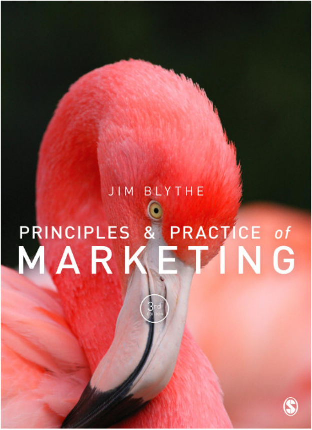
JIM BLYTHE
PRINCIPLES & PRACTICE of
MARKETING
3rd EDITION

PRINCIPLES & PRACTICE *of*

MARKETING

JIM BLYTHE

PRINCIPLES & PRACTICE *of* MARKETING

3rd EDITION

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Brief contents

Contents

List of figures

List of tables

About the author

Jim Blythe has been a Merchant Navy officer, a ladies' hairdresser, a business consultant, a rock musician, a truck driver, a company director, and an award-winning playwright before becoming an academic – he always planned on having a varied life, and likes learning new skills. Currently he is trying to learn to grow vegetables, with limited success, but he has a pilot's licence and has learned to play drums in a samba band, so the beat goes on. His next venture is to study for a degree in modern languages – having left school at 16 he thinks it's time to get the education he missed out on.

Jim has written 18 books and over 50 journal articles and has contributed chapters to eight other books. He has also written open-learning packs for international training organisations, has been a senior examiner for the Chartered Institute of Marketing, holds four real degrees and one fake one, and therefore feels somewhat irritated that he is mainly known for winning the Cardiff heat of Come Dine With Me.

Preface

Dear Reader,

First of all, thanks for buying the book! I won't have a chance to thank you in person unless you're in one of my classes, but thanks anyway... Here's some background about the book.

I wrote this book because I thought the others on the market were either far too 'academic' in tone, or were too simplistic – after all, textbooks like this are intended for grown-ups, not Primary School children. With that in mind, I have tried to give you something to think about as well as simply hold your hand through your marketing course. You'll find several features that are intended to make you think about the subject and form your own ideas: marketing is (we are told) a young discipline, so our new recruits to the marketing world should be questioning what we currently think.

This is the only major textbook which is written by just one person. I like to think this makes it consistent throughout: I have worked with other authors from time to time, and it has its pluses (not least is that it's less work, of course), but there is always the feeling that we both have to compromise a bit. Writing the whole thing myself meant that I could do it the way I wanted to, and I could use my own experience of teaching the subject to beginners to make it more lively.

I have tried to avoid all the usual case studies most marketing books use – cases and examples are taken from all over the world, and mostly I have avoided using American multinational corporations: we all know who they are and what they do, so it is probably more interesting to hear about small businesses, firms which aren't in the public eye, and companies which produce something more entertaining than soft drinks and hamburgers. All of the cases and examples I have used can be found on-line, if you want to know more: you might also check out the business press for further information.

I have also focused on services as much as physical products. As I explain in the book, nowadays there isn't much to choose between them as far as marketing is concerned, but in any case it is likely that you will be working for a service company (and probably a small business, at that) when you graduate. Of course, it's possible that you are studying marketing simply because you are really fascinated by it – but most business students study because they want a decent job at the end of it. This book is intended to help you with that noble aim.

Luckily, marketing is inherently interesting. Maybe it's because we're all consumers, maybe it's because marketing is about people, maybe it's because a lot of it is counter-intuitive. Some people study it because they think it will be some kind of instant passport to business success – outsiders often think marketers are some kind of modern-day sorcerers – but there I have to disappoint you. We can't make people buy stuff they don't want, we can only aim to offer them something they will want, and make sure they know about it and know where to get it.

Anyway, all that is in the book. I hope you enjoy it – it's supposed to be fun, honest – and that it helps you get where you want to be. There's a website and all kinds of stuff to help you remember what's in there, feel free to use it: finally, good luck with studying and (more importantly) good luck with your future career in marketing, wherever it takes you.

Jim Blythe

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I would like to acknowledge the people who have helped me in writing this book. First, my friends and colleagues at Sage, Matt and Amy in particular, for their patience and support – in particular for remaining positive about me and the book during the difficult times. Second, my colleagues at the University of Glamorgan, University of Plymouth and University of Westminster for help, advice, friendship and practical guidance. Third, my wife, Sue, for bringing me tea and calming me down. Finally, I would like to thank my many students. Some were excellent scholars who asked me difficult questions and made me think, some were terrible scholars who made me work hard, some were 'class comedians' who made me laugh. Wherever you are and whatever you are doing, thanks for being such fun to work with!

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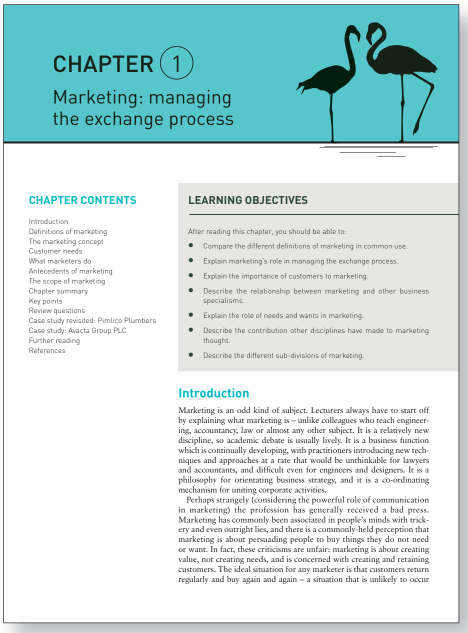
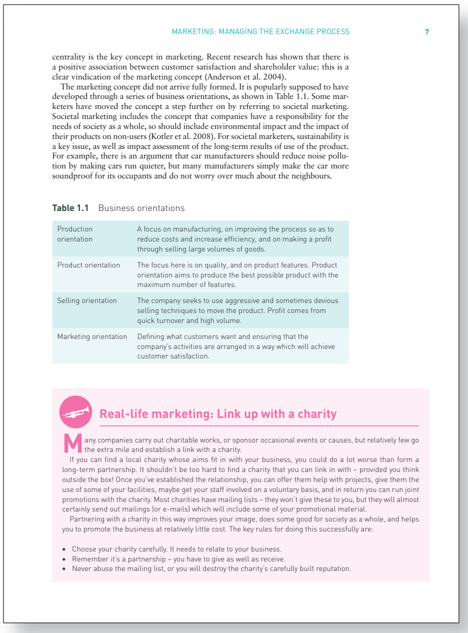
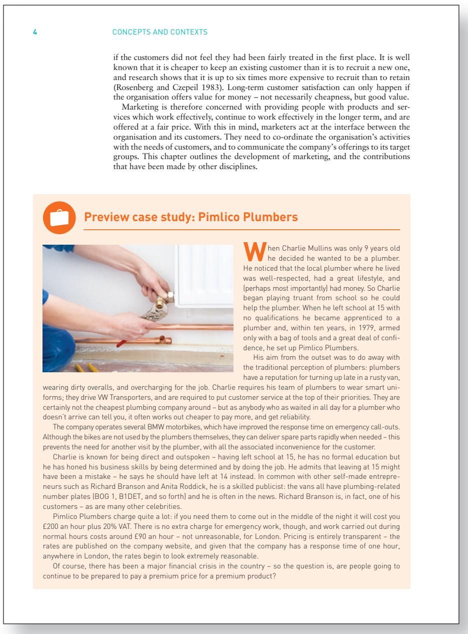
Guided tour



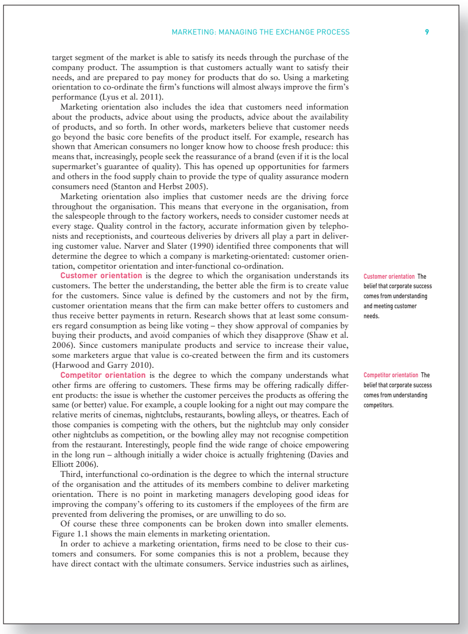
Learning objectives Highlight everything you should know or understand by the end of the chapter.



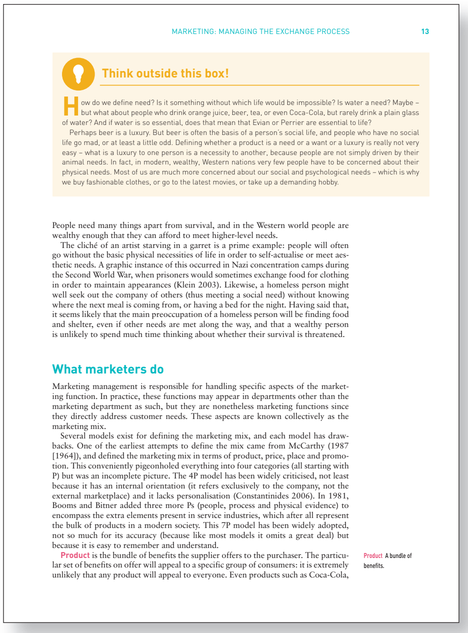
Real-life marketing Relates the chapter topic to examples from the real world to help you link theory to practice.



Preview case study Opens each chapter to contextualise what you're about to read and get you thinking about the topic through setting up a real world example.



Margin definitions Help you spot the key terms from the chapter and gives a short explanation for quick revision.



MARKETING: MANAGING THE EXCHANGE PROCESS 13

Think outside this box!

How do we define need? Is it something without which life would be impossible? Is water a need? Maybe – but what about people who drink orange juice, beer, tea, or even Coca-Cola, but rarely drink a plain glass of water? And if water is so essential, does that mean that Evian or Perrier are essential to life?

Perhaps beer is a luxury. But beer is often the basis of a person's social life, and people who have no social life go mad, or at least a little odd. Defining whether a product is a need or a want or a luxury is really not very easy – what is a luxury to one person is a necessity to another, because people are not simply driven by their animal needs. In fact, in modern, wealthy, Western nations very few people have to be concerned about their physical needs. Most of us are much more concerned about our social and psychological needs – which is why we buy fashionable clothes, or go to the latest movies, or take up a demanding hobby.

People need many things apart from survival, and in the Western world people are wealthy enough that they can afford to meet higher-level needs.

The cliché of an artist starving in a garret is a prime example: people will often go without the basic physical necessities of life in order to self-actualise or meet aesthetic needs. A graphic instance of this occurred in Nazi concentration camps during the Second World War, when prisoners would sometimes exchange food for clothing in order to maintain appearances (Klein 2003). Likewise, a homeless person might well seek out the company of others (thus meeting a social need) without knowing where the next meal is coming from, or having a bed for the night. Having said that, it seems likely that the main preoccupation of a homeless person will be finding food and shelter, even if other needs are met along the way, and that a wealthy person is unlikely to spend much time thinking about whether their survival is threatened.

What marketers do

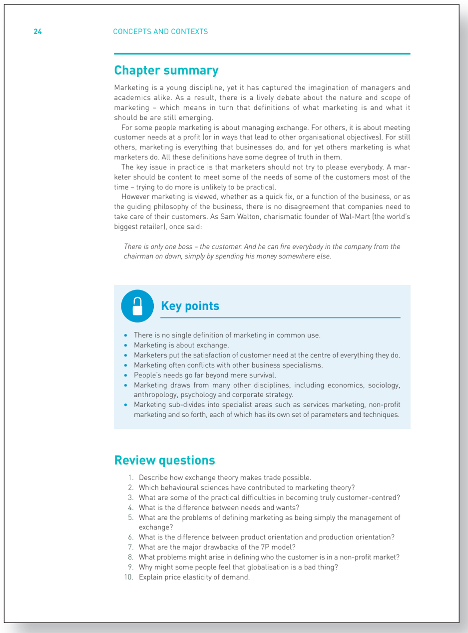
Marketing management is responsible for handling specific aspects of the marketing function. In practice, these functions may appear in departments other than the marketing department as such, but they are nonetheless marketing functions since they directly address customer needs. These aspects are known collectively as the marketing mix.

Several models exist for defining the marketing mix, and each model has drawbacks. One of the earliest attempts to define the mix came from McCarthy (1987 [1964]), and defined the marketing mix in terms of product, price, place and promotion. This conveniently pigeonholed everything into four categories (all starting with P) but was an incomplete picture. The 4P model has been widely criticised, not least because it has an internal orientation (it refers exclusively to the company, not the external marketplace) and it lacks personalisation (Constantinides 2006). In 1981, Booms and Bitner added three more Ps (people, process and physical evidence) to encompass the extra elements present in service industries, which after all represent the bulk of products in a modern society. This 7P model has been widely adopted, not so much for its accuracy (because like most models it omits a great deal) but because it is easy to remember and understand.

Product is the bundle of benefits the supplier offers to the purchaser. The particular set of benefits on offer will appeal to a specific group of consumers: it is extremely unlikely that any product will appeal to everyone. Even products such as Coca-Cola,

Product A bundle of benefits.

Think outside this box! Encourages you to develop your critical thinking skills, these short chatty asides offer you reflective challenges to move beyond accepted wisdom.



24 CONCEPTS AND CONTEXTS

Chapter summary

Marketing is a young discipline, yet it has captured the imagination of managers and academics alike. As a result, there is a lively debate about the nature and scope of marketing – which means in turn that definitions of what marketing is and what it should be are still emerging.

For some people marketing is about managing exchange. For others, it is about meeting customer needs at a profit (or in ways that lead to other organisational objectives). For still others, marketing is everything that businesses do, and for yet others marketing is what marketers do. All these definitions have some degree of truth in them.

The key issue in practice is that marketers should not try to please everybody. A marketer should be content to meet some of the needs of some of the customers most of the time – trying to do more is unlikely to be practical.

However marketing is viewed, whether as a quick fix, or a function of the business, or as the guiding philosophy of the business, there is no disagreement that companies need to take care of their customers. As Sam Walton, charismatic founder of Wal-Mart (the world's biggest retailer), once said:

There is only one boss – the customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else.

Key points

- There is no single definition of marketing in common use.
- Marketing is about exchange.
- Marketers put the satisfaction of customer need at the centre of everything they do.
- Marketing often conflicts with other business specialisms.
- People's needs go far beyond mere survival.
- Marketing draws from many other disciplines, including economics, sociology, anthropology, psychology and corporate strategy.
- Marketing sub-divides into specialist areas such as services marketing, non-profit marketing and so forth, each of which has its own set of parameters and techniques.

Review questions

1. Describe how exchange theory makes trade possible.
2. Which behavioural sciences have contributed to marketing theory?
3. What are some of the practical difficulties in becoming truly customer-centred?
4. What is the difference between needs and wants?
5. What are the problems of defining marketing as being simply the management of exchange?
6. What is the difference between product orientation and production orientation?
7. What are the major drawbacks of the 7P model?
8. What problems might arise in defining who the customer is in a non-profit market?
9. Why might some people feel that globalisation is a bad thing?
10. Explain price elasticity of demand.

Summary/Key points Covers all the essential information from each chapter and summarises what you have learnt in bullet-points.

22 CONCEPTS AND CONTEXTS

of situations where a service product can substitute for a physical one and vice-versa, the distinction can seem to be an artificial one.

Vargo and Lusch (2004) took this idea a step further when they developed the concept of service-dominant logic (SDL). Traditional marketers took the view that people do not buy quarter-inch drills, but are actually buying quarter-inch holes: it is the outcome of the purchase that is of interest, not the physical product. SDL states that people are actually buying a hole-drilling service, in which the consumer and the producer co-operate in creating value (i.e. the holes). For Vargo and Lusch, someone who needs to have a hole drilled can buy a drill and do the work him- or herself, can hire a drill and again do the work, or can hire someone to come and drill the hole – but even in the final case, the consumer has to show the workman where to drill the hole, and has to specify what type of hole is needed, before any value is created. The implication is that nothing has any value until it is consumed (thus fulfilling a need), and therefore the consumer must be part of the value-creation process.

The implications of SDL for practical marketing are widespread: defining competition is only one area, but it is also the case that producers need to ensure that potential consumers are equipped with the necessary understanding of the product to be able to maximise the benefit of using it – in other words, to be effective co-creators of value. Academics are still exploring the full implications of service-dominant logic.

Marketing in a changing world: The growth of services

Services are certainly the big growth area. Although the UK's manufacturing output has risen by 250% since the end of the Second World War, services activity has risen even more, so that by 2013 it represented 73% of the UK economy.

Services are likely to continue to grow simply because we already have too much stuff and don't need to make any more. Service industries are generally difficult to automate, so they will employ a lot of people, and they provide the kind of experiential benefits people are looking for.

As we continue to earn a living by holding doors open for each other there may be a reduction in the emphasis on manufacturing: the problem for marketers is that the distinction between physical products and services is becoming increasingly blurred as manufacturers differentiate themselves from competitors by adding service elements, and service providers offer more physical goods to add value.

Having said that, there are differences in the way that intangible aspects of a product need to be marketed, and there are different information needs on the part of consumers. The service sector is, in most Western countries, the largest proportion of the gross national product and far and away the largest employer, so services marketing is of great importance to national prosperity. In addition, marketers of physical products have found that enhancing the services element of their products is a good way to add value for the consumer. For example, companies selling computers offer on-line support services as a way of generating extra revenue and at the same time increasing the value of the product to the consumer.

NOT-FOR-PROFIT MARKETING

Not-for-profit marketing is concerned with those organisations whose goals are something other than a profit. These include charities, hospitals, government organisations, schools, and some arts organisations. In many cases the exchange these organisations seek

Marketing in a changing world Offers up-to-date examples of topical issues and debates in marketing practice that will help you to remain cutting edge.

MARKETING: MANAGING THE EXCHANGE PROCESS 25

Case study revisited: Pimlico Plumbers

Running a premium-price business in the middle of a worldwide depression might be thought a difficult task, but Pimlico Plumbers have not only survived, they have actually expanded.

In 2008 the company expanded to Marbella, where the rich and famous have holiday homes. The Marbella operation works in exactly the same way as the London one, covering the coast from Marbella to Buenavista. The Marbella operation has its own website, and work is carried out in accordance with Spanish building regulations.

In London, meanwhile, the company continues to grow, and to recruit more people. With 200 people in the workforce, Pimlico Plumbers is still recruiting everyone from office assistants through to qualified tradesmen: Charlie Mullins seeks out people who have experience (preferably through apprenticeships) as well as qualifications – he is certainly not a man who looks for book-learning, but rather looks for good people who know what they are doing.

Publicity is handled by Max Clifford, and the company has featured on TV shows such as Britain's Best Young Plumber and Secret Millionaire. The company employed Britain's (reputedly) oldest worker, Buster Martin, who worked for the company until his death in 2011 at the age of 104. Charlie Mullins claimed in an interview for French TV that employing Buster Martin had increased business by 36% due to the publicity.

In early 2013 Charlie Mullins said in a press release that in the previous year the company had had its best November ever, turning over £1.7m in one month. This was due, he said, not to the bad weather, but to people investing in their homes rather than moving house. Company turnover is more than £18m a year and growing – so clearly Pimlico Plumbers must be doing something right!

Case study: Avacta Group PLC

Avacta Group is a small biotech company based in Wetherby, Yorkshire. The company produces high-end biological testing systems for the pharmaceutical industry and the veterinary market.

Avacta was founded by scientists: the CEO, Dr Alastair Smith, is a scientist with a world reputation. The company has close links with university science departments.

