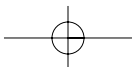
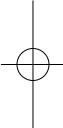
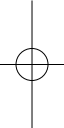


Part I Customers
and Markets



Customer Centrality

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

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

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

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

Narver and Slater (1990) identified three components that determine the degree to which a company is market-orientated: competitor orientation, customer orientation and inter-functional co-ordination. For these

customer
centrality

authors, customer orientation is the degree to which the organisation understands its customers. The better the understanding, the better the firm is able to create value for the customers.

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

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

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

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

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

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

Doyle gave numerous examples of companies that had succeeded not through exceptional consumer value, but through creating and providing exceptional value to other stakeholders. He pointed out that only 12 chief executives of the UK's top 100 companies had any marketing

experience, and 43% of UK companies had no marketing representation on the Board. Doyle attributes this to a failure of marketers to take on board the concept of shareholder value, which is (in general) the main preoccupation of boards of directors. In fact, Doyle regards this as the primary obligation of directors. This leads on to the idea that marketing is, in fact, a means to an end: providing customer value is only a stage in the process of increasing shareholder value.

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

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

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Management of Exchange

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

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

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

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

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

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

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

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

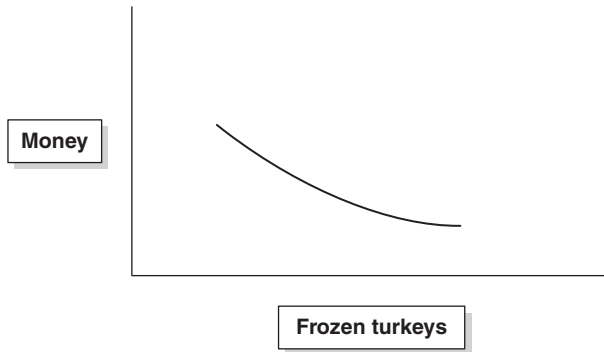


Figure 1.1 *Indifference curve*

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

customers and markets

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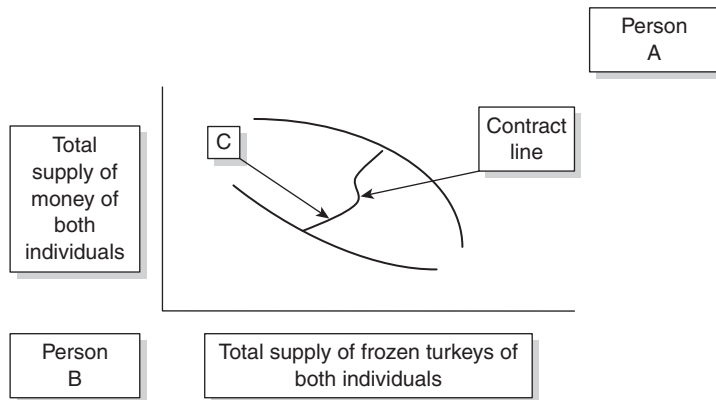


Figure 1.2 *Edgeworth Box*

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

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

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

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

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

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

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

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Evolution of Marketing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

There is some doubt among academics as to whether the marketing concept actually evolved in this linear manner at all. In 1988 Fullerton put forward two main arguments against the idea that the nineteenth century was characterised by the production era. First, the model ignores historical facts about business conditions at the time, which were in fact unstable and often characterised by sharp falls in demand: there were several major depressions between 1870 and 1920. Second, the production-era idea assumes that demand was stimulated by dramatically cheaper production, but in fact the nineteenth century was characterised by aggressive marketing activities. Hard-selling shop assistants and advertising that made outrageous claims about the products were common.

The evidence for the existence of a sales era is also dubious. Marketing, as opposed to selling, activities were well established long before the sales era was supposed to have occurred, and many companies were already considering customers' needs during this era. The hard-sell techniques that supposedly characterised the sales era are certainly still in use nowadays, and the problem-solving approach used by modern salespeople was in evidence even in the so-called sales era.

Of course, the prevailing climate of business might be that one or other paradigm comes to the fore, even though there are exceptions: inevitably, there would always be a degree of overlap in the course of a paradigm shift. On the other hand, Gilbert and Bailey (1990) re-thought the history of marketing and developed an alternative model. This is as follows:

- 1 **The era of antecedents (1500–1750).** During this period commerce developed from an activity that was regarded as little better than fraud to become a respectable profession. This period also saw the growth of capitalism, whereby people with money could invest in companies without being involved in managing the business. The separation of management from investment was an important step in professionalizing managers.
- 2 **The era of origins (1750–1850).** During this period the basic concepts of marketing began to develop. Segmentation and advertising began to grow in importance, competition became intense, and markets became considerably less stable.
- 3 **The era of institutional development (1850–1930).** During this period specialist institutions such as large retailers and wholesalers, commercial services such as accountants and lawyers, and specialist distribution systems such as rail and road freight transporters grew up to serve the needs of industry.

