

**MALCOLM McDONALD AND ADRIAN PAYNE**

# **MARKETING PLANS**

**FOR SERVICE BUSINESSES**

**A COMPLETE GUIDE**

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# Marketing Plans for Service Businesses

**A complete guide**

Malcolm McDonald and Adrian Payne



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# Contents

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<i>Preface</i>	<i>vii</i>
<i>The structure of this book and how to use it</i>	<i>ix</i>
<i>List of figures</i>	<i>xi</i>
1 Marketing and services	1
2 The nature of services marketing	17
3 Marketing planning for services: the process	37
4 Marketing planning for services: the problems	49
5 Marketing planning Phase One: the strategic context	63
6 Marketing planning Phase Two: the situation review (Part 1)	87
7 Marketing planning Phase Two: the situation review (Part 2)	115
8 Marketing planning Phase Three: marketing strategy formulation	147
9 Marketing planning Phase Four: resource allocation, monitoring and detailed planning (Part 1: The Budget, the Service Product Plan and the Communications Plan)	169
10 Marketing planning Phase Four: resource allocation, monitoring and detailed planning (Part 2: Price, Place, People, Processes and Customer Service)	207
11 Organizing for marketing planning	235
12 A step-by-step marketing planning system for services	271
<i>Examples of marketing plans</i>	<i>331</i>
<i>Glossary of marketing planning terms</i>	<i>379</i>
<i>References</i>	<i>387</i>
<i>Index</i>	<i>393</i>

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# Preface

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Elsevier Butterworth-Heinemann's principal book on marketing planning is *Marketing Plans: How to prepare them, how to use them* (2002, 5th edn).

This latest book in the series is in recognition of the growing importance of the service sector in Western economies and of the significant differences between product and service marketing.

The world of services marketing has changed dramatically during the past five years. The easy, high-growth markets have been replaced by mature, low-growth demand patterns that have forced suppliers to question their erstwhile successful business models, such as, for example, those that consisted largely of making 'products' and selling them to intermediaries, who magically got rid of them somehow to an unsophisticated general public who were in awe (or ignorance) of complicated products such as pensions.

Today, however, there is in Europe a situation of government regulation, oversupply, and more importantly, a sophisticated consumer who has been empowered by the Internet. This has forced service providers to pay attention for the first time to the needs of the consumers of their services. This means that they have been forced to pay attention to marketing.

The original text, *Marketing Plans: How to prepare them, how to use them*, has sold over a quarter of a million copies around the world. It is recommended that this latest text be used in conjunction with the original text by those working within the service sector. Taken together, the two books represent an extremely powerful contribution to understanding the domain of marketing planning, which has its own special challenges.

The two authors work with many of the world's leading service organizations in their role as professors of marketing at one of Europe's most prestigious business schools. We have sought to combine the experience of Europe's first full-time professor of services marketing (Adrian Payne) with the acknowledged leadership of Cranfield University in the domain of marketing planning (Malcolm McDonald) to produce a unique text for those who are faced with the special challenge of producing world-class marketing plans for services where there are no tangible products.

The approaches outlined in this book have been used extensively by us in a large number of services organizations.

We believe you will find, in the pages of this book, the answer to the challenge of creating marketing plans that produce significantly improved bottom-line results.

We gratefully acknowledge the help of Margrit Bass with the development of this book.

Malcolm McDonald  
Adrian Payne  
Cranfield University



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# The structure of this book and how to use it

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This book consists of twelve chapters, some examples of marketing plans and a glossary of terms used in marketing planning.

Chapter 1 provides a broad view of marketing as it relates to services. It describes the marketing concept and some misunderstandings about marketing.

Chapter 2 considers the nature of services and relationship marketing.

Chapter 3 provides an overview of the four key phases of the marketing planning process.

Chapter 4 looks at the barriers that can prevent a service organization being successful in introducing marketing planning.

Chapters 5 to 10 provide a detailed examination of each of the four phases in the marketing planning process and an explanation of the frameworks and techniques which are useful in undertaking these tasks.

Chapter 11 examines some of the key organizational aspects relating to marketing planning. These issues, although not directly part of the marketing planning process itself, have an important and profound impact on its ultimate effectiveness. Here we discuss the role of marketing intelligence systems; market research; to what extent the introduction of marketing planning is appropriate at the different stages of development of an organization; and finally, the issue of how a service organization can develop or improve its marketing orientation.