The company operates in three main areas: first, and perhaps most importantly, it produces a device called the Optim 1000 which can tell drug companies whether the new products they are developing will ultimately be successful. This has a tremendous commercial advantage for the pharmaceutical companies – new drugs are extremely expensive to develop, and more than 90% of them do not survive the rigorous testing procedures required by government regulators worldwide. If the companies know early on in the process that the drug will not be successful, the saving can easily run into millions of dollars.

The company's second product, the AX-1, is a desktop blood-testing machine. It can test blood, saliva or serum for a wide variety of conditions, providing rapid results for many conditions without the need to send samples to a laboratory. The benefits are again enormous – apart from the cost implication, which is in itself considerable, the machine reduces the risk of samples becoming contaminated or lost (or worse, mixed up with another sample). At the time of writing the machine is under test for the veterinary market, but should be launched in 2013. The reason for marketing the equipment to vets is that the regulations are

Case study revisited Provides opportunity to test your learning against the preview case and read the outcome of the example.


56 CONCEPTS AND CONTEXTS

Case study revisited: Costain West Africa

Sub-Saharan Africa is an interesting continent, culturally speaking. There is a sense of collective responsibility, which is often sadly lacking in northerly countries – Africans look after each other.

Costain West Africa managed to survive the sudden financial crisis because the company has a foothold in both the public and the private sector. It is rare for both sectors to be in trouble at once, so Costain managed to switch efforts back and forth between its government projects (for example working on the Jebba–Kano railway line) and its private-sector projects (building an eight-storey apartment building in Abuja). The result was that the firm came through the crisis well – but unfortunately many of its suppliers and subcontractors hit financial difficulties as their funding dried up.

Costain West Africa's response was to provide lines of credit to these crucial suppliers. This meant they could keep their heads above water until the crisis eased, and would then be well-placed to take advantage of any new growth in the Nigerian economy. Of course this benefited Costain West Africa as well, since without suppliers and subcontractors the company would be unable to function, but it is an approach few Northern companies would have taken. Costain West Africa also announced that the company would be funding the training of local men as construction workers, since the crisis meant that foreign workers could no longer be brought into the country.

Costain West Africa has a strong commitment to sustainable, socially-responsible business, but there is no doubt that helping others through the crisis has benefited the company very directly.

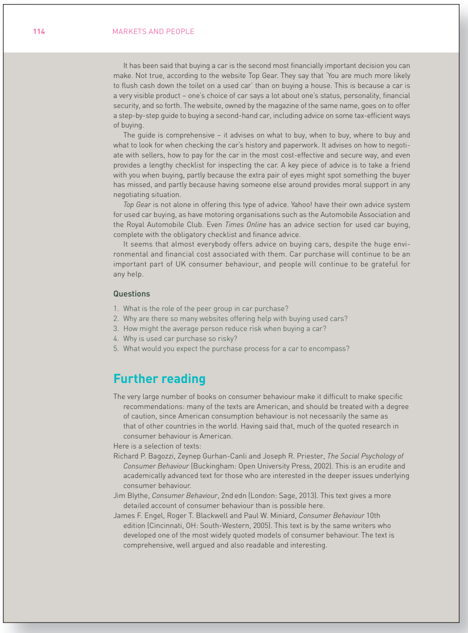
Case study: Ladbroke's

Gambling is, of course, a vice – yet many of us enjoy the occasional bet, and for a lot of people it's almost a way of life. As a business, it's often regarded as recession-proof, because people will sometimes try to win their way out of financial troubles. Gambling offers people a degree of hope in troubled times, so bookmakers can see a rise in business during financial crises.

Ladbroke's had its beginnings in the 19th century, acting as a horse agent. During the early part of the 20th century the company was limited to taking bets only at racecourses – off-course gambling was illegal. Then in 1961 the UK government made off-course betting shops legal, and a gambling revolution swept the country. Although restrictions were tough, and licences to run betting shops were difficult to obtain, this move regularised what was happening anyway – instead of people dealing with illegal back-street bookmakers, the industry was out in the open and could be regulated. In 2005, the UK government legalised advertising for betting shops, and again there was a increase in business. The legislation also allowed for on-line gambling (which cannot be controlled anyway, since the Internet is global) which gave another boost to the industry.

During the 1980s and 1990s the company diversified into other leisure businesses: it bought DIY chain Texas Homecare in 1986, selling it on to Sainsbury's PLC in 1995: in 1999 it bought the Stakis hotel chain and rebranded it as Hilton. These ventures were partly successful in that the company turned a profit on their resale, but eventually the firm reverted to its roots, and is now Britain's largest bookmaker, and overall the largest bookmaker in the world. Ladbroke's is an innovative company – it was the first bookmaker to offer a loyalty

Case study Provides yet another real world example and provides concluding questions to test your knowledge.


114 MARKETS AND PEOPLE

It has been said that buying a car is the second most financially important decision you can make. Not true, according to the website Top Gear. They say that 'You are much more likely to flush cash down the toilet on a used car' than on buying a house. This is because a car is a very visible product – one's choice of car says a lot about one's status, personality, financial security, and so forth. The website, owned by the magazine of the same name, goes on to offer a step-by-step guide to buying a second-hand car, including advice on some tax-efficient ways of buying.

The guide is comprehensive – it advises on what to buy, when to buy, where to buy and what to look for when checking the car's history and paperwork. It advises on how to negotiate with sellers, how to pay for the car in the most cost-effective and secure way, and even provides a lengthy checklist for inspecting the car. A key piece of advice is to take a friend with you when buying, partly because the extra pair of eyes might spot something the buyer has missed, and partly because having someone else around provides moral support in any negotiating situation.

Top Gear is not alone in offering this type of advice. Yahoo! have their own advice system for used car buying, as have motoring organisations such as the Automobile Association and the Royal Automobile Club. Even *Times Online* has an advice section for used car buying, complete with the obligatory checklist and finance advice.

It seems that almost everybody offers advice on buying cars, despite the huge environmental and financial cost associated with them. Car purchase will continue to be an important part of UK consumer behaviour, and people will continue to be grateful for any help.

Questions

1. What is the role of the peer group in car purchase?
2. Why are there so many websites offering help with buying used cars?
3. How might the average person reduce risk when buying a car?
4. Why is used car purchase so risky?
5. What would you expect the purchase process for a car to encompass?

Further reading

The very large number of books on consumer behaviour make it difficult to make specific recommendations: many of the texts are American, and should be treated with a degree of caution, since American consumption behaviour is not necessarily the same as that of other countries in the world. Having said that, much of the quoted research in consumer behaviour is American.

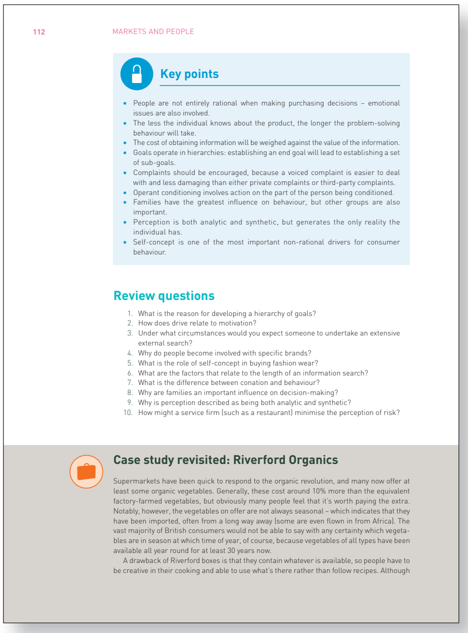
Here is a selection of texts:

Richard P. Bagozzi, Zeynep Gurhan-Canli and Joseph R. Priester, *The Social Psychology of Consumer Behaviour* (Buckingham: Open University Press, 2002). This is an erudite and academically advanced text for those who are interested in the deeper issues underlying consumer behaviour.

Jim Blythe, *Consumer Behaviour*, 2nd edn (London: Sage, 2013). This text gives a more detailed account of consumer behaviour than is possible here.

James F. Engel, Roger T. Blackwell and Paul W. Miniard, *Consumer Behaviour* 10th edition (Cincinnati, OH: South-Western, 2005). This text is by the same writers who developed one of the most widely quoted models of consumer behaviour. The text is comprehensive, well argued and also readable and interesting.

Further reading Suggests titles for further reading to enhance your knowledge and achieve an even better grade!


112 MARKETS AND PEOPLE

Key points

- People are not entirely rational when making purchasing decisions – emotional issues are also involved.
- The less the individual knows about the product, the longer the problem-solving behaviour will take.
- The cost of obtaining information will be weighed against the value of the information.
- Goals operate in hierarchies: establishing an end goal will lead to establishing a set of sub-goals.
- Complaints should be encouraged, because a voiced complaint is easier to deal with and less damaging than either private complaints or third-party complaints.
- Operant conditioning involves action on the part of the person being conditioned.
- Families have the greatest influence on behaviour, but other groups are also important.
- Perception is both analytic and synthetic, but generates the only reality the individual has.
- Self-concept is one of the most important non-rational drivers for consumer behaviour.

Review questions

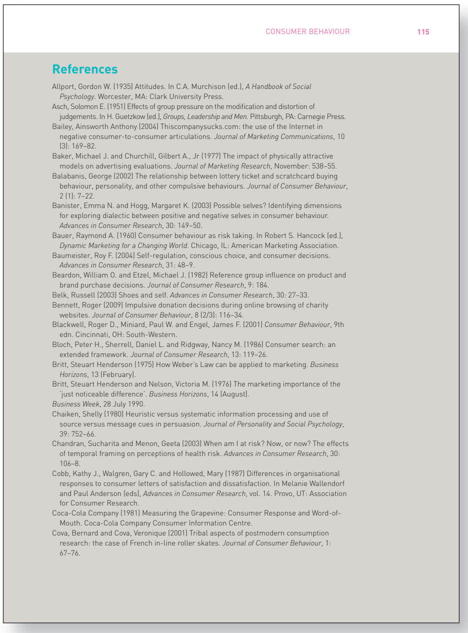
1. What is the reason for developing a hierarchy of goals?
2. How does drive relate to motivation?
3. Under what circumstances would you expect someone to undertake an extensive external search?
4. Why do people become involved with specific brands?
5. What is the role of self-concept in buying fashion wear?
6. What are the factors that relate to the length of an information search?
7. What is the difference between conation and behaviour?
8. Why are families an important influence on decision-making?
9. Why is perception described as being both analytic and synthetic?
10. How might a service firm (such as a restaurant) minimise the perception of risk?

Case study revisited: Riverford Organics

Supermarkets have been quick to respond to the organic revolution, and many now offer at least some organic vegetables. Generally, these cost around 10% more than the equivalent factory-farmed vegetables, but obviously many people feel that it's worth paying the extra. Notably, however, the vegetables on offer are not always seasonal – which indicates that they have been imported, often from a long way away (some are even flown in from Africa). The vast majority of British consumers would not be able to say with any certainty which vegetables are in season at which time of year, of course, because vegetables of all types have been available all year round for at least 30 years now.

A drawback of Riverford boxes is that they contain whatever is available, so people have to be creative in their cooking and able to use what's there rather than follow recipes. Although

Review questions Help you test your understanding of what you have just read and provide a useful revision tool.


CONSUMER BEHAVIOUR 115

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References Allow you to see what sources the author has drawn on to write the chapter and gives one example of how to provide academic references.

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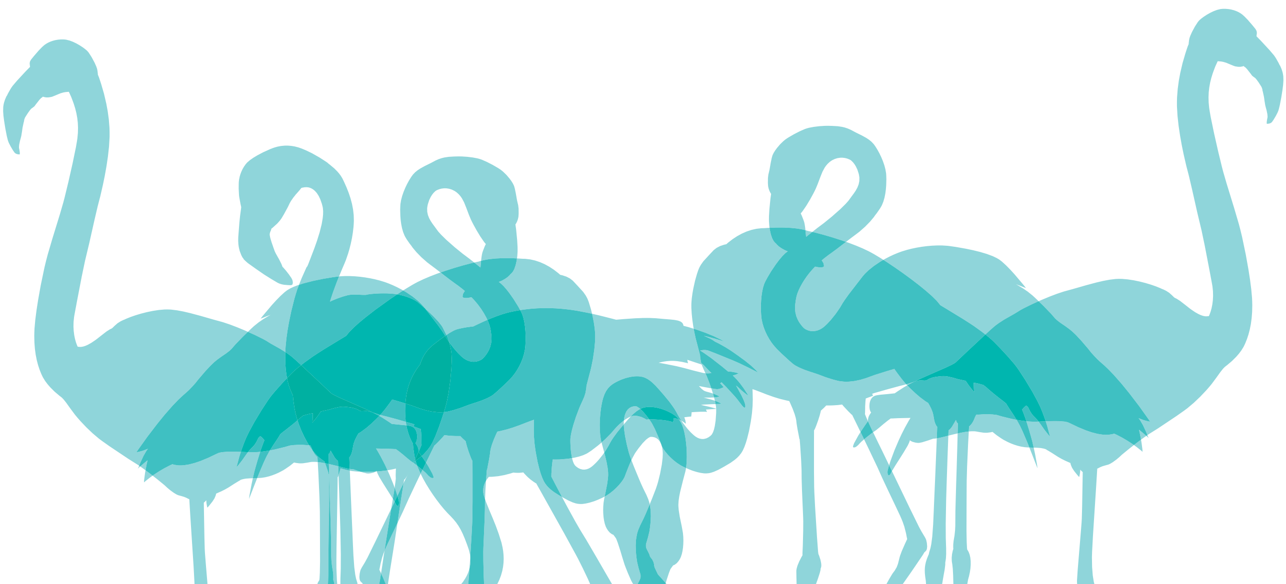
Part One

Concepts and contexts

This section is intended to lay the theoretical and conceptual groundwork for the rest of the book. Like any other business activity, marketing functions within a set of concepts and has a set of antecedents: this first part of the book seeks to outline the boundaries and constraints on both marketing practice and marketing thought.

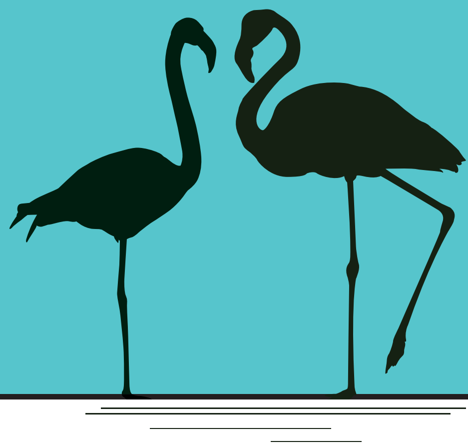
Chapter 1 explains how theory from other disciplines has contributed to the development of marketing thought. Marketing is a hybrid discipline, and a relatively young one that is still building its body of theoretical research: marketing has grown from practice, and academics have sought to explain the workings of marketing by using theories already developed elsewhere.

Chapter 2 looks at marketing within the wider business world: the environment within which marketing operates, and the influence of the environment on marketing activities.



CHAPTER 1

Marketing: managing the exchange process



CHAPTER CONTENTS

LEARNING OBJECTIVES

After reading this chapter, you should be able to:

- Compare the different definitions of marketing in common use.
- Explain marketing's role in managing the exchange process.
- Explain the importance of customers to marketing.
- Describe the relationship between marketing and other business specialisms.
- Explain the role of needs and wants in marketing.
- Describe the contribution other disciplines have made to marketing thought.
- Describe the different sub-divisions of marketing.

Introduction

Marketing is an odd kind of subject. Lecturers always have to start off by explaining what marketing is – unlike colleagues who teach engineering, accountancy, law or almost any other subject. It is a relatively new discipline, so academic debate is usually lively. It is a business function which is continually developing, with practitioners introducing new techniques and approaches at a rate that would be unthinkable for lawyers and accountants, and difficult even for engineers and designers. It is a philosophy for orientating business strategy, and it is a co-ordinating mechanism for uniting corporate activities.

Perhaps strangely (considering the powerful role of communication in marketing) the profession has generally received a bad press. Marketing has commonly been associated in people's minds with trickery and even outright lies, and there is a commonly-held perception that marketing is about persuading people to buy things they do not need or want. In fact, these criticisms are unfair: marketing is about creating value, not creating needs, and is concerned with creating and retaining customers. The ideal situation for any marketer is that customers return regularly and buy again and again – a situation that is unlikely to occur if the customers did not feel they had been fairly treated in the first place. It is well known that it is cheaper to keep an existing customer than it is to recruit a new one, and research shows that it is up to six times more expensive to recruit than to retain (Rosenberg and Czepeil 1983). Long-term customer satisfaction can only happen if the organisation offers value for money – not necessarily cheapness, but good value.

Marketing is therefore concerned with providing people with products and services which work effectively, continue to work effectively in the longer term, and are offered at a fair price. With this in mind, marketers act at the interface between the organisation and its customers. They need to co-ordinate the organisation's activities with the needs of customers, and to communicate the company's offerings to its target groups. This chapter outlines the development of marketing, and the contributions that have been made by other disciplines.

Preview case study: Pimlico Plumbers

When Charlie Mullins was only 9 years old he decided he wanted to be a plumber. He noticed that the local plumber where he lived was well-respected, had a great lifestyle, and (perhaps most importantly) had money. So Charlie began playing truant from school so he could help the plumber. When he left school at 15 with no qualifications he became apprenticed to a plumber and, within ten years, in 1979, armed only with a bag of tools and a great deal of confidence, he set up Pimlico Plumbers.

His aim from the outset was to do away with the traditional perception of plumbers: plumbers have a reputation for turning up late in a rusty van, wearing dirty overalls, and overcharging for the job. Charlie requires his team of plumbers to wear smart uniforms; they drive VW Transporters, and are required to put customer service at the top of their priorities. They are certainly not the cheapest plumbing company around – but as anybody who as waited in all day for a plumber who doesn't arrive can tell you, it often works out cheaper to pay more, and get reliability.

The company operates several BMW motorbikes, which have improved the response time on emergency call-outs. Although the bikes are not used by the plumbers themselves, they can deliver spare parts rapidly when needed – this prevents the need for another visit by the plumber, with all the associated inconvenience for the customer.

Charlie is known for being direct and outspoken – having left school at 15, he has no formal education but he has honed his business skills by being determined and by doing the job. He admits that leaving at 15 might have been a mistake – he says he should have left at 14 instead. In common with other self-made entrepreneurs such as Richard Branson and Anita Roddick, he is a skilled publicist: the vans all have plumbing-related number plates (BOG 1, B1DET, and so forth) and he is often in the news. Richard Branson is, in fact, one of his customers – as are many other celebrities.

Pimlico Plumbers charge quite a lot: if you need them to come out in the middle of the night it will cost you £200 an hour plus 20% VAT. There is no extra charge for emergency work, though, and work carried out during normal hours costs around £90 an hour – not unreasonable, for London. Pricing is entirely transparent – the rates are published on the company website, and given that the company has a response time of one hour, anywhere in London, the rates begin to look extremely reasonable.

Of course, there has been a major financial crisis in the country – so the question is, are people going to continue to be prepared to pay a premium price for a premium product?

Definitions of marketing

Unlike accountancy or the legal profession, marketing still needs to define its remit to non-marketers. There are several definitions of marketing in current use, and each suffers from some weaknesses: a universally-agreed definition of what marketing is has not yet been achieved.