- 4 **The era of refinement and formalisation (1930– present).** During this period academics began to study marketing in a formal way, and general theories about markets began to evolve. Consequently, marketing also became a distinct profession, with trained marketers who had degrees and diplomas in the subject.

Clearly there are many other possibilities for explaining the development of the marketing concept: history is not an exact science. There is little doubt that the various paradigms have existed and indeed do still exist: what is in doubt is whether they represent a linear evolution.

See also: relationship marketing, postmodern marketing

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Relationship Marketing

relationship
marketing

15

Relationship marketing is the paradigm under which customers are valued for their lifetime potential, rather than for a single transaction or even a series of transactions.

For the past 20 years relationship marketing has been building towards being the accepted paradigm of marketing. Essentially, relationship marketing states that it is better and cheaper to keep an existing customer than to expend effort on recruiting new ones. Theodore Levitt first outlined the principles of relationship marketing, suggesting that marketers should focus on the lifetime value of the customer rather than on the single transaction (Levitt, 1983).

Customer retention has become increasingly recognised as the key to long-term survival. In the past, most companies have operated on a 'leaky bucket' basis, seeking to refill the bucket with new customers while ignoring the ones leaking away through the bottom of the bucket (Ehrenberg, 1988) (see *leaky bucket theory*, p. xx). According to research by Gupta et al. (2004), a 1% improvement in customer retention will lead to a 5% improvement in the firm's value. A 1% improvement in marginal cost or in customer acquisition cost only make a % increase in firm value respectively. In other words, according to Gupta et al., customer retention is five times as effective as cutting costs.

Reichheld (1996) found that, in US corporations, 50% of customers are lost over five years, 50% of employees are lost in four years and 50% of investors are lost in less than a year. Firms therefore need to recognise and reward loyal customers and ensure (as far as possible) that they remain as customers of the company's products.

Traditional marketing is concerned with the exchanges between organisations and their customers, and therefore tends to focus on producing products that satisfy consumers' immediate needs. This in turn leads to a focus on the single transaction, and on acquiring new customers, either from the same market segment or from new ones. The inherent assumption is that customers who have bought once will naturally buy again, unless they are dissatisfied for some reason. Since most marketing transactions occur anonymously (even the retailers do not usually know which customers have bought which products) the customer is reduced from being an individual with individual needs and wants to being a member of a market segment.

Relationship marketing focuses on the lifetime value of the customer. For example, a motorist might own 30 or more cars over a lifetime of driving, representing an expenditure of hundreds of thousands of pounds, yet few manufacturers or car dealers try to keep in touch with their customers in any organised way. Their interest is only in each individual transaction rather than in creating loyalty. Relationship marketing seeks to value the loyal customer ahead of the one-off deal, and seeks to

<i>Transaction marketing</i>	<i>Relationship marketing</i>
Focus on the single sale	Focus on customer retention
Orientation on product features	Orientation on product benefits
Short time-scales	Long time-scales
Little emphasis on customer service	High emphasis on customer service
Limited customer commitment	High customer commitment
Moderate customer contact	High customer contact
Quality is the concern of the production department	Quality is the concern of all

Figure 1.3 *Transaction vs. relationship marketing*

build a loyal customer base over a long period. Figure 1.3 shows the comparison between transaction and relationship marketing.

Transactional approaches tend to lead to the following bad practices:

- **A reactive approach to customer complaints.** Rather than confirming with customers that they are happy with the firm's products and services, and thus encouraging people to voice their complaints, transaction-orientated firms tend to wait until customers go out of their way to inform the company that there is a problem.
- **Failure to recognise the needs of long-term customers.** Customers increasingly expect their custom to be valued, and expect loyalty to be rewarded. Transaction-orientated firms do not do this.
- **Greater expenditure on promotion than is necessary.** Spending to attract new customers is generally higher than promoting to known, existing customers simply because a 'scattergun', mass approach is needed.
- **Inner conflicts between departments.** In transaction-orientated firms the production people tend to expect marketers to go out and sell the products that they make, whereas marketers tend to expect production people to make products that will sell. If the organisation is orientated around creating long-term relationships, production people are likely to be directly involved with the customers, at one or another level.

