and promotion (which covers communication with customers). Each section contains the concepts themselves, clearly explained, with cross-references to other related concepts. Of course, all the concepts of marketing are related to a greater or lesser extent – only the most immediate and obvious relationships are linked.

I would like to take this opportunity to thank all the people who have made this book possible. At Sage, Delia Alfonso, Jennifer Pegg and Clare Wells, who have been patient about deadlines, and professional in their support and help. At Plymouth Business School, my friends and colleagues who have made helpful suggestions and supplied ideas. The reviewers, for their approval and helpful suggestions. And finally my wife, Sue, for her support and understanding.

Jim Blythe

Part 1
Customers and Markets

Customer Centrality

Customer centrality is the view that the customer's needs, wants and predispositions must be the starting-point for all decision-making within the organisation.

The idea that the customer should be at the centre of everything we do as marketers is the driving force behind all marketing planning. In any question of marketing, one should always begin with the customer or consumer: in many cases, the customer and the consumer are the same person, but not always. True customer centrality means that the firm should be seeking to create value for customers: this is not done from a sense of altruism, but rather from the viewpoint that, unless we create value for customers, they will not offer value (i.e. money) in return. The concept has been credited to Peter Drucker, who is quoted as saying 'We are all marketers now', and for stating that the sole function of any business is to create a customer. He also said,

> Marketing is so basic that it cannot be considered a separate function. It is the whole business, seen from the viewpoint of its final result, that is, from the customer's point of view.

Customer centrality is a matter of finding needs and filling them, rather than making products and selling them. Putting the customers first is an easy concept to understand: it is fairly obvious that giving poor service or selling shoddy products will cause them to spend their money elsewhere, but the concept is difficult to apply in practice. For example, few firms keep the best spaces in the car park free for customers – these are usually reserved for senior management. Likewise, firms typically express their annual results in financial terms (for the benefit of the shareholders) rather than discussing customer satisfaction ratings, customer retention levels, and so forth.

Narver and Slater (1990) identified three components that determine the degree to which a company is market-orientated: competitor orientation, customer orientation and inter-functional co-ordination. For these authors, customer orientation is the degree to which the organisation understands its customers. The better the understanding, the better the firm is able to create value for the customers.

Understanding customers is, however, only the beginning. Customers can be seen to have generic needs: these are as follows:

- **Current product needs**. All customers for a given product have needs based on the product features and benefits. They may also have similar needs in terms of the quantity of product they buy, and any problems they might face in using the product (for example, complex equipment such as GPS units may need specialised instruction manuals).
- **Future needs**. Predicting future needs of existing customers is a key element in customer orientation. Typically, this is a function of marketing research, but part of the customer centrality concept is that we should not tire out our customers by constantly asking them questions – some people resent being asked about their future needs, even though the firm might only be trying to be helpful.
- **Desired pricing levels**. Customers naturally want to buy products at the lowest possible prices, but pricing is far from straightforward for marketers. Customers will only pay what they think is reasonable for a product, and obviously firms can only supply products at a profit (at least in the long term). Customers will only pay what they perceive as a 'fair' price (based on what they believe to be the benefits of owning the product), but equally, price is a signal of quality: people naturally assume that a higher-priced product represents better quality. Thus cutting prices might be counter-productive, since it signals that the product is of lower quality.
- **Information needs**. Customers need to know about a product, and about the implications of owning it: this includes the drawbacks as well as the advantages. In most cases, companies are unlikely to flag up the drawbacks (except regarding unsafe use of the product) but customers will still seek out this information, perhaps from other purchasers and users of the product. Information therefore needs to be presented in an appropriate place and format, and should be accurate.
- **Product availability**. Products need to be available in the right place at the right time. This means that the firm needs to recruit the appropriate intermediaries (wholesalers, retailers, agents and so forth) to ensure that the product can be found in the place the customer expects to find it.

The above needs are generic to all customers, whether they are commercial customers, consumers, people buying on behalf of family or friends, or even organisational buyers.