American marketing guru Philip Kotler defines marketing as follows (Kotler et al. 2008: 7):

> *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.*

This definition includes the concept of **value**, which is an important aspect of marketing. Value is the relationship between what is paid and what is received, and can be increased or reduced by marketing activities. For example, marketers can include an extra quantity of the product (10% extra free) as a way of increasing value for the customer, or (more profitably) might add an extra feature which costs the firm very little but which greatly increases the value for the customer. The problem with Kotler's definition is 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, and some might argue that the definition is too broad to be of much use in deciding what is marketing and what is not. For example, Kotler is apparently arguing that a parent who offers a child a trip to the zoo in exchange for tidying up his room is engaged in marketing, and (more importantly) that the child himself is also engaged in marketing. This would strike many people as being somewhat odd.

Value The benefit a customer obtains from a product.

Another aspect of the Kotler definition is the use of the terms '**need**' and '**want**'. To most non-marketers, a need is something that is essential to survival, whereas a want is something that is no more than a passing fancy. For marketers, these definitions are inadequate because there are so many products that are essential to some people, are luxuries to others, and actually dangerous for still others. For example, diabetics need insulin in order to survive, but for non-diabetics an injection of insulin could easily prove fatal. Even for the same individual, a product might be essential for survival at one time, but a luxury at another. At the extreme, if one were starving then a plate of caviar might be essential to life, but in a restaurant it would be a luxury. This is not inherently a problem with the Kotler definition, but such definitions of terms need to be addressed if the Kotler definition is to be understood and applied.

Need A perceived lack of something.

Want A specific satisfier for a need.

The Chartered Institute of Marketing uses the following definition:

> *Marketing is the management process which identifies, anticipates, and supplies customer requirements efficiently and profitably*. (www.getin2marketing.com/discover/what-is-marketing)

This definition tries to capture a somewhat complex set of ideas concisely. The concept of putting the **customer** at the centre of the business strategy is key to marketing, and the definition also includes the idea that we are interested not in any and every customer, but only those whose needs can be satisfied profitably. Identifying customer needs and supplying products and services that satisfy those needs covers a wide range of activities from **market research** through to new product development. The definition also says that marketing is a management process; in other words it requires planning and analysis, resources, investment of money and time, and monitoring and evaluation.

Customer One who decides on payment for a product.

Market research Investigations intended to improve knowledge about customers and competitors.

On the other hand, the definition has several weaknesses. First, there is a branch of marketing which deals with non-profit organisations such as charities or government departments. Few people would argue that a campaign against child abuse carried out by the NSPCC or an anti-smoking advertising campaign carried out by the Department of Health are not marketing activities, yet they are outside the scope of the CIM definition because they are not profit-orientated. Second, the definition excludes other stakeholders such as employees and shareholders. In each case, marketers have an input in communicating with, and meeting the needs of, these groups. Third, the people whose needs are being met are not always customers – for example, a mother who buys football boots for her 10-year-old son is a customer, but it is not her needs that are being met (except in the limited sense that she needs to be regarded as a kind and generous mother).

Another commonly quoted definition is that provided by the American Marketing Association, as follows:

> *Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and services to create exchange and satisfy individual and organisational objectives.* (www.marketingpower.com/aboutama/pages/definitionofmarketing.aspx)

This definition agrees that marketing is a management process, and that it is about satisfying individual objectives: it also introduces the idea that marketing is about creating exchange, and that it is about meeting organisational objectives, whether this means profit or not.

The definition still suffers from a narrow focus, however. For example, marketers are often concerned about competitors, but neither of the foregoing definitions addresses this. Companies and other organisations might do an excellent job of meeting customer needs at a fair price, but still fail simply because rivals offer even better products or even better prices – or, more confusing still, might offer a product that is actually worse and more expensive, but is offered at a more convenient location or time. For example, a traveller arriving late at night in a strange town is not in a position to shop around for hotels and will probably stay at the first one with an available room.

Another definition, which includes this idea, is offered by Jobber (2003: 5):

> *Marketing is the process of achieving corporate goals through meeting and exceeding customer needs better than the competition.*

Stakeholders People who are impacted by corporate activities.

The implication of this is that all the activities of the company should be geared towards meeting customer needs rather than those of other **stakeholders**. This is not necessarily unreasonable: after all, without customers there is no business. Peter Drucker (1999) stated:

> *Because the purpose of business is to create and keep customers, it has only two central functions: marketing and innovation. The basic function of marketing is to attract and retain customers at a profit.*

From the viewpoint of the student, studying marketing is complicated somewhat by the lack of a clear definition of what marketing is. It is obviously difficult to know what to study if one does not know what the boundaries of the subject are. To clarify things a little, it may be useful to consider the development of marketing as an academic subject, and also to consider the contributions made to it by other, older disciplines.

The marketing concept

The philosophical idea underlying all marketing thought is that corporate success comes from satisfying customer needs. The idea of placing customers at the centre of everything the company does is basic to marketing thought: this idea of customer centrality is the key concept in marketing. Recent research has shown that there is a positive association between customer satisfaction and shareholder value: this is a clear vindication of the marketing concept (Anderson et al. 2004).

The marketing concept did not arrive fully formed. It is popularly supposed to have developed through a series of business orientations, as shown in Table 1.1. Some marketers have moved the concept a step further on by referring to societal marketing. 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. 2008). For societal marketers, sustainability is a key issue, as well as impact assessment of the long-term results of use of the product. For example, there is an argument that car manufacturers should reduce noise pollution by making cars run quieter, but many manufacturers simply make the car more soundproof for its occupants and do not worry over much about the neighbours.

Table 1.1 Business orientations

Production orientation	A focus on manufacturing, on improving the process so as to reduce costs and increase efficiency, and on making a profit through selling large volumes of goods.
Product orientation	The focus here is on quality, and on product features. Product orientation aims to produce the best possible product with the maximum number of features.
Selling orientation	The company seeks to use aggressive and sometimes devious selling techniques to move the product. Profit comes from quick turnover and high volume.
Marketing orientation	Defining what customers want and ensuring that the company's activities are arranged in a way which will achieve customer satisfaction.

Real-life marketing: Link up with a charity

Many companies carry out charitable works, or sponsor occasional events or causes, but relatively few go the extra mile and establish a link with a charity.

If you can find a local charity whose aims fit in with your business, you could do a lot worse than form a long-term partnership. It shouldn't be too hard to find a charity that you can link in with – provided you think outside the box! Once you've established the relationship, you can offer them help with projects, give them the use of some of your facilities, maybe get your staff involved on a voluntary basis, and in return you can run joint promotions with the charity. Most charities have mailing lists – they won't give these to you, but they will almost certainly send out mailings (or e-mails) which will include some of your promotional material.

Partnering with a charity in this way improves your image, does some good for society as a whole, and helps you to promote the business at relatively little cost. The key rules for doing this successfully are:

- Choose your charity carefully. It needs to relate to your business.
- Remember it's a partnership – you have to give as well as receive.
- Never abuse the mailing list, or you will destroy the charity's carefully built reputation.

This issue has been debated by marketing academics on the grounds that marketing needs to have clear boundaries. The idea that marketing is everything, because so much human activity revolves around exchanges or the results of exchanges, is an idea that has been brought into disrepute by many academics. There are, of course, many adherents to the societal marketing concept, although it is difficult to implement in practice and few companies are in a position to adopt such an altruistic approach.

Production orientation The belief that corporate success comes from efficient production.

Production orientation had its beginnings at the start of the Industrial Revolution. Up until the 19th century, almost everything was hand-made and made to measure. Clothing was tailored to fit almost exactly, houses and vehicles were produced to customer specification, and relatively few items were standardised. This meant that items were relatively expensive. When machines were introduced to speed up the manufacturing process, costs dropped dramatically, so much so that prices could also be cut provided the goods could be sold rapidly. The longer the production run, the lower the costs and consequently the greater the profit: at the same time, customers were prepared to accept items that were not exactly meeting their needs, on the basis that the 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 production, but at the cost of meeting individual customers' needs.

Product orientation The belief that corporate success comes from having the best product.

Product orientation was a result of an oversupply of basic goods. Once everyone already owned the basic products, manufacturers needed to provide something different in order to find new customers. Better-quality products, often with more features, began to be introduced. By the late 19th century, extravagant claims were being made for products on the basis of their quality and features. Manufacturers recognised that different customers had different needs, but sought to resolve this by adding in every possible feature. The drawback is that the price of the product increases dramatically under product orientation, and customers are not always prepared to pay for features they will never use. A modern example of product orientation is the Kirby vacuum cleaner, which has a multitude of features and can clean virtually anything. The end price of the product is perhaps ten times that of a basic vacuum cleaner, a price most people are unable or unwilling to pay.

Consumer One who obtains the benefits from a product.

Sales orientation The belief that corporate success comes from having proactive salespeople.

The basic difficulty with both production orientation and product orientation is that they ignore the diversity of customers and **consumers**. Customers differ from each other in terms of their needs – there is no such thing as 'the customer'.

Sales orientation assumes that people will not buy anything unless they are persuaded to do so. Sales orientation should not be confused with personal selling: salespeople do not operate on the basis of persuasion, but rather on the basis of identifying and meeting individual customers' needs.

Sales orientation, on the other hand, concentrates on the needs of the seller rather than the needs of the buyer. The assumption is that customers do not really want to spend their money, that they must be persuaded, that they will not mind being persuaded and will be happy for the salesperson to call again and persuade them some more, and that success comes through using aggressive promotional techniques.

Sales orientation is still fairly common, 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.

Marketing orientation The belief that corporate success comes from understanding the relationships in the market.

Marketing orientation means being driven by customer needs. One of the key elements of marketing orientation is that customers can be grouped according to their different needs, so that a slightly different product can be offered to each group. Differentiation (offering products that differ from each other and those of competitors) 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 the purchase of the company product. The assumption is that customers actually want to satisfy their needs, and are prepared to pay money for products that do so. Using a marketing orientation to co-ordinate the firm's functions will almost always improve the firm's performance (Lyus et al. 2011).

Marketing orientation also includes the idea that customers need information about the products, advice about using the products, advice about the availability of products, and so forth. In other words, marketers believe that customer needs go beyond the basic core benefits of the product itself. For example, research has shown that American consumers no longer know how to choose fresh produce: this means that, increasingly, people seek the reassurance of a brand (even if it is the local supermarket's guarantee of quality). This has opened up opportunities for farmers and others in the food supply chain 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. This means that everyone in the organisation, from the salespeople through to the factory workers, needs to consider 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 will determine the degree to which a company is marketing-orientated: customer orientation, competitor orientation and inter-functional co-ordination.

Customer orientation is the degree to which the organisation understands its customers. The better the understanding, the better able the firm is to create value for the customers. Since value is defined by the customers and not by the firm, customer orientation means that the firm can make better offers to customers and thus receive better payments in return. Research shows that at least some consumers regard consumption as being like voting – they show approval of companies by buying their products, and avoid companies of which they disapprove (Shaw et al. 2006). Since customers manipulate products and service to increase their value, some marketers argue that value is co-created between the firm and its customers (Harwood and Garry 2010).

Customer orientation The belief that corporate success comes from understanding and meeting customer needs.

Competitor orientation is the degree to which the company understands what other firms are offering to customers. These firms may be offering radically different products: the issue is whether the customer perceives the products as offering the same (or better) value. For example, a couple looking for a night out may compare the relative merits of cinemas, nightclubs, restaurants, bowling alleys, or theatres. Each of those companies is competing with the others, but the nightclub may only consider other nightclubs as competition, or the bowling alley may not recognise competition from the restaurant. Interestingly, people find the wide range of choice empowering in the long run – although initially a wider choice is actually frightening (Davies and Elliott 2006).

Competitor orientation The belief that corporate success comes from understanding competitors.

Third, interfunctional co-ordination is the degree to which the internal structure of the organisation and the attitudes of its members combine to deliver marketing orientation. There is no point in marketing managers developing good ideas for improving the company's offering to its customers if the employees of the firm are prevented from delivering the promises, or are unwilling to do so.

Of course these three components can be broken down into smaller elements. Figure 1.1 shows the main elements in marketing orientation.

In order to achieve a marketing orientation, firms need to be close to their customers and consumers. For some companies this is not a problem, because they have direct contact with the ultimate consumers. Service industries such as airlines,

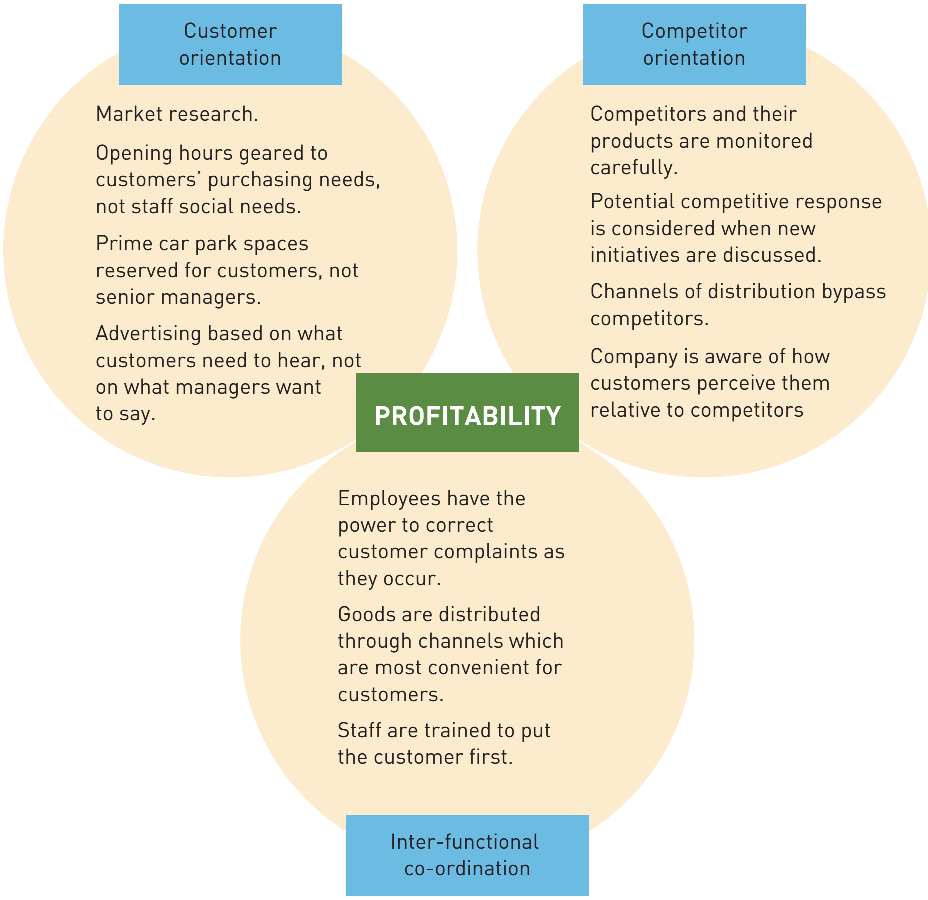


Figure 1.1 Elements in marketing orientation

End user The person or company who uses the product, without selling it on or converting it into something else.

restaurants and hairdressers have direct contact with the **end users** of their products, and can fine-tune the delivery to meet customer needs. Other industries such as the food canning industry have contact with their customers (the wholesalers and retailers who handle their products) but do not have contact with the end consumers. These companies may use market research to find out what consumers actually need, or may rely on the retailers to understand the customers and pass on their requirements.

One of the main problems in becoming marketing orientated is that other departments within the firm will find it creates conflicts. For example, the firm's marketers may identify a group of consumers who have a need for a particular set of product features. This may cause the firm's engineers a problem in developing a product with those features. Table 1.2 illustrates some of the conflicts that occur when a firm needs to consider the needs of consumers.

These conflicts can be helped by explaining the reasons for adopting a customer focus. The problem is that some people will interpret customer focus as meaning that the company should give the customers everything they want – low prices, high quality, perfect after-sales service and so forth. This is not actually what the marketing concept says: to give everything away would mean losing money, which of course is not the way to run a business. The marketing concept implies that organisations should offer a selected group of customers everything necessary to

Table 1.2 Internal conflicts with non-marketers

Situation	Problem	Resolution
Credit control	The customers may want longer credit terms. This will cause cashflow problems, which creates problems for the finance director.	Allow customers to pay extra for the credit. Marketing is not about giving customers everything they want: it is about selling customers everything they want.
New product development	Each customer wants slightly different features, but production economics rely on long production runs.	Identify groups of customers with similar needs. If the group is big enough to support a large production run, there is no problem: if the group is small, but is prepared to pay more for a custom product, again there is no problem.
Delivery service levels	Customers may want regular small deliveries (for example, car parts for small garages). This means that delivery vehicles are sometimes running with small loads, or even empty.	Arrange for a 'return load' pick-up system, or subcontract the deliveries to a parcel delivery company which can deliver to many small firms. In the motor industry, there are specialist firms called motor factors which do this.
Handling complaints	Customers may not always be satisfied with the firm and its services, which creates a problem for everyone. Some firms only respond when sued, relying on the contract to cover themselves against dissatisfied customers.	Complaints can be repeated elsewhere: word-of-mouth is a powerful medium for destroying a firm's reputation. On the other hand, research shows that complaints which are handled entirely to the customer's satisfaction actually increase customer loyalty and encourage positive word of mouth (Coca Cola Company 1981).
Purchasing of supplies	Purchasing departments can become overly-concerned with price to the exclusion of other considerations. Standardisation of components makes inputs cheaper, but reduces flexibility.	The growth of relationship marketing (see Chapter 11) and **just-in-time** purchasing has helped to bring marketers and purchasers closer together. An understanding of the reasons for retaining flexibility will, of course, help in this context.

Just in time A supply chain management system in which the purchaser does not maintain an inventory, but instead switches responsibility for this to the supplier.

meet their needs (within the specific product category) because this is the most effective way of justifying the higher prices necessary to provide the product and make a profit.

Involving non-marketing colleagues in the process by sharing customer information with them appears to be the most powerful tool a marketer has for moving the organisation towards a marketing orientation (Korhonen-Sande 2010). Research and development managers will have applied customer information to their thinking when they were given the opportunity to access it, especially if it is integrated into the other information they have available.

There is evidence to show that satisfied customers are prepared to pay more for the products they buy – and why should this not be so? Better to pay a little more for something that meets a need than buy a cheap product that does not work (Homburg et al. 2005). Perhaps surprisingly, there is evidence to show that engineers are generally positive towards marketing and marketers (Shaw and Shaw 2003).

Think outside this box!

Some writers have taken the view that all employees are marketers now, because everybody in the organisation has a responsibility for customer satisfaction. The problem with this view is a conceptual one: if everybody in the organisation is a marketer, what role remains for the marketing managers? Presumably marketing must have some boundaries!

Customer needs

Customers in general have a set of generic needs, which marketers seek to fulfil. These are shown in Table 1.3. Customer needs therefore go beyond the product itself, and also (since customers are human beings) go beyond the simple physical needs of food, clothing and shelter.

Table 1.3 Customer needs

Type of need	Example
Current product needs	All customers for a given product have needs based on the features and benefits of the product. This also relates to the quantities they are likely to buy, and any problems they might experience with the products.
Future needs	Predicting future demand is a key function of market research. Typically, this is carried out by talking to potential and actual customers and making an assessment of likely purchase quantities. Like any other predictions of the future, the results are unlikely to be perfect, but sales forecasting is essential if resources are to be put in place to ensure that supplies are available to meet demand. Equally, over-optimistic forecasts can result in over-supply and consequent problems in getting rid of excess product. Selling off excess product at cut prices generates problems beyond the immediate loss of profit: damage to the reputation of the brand may continue for years afterwards.
Desired pricing levels	Customers will naturally want to buy products at the lowest possible prices. Pricing is not straightforward for marketers: it is not simply a matter of adding up what it costs to supply the product, adding on a profit margin and then selling the product. Customers will only pay what they feel is reasonable for the product, basing this on what they perceive to be the benefits they will get from buying the product. Customers will therefore not pay more than the 'fair' price, and charging them less is simply giving away profit. There is more on this in Chapter 14.
Information needs	Customers need to know about a product and understand what benefits will accrue from buying it. They also need to know what the drawbacks are of owning the product, but this information is unlikely to be provided by the organisation. For major purchases, customers will seek this information elsewhere. Information needs to be presented in an appropriate place and format, and should be accurate.
Product availability	Products need to be in the right place at the right time. This means that suppliers need to recruit the appropriate intermediaries (wholesalers and retailers) and to ensure efficient transport systems to move the products to the point of sale in a way that ensures they arrive in good condition, but at the same time in as economical a manner as possible.