A related concept is customer intimacy. This means getting as close to the customer as possible in order to understand his or her needs as clearly as possible. Being able to think like the customer is a key skill in establishing and maintaining the relationship, and there is a strong positive relationship between marketing orientation and customer intimacy (Tuominen et al., 2004).

The evidence is that the relationship marketing process works much better in business-to-business (B2B) markets than in business-to-consumer markets. This is almost certainly because the needs of a business change much more slowly than the needs of an individual. Businesses make the same basic things year after year, they use the same raw materials, operate the same systems and do not (in general terms) grow old and die. There are many businesses that are over a hundred years old, still producing much the same products, and still bidding fair to become two hundred years old or more. People live about seventy to eighty years, and for much of this time they are not of much interest economically, either because they are too young or because they are too old or because they do not have much money. Relationship marketing, therefore, is a simple concept that is difficult to apply in practice.

Another reason for the greater success of relationship marketing in B2B is that professional buyers are operating in a relatively high-risk situation because they are spending other people's money, and might be called to account for any mistakes. This naturally leads them to continue to buy from a recognised and trusted supplier, rather than risk switching to a new one.

From the supplier's viewpoint, there are clear advantages to being on the 'approved supplier' list of a company, and it is therefore worthwhile to go to some trouble to lock-in the customer. On the other hand, in business-to-consumer markets, suppliers need to be much more circumspect because customers can switch suppliers so much more easily.

Establishing good relationships has been compared to courtship and marriage (Levitt, 1983). Marriage is generally regarded as a relationship of equals, though, and most business relationships are unlikely to be very equal. One or other partner almost always has the upper hand, either because of size and buying power or because there are many competing suppliers. Adaptation tends to be one-sided, therefore, and the evidence is that suppliers are much more likely to adapt their business approach than are buyers (Brennan et al., 2003). The reasons are as follows:

- **Relative power.** Buyers are usually in a position of power, especially in B2B markets, since they can always spend their money elsewhere.
- **Buyer support.** Buying companies will often help suppliers to make the necessary changes in their practices: for example, a motor manufacturer might supply design services to a component manufacturer in order to ensure that products are made to an exact specification.
- **Managerial preference for a more (or less) relational exchange.** Suppliers typically want to get close to their customers to ensure continuity of orders, but the pressure on buyers to get close to suppliers is considerably less.

Most firms have many suppliers and even more customers, so it is impossible to develop the kind of close relationship one has with one's spouse. In a marriage, one adapts what one does to fit the needs of the other person (the perfect marketing approach, in fact) but in consumer markets, where there are thousands or even millions of consumers, this is not possible. Marketers are forced to offer a standard response, or even a range of standard responses, which necessarily are less than perfect. Caroline Tynan has suggested that the relationship does not in fact bear much similarity to marriage: in most cases it appears to have more in common with seduction and polygamy (Tynan, 1997). From a consumer's viewpoint, many companies are acting more like stalkers than like lovers. Some firms, especially credit card companies and similar financial services companies, are apt to jump out from behind the bushes when you least expect them, all in the name of customer retention.

Another aspect of relationship marketing is the cost of 'divorce'. The cost of switching suppliers is generally not as high as the cost of finding new customers, so again the relationship is unlikely to be one of equals: the situation favours the buyers, who have (usually) much lower switching costs than do the suppliers.

Finally, relationship marketing has been criticised for its emphasis on lifetime value of customers. This can lead, in some cases, to ignoring or devaluing customers who have a relatively short remaining life for the company – older people, for example, can be discounted because they have a relatively short period of life remaining in which to make purchases. This thinking can mean that a large and wealthy group can be by-passed entirely.

All of these criticisms have been levelled at relationship marketing theory. Establishing long-term relationships is known to be a good idea

for most companies, but in practice it seems to be more elusive than most firms expect.

See also: *leaky bucket theory, evolution of marketing*

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The Leaky Bucket Theory

The leaky bucket theory is the model that seeks to describe the process of customer gain and loss, otherwise known as customer churn.

Customer retention is one of the key concepts in relationship marketing. Most companies concentrate on recruiting new customers to replace customers who move on, rather than seeking to retain customers. Andrew Ehrenberg coined the phrase 'leaky bucket' to describe this syndrome: in effect, firms are putting customers into a leaky bucket, and instead of preventing them from leaking away through the bottom of

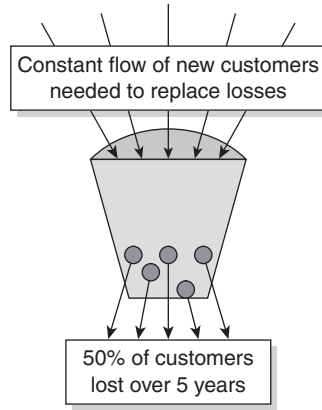


Figure 1.4 *The leaky bucket*

the bucket, the firm keeps topping up the bucket with new customers (Ehrenberg, 1988).