Chapter 12 provides structures for a three-year strategic marketing plan, a one-year detailed marketing plan and a headquarters consolidated plan of several strategic businesses unit (SBU) strategic marketing plans. These structures will help with implementing the processes and frameworks outlined earlier in this book. Also, in Examples, are a number of marketing plans which illustrate what strategic marketing plans actually look like in different types of service organizations.

For those readers who are new to marketing planning, it will be beneficial to skim-read Chapter 11 and the marketing plans in the examples before starting at Chapter 1.

Those readers who have read widely on the services sector and are familiar with the services marketing literature can start at Chapter 3.

We suggest that all readers should undertake a close examination of the process aspects in the text, covered in Chapters 5 to 10. We also recommend that Chapter 9 is read thoroughly as, although not directly about the

marketing planning process, it addresses many of the issues which are critical to successful implementation of a marketing planning system.

However, it should be recognized that a little learning is a dangerous thing. While Chapter 12 and the examples of marketing plans provide a clear overview as to how a marketing plan is structured, we advise a thorough examination of the detailed discussion of each of the key steps. For those seriously interested in either initiating marketing planning or in improving the quality of their marketing planning, we strongly recommend them to study the whole book before attempting to use any of the systems and plans provided at the back of the book.

Finally, we have provided references for statements made in the text, but in order to make this book easier to read, we have included these at the end of the book rather than at the end of each chapter.

Best of luck – and happy and profitable marketing planning.

# List of figures

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- 1.1 Marketing: a matching process
- 1.2 Overview of marketing map
- 1.3 Define markets and understand value
- 1.4 Determine value proposition
- 1.5 Deliver the service value proposition
- 1.6 Rethinking the sales process for service businesses
- 1.7 Monitor value
- 1.8 Summary of marketing map
- 2.1 Continuum of tangible–intangible possibilities
- 2.2 Nature of service matrix
- 2.3 Style of relationship matrix
- 2.4 Customization and staff judgement matrix
- 2.5 Supply and demand matrix
- 2.6 Service delivery matrix
- 2.7 The marketing process
- 2.8 General development pattern of marketing approaches
- 2.9 Retaining customers pays off
- 2.10 Relationship marketing – a broadened view of markets
- 2.11 Relationship marketing network diagram for a major international airline
- 2.12 The ‘service product’ and the product surround
- 3.1 Strengths and weaknesses of alternative marketing planning models
- 3.2 Relationship between corporate objective and strategies
- 3.3 Ansoff matrix
- 4.1 Britain’s top companies (Management Today)
- 4.2 Britain’s top companies
- 4.3 A major retailer
- 4.4 Integration of corporate planning, strategic marketing planning and tactical marketing planning
- 4.5 What should appear in a services strategic marketing plan
- 5.1 Key audiences and their expectations in a bank
- 5.2 The generic mission statement
- 5.3 Bain & Company mission statement
- 5.4 Organizational statement of philosophy for IBM
- 5.5 IBM mission statement and areas of business operation
- 5.6 ‘The BA Way’
- 5.7 DHL mission statement
- 5.8 Human resource mission statement
- 5.9 The ‘realizable’ mission
- 5.10 Mission statement and the hierarchy of objectives and strategies
- 5.11 Different types of organizational focus
- 6.1 The constituent parts of the marketing audit

- 6.2 Simplified insurance market map
- 6.3 Market map – airline seats
- 6.4 Finished market map
- 6.5 Major approaches to services market segmentation
- 6.6 Levels of segmentation emphasis
- 6.7 Some market definitions
- 6.8 Micro-segments
- 6.9 Concluding segmentation structure for your selected market
- 6.10 GlobalTech's segments
- 6.11 Differences in attitude between segments
- 6.12 Loyalty to GlobalTech by segment
- 6.13 Segment attractiveness for GlobalTech
- 6.14 Key questions to consider in determining market segments
- 7.1 Example of competitive advantage calculation
- 7.2 Strategic forces impacting on service organizations
- 7.3 The danger of 'current focus'
- 7.4 Starbucks' 'T-Mobile Hot Spot Service'
- 7.5 Comparison of service features
- 7.6 Example of comparative analysis – a software company
- 7.7 Example of levels of positioning for a bank
- 7.8 Example of a positioning map
- 7.9 Examples of positioning strategies
- 7.10 The life-cycle curve
- 7.11 Diffusion of innovation curve
- 7.12 Product life cycle at total market and an individual retailer's level
- 7.13 Life cycle illustrating the potential advantage of entering a market early
- 7.14 How successive services can add to sales growth
- 7.15 Marketing audit checklist for services (expanded)
- 7.16 Marketing audit questions for an accounting firm
- 7.17 Strategic planning exercise (SWOT analysis)
- 7.18 Example of the traditional layout for a SWOT analysis
- 7.19 Summary of a partial SWOT analysis for a bank
- 7.20 Risk analysis matrix for opportunities and threats
- 7.21 Example of approach for analysing key assumptions
- 8.1 Ansoff matrix
- 8.2 Gap analysis
- 8.3 The directional policy matrix
- 8.4 Directional policy matrix for a financial services company
- 8.5 Ranking market attractiveness and competitive position
- 8.6 Illustrative portfolio matrix for a retailer
- 8.7 Directional policy matrices for three types of company
- 8.8 Cash-generating capabilities of three types of company
- 8.9 Multiple factors matrix – generic strategies
- 8.10 Other functional guidelines suggested by portfolio matrix analysis
- 8.11 The Porter matrix
- 8.12 Cost-effective service development
- 8.13 Profit improvement options
- 8.14 Marketing objectives and marketing strategies for a service business
- 8.15 Summary of typical marketing strategies for a service business