Think outside this box!

How do we define need? Is it something without which life would be impossible? Is water a need? Maybe – but what about people who drink orange juice, beer, tea, or even Coca-Cola, but rarely drink a plain glass of water? And if water is so essential, does that mean that Evian or Perrier are essential to life?

Perhaps beer is a luxury. But beer is often the basis of a person's social life, and people who have no social life go mad, or at least a little odd. Defining whether a product is a need or a want or a luxury is really not very easy – what is a luxury to one person is a necessity to another, because people are not simply driven by their animal needs. In fact, in modern, wealthy, Western nations very few people have to be concerned about their physical needs. Most of us are much more concerned about our social and psychological needs – which is why we buy fashionable clothes, or go to the latest movies, or take up a demanding hobby.

People need many things apart from survival, and in the Western world people are wealthy enough that they can afford to meet higher-level needs.

The cliché of an artist starving in a garret is a prime example: people will often go without the basic physical necessities of life in order to self-actualise or meet aesthetic needs. A graphic instance of this occurred in Nazi concentration camps during the Second World War, when prisoners would sometimes exchange food for clothing in order to maintain appearances (Klein 2003). Likewise, a homeless person might well seek out the company of others (thus meeting a social need) without knowing where the next meal is coming from, or having a bed for the night. Having said that, it seems likely that the main preoccupation of a homeless person will be finding food and shelter, even if other needs are met along the way, and that a wealthy person is unlikely to spend much time thinking about whether their survival is threatened.

What marketers do

Marketing management is responsible for handling specific aspects of the marketing function. In practice, these functions may appear in departments other than the marketing department as such, but they are nonetheless marketing functions since they directly address customer needs. These aspects are known collectively as the marketing mix.

Several models exist for defining the marketing mix, and each model has drawbacks. One of the earliest attempts to define the mix came from McCarthy (1987 [1964]), and defined the marketing mix in terms of product, price, place and promotion. This conveniently pigeonholed everything into four categories (all starting with P) but was an incomplete picture. The 4P model has been widely criticised, not least because it has an internal orientation (it refers exclusively to the company, not the external marketplace) and it lacks personalisation (Constantinides 2006). In 1981, Booms and Bitner added three more Ps (people, process and physical evidence) to encompass the extra elements present in service industries, which after all represent the bulk of products in a modern society. This 7P model has been widely adopted, not so much for its accuracy (because like most models it omits a great deal) but because it is easy to remember and understand.

Product is the bundle of benefits the supplier offers to the purchaser. The particular set of benefits on offer will appeal to a specific group of consumers: it is extremely unlikely that any product will appeal to everyone. Even products such as Coca-Cola,

Product A bundle of benefits.

which is sold worldwide and is the world's most recognised brand name, has only a minority share of the soft drinks market. Many people simply do not like it, or think it is too expensive, or prefer other drinks which meet their needs better. Attempts to create a 'perfect' product that suits everybody are likely to result in over-complex, over-expensive products, which is why product orientation has fallen into disrepute.

Price The exchange that the customer makes in order to obtain a product.

Price is the total cost to the customer of buying the product. It therefore goes beyond the simple monetary costs: customers also consider the difficulty of purchase, the cost of ownership of the product, and even the 'embarrassment' factor of owning the wrong brand. Some products have psychological associations which customers find costly. However, even the financial cost of purchase is by no means simple, because there is a complex relationship between money, price and value. Price has a strategic dimension for marketers, in that there is (for most products) a relationship between price and sales volume. The lower the price, the greater the volume (in general). On the other hand, there is also a reverse relationship between price and perceived quality (the higher the price, the greater the quality). Balancing these different elements of price is a function of marketing management, not a function of financial management. Price is a fairly flexible element of the mix, since it is relatively easy to change prices in response to demand fluctuations, but continually changing prices can lead to confusion (and even suspicion) on the part of customers.

Place The location where the exchange takes place.

Website A page on the Internet designed for and dedicated to an organisation or individual.

Place is the location where the exchange takes place. This may be a retail store, it may be a catalogue, it may be a restaurant, or it may be a **website**. Deciding on the appropriate place for the exchange is not merely a matter of moving goods around (although physical distribution is one aspect of the process) but is rather a strategic issue. The decisions revolve around making it as easy as possible for customers to find the goods and make the purchase, and also using channels that give the appropriate image for the product. For example, retailing a product through discount stores gives a completely different impression from retailing the same product through exclusive department stores. A final issue in place decisions is the problem of power relationships in the distribution channels. In the food industry, the major supermarkets essentially control the market, with farmers and food processing firms having to accept whatever conditions are applied by the retailers. In other industries (notably the fast-food industry), the producers have the upper hand, with retailers being compelled to accept the terms laid down.

Promotion Marketing communications.

Advertising A paid message inserted in a medium.

Public relations The practice of creating goodwill towards an organisation.

Promotion is such a large part of marketing that it is often mistaken for the whole of marketing. Promotion encompasses all the communications activities of marketing: **advertising**, **public relations**, sales promotions, personal selling, and so forth. Promotion is not simply a hard sell, however: it is a way of meeting customers' information needs, at least in part. It is also, to an extent, persuasive in that most marketing communications emphasise the good aspects of owning products and downplay the bad aspects. In recent years promotion strategies have been thrown into turmoil by the Internet: the changes have been far-reaching, and the full implications have still to be assessed.

People The individuals involved in providing customer satisfaction.

People are crucial to success in marketing, particularly in service industries. Customers in a restaurant are not simply buying a meal: they are buying the skill of the chef in preparing and presenting the food, the service of the waiters in delivering the food, and even the quality of the washer-up in ensuring clean cutlery and crockery. The same is true in other industries, because companies do not buy or sell products – a company is a legal fiction. People buy and sell products, sometimes on behalf of organisations, and by so doing go some way towards meeting their own needs.

Process The set of activities that together produce customer satisfaction.

Process is the set of activities that lead to delivery of the product benefits. In service industries the process of delivery makes a difference to the benefits obtained. For example, consider the process of going out for a hamburger. In a corner take-away the hamburger will be cooked to order (which means waiting a few minutes) and will be eaten either standing up in the shop or on the street walking somewhere else. The process is quick, but basic, and is useful to someone who likes freshly-cooked food but does not at present have much time for a meal. Further up the scale of service would be a hamburger chain such as McDonald's or Burger King, where the food is not as fresh but is delivered quickly and can be eaten either on the street or sitting down at clean but basic tables. This process meets the needs of someone who is in a hurry, and likes reliable food, but is not too worried that the burger might have been sitting under a warming grill for several minutes. Next up the scale might be a Hard Rock Café, where the burgers are freshly cooked and served by a waiter or waitress, where the ambience is exciting and interesting, where music is played and where the process becomes an experience. This would meet the needs of someone who has an interest in music, or is perhaps on a date or out with friends. Finally, an expensive restaurant might have waiters in jackets, soft lights and soft music, a wine list, and silver cutlery. The hamburger is now called a Vienna steak, and would suit the needs of someone who likes to know what he is eating, but is on a special date. Note that the same person could fit into each of these categories at different times, depending on the circumstances.

Real-life marketing: Ordering food on-line

The easier you make it for people to buy from you, the more likely people are to do so. Nowhere is this more true than in fast-food deliveries. If you're in the fast-food business, or in fact in any business where you deliver to customers, you're generally dealing with people who are either tired, or very busy, or possibly very lazy. The easier you make it for them, the better.

The idea comes from on-line companies such as Hungry House and JustEat. These companies operate as on-line clearing-houses for hot food deliveries. People can order on-line through the Hungry House website, can browse recommendations from other users, and can pay on-line so there is no need to part with cash. All the menus are on-line, and customers can even order from different outlets – so if someone fancies a pizza, but everybody else wants curry, the orders can be placed at the same time (though they won't necessarily arrive at the same time).

This has a lot of advantages. First, people who are tired often don't want to talk to anybody. Second, you can change your menus easily without having to reprint everything – and you won't have to waste time explaining to prospective diners that what they want is no longer available. Third, you will spend a lot less time on the telephone because the orders come through automatically and can be dealt with more easily. Fourth, the possibility of writing down the order wrongly is eliminated.

For this to work, you need to follow these rules:

- The 'website must be interactive, and as user-friendly as possible.
- People should still be able to order in the conventional way, by telephone or by arriving at your store.
- Store all orders in case of disputes – if you can send them to the delivery people's mobile telephones, so much the better.

Physical evidence The tangible proof that a service has taken place.

Physical evidence is the tangible proof that the service has been delivered. In the case of a restaurant, the food and the surroundings provide good physical evidence of the quality of the service (and probably the price, too). For an insurance company, physical evidence might be the policy documents. Physical evidence is important in services marketing because often (as in insurance) the customer is buying a promise. The policy document is therefore a reassurance that the insurance actually exists. The reverse can also be the case: the lack of physical evidence of a booking on a ticketless airline reassures the customer that every possible cost has been cut, while the physical evidence of a modern aircraft assures the customer that essential costs have been met.

Mixing the 7Ps in the correct way should help the organisation to achieve a competitive advantage, which is of course essential to any business. However, the concept of the marketing mix has been criticised. First, the mix has been criticised on the grounds that it implies a set of sharp boundaries between its elements. In fact, each element impinges on every other element to some extent – as mentioned above, the retailer in which the product is sold gives an impression of the product, which is presumably part of its promotion. Likewise, the process of delivery of a hamburger provides different benefits in each case, so is presumably part of the product. Examples of other cross-overs abound.

Internal marketing The practice of creating goodwill among employees.

Second, the mix has been criticised because it does not cover everything that marketers do. There is nothing about **internal marketing** (the establishment of relationships and exchanges within the organisation). There is nothing about competition. There is nothing about managing long-term relationships with customers.

Third, the marketing mix concept implies that marketing is something that is done to customers, rather than something that seeks co-operation and interaction between customers and the organisation.

Fourth, the mix is almost entirely focused on consumers, whereas in fact the bulk of marketing activity is carried out between businesses (Raffia and Ahmed 1992). This business-to-business marketing is perhaps less well-researched and generally attracts less attention because it operates at a lower profile. In business-to-business marketing, success does not come from manipulation of the marketing mix components, but from establishing long-term relationships between the firms concerned. If these relationships are strong enough, they act as a barrier to entry for other suppliers (Ford et al. 1986).

These criticisms do not mean that the model is of no use. All models are an abstract of reality, and so do not give the whole picture. The model does help in considering issues or planning ways of managing the business, but it should not be treated as if it provides all the answers.

Think outside this box!

Models often seem to be flawed. Any model can be criticised – and often is! So why do we use them at all? Is it possible to create the perfect model?

A model is an abstraction of reality, a simplification intended to make reality easier to understand. Therefore some things have to be left out, which means there will be gaps in our understanding, and the model may not always be easily applied in practice. We all know that a model railway is a good way of seeing how railways operate – the tracks, the carriages, the signal boxes, the points, and so forth can all be made up as miniature replicas of the real thing. But if we need to go from London to Glasgow, we need a real train!

Antecedents of marketing

Marketing has developed as a result of inputs from many other disciplines. Essentially, marketing is an applied social science, and therefore it owes a great deal to other social sciences.

ECONOMICS

An early examination of the mechanics of exchange processes came from Adam Smith. Smith was the first writer to state that the customer is king, and he outlined the law of supply and demand, which he thought explained how prices are fixed. Essentially, as the supply of a given product increases, the suppliers need to reduce prices in order to sell their goods: as the supply shrinks, customers must offer more in order to obtain the product. Higher prices will attract more suppliers into the marketplace, until the price stabilises at a point where supply equals demand, and likewise lower prices will force some suppliers out of the market.

Although this is a useful concept, it makes several assumptions that are unlikely to be true in the real world. First, it assumes that all the suppliers are providing identical products, whereas in the real world suppliers go to considerable trouble to differentiate their products from competing products. Second, the model assumes that consumers will be prepared to shop around, and will know where the cheaper products are available. Third, it assumes that no supplier (or customer) has sufficient 'clout' to affect the price, which is of course unlikely. Some examples do exist of this type of market, however: international money markets and stock exchanges are two such examples.

Smith also contributed the concept that different countries have what he called natural advantages in producing some goods, and that therefore international trade could only be advantageous since each country could produce what it could most easily and cheaply produce, and therefore maximum efficiency would result. The general principle that fair exchange leaves both parties better off is fundamental to marketing thinking: if it were not the case, trade would be impossible since one or other party would not go ahead.

Another useful contribution by economists is the concept of **elasticity of demand**. This model says that the demand for different products is affected by price to differing extents. For example, the overall demand for wedding rings or artificial limbs is unaffected by price (even though individual manufacturers' wedding rings or wooden

Elasticity of demand The degree to which people's propensity to buy a product is affected by price changes.

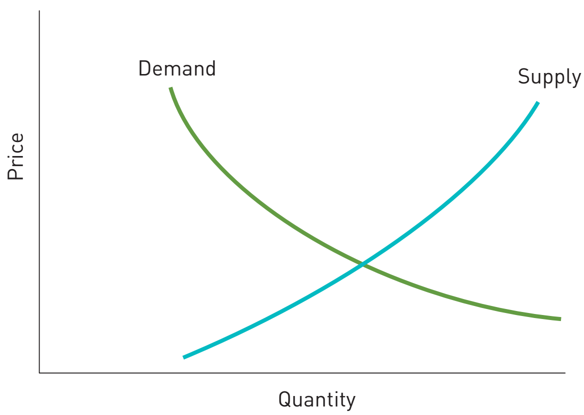


Figure 1.2 Supply and demand

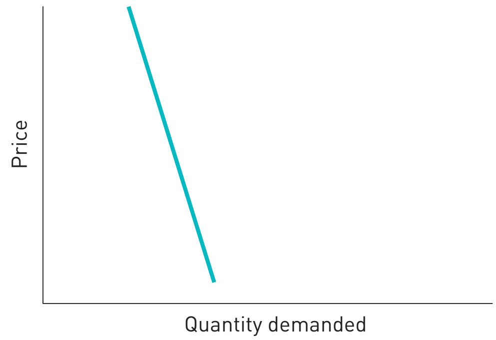


Figure 1.3 Inelastic demand curve

legs might be). Such products are said to be price inelastic. On the other hand, other products are affected seriously by very small changes in price: these are said to be price elastic. Price elasticity of demand affects the degree to which marketers can set prices relative to their competitors, and also in an absolute sense relative to other products.

An interesting point arising from the price elasticity concept is that there is no product that is totally price inelastic. In other words, there is no known product which people would buy no matter what the price charged. This is important because it means there is no single product that can truly be classed as a necessity of life – if such a product existed, it would be totally price inelastic. The corollary to this is that no product (presumably) exists that can be defined entirely as a luxury, since such a product would be totally price elastic – even a tiny rise in price would prevent any sales, since no one actually needs the product. The idea that people will not buy things that do not meet their needs is central to the marketing concept.

Economists also contributed to competition theory, which is covered in more detail in Chapter 2.

Economic choice The inability to spend the same money twice.

Finally, economists have contributed the concept of the **economic choice**. This means that money which is spent on one thing cannot be spent on another – so an individual is forced to make choices. The decision to buy one thing can be translated as a decision not to buy something else. This means that competition is by no means clear-cut: marketers are not only competing with other firms in the same industry, they are also (in effect) competing with all other ways in which consumers can spend their money. If mortgages rise, spending on consumer durables will fall, for example.

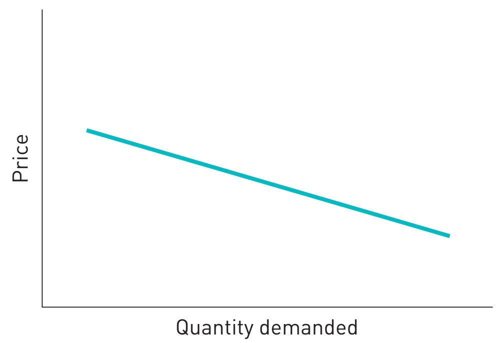


Figure 1.4 Elastic demand curve

Think outside this box!

In recent years many former government-owned enterprises have been privatised and competing organisations have been set up. In the UK, the telephone system, electricity and gas production and delivery, and even the railways were all former government monopolies, but are now privately owned and operate in competitive markets.

Yet surely all this means is that there is duplication of effort, and a degree of confusion for consumers. Train tickets are only valid on some routes, there are several competing companies providing directory enquiries, people are unable to take their telephone numbers with them if they move house, and so forth.

On the other hand, advocates of privatisation say that duplication of effort is better than no effort at all, which is too often what happens in nationalised industries. And to be fair, prices for energy have fallen, most public telephone boxes work now, and some rail companies have been investing in some very impressive rolling stock.

The problem with most economic models is that unrealistic assumptions are made for the purpose of simplifying the model. For example, economists often assume that buyers are rational, that consumers have perfect knowledge of the market, that people act in ways that maximise their welfare, and that all **brands** are essentially interchangeable. In fact none of these assumptions stands up to close scrutiny.

Brand The focus of marketing activities.

SOCIOLOGY

Sociology is the study of human beings in groups. Group behaviour is extremely important to human beings: how our friends and family see us, what we have to do to be effective employees, and what we feel about our place in society colours all our behaviour, including our purchase behaviour.

Human beings are all members of several groups, and in general wish to be part of one or more groups. In order to join or remain in a given group, individuals need to act in particular ways, and this often means buying the right items or the right services. Some examples of groups are family, friends, work colleagues, clubs or societies, and even those groups to which we belong by reason of gender or race. There are also groups to which we do not belong, and would not want to belong: for example, most of us would not want to be thought of as stupid, naïve or uneducated so we may go out of our way to learn about some subjects in order to appear knowledgeable.

An understanding of how these groups operate is essential to understanding consumer behaviour: there is more on this in Chapter 4.

PSYCHOLOGY

Psychology is the study of thought patterns of individuals. Like sociology, the contribution to marketing lies in the area of consumer behaviour. Such areas as perception, learning, motivation, attitude formation and attitude change, and our involvement with brands and products are basic to our understanding of purchasing behaviour.

Because psychology is concerned with the internal workings of the mind, it has much to tell us about communications and about how people develop relationships with the products they buy. Making those relationships more relevant and important is the role of marketing. Again, there is more on this topic in Chapter 4.

ANTHROPOLOGY

This is the study of human cultures. A culture is a set of shared beliefs, which includes religion, language, customs, child-rearing practices, gender roles and so forth. Anthropologists study the way these shared values and beliefs colour behaviour, and marketers can use this information to predict ways in which people will respond to product offerings.

Culture is particularly important in international marketing, where products are crossing cultural barriers. For example, McDonald's hamburgers are made from mutton in India, where the cow is sacred to Hindus.

All three behavioural sciences (psychology, sociology and anthropology) have considerable overlaps with each other. They mainly contribute to marketing in the areas of buyer behaviour (understanding how people make purchasing decisions and act on them) and marketing communications (understanding how people interpret and remember messages).

CORPORATE STRATEGY

Strategy is about positioning the organisation correctly for its survival and growth. Strategic thinking comes originally from military management, and much of the terminology used is the same as that of warfare. Marketers talk about campaigns, targets, capturing market share and so forth, but in fact much corporate strategy involves placing the organisation in a niche in the market where it will not upset potential competitors and attract retaliation.