A study performed by the Cumberland Bank (Murphy, 2001) in the United States showed that the top 5% of the customer base accounted for 40% of total deposits, that a 5% increase in retention of top customers added 4% to the bank's profitability, and the minimum balance of the top 20% of customers is \$20,000.

The problem with leaky bucket theory is that the analogy is not exact. There will always be a certain amount of customer churn simply because customers' needs change, or they die (or go bankrupt in the case of business customers), or they move away. Also, the cost of plugging the leaks may be higher in some cases than the cost of recruiting new customers: this depends on the industry, the customer base, the costs of recruiting new customers, and so forth. Finally, it is certainly the case that some customers are not worth retaining, since they cost the company more to service than they contribute in terms of revenue.

See also: *relationship marketing*

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Postmodern Marketing

Postmodern marketing is the application of postmodern philosophy to aspects of marketing activities and concepts.

Modernism is the view that the human race is progressing, growing and moving towards a better future from a somewhat less convenient past. This has been the prevailing view in marketing: for example, the Boston Consulting Group Matrix assumes that markets will continue to grow, albeit at different rates. Modernism is typified by the word 'progress', and indeed it is a philosophy that embraces individualism, freedom, advancement and a rejection of the hidebound past represented by religion, myth and tradition.

Postmodernism is a philosophical standpoint that says the human race is not progressing at all, but merely living in the present. Different ways of life, different styles, different attitudes are all mixed in together in a pluralist world: there is no dominant style. At the same time, the future and the past become confused, and we may well move towards the past (for example, we have retro designs such as the new Volkswagen Beetle) or try to live in the future (becoming a science fiction fan, perhaps). There is a cultural propensity to juxtapose almost anything with almost anything else, whether it fits or not (Salsa music, for example, is a fusion of jazz and Latin music). Postmodernists also believe that chaos and disequilibria are normal (rather than order and equilibrium). This view accords well with the idea of hypercompetition.

Almost all postmodern ideas seem to fit extremely well with the current state of play in marketing (Brown, 1997). For example, consumption and production are often reversed – people define themselves by what they consume, not by what they produce, and the emphasis in the developed world (the post-industrial world) is mainly on consumption. Few of us produce anything in any physical sense. Then again, there is a lack of commitment (very postmodern) in which people are reluctant to commit to anything at all, whether it's an idea or a brand or a project.

The features of postmodernism, and their relationship to marketing, are as follows. This list is based on Firat and Shultz (1997):

- **Openness/tolerance.** This is the acceptance of different styles and ways of living without prejudice or evaluations of superiority or inferiority. In marketing, this openness to new ideas has made it much easier to find 'new, improved' products simply by transferring ideas in from other cultures. This is especially true in the food industry.
- **Hyperreality.** This is the constitution of social reality through hype. Hyperreality refers to overstatement: for example, the slogan 'Rowntrees Fruit Pastilles Take You Beyond Fruit' is hyperreal. Marketers use hyperreal statements frequently in advertising pitches, so much so that UK law refers to 'advertising puff' as being acceptable in law (although of course outright lies are not acceptable).
- **Perpetual present.** In the postmodern world, we experience everything in the present, whether it is the past or the future we are considering. We have no problem in thinking about the 1960s (the TV show *Heartbeat* being an example) without requiring a great deal of historical accuracy. We also have no problem experiencing the future (*Star Trek*, *Stargate*, *Star Wars*) as if it were the present.
- **Paradoxical juxtapositions.** These are odd combinations of things, for example a chemists' shop which sells books and cooking utensils, or a newsagents which sells roast chickens.
- **Fragmentation.** The omnipresence of disjointed and disconnected moments and experiences in life. Markets have become more dynamic, and therefore more fragmented: people are not happy with the same product everybody else owns; the demand is for something new and different.
- **Lack of commitment.** There is a cultural unwillingness to commit to any single idea or project. This is clearly problematical for marketers, since we seek to generate loyalty and involvement with our customers.
- **Decentring of the subject.** Removal of the human being from the central importance he or she had in modern culture, and the increasing acceptance of the potentials of his or her objectification. Individuals are not in control: in marketing, we tend to consider segments and target markets rather than –
- **Reversal of consumption and production.** This is the idea that value is created by consumption, not production. There is some sense in this from a marketer's viewpoint: if a product is a bundle of benefits, it only becomes valuable at the time when the benefits happen, i.e. when the

product is used. Electric drills have no real value if they are simply left in a warehouse until they rot: they do have value when they are making holes. In this sense, consumption actually is production, and vice versa: consumption represents the final stage of the production of benefits.