The concept of customer centrality is not easy to apply within firms, because managers have to balance the needs of other groups of stakeholders. Company directors have a legal responsibility to put shareholders' interests ahead of any other consideration, personnel managers have a responsibility to meet the needs of employees, and so forth. The main difficulty (and one which eludes many marketers) is the reasoning behind customer centrality. Some marketers tend to believe that meeting customer needs effectively is an end in itself, whereas others see it as instrumental in persuading customers to part with their money. This is by no means an abstract difference of view – marketers taking the former view will tend to think of all customers as being worthy of attention, whether they are profitable customers or not, whereas those adhering to the second viewpoint will take a much more cynical view, perhaps appearing to seek to exploit customers. For example, Sir Alan Sugar (the hard-nosed London entrepreneur who built the Amstrad consumer electronics business up from nothing within a few years) is famous for saying 'Pan Am takes good care of you. Marks & Spencer loves you. Securicor cares. At Amstrad, we want your money' (*Financial Times* 1987).

Although Sugar's statement was perhaps somewhat tongue-in-cheek, it does sum up the underlying attitude of many company directors. In this view of the world, the purpose of meeting customer needs is to ensure that customers are still prepared to hand over their money in exchange for value received – a concept that has not eluded Sugar, whose products always represent good value for money.

In 2000 Peter Doyle published a seminal book entitled *Value-Based Marketing* in which he critiqued the idea of customer centrality. The aim of the book was to redefine the role of marketing and clarify how its success (or otherwise) should be measured. His argument was that marketing has not been integrated with the modern concept of value creation: it is still caught up in the profit-making paradigm, which is not actually what companies do: in the main, companies are focused on maximising shareholder value.

Doyle gave numerous examples of companies that had succeeded not through exceptional consumer value, but through creating and providing exceptional value to other stakeholders. He pointed out that only 12 chief executives of the UK's top 100 companies had any marketing experience, and 43% of UK companies had no marketing representation on their board of directors. Doyle attributes this to a failure of marketers to take on board the concept of shareholder value, which is (in general) the main preoccupation of boards of directors. In fact, Doyle regards this as the primary obligation of directors. This leads on to the idea that marketing is, in fact, a means to an end: providing customer value is only a stage in the process of increasing shareholder value.

In the final analysis, customer centrality is an easy (even obvious) concept, but the practical difficulties of implementing it are immense. Marketers will, in the meantime, continue to advocate the idea that customer need should be foremost in corporate thinking, and company directors will continue to regard customers as only one stakeholder group. Probably the directors are right – but even if this is the case, customers are the only stakeholder group that provides the income the company needs to fund all the other stakeholders. That being the case, other stakeholders need to consider what they are offering which will facilitate the exchanges with customers on which the company relies.

See also: *relationship marketing, consumerism, the whole of Part 3*

REFERENCES

Doyle, P. (2000) *Value-Based Marketing*. Chichester: John Wiley.

Financial Times (1987) Also reported in *The Observer* (3 May 1987) 'Sayings of the week'.

Narver, J.C. and Slater, S.F. (1990) 'The effects of a market orientation on business profitability', *Journal of Marketing*, 54 (Oct): 20–55.

Management of Exchange

Management of exchange is the theory that marketing is concerned with influencing and controlling the transfer of value between buyers and sellers.

The view of marketing as the management of exchange is usually associated with Philip Kotler, who defines marketing as follows:

> Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others. (Kotler et al., 2003)

In fact, the exchange view of marketing was first proposed by Wroe Alderson (1957), and is based on the assumption that both parties want what the other one has, and are both prepared to exchange.

Exchange as a means of obtaining what one wants goes back to prehistory. Even before formalised trading was invented we can assume that early people exchanged surpluses of one thing for other things they needed. In the Lake District region of the UK a prehistoric factory for making hand axes was discovered in the 1960s: axes made from Lakeland stone have been found as far away as the South of France, so fairly obviously a flourishing trade of some sort existed during the Stone Age.

Economists have developed theories of exchange which seek to explain the process and motivations of those involved. The key concept is that of the indifference curve, which illustrates the degree to which someone is prepared to accept a surplus of one item in exchange for another.