- 8.16 Response functions for different marketing mixes
- 8.17 The alternative mixes process for a large services company
- 9.1 The organizational output
- 9.2 Examples of well-established brands in various service sectors
- 9.3 Defining a promotion and distribution strategy
- 9.4 Map of the marketing domain
- 9.5 Delivering value – a map of marketing operations
- 9.6 Rethinking the sales process for service businesses
- 9.7 Towards a viable CRM structure
- 9.8 The Sunlovers
- 9.9 John and Mary Lively
- 9.10 Stages of communications
- 9.11 Buying influences and customer size
- 9.12 Sources of information
- 9.13 Different roles of advertising
- 9.14 The need for advertising objectives
- 9.15 Key steps in determining advertising activity
- 9.16 Diffusion of innovation curve
- 9.17 Targets of sales promotions
- 9.18 Types of sales promotion
- 9.19 Key elements of a sales promotion plan
- 9.20 Main publics for a university
- 9.21 Personal contact functions in services
- 9.22 Typical salesperson activities
- 9.23 Formula for deriving the size of the sales force
- 9.24 Example of salesperson's plan
- 10.1 Elastic and inelastic demand for services
- 10.2 Experience curve for electronic banking
- 10.3 Value-based pricing
- 10.4 Factors to consider in the pricing plan
- 10.5 Channel options for service companies
- 10.6 Choosing channels – the value curve
- 10.7 Channel chain analysis: the PC market
- 10.8 Employees and their influence on customers
- 10.9 Example of service positioning through changing complexity and divergency (a management training consultancy)
- 10.10 Potential sources of conflict between operations and marketing on operational issues
- 10.11 Illustration of key elements of customer service
- 10.12 The marketing mix 'prism'
- 11.1 Myths and realities about databases
- 11.2 Problems of reconciling internal and external market audits
- 11.3 Examples of business objectives and segmentation methods
- 11.4 Information flows in a marketing system
- 11.5 Focus of reactive marketing research
- 11.6 Focus of non-reactive marketing research
- 11.7 The organizational life-line
- 11.8 Approaches to marketing planning for different stages of evolution
- 11.9 Centralized marketing, separate operating units
- 11.10 Decentralized marketing

- 11.11 The specificity versus duplication balance in marketing planning
- 11.12 A matrix organization for a training and consulting firm
- 11.13 Hierarchy of audits
- 11.14 Strategic and operational planning hierarchy
- 11.15 Strategic and operational planning hierarchy in detail
- 11.16 Broad guidelines to the degree of marketing plan formality
- 11.17 The marketing planning time cycle
- 11.18 The marketing planning cycle – overview
- 11.19 Strategic and operational planning cycle
- 11.20 Some possible types of organizational orientation
- 11.21 The learning/change process
- 12.1 Marketing planning for competitive advantage
- 12.2 Prioritization of objectives
- 12.3 Principal marketing tools which can be utilized at different phases of the marketing planning process
- 12.4 Main steps in the planning process
- 12.5 Marketing planning timetable
- 12.6 Summary of SBU performance
- 12.7 Summary of financial projections
- 12.8 Ranking approach to critical success factors (CSFs)
- 12.9 Competitor analysis audit
- 12.10 Portfolio summary matrix
- 12.11 Market attractiveness measurement
- 12.12 Step 1: Rank market attractiveness
- 12.13 Step 2: Rank business strengths
- 12.14 Step 3: Identify present and future sales turnover and position on matrix
- 12.15 Strategic and operational planning cycle

# 1 Marketing and services\*

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## The growing importance of the service sector

Since the Second World War, Western Europe has seen a steady and unremitting decline in its traditional manufacturing industries. Their place has been taken by numerous service-based enterprises, who were quick to spot the opportunities created by both organizational needs and by the increased personal affluence and the consequent raised lifestyle expectations of the population.