The marketing strategy clearly needs to find a place within the corporate strategy, but for marketing-orientated firms the marketing strategy actually is the corporate strategy.

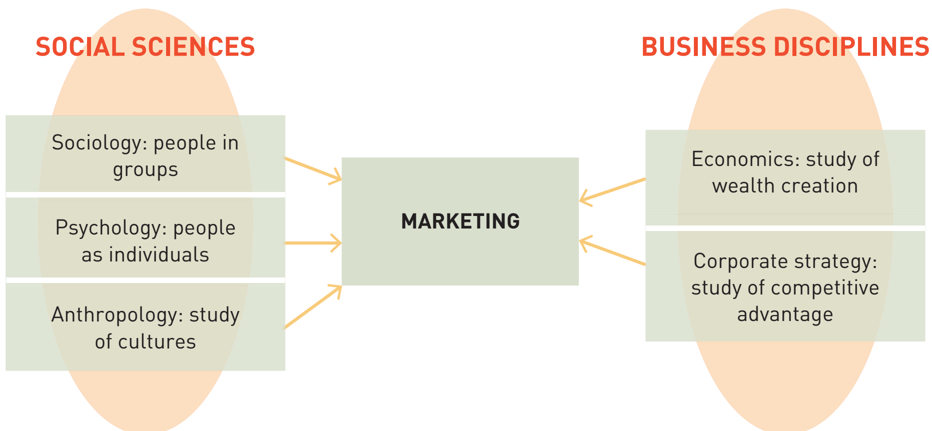


Figure 1.5 Antecedents of marketing

The scope of marketing

Marketing divides into a number of different applications, each of which will be examined in more detail in later chapters of this book. Because marketing embraces such a broad spectrum of human activity (indeed, as we saw earlier some say that marketing covers virtually everything that humans do) it is inevitable that different branches of applied marketing will emerge.

CONSUMER MARKETING

Consumer marketing is concerned with the exchange processes that take place at the end of the supply chain, at the point at which the goods and services are used up and disposed of. Because we are all consumers, this is the area that impinges on our daily lives the most, and (for many people) appears to be the whole of marketing. This view is bolstered by the way marketing is taught: examples taken from consumer marketing are most often used because they are easy to relate to.

Consumer marketing has also been the starting-point for the development of marketing theory. Because consumer markets are large, with many potential customers and competitors, the markets are complex and interesting. Companies in consumer markets see marketing as providing a suitable competitive edge, and have therefore embraced the marketing concept wholeheartedly.

Marketing theory owes much to the development of theories of consumer behaviour, which in turn derive from sociological and psychological theory. These theories have also been applied in areas other than consumer marketing.

INDUSTRIAL MARKETING

Industrial marketing examines earlier stages in the supply chain. Although the goods ultimately end up in the hands of consumers, products pass through many stages before arriving on the retailers' shelves. Industrial marketing is concerned with exchanges between organisations and is about supplies of raw materials, components and finished products.

Organisations with a marketing orientation are more successful than those without one (Avlonitis and Gounaris 1997). Business-to-business deals are, ultimately, driven by consumer demand, but ensuring that the needs of the customer business are met is an important stage in the process because it smooths out inefficiencies in the system and makes the process more effective. At the level of the individual organisation, the company that is best able to meet the overall needs of the customer company will get the business.

In fact, industrial marketing does not receive the attention it deserves. In terms of turnover, industrial markets overall are much bigger than consumer markets, yet have fewer customers, which means that order values are much larger. The success of industrial markets depends on the success of consumer markets, but the reverse is also the case: without an efficient and effective industrial supply chain, consumer needs cannot be met.

SERVICE MARKETING

A service product is one that is essentially intangible: examples include hairdressing, medical services, accountancy and insurance.

Some observers do not accept that there is a real difference between physical products and service products, and in some respects there are strong arguments in favour of this viewpoint. Any service product contains some tangible elements, and any physical product contains some service aspects. Since there are numerous examples of situations where a service product can substitute for a physical one and vice-versa, the distinction can seem to be an artificial one.

Vargo and Lusch (2004) took this idea a step further when they developed the concept of service-dominant logic (SDL). Traditional marketers took the view that people do not buy quarter-inch drills, but are actually buying quarter-inch holes: it is the outcome of the purchase that is of interest, not the physical product. SDL states that people are actually buying a hole-drilling service, in which the consumer and the producer co-operate in creating value (i.e. the holes). For Vargo and Lusch, someone who needs to have a hole drilled can buy a drill and do the work him- or herself, can hire a drill and again do the work, or can hire someone to come and drill the hole – but even in the final case, the consumer has to show the workman where to drill the hole, and has to specify what type of hole is needed, before any value is created. The implication is that nothing has any value until it is consumed (thus fulfilling a need), and therefore the consumer must be part of the value-creation process.

The implications of SDL for practical marketing are widespread: defining competition is only one area, but it is also the case that producers need to ensure that potential consumers are equipped with the necessary understanding of the product to be able to maximise the benefit of using it – in other words, to be effective co-creators of value. Academics are still exploring the full implications of service-dominant logic.

Marketing in a changing world: The growth of services

Services are certainly the big growth area. Although the UK's manufacturing output has risen by 250% since the end of the Second World War, services activity has risen even more, so that by 2013 it represented 73% of the UK economy.

Services are likely to continue to grow simply because we already have too much stuff and don't need to make any more. Service industries are generally difficult to automate, so they will employ a lot of people, and they provide the kind of experiential benefits people are looking for.

As we continue to earn a living by holding doors open for each other there may be a reduction in the emphasis on manufacturing: the problem for marketers is that the distinction between physical products and services is becoming increasingly blurred as manufacturers differentiate themselves from competitors by adding service elements, and service providers offer more physical goods to add value.

Having said that, there are differences in the way that intangible aspects of a product need to be marketed, and there are different information needs on the part of consumers. The service sector is, in most Western countries, the largest proportion of the gross national product and far and away the largest employer, so services marketing is of great importance to national prosperity. In addition, marketers of physical products have found that enhancing the services element of their products is a good way to add value for the consumer. For example, companies selling computers offer on-line support services as a way of generating extra revenue and at the same time increasing the value of the product to the consumer.

NOT-FOR-PROFIT MARKETING

Not-for-profit marketing is concerned with those organisations whose goals are something other than a profit. These include charities, hospitals, government organisations, schools, and some arts organisations. In many cases the exchange these organisations seek is not monetary at all – the government might run a campaign to discourage smoking, or to reduce drunken driving, and measure its success in terms of the number of people who quit smoking or the reduction in arrests and accidents caused by drunk drivers.

In other cases, money might change hands. Charities are becoming increasingly sophisticated at fund-raising, using TV advertising campaigns, mailings, and even telephone selling to encourage donations. Success is measured by the amount of money raised, but can also be measured in terms of raising the profile of the issues the charity was formed to address. For example, the UK children's charity the NSPCC (National Society for the Prevention of Cruelty to Children) runs advertising campaigns aimed at encouraging people to report cases of child abuse. This advertising also helps with fund-raising. In either case, profit is not the motive: as a charity, the NSPCC is non-profit-making.

Non-profit organisations that adopt a marketing orientation are more effective in achieving their organisational missions, in satisfying their beneficiaries, and in building a strong reputation with peer groups (Modi and Mishra 2010).

SMALL BUSINESS MARKETING

Much marketing theory (and practice) focuses on large organisations. Small businesses have specific problems of their own, largely related to their limited resources and non-specialist management. Someone running a small business has to be the marketer, the financial director, the personnel manager, the chief production manager, and the head of research and development. Because many small businesses come into existence because the owner has a particular expertise in producing something (whether this is haircuts, hamburgers or electronic components) small businesses tend to have a production or product orientation.

INTERNATIONAL MARKETING

The conceptual basis for international marketing has recently gone through a transformation in which a distinction has been drawn between the international and the global.

International marketing implies an emphasis on producing goods in one country and selling them in another, perhaps with some local assembly in the destination country. Global marketing implies a wider vision in which the company sources raw materials and components in a variety of countries, manufactures in a variety of countries, and markets its goods in the same or different countries.

Globalisation of business has been a major issue in world politics, since fully globalised companies are difficult to control and can often act as if they are above government intervention. Also, there are issues about the homogenisation of cultures and the erosion of national diversity as globalised companies force local businesses to close down. There is perhaps a responsibility on marketers to seek ways of minimising the damage from globalisation while maximising the economies of scale and other advantages that come from addressing global markets.

Globalisation The view of the world as a single market and single source of supply.

One of the key drivers for globalisation is the identification of **market segments** that cross national boundaries. This allows for the development of products with very specific features that appeal to only a tiny proportion of the population, since even a segment representing 0.01% of the world's population is numbered in the hundreds of thousands. Thus a producer will obtain economies of scale in manufacturing for this segment, whereas the same segment (on a national basis) would not support development of the product.

Market segment A group of people having similar needs.

In order to operate in global markets (or international markets) firms need to adapt the marketing mix to meet local conditions. For most global firms, this means making compromises. On the one hand, a single marketing message means that the firm benefits from economies of scale in its marketing activities, on the other hand a single message will not appeal to the diversity of cultures that exist worldwide.

Chapter summary

Marketing is a young discipline, yet it has captured the imagination of managers and academics alike. As a result, there is a lively debate about the nature and scope of marketing – which means in turn that definitions of what marketing is and what it should be are still emerging.

For some people marketing is about managing exchange. For others, it is about meeting customer needs at a profit (or in ways that lead to other organisational objectives). For still others, marketing is everything that businesses do, and for yet others marketing is what marketers do. All these definitions have some degree of truth in them.

The key issue in practice is that marketers should not try to please everybody. A marketer should be content to meet some of the needs of some of the customers most of the time – trying to do more is unlikely to be practical.

However marketing is viewed, whether as a quick fix, or a function of the business, or as the guiding philosophy of the business, there is no disagreement that companies need to take care of their customers. As Sam Walton, charismatic founder of Wal-Mart (the world's biggest retailer), once said:

> *There is only one boss – the customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else.*

Key points

- There is no single definition of marketing in common use.
- Marketing is about exchange.
- Marketers put the satisfaction of customer need at the centre of everything they do.
- Marketing often conflicts with other business specialisms.
- People's needs go far beyond mere survival.
- Marketing draws from many other disciplines, including economics, sociology, anthropology, psychology and corporate strategy.
- Marketing sub-divides into specialist areas such as services marketing, non-profit marketing and so forth, each of which has its own set of parameters and techniques.

Review questions

1. Describe how exchange theory makes trade possible.
2. Which behavioural sciences have contributed to marketing theory?
3. What are some of the practical difficulties in becoming truly customer-centred?
4. What is the difference between needs and wants?
5. What are the problems of defining marketing as being simply the management of exchange?
6. What is the difference between product orientation and production orientation?
7. What are the major drawbacks of the 7P model?
8. What problems might arise in defining who the customer is in a non-profit market?
9. Why might some people feel that globalisation is a bad thing?
10. Explain price elasticity of demand.

Case study revisited: Pimlico Plumbers

Running a premium-price business in the middle of a worldwide depression might be thought a difficult task, but Pimlico Plumbers have not only survived, they have actually expanded.

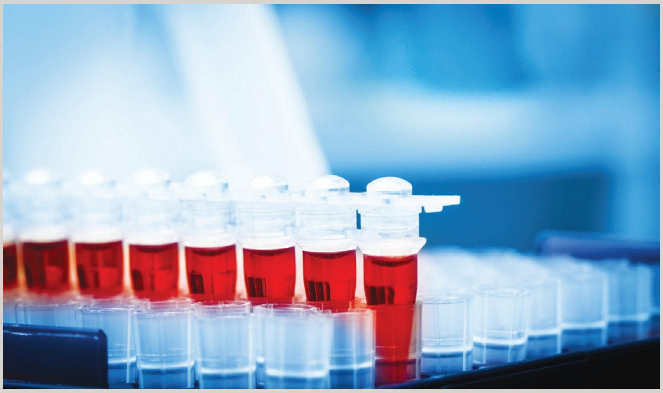
In 2008 the company expanded to Marbella, where the rich and famous have holiday homes. The Marbella operation works in exactly the same way as the London one, covering the coast from Marbella to Buenavista. The Marbella operation has its own website, and work is carried out in accordance with Spanish building regulations.

In London, meanwhile, the company continues to grow, and to recruit more people. With 200 people in the workforce, Pimlico Plumbers is still recruiting everyone from office assistants through to qualified tradesmen: Charlie Mullins seeks out people who have experience (preferably through apprenticeships) as well as qualifications – he is certainly not a man who looks for book-learning, but rather looks for good people who know what they are doing.

Publicity is handled by Max Clifford, and the company has featured on TV shows such as Britain's Best Young Plumber and Secret Millionaire. The company employed Britain's (reputedly) oldest worker, Buster Martin, who worked for the company until his death in 2011 at the age of 104. Charlie Mullins claimed in an interview for French TV that employing Buster Martin had increased business by 36% due to the publicity.

In early 2013 Charlie Mullins said in a press release that in the previous year the company had had its best November ever, turning over £1.7m in one month. This was due, he said, not to the bad weather, but to people investing in their homes rather than moving house. Company turnover is more than £18m a year and growing – so clearly Pimlico Plumbers must be doing something right!

Case study: Avacta Group PLC



Avacta Group is a small biotech company based in Wetherby, Yorkshire. The company produces high-end biological testing systems for the pharmaceutical industry and the veterinary market.

Avacta was founded by scientists: the CEO, Dr Alastair Smith, is a scientist with a world reputation. The company has close links with university science departments.

The company operates in three main areas: first, and perhaps most importantly, it produces a device called the Optim 1000 which can tell drug companies whether the new products they are developing will ultimately be successful. This has a tremendous commercial advantage for the pharmaceutical companies – new drugs are extremely expensive to develop, and more than 90% of them do not survive the rigorous testing procedures required by government regulators worldwide. If the companies know early on in the process that the drug will not be successful, the saving can easily run into millions of dollars.

The company's second product, the AX-1, is a desktop blood-testing machine. It can test blood, saliva or serum for a wide variety of conditions, providing rapid results for many conditions without the need to send samples to a laboratory. The benefits are again enormous – apart from the cost implication, which is in itself considerable, the machine reduces the risk of samples becoming contaminated or lost (or worse, mixed up with another sample). At the time of writing the machine is under test for the veterinary market, but should be launched in 2013. The reason for marketing the equipment to vets is that the regulations are much less stringent for animals than for humans: this means the product can be launched and used much more quickly and easily than would be the case for humans. However, the company expects that, once the equipment has been proven to work on animals, a human version can be developed and launched relatively easily. Currently the equipment is used for allergy testing, but other tests will be added as the product is developed further.

A third exciting development for the company is the artificial manufacture of antibodies. Antibodies are widely used in medical research, but are extremely expensive since they have to be derived from living people or animals. The cost is therefore around $1m per gram. Artificial antibodies are extremely complex to produce, but hundreds of times cheaper, which means that some medical research becomes a great deal cheaper as a consequence. The company hopes that the new development will give a boost to cancer research as well as improving the efficiency and range of operations of the Optim 1000 and the AX-1 devices.

Companies in the biotech area can easily find themselves caught up in the excitement of a new scientific breakthrough without truly understanding the business implications of what they are doing. Avacta seems to be avoiding this trap very neatly – the products have a known market, they fulfil a customer need very effectively, and they have clear advantages over what has gone before. The potential market is huge: the biopharmaceutical market is estimated to be worth $200bn worldwide, so if Avacta captured even a fraction of one-hundredth of a per cent of that market the company would be catapulted into the big league immediately.

Questions

1. What is Avacta offering to customers?
2. What needs does the AX-1 meet?
3. Which orientation does Avacta appear to have?
4. What conflicts might there be between Avacta's researchers and marketers?
5. How might Avacta go about setting prices?

Further reading

The material in this chapter is covered in introductory marketing texts rather than dedicated textbooks. For the arguments in favour of 'marketing is everything' see Philip Kotler, Gary Armstrong, John Saunders and Veronica Wong, *Principles of Marketing* (Harlow: FT Prentice Hall, 2008).

For contributions from economics, John Sloman and Mark Sutcliffe have written *Economics for Business* (Harlow: FT Prentice Hall, 2010), which ties economic theory to the real world of business in a way that is interesting and relevant.

For contributions from the behavioural sciences, there are many books on psychology, sociology and anthropology, but you may want to read Chapter 3 first as there is much more on these topics in that chapter.

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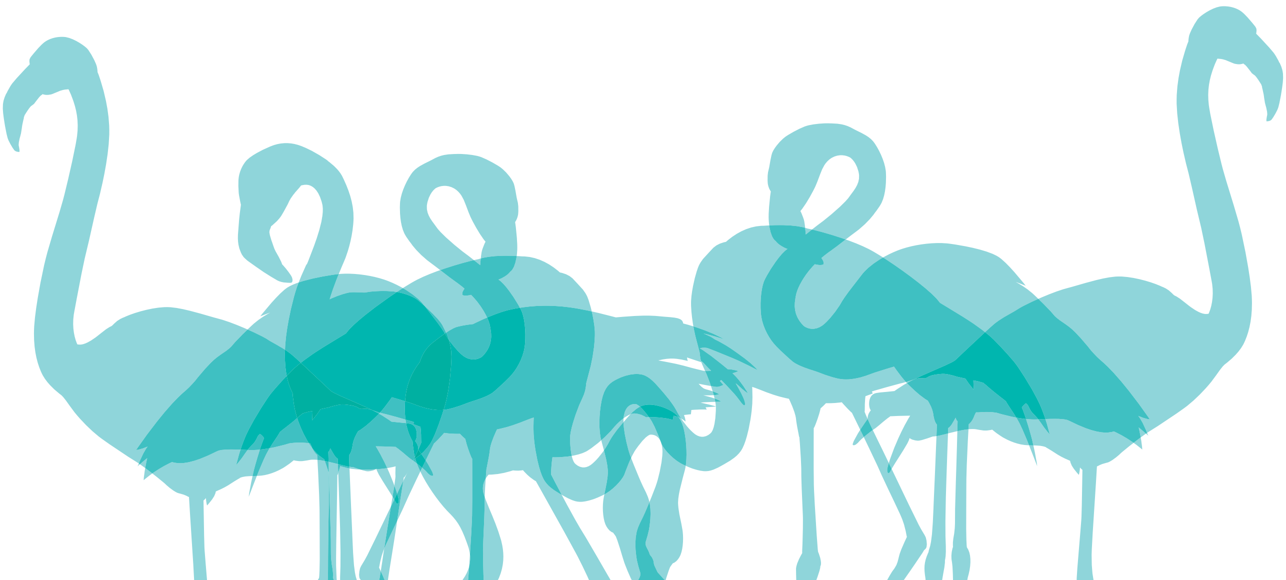
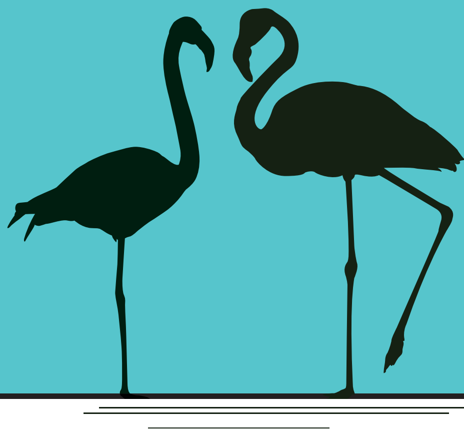


CHAPTER 2

The marketing environment



CHAPTER CONTENTS

LEARNING OBJECTIVES

After reading this chapter, you should be able to:

- Explain the nature of the business environment, and the relationship between the firm and its environment.
- Understand the problems of dealing with the micro and macro environments.
- Describe the relationship between the elements of the business environment.
- Explain the effects of demographic change on marketing.
- Discuss the nature and sources of competition.
- Explain how technological change can transfer between industries.