- **Emphasis on form and style.** Form and style are more important than content in determining meaning and life. The entire fashion industry is based on this concept, as is much of the food industry: frozen ready meals, and even more so a well-presented restaurant meal, are examples of form and style taking precedence over content.
- **Acceptance of disorder and chaos.** The idea that chaos is normal, and that we actually cannot create order out of chaos, is one that might be disturbing to marketing strategists since there is a great deal of planning which will have to be scrapped, but for some marketers the notion of chaos as the norm is a vindication of the idea of hyper-competition (D'Aveni).

Postmodern marketing offers us a new way of looking at the way the world works, and a new framework for considering marketing problems. It may not provide answers for everything, of course, and as a blueprint for practical marketing it offers very little.

See also: evolution of marketing

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The Marketing Environment

The marketing environment comprises all those elements of the business world that impact on exchange management.

Businesses do not operate in a vacuum. They operate within a dynamic environment, in which competitors, customers, government, suppliers and indeed everyone else are each working to their own agendas, doing things that upset carefully laid plans and cause disruption to strategies.

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 the other stakeholders involved. More importantly, marketers need to recruit the other stakeholders to the cause of meeting customer needs.

The degree to which the environment can be controlled, and the degree to which the environment controls the business, depends in part on the nature of the environment and in part on the nature of the business. 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.

The environment is generally divided into the macro environment and the micro environment. The macro environment consists of all the factors that would affect every firm in the same industry: the economy, government policy, the ecology, the social and cultural environment. The micro environment comprises those factors that only affect the firm: customers, competitors, technology and industry factors, and internal factors such as employees, corporate culture and resource constraints.

The economic environment is essentially about the level of demand in the country, or in the world in the case of a global company. National economies usually follow the boom-and-bust cycle, going into recession (when production and demand fall) every seven or eight years, followed by a boom period when demand grows again. Sometimes countries might avoid this (the UK managed to go from 1992 right into the twenty-first century without a recession, for example), but this is not normal. Recession is defined as a period of two successive quarters when demand shrinks, and it may or may not have serious consequences for firms. Some businesses, notably those dealing in high-ticket products such as cars and household machines such as dishwashers, find that times are hard during recessions, whereas businesses such as breweries and distilleries find that business stays much the same, or even picks up as people feel the need to give themselves a treat.

In most cases recessions only last a few months (although in the 1930s the world economy went into free fall and was only rescued by the Second World War). The issue for marketers is that governments see it as their role to try to prevent recessions, and consequently they will take action that may affect marketing plans. As inflation increases (i.e. prices begin to rise) governments will tend to raise interest rates, which has a limiting effect on consumer spending, and in turn lowers prices. As the economy slows down, governments tend to lower interest rates to stimulate demand. There are many more effects and issues to consider, so marketers are sometimes taken by surprise by government actions, and of course problems elsewhere in the world can seriously affect business in the domestic market – rises and falls in the value of the US dollar, for example, cause international problems because so many raw materials are priced in dollars in international markets.

The socio-cultural environment divides into four main categories, from a marketing viewpoint:

- 1 **Demographic forces.** As the population shifts in terms of age, wealth, education level and so forth people's needs also change.
- 2 **Culture.** This is relatively stable over time, but in an international context companies must take account of differences in beliefs, behaviours, customs, language and so forth.

- 3 **Social responsibility and ethics.** Ethical beliefs derive in part from culture, but ethical beliefs about how firms should conduct themselves clearly affect what marketers can and cannot do.
- 4 **Consumerism.** This is the shift of power away from companies and towards consumers.

Each of these categories has strong implications for marketing, but since each category affects every other category the solutions are far from simple.

The political and legal environment affects businesses in two main ways: first, governments pass laws that affect business, and second, the prevailing government sets the general tone of behaviour for the country as a whole (although in a democracy it might be argued that the mood of the country decides which party is elected).