So successful has been this transition from an essentially industrial society that today more than 70 per cent of most Western economies are now in the service sector, whether measured in terms of income or numbers employed.

This shift in emphasis has been so pronounced that some observers refer to it as the 'second industrial revolution'. As individuals spend greater proportions of their income on travel, entertainment and leisure, postal and communication services, restaurants, personal health and grooming and the like, so has the service sector responded by creating businesses and jobs. In addition, the growing complexity of banking, insurance, investment, accountancy and legal services has meant that these areas of activity showed a similar inclination to expand, in terms of their impact on the economy as a whole.

The service-led 'second industrial revolution'

Although there is a realization that it is essential for a country to have some kind of industrial base, there is little to suggest that this trend towards the service sector is slowing down.

Indeed, the manufacturing industry itself is showing a greater propensity to subcontract out a wide range of service-related activities which at one time were carried out in-house.

For example, outsourcing is continuing to increase in areas such as cleaning, catering, recruitment, deliveries, computer services, advertising, training, market research and product design. These are all areas where it has been found that external specialists can provide a cost-effective alternative to

\*If readers want to immediately review a detailed step-by-step process for producing strategic and tactical marketing plans for service businesses, please go straight to Chapter 12. We do strongly recommend, however, that readers start at Chapter 1.



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## 2 Marketing Plans for Service Businesses

a company's own staff. More and more companies are choosing to contract-out for specialist services and concentrate attention on their core activities.

### Service businesses and marketing effectiveness

For many years business schools and consultancy firms have emphasized how important it is for companies to develop a marketing orientation. At first sight this message would appear to have hit home, because today many companies claim to be market-led and customer-focused. However, from our position of working with senior managers and marketing staff from a wide range of companies, we can see that this so-called 'marketing orientation' has, for most of them, not been accomplished.

Marketing has not yet stormed the citadels of many service organizations

There is more emphasis on rhetoric than actions. In fact, we estimate that less than one service organization in five has a deep understanding of its customer base and an effective strategic marketing plan based on this understanding.

One of the major UK banks recruited hundreds of consumer-goods trained marketing personnel, yet still has no observable differential advantage in any of its operations. It is clear that such organizations have confused marketing orientation with selling and promotion. The result is that they have merely succeeded in creating a veneer and a vocabulary of marketing.

Research by the authors into marketing effectiveness across a variety of service organizations suggests that many of the companies studied operated well below their potential marketing effectiveness.

With organizations paying only lip-service to being marketing-oriented, the results suggest a dramatic need for improvement in marketing effectiveness.

What is clear is that many service companies are misdirecting their energies and resources and thereby are failing to create competitive advantage and capitalize on market opportunities.

### The purpose of this book

This book sets out to demonstrate how service businesses and other service organizations can formulate strategic marketing plans which contribute to the creation of competitive advantage. It focuses on *how* world-class strategic marketing plans should be developed, as this process results in an output – a plan – which encapsulates the resulting objectives, strategies and actions.<sup>1</sup>

It examines the marketing planning process in some detail and shows how successful companies tackle its difficult elements. Where necessary, relevant marketing theory, techniques, and research results are introduced so that the reader can better understand the implications of taking particular actions at various stages of the process. In addition, it is important to consider the demands a new approach to planning places on the organization.

For marketing planning to take root, not only must new skills be learned, but often new attitudes have to accompany them. Indeed, many of the barriers that hamper the acceptance of marketing planning can be attributed to outmoded or inappropriate organizational behaviour.

The purpose of this opening chapter is briefly to examine the marketing concept and explore to what extent the marketing of services differs from the marketing of products. We will also look at the diverse range of services in terms of establishing some threads of 'commonality'. In doing this, it makes it possible for the service manager to learn from other companies who may not necessarily be in the same business field.

This chapter will also develop reasons why the service marketer must formulate an enlarged and more sophisticated marketing mix than has traditionally been the case, and why focusing solely on customer markets will not prove to be enough for a guaranteed long-term marketing success.