An indifference curve assumes that an individual has a trade-off between different items in his or her portfolio of wealth. For example, most people have a store of food in their houses, and a store of money in the bank. Up to a point, it does not matter much if one spends some of the money (reducing the store of cash) in order to increases the store of food, but as the imbalance grows the level of food that needs to be bought to compensate for the reduction in savings will have to increase. In other words, if the freezer is already full, the consumer would have to see a really irresistible bargain in frozen turkeys in order to make the purchase. The same is true in the other direction – if food stocks go too low, the individual will certainly spend a portion of his or her savings to restock the larder, and the bank would have to offer an extremely high interest rate to prevent this happening. An indifference curve which illustrates this is shown in Figure 1.1. Note that the curve ends before it reaches the limit – this is because the individual will have a cut-off point, not wishing to have no money at all but plenty of food, or no stocks of food but plenty of money.

If we consider a simple case of two individuals, each of whom has a supply of food and a supply of money, we can map the total supply of

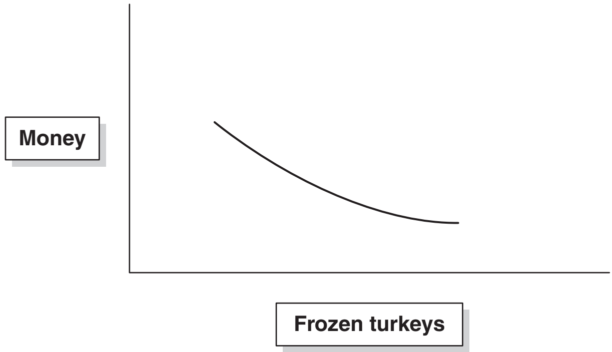

Figure 1.1 *Indifference curve*

food and money as shown in Figure 1.2. Here, Person A and Person B are each indifferent as to how much food or money they have, provided the totals fall somewhere along the indifference curve. However, it is possible to consider Point C, which is a point at which the total amount of food and money could be divided between the two people, but which lies above each of their indifference curves. This means that both are actually better off in terms of both food and money. Point C is on the contract line, which is a line along which either party would be better off. Note that the nearer Point C is to an individual's indifference curve, the better off the other individual will be, so the actual point at which

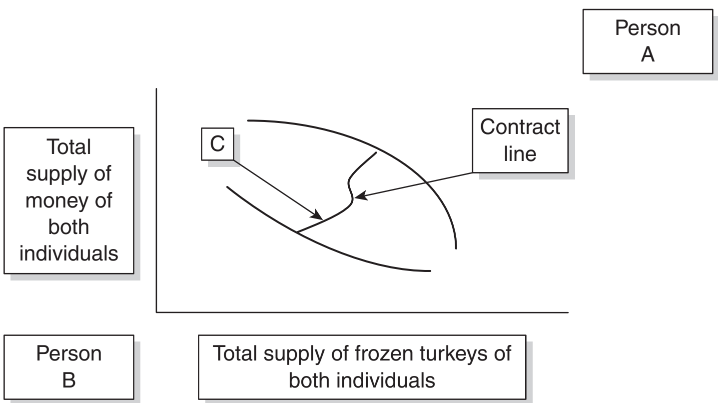

Figure 1.2 *Edgeworth Box*

the exchange is made will depend on the negotiating skills or power relationships of the parties. In the diagram, Person B is obviously not as skilled a bargainer as Person A. This model was first proposed by Edgeworth (1881) and refined by Pareto in 1906, so it considerably predates either Wroe Alderson or Philip Kotler.

At first, it appears counter-intuitive that an exchange results in both parties being better off in terms of both money and turkeys. This apparent anomaly comes about because each individual has a different view of the relative values of food and money. This is clearly the case if the individuals are, respectively, a grocer and a consumer. The grocer would rather have the money than have the food, since he or she has more than enough food for personal use, whereas the consumer would clearly prefer to have the food rather than the money. This concept is important because it negates the idea that market value is fixed. All values are subjective, and depend on the perceptions and situation of the individual.