The political environment includes the regulatory environment, whether such regulation comes directly from the government or from industry-based bodies. Some examples of government controls in business are as follows:

- **Patent legislation.** Governments set the rules about what may and may not be patented, and for how long. In some industries intellectual property accounts for more or less the whole of the firm's assets (Microsoft and Coca-Cola being examples). Changes in patent (and copyright) law can have profound effects, removing or adding protection to company products and brands.
- **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. In recent years changes in the classification of different products in respect of VAT has had a marked effect on some firms, and in the international context such taxes distort markets: the 'booze cruises' so popular with UK citizens show what happens when different tax regimes operate on different sides of international borders.
- **Safety regulations.** Products need to conform to national safety regulations. Within the European Union many attempts have been made to co-ordinate the wildly differing safety laws in the member states, but results have been poor: the current view is that a product that is legal in one member state is legal throughout the EU, except in cases where human or animal life is threatened.

- **Contract law.** Governments can, and do, amend contract law although much contract law is developed through the decisions of law courts.
- **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.
- **Control of opening hours.** In the UK the opening hours of retail shops are only limited on Sundays, when shops may open for six hours only (with exemptions for small businesses). In other countries tougher restrictions apply.

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 mentioned earlier), whereas right-wing governments tend to reduce restrictions on business (taking the invisible hand approach).

Local government and supra-national bodies such as the European Union Mercosur (in South America) and NAFTA (in North America) can also impose regulations. The EU has, in recent years, been trying to co-ordinate business law throughout the member states, but this endeavour (never easy in the first place) has received a major setback with the accession of ten new member states in 2005. This has meant that ten new legal systems will need to be considered, some of which are relatively new and untried: in the Baltic States, for example, there was virtually no commercial law under Communist rule, so their own business law only dates from 1992 or thereabouts.

The macro environment is difficult to influence, and impossible to control. Only the largest firms are able to influence government to any extent, and changing cultural or social factors is well beyond the capabilities of any one firm, apart from the faint (and unpredictable) possibility of developing a product that has a dramatic social effect, such as the Internet or the automobile.

The micro environment is a different story. Here marketers can, and do, influence the situation. The micro environment comprises those elements of the environment that impinge on the firm and sometimes its industry, but do not affect all firms in all industries. The micro environment is composed of the following elements:

- **The competition.** In general, the competition is limited to firms providing similar solutions to the same customer problem.
- **Technology.** Some technological changes will leave the company stranded as its products are rendered obsolete, whereas other changes might offer opportunities.
- **Industry structure and power relationships.** This may be related to competition, but equally encompasses supply chains and strategic alliances between firms.
- **Customers.** The pool of customers, the nature of them, the different segments of the market made up of people with slightly different needs, all affect the firm.

Finally, the firm has an internal environment made up of staff relationships, corporate culture and resource constraints. These issues decide everything the firm is able to do, since they impose the limits on decisions that restrict activities. Corporate culture can be developed by managers, but staff relationships and resource constraints are usually a 'given' and are hard to change in the short term. If all goes well, the company's resources will increase and staff relationships can be fostered over time to produce a good working environment, but ultimately companies have to accept much of the internal environment as fixed.

Staff relationships are governed by the formal organisation structure (as shown on the organisation chart) and by the informal structure. The informal structure is composed of the many friendships that people strike up with work colleagues in the course of meeting at the photocopier, going for lunch together, sharing a lift home, and so forth. The informal structure has little or nothing to do with the organisation chart, but it is very powerful in the running of the organisation since it cuts across normal lines of communication, and has the power of social conformity behind it. It provides a degree of flexibility in the organisation, and is the source of goodwill – problems that the official organisation has not envisaged can be solved through the internal network, by asking a favour from a friend. Managers should encourage the informal network to develop, since it injects valuable flexibility into the firm, in a changing world.

See also: *strategic planning, marketing research, marketing audit*

Marketing Research

Marketing research is the process of finding out about the market in which the firm hopes to succeed, and assessing all aspects of the firm's marketing strategies and tactics.

There is considerable debate about the difference between market research and marketing research, but the basic difference is that market research is concerned with investigating markets (customers, consumers, distribution, etc.) whereas marketing research is concerned with investigating any issues related to marketing (consumer behaviour, advertising effectiveness, salesforce effectiveness, etc. as well as everything contained in market research). Marketing research therefore encompasses market research.