Introduction

No business operates in a vacuum. Decisions are made within a context of competition, customer characteristics, behaviour of suppliers and distributors, and of course within a legislative and social framework. People working within organisations are contributing to the welfare of society and of each other, and obtaining satisfaction of their own needs in return: this complex network of exchanges results in a better standard of living for everybody.

From a marketing viewpoint, managing the exchange process between the firm and its customers comes highest on the list of priorities, but it would be impossible to carry out this function without considering the effects of customer-based decisions on other people and organisations. A stakeholder is any individual or organisation affected by the firm's activities – neighbours, suppliers, competitors, customers, even governments – and all of these will have some input into marketing decisions, either directly or indirectly.

Some environmental factors are easily controlled by managers within the firm, whereas others cannot be changed and must therefore be accommodated in decision-making. In general, the larger the firm, the greater the control over its environment: on the other hand, large firms often find it difficult to adapt to sudden environmental changes in the way that a small firm might.

In order to assess the impact of different environmental factors, managers first need to classify them.

Preview case study: Costain West Africa

Costain is a major international civil engineering company. Founded in Liverpool in 1865, the company became one the largest British civil engineering companies in the ensuing years. Costain was involved in building the Mulberry harbours used on D-Day, the Channel Tunnel, the Thames Barrier, Hong Kong's airport, and many other large-scale construction projects. At one time Costain operated in 25 countries, but during the 1990s the company contracted and began to concentrate on the UK market, due to the recession that heralded the decade.

Costain West Africa was originally founded in 1948, to take over the Holt construction business. The company became fully independent of Costain UK when the parent company began its partial withdrawal from overseas markets: Costain West Africa is quoted on the Nigeria Stock Exchange, and is the largest construction company in Nigeria, if not in the whole of sub-Saharan Africa.

Any company in the construction business is likely to be affected by recessions and financial crises: major capital projects are frequently put on hold when money runs short, because an organisation can always cope for another year or two without its new headquarters, and the new bridge can always wait – after all, it wasn't always there, was it? So many construction companies face hard times – as do their suppliers and subcontractors. Costain West Africa was affected by the financial crisis of 2008 as much as any other organisation, but managed to survive and even flourish.

Surviving a financial crisis is no mean feat – but Costain West Africa met this sudden shift in the marketing environment with a uniquely African approach.

Macro environment Factors that affect all the firms in an industry.

Micro environment Factors that affect one firm only.

Internal environment Factors that operate within the organisation.

External environment Factors that operate outside the organisation.

Classifying environmental factors

Factors within the environment can be classified in a number of ways. First, the environment can be considered in terms of those elements that affect all firms within the industry (the **macro environment**), as opposed to those elements that affect only the individual firm (the **micro environment**). In general, the macro environment is difficult to influence or control, whereas the micro environment is much more within the firm's control.

The environment can also be classified as internal or external. The **internal environment** comprises those factors that operate within the firm (the corporate culture and history, staff behaviour and attitudes, the firm's capabilities) and the **external environment** comprises those elements that operate outside the firm (competition, government, customers). A problem for firms lies in deciding where

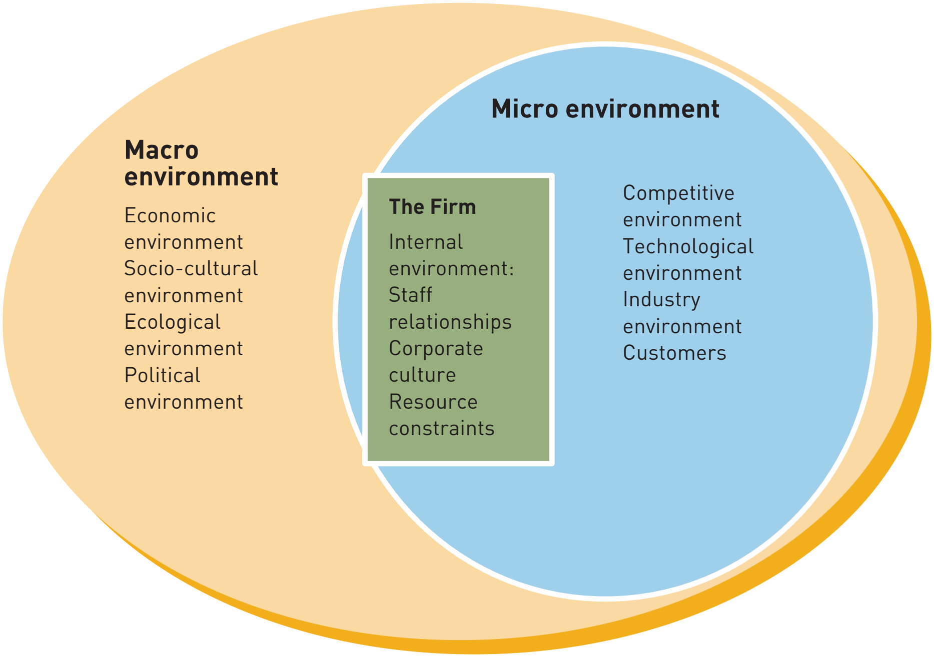


Figure 2.1 Environmental factors

the boundaries lie: for a truly customer-orientated company, customers might be considered as part of the internal environment, for example. Figure 2.1 shows how these factors relate. In effect, the firm operates within a series of layers of environmental factors, each of which has a greater or lesser impact on the firm's marketing policies. As a general rule, the further out the layer is, the more difficult it is for the firm to control what is happening: only the very largest firms have control, or even influence, on the macro environment.

The macro environment

The macro environment comprises those factors which are common to all firms in the industry. In many cases the same factors affect firms in other industries. Government policy, the economic climate and the culture within the countries in which the firms operate are common factors for all firms, but will affect firms differently according to the industries they are in.

In some cases there will be overlap between the micro environment and the macro environment. For example, a very large, global firm operating a subsidiary in a small country might regard the government of the country as part of the micro environment, since it is possible for the firm to control what the government does. This has certainly been the case with major fruit-importing companies operating in Central America. On the other hand, although competitors are usually regarded as part of the micro environment, a firm which is large enough to control an industry might be regarded as part of the macro environment by smaller firms in the same industry.

ECONOMIC ENVIRONMENT

The economic environment is basically about the level of demand in the economy. Most national economies follow the boom-and-bust economic cycle: every seven or eight years the economy goes into **recession**, which means that the production of

Recession A situation in which gross national production falls for three consecutive months.

goods and services shrinks and unemployment rises. A recession is a period of three consecutive months or more in which output shrinks, and the consequences may or may not be serious: during periods of recession, consumers are likely to postpone major purchases such as washing machines or new carpets due to uncertainty about employment security, and (by the same token) businesses will cut back on capital expenditure for such items as new factories or machinery. Borrowing is likely to reduce as consumers and firms become less confident about their ability to repay, and consequently demand drops still further.

In most cases recessions 'bottom out' within a few months or a year, but the financial collapse of 2008 created a worldwide recession in which many economies failed to recover for more than five years after the initial crisis. Governments tried many different measures to restart the world economy, but with little success.

Think outside this box!

If governments are so poor at controlling the economy, wouldn't it be better to leave things well alone and let Nature take its course? After all, there are so many factors to take into account in the way the economy works – people's confidence, the availability of manufacturing capacity, the activities of other countries and companies, and so on. Governments in the 19th century only concerned themselves with the defence of the realm and the internal security of its citizens – running the army and the police is a big enough task, surely!

On the other hand, the 19th century was marked by revolutions and rioting throughout Europe as starving people revolted against their governments. Maybe having a job and putting food on the table is a security issue after all.

Governments have a fine balancing act to perform in ensuring that the economy remains stable, and thus provides citizens with a good standard of living and a degree of confidence about the future. The problems caused by the financial crisis of 2008 have far exceeded government power to control: even when several governments act together, the situation can only be managed partially. In recent years, governments have controlled the economy largely by setting interest rates, and by controlling their own taxation and expenditure regimes. Both of these have a strong impact on marketers, because they affect people's willingness to spend on consumer goods and also (for firms that deal directly with the government) affect the size of the potential market. Non-profit organisations may feel the effects even more strongly, since many are funded from government grants and contracts, which may be cut back in times of austerity.

Within the European Union (EU) the common agricultural policy is an example of government intervention. The EU intervenes in agricultural markets, buying up and stockpiling food in order to maintain prices and smooth out supplies. However, this policy has resulted in the so-called 'wine lakes' and 'butter mountains' when continuing surplus production is bought and stockpiled, until eventually it has to be dumped on world markets or destroyed. On the other hand, the EU specifically prohibits governments from favouring their own national suppliers when ordering such items as computers or office equipment – all such tenders must be thrown open to suppliers in all member states.

Economic changes can be monitored in several ways. The business press typically provides informed analysis of economic changes, and national treasury officials in most countries also produce impact assessments. These are of variable quality according to the countries concerned. In some countries the assessments are as objective as it is possible to make them, since this allows companies and individuals to make informed judgements. In other countries the treasury produces distorted reports for reasons of political expediency, in order to support the party in power. Some universities and business schools also publish information and forecasts based on their own econometric models, and these may offer a different perspective from those forecasts produced by the government.

SOCIO-CULTURAL ENVIRONMENT

Socio-cultural forces fall into four categories, as follows:

1. **Demographic** forces. Demography refers to the structure of the population, in terms of factors such as age, income distribution, and ethnicity.
2. **Culture**. This refers to differences in beliefs, behaviours and customs between people from different countries.
3. Social responsibility and ethics. Derived in part from culture, ethical beliefs about how marketers should operate affect the ways in which people respond to marketing initiatives.
4. **Consumerism**. The shift of power away from companies and towards consumers.

Demographics The study of the structure of the population.

Culture The set of shared beliefs and behaviours common to an identifiable group of people.

Consumerism The set of organised activities intended to promote the needs of the consumer against those of the firm.

The relationship between these elements is shown in Figure 2.2. These relationships will be explained in more detail throughout this section.

Demographic forces are affected by variations in the birth-rate and death-rate, by immigration and emigration, and by shifts in wealth distribution, which may be caused by government policies. The demography of Western Europe has shifted dramatically over the past fifty years as the birth-rate has fallen and improvements in medical care have pushed the average age of the population sharply upwards. The birth-rate in Western Europe as a whole is now lower than the death-rate, so that the population would be shrinking were it not for immigration from Eastern Europe and the Third World. In some countries the situation is approaching

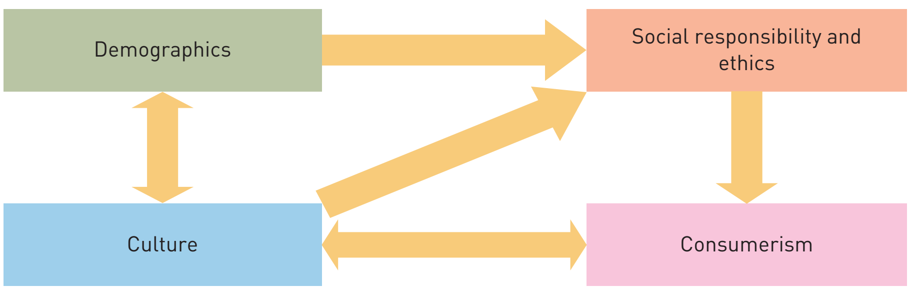


Figure 2.2 Socio-cultural environment

crisis point: for example, Spain has introduced a policy of contacting expatriate Spaniards in Latin America and encouraging them to return home. The Spanish government estimates that it needs 10,000 immigrants per annum to maintain the population.

The problem of depopulation and an ageing population is that many of the older people are retired, and therefore need to be supported by the productive members of society.

An influential report prepared for the EU in 2002 showed that the 15 member states (at that time – there are now 25 members) had experienced considerable immigration, virtually no outmigration, and dramatically reduced birth-rates. Coupled with the increased life expectancy (now around 75 for men, and 81 for women) the net result has been a reduction in the under-25 age group and increases in both the working population and the elderly population. These changes have happened over a thirty-year period from the mid-1970s (Cruijsen et al. 2002). The report goes on to say that entry by the new Eastern European member states will change this pattern in the short term, since these countries have lower life expectancies. During the 1990s (following the collapse of Communism in Europe) Eastern European countries have themselves experienced demographic shifts, notably a dramatically reduced birth-rate. These demographic shifts are thought to be the result of worsening health care, fear over job security, and less healthy lifestyles. The authors expect the following demographic shifts as a result of expansion:

1. Population decline will occur several years sooner.
2. Population ageing will be slightly suppressed.
3. Population dejuvenation (reduction in under-25s) will become stronger in future decades.
4. Expected decline of the working population will hardly change.

So far, experience has borne out these findings. There have been dramatic shifts in populations (several million Poles have emigrated to other EU states, for example), so there has been no decline in the working population of the original 15 member states.

From a marketing viewpoint, these changes offer both opportunities and threats. Clearly products aimed at a youth market are likely to decline, whereas products aimed at older people will be in greater demand. In practice, however, this may lead to surprises: for example, an assumption that almost all 70-year-olds have mobility problems may have been true thirty years ago, but improved health care and healthier lifestyles probably mean that most 70-year-olds in the 21st century are as fit as 50-year-olds were in the 1960s. The increase in the elderly population is not expected to peak out until the 2040s, and even this assumption depends on limited improvements in health care and the life expectancy of the very old – in other words, it assumes that people will not live much beyond 100 years old (Cruijsen et al. 2002).

A further demographic change (general to Europe) is the increase in single-person households. This has come about through an increase in the divorce rate and increasing affluence: young people no longer live with their parents until they marry, as was the case in the 1950s. At the other end of the age scale, large numbers of widowed elderly people continue to live in the former marital home. In several EU countries single-person households now represent the largest category of household: the UK's 2011 census revealed that single-person households had increased from 17% of all households in 1971 to 31% in 2011. Two-person households represented 32% of all households, making those two categories far and away the greatest proportion of households in the UK (Census 2011).

Real-life marketing: Think small

Most companies like the idea of being big. Retailers especially like to have big, well-stocked shops: a wider range of merchandise means more opportunities to sell something, after all. As in other aspects of marketing, though, you should be prepared to do something the others aren't doing – and thinking small has certainly been a success story for some firms.

The idea is to use small outlets, for example at railway stations and airports, to sell a limited range of goods that all fall into a particular category. This idea is used by firms such as Tie Rack and Sock Shop, who locate in high-footfall areas such as transport hubs. These companies pay a relatively low rent because the premises are very small, but they have a high turnover because people know they can get what they want quickly and easily – someone who has just spilled coffee down his tie can buy another one for that important meeting, for example.

For the idea to work, you should follow these rules:

- Think outside the box.
- Look for a resource that is currently unused or at least under-used.
- Specialise! This is essential for small firms – only very large firms can afford to be all things to all people.
- Don't try to compete head-on with the big companies.

The implications for marketing are widespread. For house builders, smaller homes and starter homes (e.g. flats) will show increased demand. This may mean that smaller models of domestic appliances will be more popular, that pack sizes of cereals and other foods will be smaller, that furniture will be smaller and perhaps more adaptable (for example futons, which convert from sofas to beds) and that security devices will be more popular as more people leave their homes unattended when they go to work. Such a rapid increase in single-person households represents a major challenge for many marketers since it implies a considerable shift in market demand for almost every consumer product.

Income distribution and wealth concentration are also part of the demographic structure. Income is a somewhat fluid concept: pre-tax income does not mean a great deal, since an individual's salary may be heavily or lightly-taxed according to the country concerned and the level of income of the individual. Disposable income is the income remaining after income tax and other deductions, but of course this is not the end of the story – basic household expenses need to be met such as mortgages, local authority property taxes, household bills and so forth. This leaves an amount which the individual can spend in any way he or she chooses: this is called discretionary income. There is, of course, a conceptual problem here in distinguishing between necessities and discretionary purchases. Housing is an example – a relatively wealthy person might choose to live in a small house, and thus have an extremely small mortgage and a correspondingly high discretionary income. Someone else might decide to live in a large house, and have very little discretionary income as a result. In either case, the choice of house was freely-made, so the house purchase might be considered in the same way as the purchase of a particular brand of bread or make of car. Clothing is even more problematical – wearing some kind of clothing is obviously essential, but the fashion industry is founded on the basis of attracting discretionary income, so the line between necessity and discretionary purchase is somewhat blurred.

CULTURAL ENVIRONMENT

The cultural environment refers to the shared set of beliefs and behaviours prevalent within the society in which the company operates. These include language, religious beliefs, customary ways of working, gender roles, purchasing behaviour, gift-giving behaviour, and so forth. Social behaviour and cultural attitudes play an enormous role in determining consumer behaviour, but they also play a role in commercial purchasing behaviour and in the way staff behave and expect to be treated by employers.

Socio-cultural issues manifest themselves in several ways, affecting both the external and the internal environments of the organisation. For example, a company operating in Thailand will need to consider the role of Buddhism in Thai life, including the fact that most Thai men spend several years as monks at some point in their lives. This would be a surprising entry on the CV of a Western employee, but would be normal in Thailand, and indeed regarded as commendable. Also, Thais have the concept of *sanuk*, meaning 'fun', which is applied equally in the workplace as in private life. This means that Thais might expect to spend part of their working day cracking jokes or even singing songs. This can be a difficult aspect of Thai life for Western managers.

Further examples of cultural issues are shown in Table 2.1.

Culture can also dictate the ways people spend their discretionary income. For example, Irish people spend a high proportion of their incomes on alcoholic beverages (around double the UK figure). This does not necessarily mean that Irish people drink more alcohol than their UK counterparts – in part the figures reflect lower incomes in Ireland and higher taxes on alcohol (Euromonitor 2004). It does, however, reflect the importance that drinking has in the Irish culture: Irish

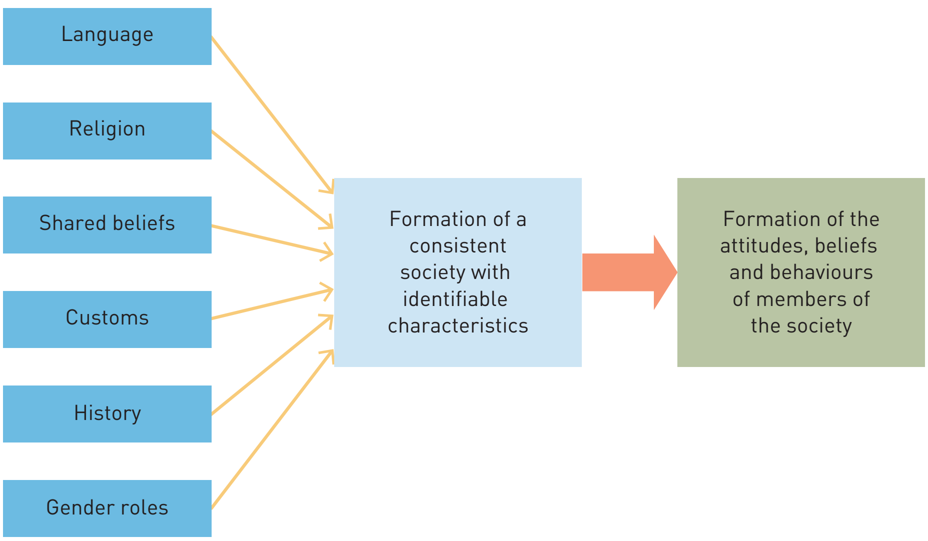


Figure 2.3 Cultural effects

Table 2.1 Cultural issues in the marketing environment

Example	Explanation
Time sense	In many agrarian countries (and warmer countries in general) each day is regarded as being essentially the same as the one before and the one after. Therefore it does not matter if tasks are not completed today: tomorrow is another day. In Northern, industrialised countries each day is regarded as unique, so that lost time is regarded as being lost forever.
Gift-giving behaviour	While gift-giving behaviour is common throughout human societies, the occasions on which it happens are not. The Onam festival in Kerala, Christmas in the UK and the United States, Twelfth Night in Spain and Portugal, and O-Chugen in Japan are all examples of general gift-giving seasons, but they happen at different times of year and have different traditions behind them.
Meanings of symbols.	In advertising, a busy person denotes success to someone from the UK or United States. To an African, the same symbol denotes someone who has no time for others and is selfish.

social life centres around the pub, whereas in the UK social life tends to centre on the home.