Broadly then, trade is always good and exchanges always result in both parties being better off (except in the case of deliberate fraud, of course). This is why governments worldwide try to reduce trade barriers: the more we trade with other countries, the better off we become.

Returning to Kotler's definition of marketing, there is a problem in that it tries to include all human exchange processes, and does not differentiate between the buyer and the seller. This makes the definition very broad, which means that it is difficult to identify what is marketing and what is not (presumably this is what a definition sets out to do). For example, Kotler is apparently arguing that a parent who agrees to take a child to the cinema in exchange for tidying his room is engaging in marketing, and even that the child is also engaging in marketing. This would seem somewhat peculiar to most people.

A further criticism of the marketing-as-exchange-management model is that it does not allow for non-profit marketing, unless one is prepared to stretch a few points intellectually. If a government anti-drinking campaign uses a series of TV advertisements to discourage people from over-indulging, this is clearly marketing (within the non-profit marketing paradigm). However, it is difficult to see where the exchange part of the equation comes in. Is someone who heeds the advertising and reduces his or her drinking actually giving the government something in exchange for the advertising? And what (if anything) is the exchange being offered?

Undoubtedly marketing involves the management of exchange as part of what it does. Managing exchange is not the whole of marketing, though, nor do all exchanges fit under the marketing umbrella.

See also: *quality, the whole of Part 2*

REFERENCES

Alderson, W.C. (1957) *Marketing Behaviour and Executive Action: A Functionalist Approach to Marketing*. Homewood, IL: Irwin.

Edgeworth, F.Y. (1881) *Mathematical Psychics*. Kegan Paul.

Kotler, P., Armstrong, J., Saunders, J. and Wong, V. (2003) *Principles of Marketing.* Harlow: FT Prentice Hall.

Pareto, V. *Manual of Political Economy*. London: Macmillan.

Evolution of Marketing

The evolution of the marketing model seeks to explain how marketing theory and practice have progressed over the past 150 years: it also offers alternative business paradigms which are in evidence today.

Marketing is popularly supposed to have gone through a series of evolutionary stages before arriving at the marketing concept (the view that everything the company does should be driven by market forces, and ultimately by customer needs). Keith (1960) outlined one model of how marketing practice developed, based on the Pillsbury Dough Company, a large American flour milling company. Keith said that the company had gone through three distinct paradigms in the course of developing a marketing concept. These were as follows:

1 **The production era**. At this time the capacity of the mills rather than customer need was what drove the market. The reason for this was that the market was growing rapidly, so that demand outstripped supply.

2 **The sales era**. During this period, the company regarded an effective, fast-talking sales force as the way to control the market.
3 **The marketing era**. At this time the company was driven by customer need.

Although this model was referring to a very specific company at a very specific time, it has become the main model quoted in textbooks and on marketing courses. The basic model has itself evolved over time, as follows:

(1) Production orientation is the view that the route to corporate success lies in production efficiency, getting production costs as low as possible (usually by manufacturing in very large volume) in order to reduce costs and prices. This orientation had its beginnings at the start of the Industrial Revolution. Up until the nineteenth century, almost everything was hand-made and made to measure. Clothing was produced by tailors to almost exact measurements or was made at home, houses and vehicles were produced to customer specification, and relatively few items were standardised. Producing in this way is relatively expensive, consequently prices were high for most goods and people owned correspondingly fewer things. When machines were introduced to speed up the manufacturing process, costs dropped to perhaps one-tenth of the cost of customised products, so that prices could also be cut provided enough goods could be sold. The longer the production run, the lower the costs and consequently the greater the profit: customers were prepared to accept items that were not exactly meeting their needs, since prices were a fraction of what they would have had to pay for the perfect, tailor-made article. For manufacturers, the key to success was therefore ever more efficient (and low-cost) production, but at the cost of meeting individual customers' needs.

Production orientation still survives in some markets, notably those where most people do not already own the core benefits of the products concerned. Until recently production orientation was the prevailing manufacturing paradigm in Communist countries, but this is now being replaced by a more market-oriented approach.