Marketing research breaks down into several separate components, as follows:

- 1 **Customer research.** This is concerned with the motivation and behaviour of customers, their geographic and demographic spread, their number and spending power and their creditworthiness. It is predominantly used for segmentation and targeting purposes, but is also useful for predicting trends and developing new products.
- 2 **Advertising research.** This is used to measure the success (or otherwise) of advertising campaigns. The intention is to gain information about which media are most effective, which advertisements are most effective, and which messages reach through to customers best. Advertising research involves the perceptions of customers, so it overlaps considerably with customer research.
- 3 **Product research.** New products and new product ideas need to be tested on customers, sometimes at the concept stage and sometimes as prototypes. Product research provides information on which features and benefits most appeal to customers, and can also provide information on competitors' products. Packaging is another aspect of

product research, since packaging provides some of the benefits of the product itself: issues here include the extent to which the product is protected from the environment and vice versa, and the degree to which the design of the packaging appeals to distributors such as warehouses and retailers as well as consumers.

- 4 **Distribution research.** This is concerned with finding the most effective distribution channels. The researchers will be looking for retailers who already deal with the firm's target market, and wholesalers who deal with the appropriate retailers.
- 5 **Sales research.** Sales research helps to assess the effectiveness of individual salespeople, of different sales techniques and of different sales management methods. It is also useful in designing sales territories to ensure that they are of equal potential: this goes beyond geographical size, it also means including factors such as number of potential customers, distances to travel within the territory and overall wealth of the region.
- 6 **Environment research.** Scanning the environment for potential threats and opportunities is an ongoing process for most firms. Environment research looks at the social, political, economic and technological factors that might affect the firm and its brands in the future.

Research falls into two main categories: primary research, which is original research carried out for a specific purpose, and secondary research, which is research carried out by someone else for another purpose. Essentially, secondary research is second-hand research: it is published material, sometimes commercially produced, which is available either free or in exchange for a fee. Researchers should always start with secondary research, since it is invariably cheaper than carrying out original research, and may well contain most or all of the answers the researcher is looking for. At the very least it will help inform the primary research, and will probably cut back dramatically on what needs to be researched.

Secondary sources include newspapers, journals, websites, published research, books, academic journals, government reports, commercial research, EU reports and research conducted by trade associations. Internally generated information such as sales records, delivery records, remittance records and so forth can prove valuable. Many firms keep several separate sets of information on customers: salespeople may have records

about which customers are difficult to sell to, the finance department might record which customers are bad payers, the shipping department might have records of preferred delivery dates, and so forth. Combining these pieces of data will almost certainly reveal new insights as to which customers are the best to retain, and probably provide guidelines as to which customers should be recruited in future.

Primary data can be collected in several ways, but they broadly divide into quantitative and qualitative methods. Quantitative methods are those in which the results can be expressed in numbers, for example questionnaire surveys, interview surveys, direct observation, test marketing, or panel studies. Questionnaire surveys are probably what most people think of when they think of market research. Questionnaires can either be self-administered, in other words the individual fills in the questionnaire unaided, or they can be conducted by a researcher. Self-completion questionnaires can be sent through the post or by e-mail, which may reduce costs, but they are notoriously difficult to design and usually have low response rates. Interview surveys overcome these problems to an extent, since the interviewer can clarify any points that are unclear, and response rates are usually higher since people find it harder to ignore a person standing in front of them. Observation involves watching what people do and counting the number who behave in a specific way (for example picking up a sample, or looking at a billboard). Test marketing means offering the product within a specific part of the market so that the firm can judge customer responses. Finally, a panel study uses a number of people who have previously been recruited (and are usually paid for their trouble) to report on their buying behaviour. This has the advantage that a large number of products can be studied: it is an economical method of carrying out research, and is often used by commercial marketing research companies.

Qualitative results cannot be expressed numerically, but qualitative research gives insights into consumers' motivations and attitudes. While quantitative research is good for telling what is happening, qualitative research is best for telling why it happened. There are several techniques for qualitative studies. Focus groups, in which between four and eight people are invited to sit around a table and discuss the subject of the research, can often give useful insights as people 'spark' off each other and generate responses that might otherwise not have been available. In-depth interviews with individuals, conducted by a

researcher, can drill down to deeply hidden attitudes and motivations, while projective techniques such as the thematic apperception test (in which people are asked to fill in speech bubbles in a cartoon) can reveal secret attitudes. In each case, transcripts of the interviews and focus groups need to be made to enable deep analysis of every word and gesture.

Whichever methods are used, sampling is important. Obviously researchers would be unable to question every possible buyer of the firm's products, so the usual routine is to select a representative group from among the full population. The difficulty lies in ensuring that the selected group really is representative: obtaining a truly random sample is virtually impossible, so researchers usually use non-probability sampling such as quota sampling (in which the researcher starts with knowledge of how the population divides up and seeks out people from each segment), convenience sampling (in which the researcher simply interviews anyone who is available) and judgement sampling (in which the researcher selects a group of people who are believed to possess the necessary information).