## The marketing concept

The central idea of marketing is to match the organization's capabilities with the needs of customers in order to achieve the objectives of both parties. If this matching process is to be achieved, then the organization has to develop strengths, either from the nature of the services it offers or from the way it exploits these services, in order to provide customer satisfaction.

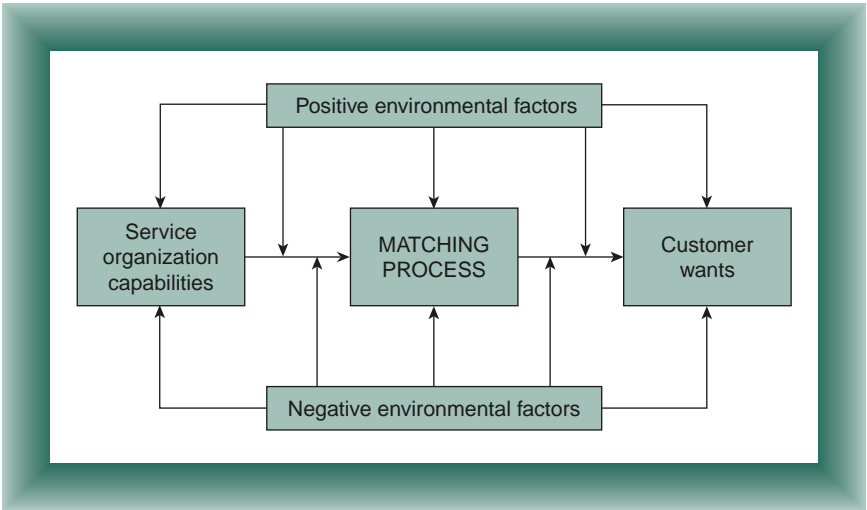
Since very few companies can be equally competent at providing a service for all types of customers, an essential part of this matching process is to identify those groups of customers whose needs are most compatible with the organization's strengths and future ambitions. It must be recognized that the limitations imposed by an organization's resources, and the unique make-up of its management skills, make it impossible to take advantage of all market opportunities with equal facility. Companies who fail to grasp this fundamental point, which lies at the heart of marketing, are courting commercial disaster.

This matching process is further complicated in that it takes place in a business environment which is never stable for any length of time. External factors continue to have a major impact on the company's attempts to succeed. For example, new competitors might enter the business, existing ones may develop a better service, government legislation may change and as a result alter the trading conditions, new technology may be developed which weakens their current skills base – the possibilities are almost endless. However, not every external factor will pose a threat. Some environmental developments will undoubtedly provide opportunities.

Figure 1.1 provides a visual summary of the matching process, which is the essence of marketing. As it shows, the environment has an impact not only on the matching process, but also on the 'players'. So, for example, local labour conditions might limit the company in recruiting a workforce with the appropriate skill levels. Equally, changed levels of unemployment can have a drastic impact on customer demand, making it either much greater or much less.

Marketing as a source of competitive advantage

The matching process is complicated by the ever-changing business environment



**Figure 1.1**  
Marketing: a  
matching process

Misunderstandings about marketing

One of the biggest areas of misunderstanding is that concerned with customer wants. Many people, unfortunately some of them in marketing, have a naive concept of customers. They see customers as people, or organizations, who can be manipulated into wanting things that they do not really need.

However, commercial life is not really that simple. Customers are not prepared to act so unthinkingly at the request of the supplier, as evidenced by a very high proportion of new products and services that fail to make any impact in the marketplace. All the evidence suggests that it would be foolish to deny that the customer, in the end, always has the final say. Moreover, customers invariably have a choice to make about how they satisfy their particular requirements.

In the final analysis, they will choose those services that they perceive to offer the benefits they seek, at the price they can afford.

Another area of misunderstanding is the confusion of marketing with sales. Some ill-informed organizations actually believe that marketing is the new word for what was previously called sales. Others perceive marketing to be a mere embellishment of the sales process. That such companies exist is a sad reflection on the standard of management and suggests that marketing education has been less than effective. By failing to recognize that marketing is designed to provide a longer-term strategic, customer-driven orientation rather than a short-term tactical triumph, such an organization is certain to under-achieve. Not surprisingly, the chief executive of one such company was overheard to say: ‘There is no place for marketing in this company until sales improve!’

A similar misunderstanding occurs which confuses marketing with advertising. Here, gloss is seen as the magic formula to win business. However, without integrating advertising into an overall strategic

In the long run, customers always have the final say

Marketing should not be confused with sales

Marketing should not be confused with advertising

marketing plan, hard-earned budgets can be completely wasted. Throwing advertising funds at a problem is no way to resolve an underlying issue which might have its roots in the fact that the service on offer has been superseded by another superior offer.