Changes in taste and fashion are also a component of the cultural environment. Fashions in food, clothing and even ideas can affect marketing effort.

Real-life marketing: Talk the customer's language

Although we might imagine that we're all speaking the same language, there are many subtleties about language that we might have missed. Communication is not that straightforward – it isn't the linear process we imagine (we say something, the other person hears it, now they know it) because people interpret what they hear and compare it with past experience.

People also interpret by considering the source as well – and that will really affect your communication, because people don't trust marketers!

When the Department of Transport in the UK wanted to reduce accidents among teenage pedestrians, their research showed that teenagers were often involved in accidents while not paying attention to traffic – wandering into the road while texting a friend, filming each other on mobile phones, and so forth. So the Department handed out 14 mobile phones to groups of teenagers and asked them to film their usual activities: the final advert was produced by a group from Stoke Newington in London, with only the final crash scene being filmed using a stunt artist and stunt

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driver. By using the same imagery and language the teenagers themselves used, the ad was hard-hitting without being patronising.

In practice, you need to follow these rules:

- Don't try to guess what the target audience's language is. Otherwise you will end up with a 'Hey, kids, road safety's cool!' – type of patronising message.
- Don't talk down to your audience. They are not idiots.
- Remember that people think about communications – don't assume that once you have said something, they will simply accept it as true.
- Remember that people consider the source of communications – try to make it sound as if it's people like themselves.

Another aspect of culture that evolves over time is the change in lifestyle expectations. In the 21st century few people would consider living without a telephone, television, refrigerator, car, bank account and credit cards. Yet in 1960 each of these product categories was owned by a minority of the UK population. At that time it was common for a whole street to have only one or two homes with a TV set, and perhaps one telephone. In 2013 the vast majority of UK homes have more than one television set, and the advent of cellular phones means that many households have several telephones as well.

Referring back to Figure 2.2, culture and demographic change are interrelated. Culture dictates the aspirations of the population, which in turn dictate some of the changes in income, education and lifestyle. Movement of population also influences culture, as new influences are brought in by immigrant groups – one has only to consider the influence of Indian immigration into the UK on British eating habits, or the equivalent effect in the Netherlands of Indonesian immigration.

Think outside this box!

Earlier on it was mentioned that the Spanish government needs to attract 10,000 immigrants a year to maintain its population balance. All very well, but what about the effect on Spanish culture? In the Middle Ages Spain was invaded from Morocco, and many of the current icons of Spanish culture (flamenco, olive oil, architectural style) were actually Moorish in origin. The great monuments of Spain (the Alhambra, the walled city of Toledo) date from Moorish times.

Can we expect the same level of cultural change from new waves of immigrants? Should we worry about this? Is this type of change something to be feared – or is it a natural part of human development? After all, if the native Spaniards found that cooking with olive oil rather than pig grease made the food taste better, isn't that a positive cultural change?

There is more on cultural issues in Chapter 3.

POLITICAL AND LEGAL ENVIRONMENT

Political influences affect businesses in two main ways: first, political parties have policies that are often put into legislation, which clearly must be obeyed. Second, the ruling party sets the general tone of behaviour in the country as a whole, and in government departments in particular. This subtle change in the national culture will also affect business.

The political environment is usually regarded as including the regulatory environment, whether such regulation emanates from the government or from industry-based bodies. Some examples of government controls in business are as follows:

1. Patent legislation. Governments set the rules about what may and may not be patented, and for how long. In high-tech industries such as bioengineering or software design, intellectual property may represent the bulk of the firm's assets. Changes in patent (and copyright) law can have profound effects. This is particularly an issue in the international arena, since there is no such thing as a world patent: products must be patented in each country separately, and in some countries (notably Taiwan) few products are patentable, so that companies are left open to having their products copied at a fraction of the cost of the 'genuine' product.
2. Taxation. Apart from the general taxation regime on corporations, governments often impose selective taxation on specific products in order to manage demand and raise revenue. This is particularly a problem in the alcoholic drinks industry and the tobacco industry, but in recent years changes in the classification of different products in respect of VAT has had a marked effect on some firms. As with patent legislation, taxation varies from one country to another and therefore firms need to be particularly careful when entering foreign markets.
3. Safety regulations. Products need to conform to national safety regulations. Within the EU many attempts have been made to co-ordinate the wildly differing safety laws in the member states, but to no avail: finally, the EU has adopted the stance that any product that is legal in one member state will be legal in all member states unless the governments concerned can demonstrate that there is a very real danger to human or animal life.
4. Contract law. Governments can, and do, amend contract law although much contract law is developed through the decisions of law courts. In the UK, contract law is looser than it is in the United States: in America the written agreement is the basis of the law, whereas in the UK verbal contracts are as binding as written contracts. There is, of course, the problem of proof in the case of verbal contracts. The main area of government intervention in contract law has been in the field of consumer protection, where the contract between the consumer and the retailer is often regulated to compensate for the perceived imbalance of power between individual consumers and large companies.
5. Consumer protection legislation. Apart from contract law, mentioned above, governments often enact legislation designed to protect consumers. In the UK there are several hundred laws relating to consumer protection, covering everything from credit agreements to the quality of goods sold. In general, the old principle of *caveat emptor* (let the buyer beware) is no longer necessary since retailers are required to ensure that goods are of a suitable quality for the purpose for which they are intended, are being sold at prices that are transparent and reasonable, and can be returned if they are faulty or (often) when the customer changes his or her mind.
6. Control of opening hours. In the UK, the opening hours of retail shops are limited only on Sundays, when shops may open for six hours only (with exemptions for small businesses). In other countries tougher restrictions apply: in particular, retail hours in Germany are still heavily limited by law. In the past the opening hours of German retailers were even more restricted, the net result of which was the development of one of the largest mail order markets in the world.

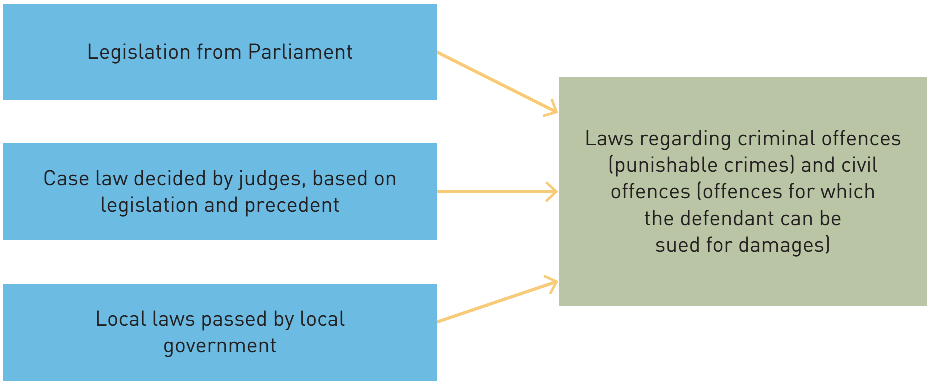

Figure 2.4 Sources of law

A change in the political nature of the government can make considerable changes in the general tenor of the law. Left-wing governments traditionally increase the number of laws and restrictions on businesses (taking the hand of government approach to ethics described in Chapter 10), whereas right-wing governments tend to reduce restrictions on business (taking the invisible hand approach – again see Chapter 10 for more on this).

The enforcement of legislation is usually left to specialist bodies such as the Office of Fair Trading and the Trading Standards Institute. Trading standards are enforced at local authority level, with each council in the UK having its own trading standards department. In the United States the same function is carried out by the Better Business Bureau (BBB), which is a non-profit body funded by businesses themselves. Businesses fund the BBB in order to keep the rogue operators out – honest businesses are then able to compete on a level playing field.

The legal environment is created in two ways: first, by government legislation, and second by case decisions made by judges. Case law is created when legislation is put into action: the law is often unclear, and individual circumstances mean that judges (and magistrates) need to clarify matters, usually by referring to other cases that have been decided already. This system of referring to other examples ensures a degree of consistency in decision-making, but of course each case is different in some way, which is why they need to be argued out in court.

Local government

Local government does not pass laws as such (although there may be some local bye-laws affecting businesses) but often has the role of enforcing national laws. Local authorities also deal with such issues as planning permission and the zoning of business activities (retail parks, residential areas and manufacturing areas).

In most cases planning permission presents few problems that marketers need to worry about, but areas that have caused difficulties for marketers include planning permission for signs and displays, the location of billboards, and the zoning of out-of-town retail parks. On the one hand, small businesses tend to oppose the creation of large retail parks since they represent serious (and sometimes fatal) competition, but on the other hand such retail parks offer an opportunity for large firms to grow.

The extent to which such regulations affect firms varies from one country to another: in France it is relatively easy to obtain permission for large out-of-town stores or hypermarkets, and a reasonable compromise has been worked out between the hypermarkets and local businesses whereby small businesses are given space within the hypermarket complex. In Italy, on the other hand, restrictions are extremely strict and hypermarkets have great difficulty in obtaining permission to build.

The European Union

The European Union has the role of trying to co-ordinate business law throughout the member states in order to ensure a fair and competitive environment for businesses operating within the EU. Ultimately, the intention is that businesses will be able to compete on an equal basis throughout the EU, but the problems are all but insuperable and it will be some time before there is a single body of regulation covering all member states. Some of the issues are as follows:

1. Technical standards. Although most EU countries use the metric system, Britain and Ireland use the imperial system, which is almost entirely incompatible with the metric system. Simply changing the sizes of such items as plumbing fittings and electrical wiring is not enough – most of the buildings in both countries were built using imperial measures, which means that any repair work or alterations need to be carried out either using imperial size components or using conversion fittings where one system joins another. At a more subtle level, the specifications for wiring, plumbing, strength of bricks and so forth vary among member states. Even the television broadcasting systems differ – video recordings made in the UK will not play on Spanish televisions, although they will on French and German systems. Building regulations differ between member states, and even such things as the threads on screws and bolts differ, so that British fixings manufacturers need to retool their factories to be able to do business on the Continent.
2. Frontier controls. These have largely been abandoned since 1993, when the European Single Market came into existence. However, Customs officers still have the right to stop vehicles and check for illicit goods, some of which might seem surprising. For example, there is no problem shipping computers, gemstones and alcoholic drinks across European borders but there is a problem shipping bananas between the UK and Germany. Immigration controls are in place for non-EU citizens, but the difficulty of policing all the former frontiers means that in most cases immigration officers rely on spot checks and occasional tip-offs to catch illegal immigrants.
3. Safety standards. Common criteria for safety and health have been agreed, but only at a somewhat minimal level. Provided a product conforms to basic EU safety regulations it is given the CE mark and is legal for sale anywhere in the EU. However, such products may not meet the safety standards of products manufactured in the target country.
4. Currency fluctuations. The introduction of the Euro for most member states has meant that companies operating between Eurozone states no longer have to consider the risks of currency fluctuations. A company doing business between the UK and France has to take account of the possibility that the pound might strengthen or weaken against the Euro, and must therefore fix the price of the goods to allow for the possibility of a fluctuation, or must buy or sell currency in

advance in order to minimise the risk of losing money on the contract. Companies dealing between (say) France and Spain do not have this problem, because all prices and costs are calculated in Euros. Sweden, Britain and Denmark were not members of the Euro at the time of writing: in September 2003 Sweden overwhelmingly rejected membership as a result of a national referendum. In fact, members of the Euro have found that it has brought problems as well as benefits: soaring prices in Germany, an unwelcome influx of holiday-home buyers in southern Spain, price rises in France, and increased smuggling of cigarettes throughout the EU have all followed on from the single currency.

5. Advertising. The EU has made some progress towards harmonising advertising regulations, but apart from introducing a Europe-wide ban on tobacco advertising in broadcast media (TV and radio) there are no regulations that apply throughout the EU.

Database marketing Using a list of customers or potential customers stored on a computer to drive the marketing effort.

Telephone selling The practice of using telephone communications as a personal selling medium rather than face-to-face meetings.

Meanwhile, the EU continues to seek ways of unifying marketing law. It would seem likely that the main successes will happen in the new media such as the Internet, **database marketing**, **telephone selling** and so forth, simply because national laws in member states are only in their infancy and therefore will need only minimal changes.

Marketing in a changing world: The European Union

The European Union was originally conceived as a single trading bloc in which goods, capital, labour and enterprise could move freely between the nations, with a common external tariff barrier. As time has gone on, it has become much more: it now regulates a great deal of what happens within member states, and aims to create a single set of ground rules for all firms throughout the 27 member states.

Although the EU has had a rough ride during the financial crisis, with the very real threat of members leaving (either because they had no money, or because they had money and didn't want to share it), it seems fairly unlikely that it will break up. The benefits of membership are too great.

From a marketing viewpoint, greater integration has a number of possible consequences. Industry tends to be more regulated in Northern Europe than is the case in the UK, for one thing. For another, as the continent becomes more integrated it will compete better against the United States and the Far East (led by Japan). As new trading blocs emerge, the EU should be strong enough to resist outside incursions into its markets. The emphasis is therefore on co-operation with other European firms in the same business, rather than competition. The future almost certainly lies in being part of a big trading bloc, with large companies able to fight their corner.

REGULATORY BODIES

Some regulatory bodies are government-sponsored and government-run. Most of them are established as independent bodies, in other words they operate without direct involvement from politicians. These are sometimes called QUANGOS, meaning quasi-autonomous non-governmental organisations. They have a specific task to perform within a limited set of guidelines, and are therefore able to act much more quickly than a government department could. Here are some examples of UK QUANGOS:

1. Oftel. This is the organisation responsible for regulating the telecommunications industry. Since the privatisation and deregulation of the telephone system in the 1980s, several hundred companies have established themselves in the telecommunications market at some level or another, from major landline and satellite providers like British Telecom through to small companies providing answering services.
2. Ofgas. This organisation is responsible for controlling gas suppliers. Ofgas is concerned with selling practices in the industry, billing problems, difficulties encountered when switching suppliers, and disputes between suppliers. Part of the problem for Ofgas has been the practice of doorstep selling energy services, using salespeople who are unsalaried and who rely on the commissions they get for converting customers. In some cases these salespeople have been less than ethical in their approach to selling, sometimes telling outright lies or even forging signatures. The difficulty for Ofgas is that part of its remit is to encourage vigorous competition between suppliers (Benady 1997).
3. Independent Television Commission. In conjunction with its sister organisation, the Radio Authority, the ITC controls commercial broadcasting. Both organisations have the responsibility for issuing licences to broadcast, and have several responsibilities. First is to ensure that programme content meets generally-agreed standards of good taste. Second, both are charged with the responsibility of ensuring that the broadcast media do not fall under the control of too small a group of people, so mergers and acquisitions between broadcasters are carefully scrutinised. Third, and perhaps most importantly for marketers, both organisations have responsibility for monitoring and approving broadcast advertising. This includes ensuring that advertising appears at appropriate times (considering that children might be watching or listening), that advertising content is within the bounds of good taste, and that advertising is clearly differentiated from programming. The ITC is also responsible for monitoring **product placement**. At one time, any reference to a brand name was not allowed, but the impossibility of removing brands from feature films made this ruling unworkable. The current position is that brands can be shown, but the programme makers are not allowed to accept money for including a specific brand (unlike the film industry, where movies are frequently funded by brand owners).

Product placement The use of branded products in TV programming or movies.

4. Office of Fair Trading. This government organisation has two remits: first, to protect consumers and explain their rights, which it does through advertising campaigns and occasional leaflets, and second to ensure that businesses compete and operate fairly. The OFT tends not to become involved in individual consumer problems, but lays down guidelines and occasionally becomes involved in test cases. In other words, the OFT might become involved in a general problem of unsafe imports from a foreign country, but would not become involved in a case of a customer who has bought faulty double glazing.

5. Monopolies and Mergers Commission. The MMC has the responsibility for preventing companies from exercising undue power in the marketplace due to having an excessive share of the market. This does not mean that a monopoly or near-monopoly is not allowed: it merely means that the MMC will monitor such situations carefully to ensure that the company or companies involved do not abuse their power, for example by fixing prices at too high a level or by preventing other companies from entering the market. For example, the washing-powder market is entirely controlled in the UK by Unilever and Procter and Gamble. Because of the high cost of the plant and equipment needed to make washing powder, other firms cannot economically enter the market, so the MMC monitors the situation to ensure that the two giant firms do not exploit their position.

In the voluntary sector there are many regulatory bodies that have been set up by industries themselves. In many cases, this has been seen as a way of forestalling government intervention: if the industry does not have its own regulatory body, the government might well step in to establish one. This is the case with the Advertising Standards Authority and the British Board of Film Censors.

The ASA is probably the voluntary organisation that most impinges on marketers. However, it has no statutory powers to compel advertisers or media such as newspapers and television to comply with its rulings. In practice, the ASA operates on the basis of complaints received, and will act even if only a few complaints come in. The ASA will examine the advertisement concerned, interview the advertisers and their creative people if necessary, and then decide whether the complaint is justified. If the complaint is upheld, the ASA will request the advertiser to withdraw the advertisement. If the advertiser refuses, the ASA will ask the media not to run the advertisement. These requests are rarely refused – in the event that they are, the Office of Fair Trading does have the power (under the Control of Misleading Advertisements Regulations 1988) to apply for a legal injunction to prevent the advertisement being shown, but this is rarely invoked since no one in the industry wants the expense of litigation or, indeed, to encourage government intervention.

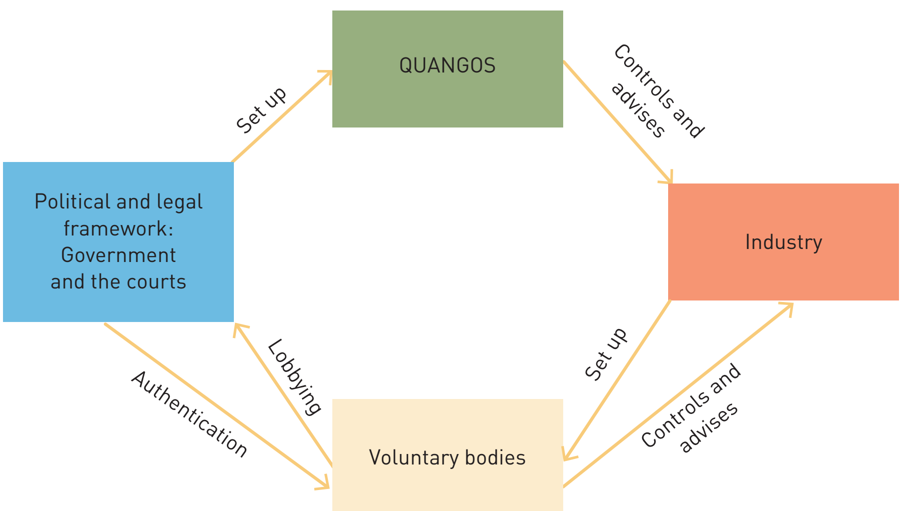

Figure 2.5 Regulatory bodies

Think outside this box!