(2) Product orientation is the view that an ideal product can be produced that will have all the features any potential customer might want. This orientation is thought to be a result of oversupply of basic goods. Once everyone already owned the core benefits of the products concerned, manufacturers needed to provide something different in order to find new customers. Products with more features, made to a higher standard, began to be

introduced. By the late nineteenth century extravagant claims were being made for products on the basis of their quality and features. Manufacturers sought to resolve the problem of diverse customer need by adding in every possible feature. The drawback of this approach is that the price of the product increases dramatically, and customers are not always prepared to pay for features they will never use. Modern examples of product orientation include the Kirby vacuum cleaner, which has a multitude of features and can clean virtually anything, and Microsoft Windows software. The end price of the Kirby cleaner is perhaps ten times that of a basic vacuum cleaner, a price that most people are unable or unwilling to pay. In the case of Windows software, the marginal cost of adding extra features to the CD set is tiny compared with the cost of producing separate CDs for each customer group, so it is vastly more efficient to send out everything to everybody and allow each customer to install and use the features they need.

The difficulty with both production orientation and product orientation is that they do not allow for the different needs and circumstances of consumers. Customers differ from each other in terms of their needs – there is no such thing as 'the customer'.

(3) Sales orientation is based on the idea that manufacturing companies can produce far more goods than the market can accept. Sales-oriented companies assume that people do not want to buy goods, and will not do so unless they are persuaded to do so: such companies concentrate on the needs of the seller rather than the needs of the buyer. Sales orientation relies on several assumptions: first, that customers do not really want to spend their money: second, that they must be persuaded by the use of hard-hitting sales techniques: third, that they will not mind being persuaded and will be happy for the salesperson to call again and persuade them some more: and fourth, that success comes through using aggressive promotional techniques.

Sales orientation is still fairly common, especially in firms selling unsought goods such as home improvements and insurance, and often results in short-term gains. In the longer term, customers will judge the company on the quality of its products and after-sales service, and (ultimately) on value for money. Sales orientation should not be confused with the practice of personal selling: successful salespeople do not operate on the basis of persuasion, but rather on the basis of identifying and meeting individual customers' needs.

(4) Marketing orientation means being driven by customer needs: this is sometimes also called customer orientation. Companies that are

truly marketing oriented will always start with the customer's needs, whatever the business problem. Customers can be grouped according to their different needs, and a slightly different product offered to each group. This type of differentiation allows the company to provide for the needs of a larger group in total, because each target segment of the market is able to satisfy its needs through purchase of one or other of the company's products. The underlying assumption of marketing orientation is that customers want to satisfy their needs, and will be willing to buy products that do so. Customer need includes a need for information about the products, advice about product usage, availability of products and so forth. Customer need therefore goes beyond the basic core benefits of the product itself. For example, research has shown that most American consumers no longer know how to choose fresh meat and vegetables, so they seek the reassurance of a well-known brand, or the local supermarket's guarantee of quality. This has encouraged farmers and others in the food industry to provide the type of quality assurance modern consumers need (Stanton and Herbst, 2005).

Marketing orientation also implies that customer needs are the driving force throughout the organisation. Decisions within the organisation, in every department from manufacture through to delivery, need to be taken in consideration of customer needs at every stage. Quality control in the factory, accurate information given by telephonists and receptionists, and courteous deliveries by drivers all play a part in delivering customer value. Narver and Slater (1990) identified three components that determine the degree to which a company is marketing-orientated: competitor orientation, customer orientation and inter-functional co-ordination.

(5) Societal marketing includes the concept that companies have a responsibility for the needs of society as a whole, so should include environmental impact and the impact of their products on non-users (Kotler et al., 2003). Societal marketers believe that sustainability is a key issue since it is of no help to the long-term survival of the firm if natural resources are used too quickly. Long-term results of use of the product are also considered, in terms of their impact on the environment. For example, a car manufacturer might aim to make cars quieter in operation rather than simply improving the soundproofing for its occupants and ignoring the needs of people who live near major roads.