Another misconception is that it is enough to have a high-quality service or product to succeed. Sadly, this has proved not to be the case time and time again. No matter how good the service or product, unless it is appropriately priced and promoted it will not make any lasting impact.

The final area of confusion, and one to which we will return in more detail later, is to think that marketing is synonymous with customer service. With misguided enthusiasm, many organizations subscribing to this belief have rushed into organizing 'customer service' programmes for their staff.

Marketing should not  
be confused with  
having a good service  
or product

Marketing should not  
be confused with  
customer service

Had they bothered to find out what their customers really wanted, perhaps they would have responded differently.

Train passengers might have travelled in less dirty and cramped conditions, and might have arrived at their destination on time more frequently. Those using banks might have found them open at more convenient times, and with more than one cashier on duty during the busy lunch period (the only time working customers can get there!). Instead, customers have been treated to cosmetic 'smile campaigns', where, regardless of their treatment, they were thanked for doing business with the supplier and encouraged to 'have a nice day'. Most people can recall an incident of this nature.

This is not to say that 'customer care' programmes are not important. What we contend is that unless the core service and the associated intangibles are right such programmes will fail. Such programmes ought to be part of the overall integrated set of marketing activities, not a substitute for them. The warning signs are there for those who care to look for them.

One US study showed that, while 77 per cent of service industry companies had some form of customer service programme in operation, less than 30 per cent of chief executives in these companies believed that it had any significant impact on profit performance.

## A definition of marketing<sup>†</sup>

Before outlining the nature of services marketing, we need to move from what we have described as the marketing concept to a meaningful definition of marketing which will be used as the basis for this book.<sup>2</sup>

Marketing is a specialist function, just like HR, or Logistics, or IT, or Finance, or Manufacturing, and Business Schools and marketing practitioners really must stop the trend towards aggrandizing what is, in effect, a relatively simple, if vital role.

<sup>†</sup>This section owes much to *The New Marketing* by Malcolm McDonald and Hugh Wilson, Butterworth-Heinemann, Oxford, 2003. Thank you to the authors for giving permission for its use here.

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## 6 Marketing Plans for Service Businesses

The need to define marketing more tightly arose from a Cranfield research club 'Improving Marketing Effectiveness through IT'. Clearly, if managers were to understand what kind of marketing tasks needed to be supported by what kind of IT applications, a tight definition and a map were needed to help managers navigate this domain.

Surprisingly, in spite of literally hundreds of definitions of marketing, most of them hopelessly wrong, we couldn't find such a map anywhere, so we started with our *own* definition of marketing. But, before giving it, let us stress once again that, wherever the function of marketing is located in the organization and no matter what it is called, it will be ineffective unless the whole company is market-driven ('customer-driven', 'customer-needs driven', 'demand-driven', are other expressions for the same thing). This market-driven philosophy has to be led from the board downwards.

On the assumption that this is in place – a mega assumption indeed! – let us turn to our definition of marketing.

Marketing is a process for:

- Defining markets
- Quantifying the needs of the customer groups (segments) within these markets
- Determining the value propositions to meet these needs
- Communicating these value propositions to all those people in the organization responsible for delivering them and getting their buy-in to their role
- Playing an appropriate part in delivering these value propositions to the chosen market segments
- Monitoring the value actually delivered.

But marketing never has been, nor ever will be, responsible for delivering customer value, for this is the responsibility of everyone in the organization, but particularly those who come into contact with customers, which is a central difference between service organizations and manufacturing organizations, as in the former it is often people who make up the actual product – but more about this later.

### An overview of the new marketing process

With this in mind, we can now examine a map of this process – see Figure 1.2.

This process is clearly cyclical, in that monitoring the value delivered will update the organization's understanding of the value that is required by its customers. The cycle may be predominantly an annual one, with a marketing plan documenting the output from the 'Understand value' and 'Develop value proposition' processes, but equally changes throughout the year may involve fast iterations around the cycle to respond to particular opportunities or problems.

We have used the term 'Determine value proposition' to make plain that we are here referring to the decision-making process of deciding what the offering to the customer is to be – what value the customer will receive, and what value (typically the purchase price and ongoing revenues) the organization will receive in return. The process of delivering this value, such as by making and delivering a physical product or by delivering a service, is covered by 'Deliver value proposition'.