If an organisation is set up by an industry, presumably it is funded by that industry and its management is appointed by the industry. So how can such a body have any credibility at all? How can it possibly bite the hand that feeds it by seeking to regulate the activities of its founders?

Maybe the founders of these organisations felt that they were pure in heart themselves, but that the rogues needed to be regulated. All well and good – but everyone's a rogue sometimes. Might there not be a danger of the leading firms being treated more leniently than the small guy struggling to get established by whatever means present themselves?

One of the problems the ASA faces is that it has no authority to vet advertisements before they go out. Thus by the time the ASA has acted, the advertisement has already been seen, and the publicity surrounding its withdrawal often means that the advertisement achieves a much greater impact than it otherwise might have done. Benetton in particular have been accused of exploiting this situation by deliberately producing highly provocative advertisements in the certain knowledge that the ASA will issue a request for their withdrawal.

Many industries have **trade associations** which police the activities of members. If a firm is a member of a trade association, this provides some reassurance for potential customers because the trade association will have a code of conduct which its members are expected to adhere to, and which usually provides some redress for disappointed consumers or sanctions against rogue members. Attempts have been made by some trade organisations to co-ordinate their codes of practice across Europe, but given the widely differing consumer protection laws and systems in different countries this is proving somewhat problematical.

Trade association A group of companies in the same industry, set up to look after the collective interests of the group.

INFLUENCING THE MACRO ENVIRONMENT

For smaller firms, the macro environment usually has to be accepted as it is. Large firms are able to influence some aspects of the macro environment, however. Advertising campaigns can affect the country's culture in at least a small way, although in most cases this happens more by accident than by design. For example, some advertising slogans have found their way into everyday conversation (Compare the Market's Meerkat says 'Simples!', which is one example from the UK, and the saying 'an apple a day keeps the doctor away' began life as a promotional slogan for apple farmers in the 1900s). This can be seen as an example both of the power of advertising to enter the national consciousness, and also the fulfilment of an advertising copywriter's dream.

However, in most cases advertising has only a superficial influence on culture. The main influence that large firms have on the macro environment lies in the area of **lobbying** government for changes in the law, and in playing leading roles in the regulatory bodies. This type of influence is not restricted to businesses, however: pressure groups and even individuals can also lobby government, even at the simple level of speaking to the local Member of Parliament.

Lobbying Making representations to politicians with the aim of changing legislation.

For smaller firms, the chances of making any material change to the macro environment are minimal. The best way of having some effect is to join a trade organisation or other pressure group. In some countries, politicians can be sponsored by pressure groups and in others pressure groups sponsor political parties in order to receive favourable treatment at a later stage when the party is in power. In the UK, sponsorship of political parties is subject to careful monitoring to ensure that this does not unduly influence legislation, but in practice the Labour party is largely financed by trade unions and the Conservative party is largely financed by big business. This sponsorship will inevitably affect the thinking of politicians.

The micro environment

The micro environment comprises those elements of the environment that impinge on the firm and usually its industry, but do not affect all firms in all industries. The micro environment is composed of the following elements:

- The competition. In a sense, all firms compete with all other firms for consumers' limited spending power. For most practical purposes, though, consideration of the competition is limited to firms providing similar solutions to the same customer problem.
- Technology. Major technological changes such as the advent of satellite communications or cellular telephones clearly affect most industries. Such radical technological advances are relatively rare, though – most technological change happens in small increments. In most cases technological change only affects a relatively small sector of the economy: for example, a new manufacturing process for aluminium will have some effect on any firm or customer using aluminium products, but the firms most affected will be aluminium refiners.
- Industry structure and power relationships. This may be related to competition, but equally encompasses supply chains and strategic alliances between firms. Some industries operate in a highly-competitive manner, while others are more co-operative: for example, funeral directors tend to be fairly co-operative with each other, whereas estate agents are highly competitive.
- Customers. The pool of customers, the nature of them, the different segments of the market made up of people with slightly different needs, will all affect the firm. For example, a law firm specialising in corporate law will have a very different customer base from that of a firm specialising in house conveyancing. The difference in customer type will affect almost everything about the firm, from the design and location of its offices through to its recruitment policy.

THE COMPETITION

Competition is a fact of life in any business. There is no such thing as a product that has no competition, because each product (from the consumer's viewpoint) represents a way of solving a problem. Before the product existed, people almost always had some other way of solving the problem: it may not have been as effective, but it existed. For example, television was certainly a radical technological breakthrough, and from the engineering viewpoint it had no competitors. There was, at the time, no other way of transmitting pictures electrically and instantaneously over a long distance. From the consumer's viewpoint, though, television was simply another entertainment device, which was perhaps more convenient than the cinema which it replaced (or the theatre before that) but did not represent a very major change.

Competition can vary greatly between industries, however. As we saw in Chapter 1, competition can be categorised as a **monopoly** (in which one firm controls the market), an **oligopoly** (in which a few large firms control the market between them), **perfect competition** (in which no single buyer or seller can significantly influence the market) and **monopolistic competition**, in which companies offer products that are sufficiently different from each other as to constitute monopolies in the short term. The main types of competition are shown in Table 2.2.

Monopoly A situation in which one company controls the market.

Oligopoly A situation in which a group of companies control the market between them.

Perfect competition A state of affairs where everyone in the market has perfect knowledge and no one buyer or seller can influence the market.

Monopolistic competition A situation in which one company exercises a strong influence in the market, but other companies still enter the market and compete effectively.

Figure 2.6 Levels of competition

Table 2.2 Competition

Type of competition	Explanation
Perfect competition	This is a condition where there are many suppliers none of whom is large enough to control the market, many customers who also cannot individually influence the market and a product that is homogeneous, i.e. does not differ from one supplier to another. Perfect competition also assumes that all parties have complete knowledge of the market. In practice, this type of competition does not exist, apart from a few special cases such as the international money markets.
Oligopoly	An oligopoly exists when a few companies control the supply of goods. Oligopolies almost always fix prices, either by agreeing prices between themselves (a practice which is illegal in most countries) or by being very careful not to start a price war by undercutting each other.
Monopoly	This is a circumstance in which one company supplies the entire market. Very few monopolies exist, since they almost invariably lead to companies setting excessively high prices and earning excessively high profits. In most countries monopolies are carefully regulated, and even prevented, by government intervention. However, there are cases where a monopoly is almost inevitable – the railway systems in most countries are monopolies, for example.
Monopolistic competition	This occurs when companies differentiate their products sufficiently that they can be considered as monopolies, at least in the short term (until competitors copy the differentiating features). This is the commonest type of competition.

Much business strategy is concerned with establishing the firm in a suitable competitive position (there is more on this in Chapter 10). Too-rapid growth may lead to unwelcome attention from major firms, whereas too-slow growth may lead to being left behind by other small firms. Equally, a large firm cannot afford to be complacent: new challengers will arise all the time.

Real-life marketing: Don't compete!

In business, we often use the language of warfare: we talk about campaigns, capturing markets, beating the competition and so forth. This is fine unless you are a small firm: your chances of beating a large firm are minimal.

There has long been a tradition of co-operating with non-competitors – for example, takeaway food outlets co-operating with DVD rental outlets – but a more recent trend has been to co-operate with competitors. Even large companies do this – car makers Seat, VW and Ford co-produce the Ford Galaxy/Seat Alhambra/VW Sharan, which is essentially the same car.

For example, when Communism collapsed in Eastern Europe, there was a fear that Western Europe would be flooded with cheap cars from the East. Skoda in particular was seen as a threat – although under Communism its cars had become clunky and unreliable, it had at one time been an upmarket manufacturer on the lines of BMW. Most manufacturers braced themselves for a competitive onslaught – but not Volkswagen. VW co-operated with Skoda, providing it with new technology and better manufacturing processes. Skoda is now a serious manufacturer again, but VW owns it and takes its profits that way, even though the two companies operate entirely independently.

To do this in practice, you should be careful about the following:

- Ensure that both parties gain – you have to bring something to the party as well.
- You aren't allowed to collude in order to share out the market between you – the monopolies regulators are watching! For small firms this won't be a problem, of course.
- You should try not to cannibalise each other's markets.
- You don't need to buy out the competitor – you can agree to co-operate in all sorts of other ways.

Competitor analysis can be carried out using Porter's Five Forces Model (Porter 1990). This model offers a way of assessing the likely strength of competition in any given market. The five forces are as follows:

1. The bargaining power of suppliers. If suppliers have strong bargaining power, the competitive pressure will be greater.
2. The bargaining power of customers. Customers with strong bargaining power will be more demanding and can set one supplier against another. This will make the competition fiercer.
3. The threat of new entrants. If it is easy for new companies to set up in the same business, the competition will be strong: if it is difficult for new firms to enter the market, the existing firms can become complacent.
4. The threat of substitute products and services. If close substitutes are readily available, the competition will be stronger. For example, pizza delivery companies recognise each other as competition, but the business is extremely competitive because of the existence of many other types of takeaway food.

5. Rivalry among current competitors. In some industries firms will have a 'live and let live' approach, which reduces competition. This is particularly the case in oligopolistic markets, and in markets that are well-established. In new or rapidly-growing markets such rivalry will tend to be stronger and therefore the competition will be stronger.

The bargaining power of suppliers, if high, can seriously reduce industry profits and thus make the competition stronger. The bargaining power of suppliers is determined by the factors shown in Figure 2.7.

If there are few suppliers, the buyer has very little room for bargaining. Suppliers in such circumstances can operate oligopolistically, setting the terms for business between them. For example, hairdressing businesses in the UK have a choice of only six or seven suppliers of hairdressing products. Most hairdressing businesses are small, owner-managed concerns with very little buying power, so they are unable to bargain effectively with their suppliers.

Suppliers' products cannot always substitute for each other. A typical example is the motor industry: spare parts for Ford cars will not fit Toyotas and vice-versa, so the garage business is forced to buy from a small group of suppliers. Likewise, in the computer software industry some software will not run on certain operating systems.

Vertical integration of the industry refers to the degree to which the supply chain is owned or controlled by a few firms. A highly integrated industry (for example the oil industry, where a few companies control everything from extraction through refining and distribution to the petrol forecourt) does not allow many opportunities for competitors to enter.

Vertical integration A situation in which one company controls or owns suppliers and customers throughout the supply chain.

The importance of buyers to the supplier is about the extent to which a buyer represents a strategic opportunity for the supplier. Large buyers such as major retailers may control the market – for example, the toy industry is largely controlled by Toys R Us. In general, though, the evidence is that few companies bother (or are able) to develop their suppliers effectively (Wagner 2006).

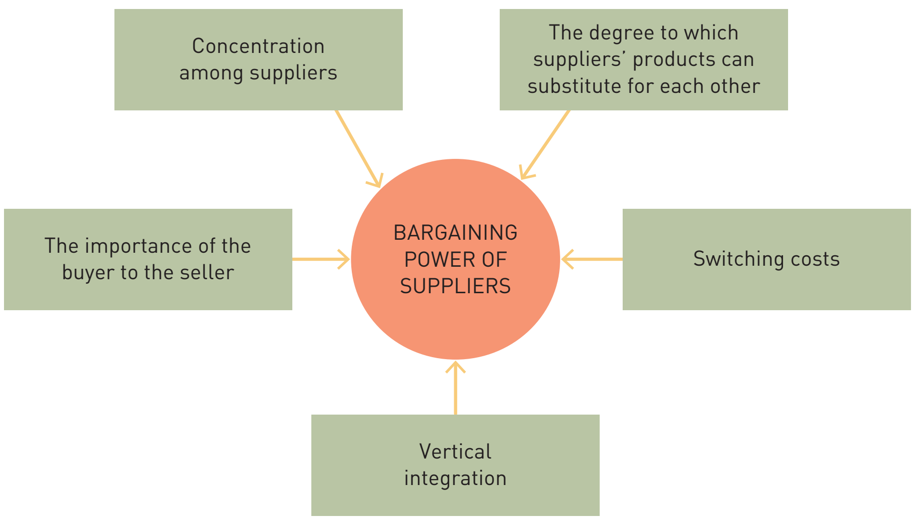

Figure 2.7 Factors in the bargaining power of suppliers

Finally, if it would be expensive to switch from one supplier to another, the suppliers occupy a strong position. This is the case for firms such as Microsoft, since switching from Microsoft systems might well mean making changes to hardware, retraining staff, redesigning administrative systems and so forth.

The bargaining power of customers is determined in much the same way as the bargaining power of suppliers, except that the deciding factors work the other way round.

New entrants to a market can pose a threat for the established companies, but the danger of new firms being able to enter the market is limited by the following factors:

Economies of scale Cost savings resulting from large production runs.

Differentiation Factors that distinguish one product from another.

Switching cost The expenditure of money and effort resulting from changing from one product to another.

1. **Economies of scale**. If the industry is such that production can be carried out efficiently only on a very large scale, entry will be less likely. For example, modern steel production operates efficiently only when steel is produced in very large quantities.
2. Product **differentiation**. If the products are very similar, new entrants can easily produce copies. If, however, the existing companies have managed to create highly differentiated products (either by strong branding or by using patented technology) it becomes difficult for new companies to establish a foothold in the market.
3. Capital requirements. If the capital outlay needed to enter the market is large, few companies will be able to raise the necessary money, especially without a track record in the industry. For example, for many years the major airlines had little or no serious competition. The cost of buying a fleet of aircraft was prohibitive. However, in recent years the wide availability of good second-hand aircraft has allowed niche operators such as Ryanair and easyJet to enter the market.
4. **Switching costs**. If it would be prohibitively expensive for the customers and consumers within the industry to change suppliers, new entrants will be unable to gain a toehold in the market. This is a strong barrier to entry.
5. Access to distribution channels. If the industry has already integrated the distribution network (the supply chain), new entrants will be unable to obtain distribution. This is a critical determinant of success in markets that are geographically large, such as the United States: the key issue for any new firm is obtaining distribution for its products.
6. Cost advantages independent of scale. Sometimes firms within an industry will have access to supplies of raw materials, or will own patents, which mean that newcomers are unable to produce competing products at an economical price. Of course, sometimes it is the newcomer that has the new patent or access to sources of supply, in which case the established firms may have a problem.

TECHNOLOGY

Technological change goes beyond the more obvious changes seen in recent years as a result of communications and electronic technology. For example, Toyota developed new technology for car manufacturing which enabled them to retool a factory to produce a new model in only a few days, instead of the six months or so it took their American and European rivals. This meant that the firm were able to make better use of capital equipment and also were able to be much more flexible in meeting changes in the market.

A technological change can transform an industry. Most of the products in common use today did not exist 100 years ago: refrigerators, televisions, dishwashers,

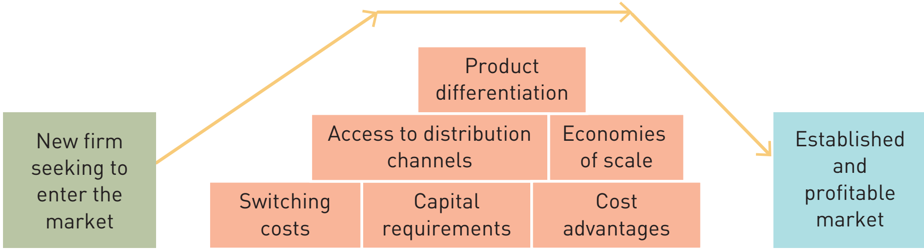

Figure 2.8 The market entry mountain

telecommunications satellites, microwave ovens, jet aircraft, computers, frozen foods and many others. The pace of technological change appears to be increasing, as more firms invest in research and development and ideas are more rapidly disseminated due to improved communications. For example, Sony now estimate that a new electronic device has a life of around three months before its replacement will be produced – whether the replacement is produced by Sony or by a competitor is irrelevant to the consumer, so the firm is forced to develop new products that will hurt the sales of its existing products.

The effects of this technological explosion are widespread for the firms concerned. As a threat, the possibility of competitors developing products that will wipe out existing products on the market is very real. All new products replace something else, since people almost always have an existing solution for a real problem. Transistors replaced the thermionic valve over a period of only a few years, computers have virtually eliminated the carbon-paper industry, and digital music players such as the iPod have gone a long way towards replacing CDs, as CDs have replaced vinyl records (and of course vinyl records replaced shellac 78 rpm records, which replaced wax cylinders).

A further problem is that the new technology might arise in an apparently unrelated industry. It would have been impossible for postal services to have recognised the threat from new computer technology in the 1970s, but the advent of cheap personal computers has led in turn to the Internet revolution, and the explosion in e-mailing. This has undoubtedly had a marked effect on postal services worldwide, as people send e-mails rather than writing letters. Equally, the development of electronic watches virtually destroyed the Swiss watch making industry, which relied on mechanical technology and did not have the necessary expertise or technological infrastructure to make the necessary changes.

Maintaining a technological lead requires firms to make heavy investments in research and development. This in turn means that the investment must be repaid from sales of the product – and given the shorter product life cycles involved, the payback must be very high. This means either that the profit margins per unit of product must be high, or the market must be very large. This is why most companies in rapidly changing markets such as electronics have adopted a global marketing approach. This is the only way these firms can access a large enough market to be able to obtain the necessary returns on their capital.

Because of the domination of large, globalised firms in high-technology areas, smaller firms find themselves unable to compete effectively. This has resulted in a number of cross-border collaborations. In some cases these have worked well, especially in relatively low-tech industries such as vehicle design and building, but in others the results have been less than exciting.

In most cases companies tend to make minor improvements to existing products rather than aim to make complete redesigns. Sometimes these improvements are made to their own products, but frequently companies will produce a 'me-too' adaptation of a competitor's product. This is likely to lead to a response by the competing firm, which of course increases the pace of change.

Sometimes new technology is developed by university researchers rather than by research departments of companies. For example, the basic technology of the laser was developed at universities in the United States and Russia, even though the final working model was developed at Hughes Laboratories. Even then this revolutionary device had no discernible purpose – it was four or five years before anyone was able to make practical use of lasers. This is an example of the value of pure research (research that has no immediate practical value).

In some cases technological development is delayed by legislation. New drugs need to go through extremely rigorous testing and in some countries (notably the United States) product liability legislation places a strict liability on manufacturers to ensure that their products are safe. This is another reason for producing 'me-too' products: the competitor has already dealt with the safety issues.

INDUSTRY ISSUES

Any competitive act must be considered in the light of possible retaliation. The structure and nature of the industry is crucial in understanding the possible results of any actions. The intensity of competitive response will depend on the following factors:

1. The degree of concentration in the industry. The fewer the competitors, the greater the likelihood of an oligopoly.
2. The rate of growth of the industry. Rapidly growing industries are usually less stable than established industries, with greater fall-out of companies that are unable to adapt quickly enough. This means that marketers must be very quick to respond to competitors, and be prepared for rapid retaliation in turn.
3. The degree of differentiation. If the products are essentially the same (for example, petrol) the nature of competition shifts to other factors. In some cases the other factor is price, but this is a dangerous way to compete because it squeezes profit margins. Marketers generally aim to compete on service or product features rather then price.
4. Cost structures. If fixed costs are high (for example because the industry is capital-intensive) profits are dependent on maintaining a high level of sales. The airline industry is a prime example: airlines cannot afford to have planes flying half-empty, so they are prepared to discount seats in order to maintain efficiency. Effective marketing means having systems in place to accommodate this.
5. Investment structures. If the industry is one in which new investment is made in sizeable chunks, new entrants will make a strong impact on existing firms until demand catches up. For example, if there are three hotels in a town and a fourth one opens up, the impact will be substantial, at least in the short term.
6. Competitive information. If firms in the industry can inform themselves easily about what their competitors are doing, oligopolistic behaviour is the likeliest outcome. On the other hand, some industries (such as farming) operate in almost total ignorance of what other farmers are planting this year, which leads to occasional surpluses or shortages.