Commercial marketing research is not necessarily as rigorous as academic research, mainly because it has to be carried out quickly. Commercial organisations often have to move fast, and cannot wait for the lengthy processes of academic research to work their way through. This sometimes means that analysis and interpretation are less rigorous than they should be as well – so there is a danger that researchers come up with the answer they were expecting, or an answer that pleases the commissioning company, rather than something that is objectively accurate. Additionally, there are serious questions being asked about whether any research can be truly objective: the researcher's own attitudes and biases contribute to the design of any research programme, and of course may (with the best will in the world) contribute to biasing the results.

With all its failings, though, commercial marketing research is still invaluable in providing insights and information for planning marketing activities. It would be difficult to see how any company could manage without some kind of formal marketing research.

See also: *marketing environment, segmentation, targeting*

The Marketing Audit

The marketing audit is the checklist by which managers can develop an overall view of the organisation's current position regarding its marketing activities.

The marketing audit is a method for assessing the current state of play with the firm's marketing. Like a financial audit, it aims to cover all the firm's marketing activities and develop an overall 'snapshot' of every aspect of the firm's marketing, as one of the first stages in developing a strategy. In simple terms, the audit tells us where we are now, so that we can plan on where we want to be and how to get there.

The audit is shown in Table 1.1 below. Working through each area in turn is a useful exercise for marketers, because it helps to focus attention on the important aspects of what the firm is currently doing, and often flags up weaker or neglected areas.

The audit begins with broad themes: the marketing environment audit, the marketing strategy audit, the marketing organisation audit, the marketing systems audit, the marketing productivity audit and the marketing function audit. These broad areas are then broken down into specifics, some of which of course may not be relevant to the firm's particular circumstances.

The audit should be carried out on a fairly regular basis: how frequently will depend on the volatility of the firm's business environment and on the frequency of the planning cycle. The audit appears at first to be a simple matter of ticking boxes, but in fact it requires considerable effort in collecting information, and also considerable care and judgement in analysis. The amount of time and effort involved will need to be balanced against the value of frequent updates of the audit – the more frequent the update, the more effort needs to go into the process, and consequently the less time and energy there is available for day-to-day marketing tasks.

There are of course problems with the marketing audit. First, staff may be reluctant to commit themselves in writing to some aspects of the

Table 1.1 The marketing audit

Main areas	Subsections	Issues to be addressed
Marketing environment audit Macro environment	Economic–demographic	Inflation, materials supply and shortages, unemployment, credit availability, forecast trends in population structure
	Technological	Changes in product and process technology, generic substitutes to replace products
	Political–legal	Proposed laws, national and local government actions
	Cultural	Attitude changes in the population as a whole, changes in lifestyles and values
	Ecological	Cost and availability of natural resources, public concerns about pollution and conservation
Task environment	Markets	Market size, growth, geographical distribution, profits; changes in market segment sizes and opportunities
	Customers	Attitudes towards the company and competitors, decision-making processes, evolving needs and wants
	Competitors	Objectives and strategies of competitors, identifying competitors, trends in future competition
	Distribution and dealers	Main trade channels, efficiency levels of trade channels
	Suppliers	Availability of key resources, trends in patterns of selling
	Facilitators and marketing firms	Cost and availability of transport, finance and warehousing; effectiveness of advertising (and other) agencies
	Publics	Opportunity areas, effectiveness of PR activities
	Marketing strategy audit	Business mission
Marketing objectives and goals		Corporate and marketing objectives clearly stated, appropriateness of marketing objectives
Strategy		Core marketing strategy, budgeting of resources, allocation of resources
Marketing organisation audit	Formal structure	Seniority of marketing management, structure of responsibilities

(Continued)

Table 1.1 (Continued)

Main areas	Subsections	Issues to be addressed
Marketing systems audit	Functional efficiency	Communications systems, product management systems, training of personnel
	Interface efficiency	Connections between marketing and other business functions
	Marketing information system	Accuracy and sufficiency of information, generation and use of market research
	Marketing planning system	Effectiveness, forecasting, setting of targets
	Marketing control system	Control procedures, periodic analysis of profitability and costs
Marketing productivity audit	New product development system	Gathering and screening of ideas, business analysis, pre-launch product and market testing
	Profitability analysis	Profitability of each product, market, territory and distribution channel. Entry and exit of segments
Marketing function audits	Cost-effectiveness analysis	Costs and benefits of marketing activities
	Products	Product portfolio: what to keep, what to drop, what to add, what to improve
	Price	Pricing objectives, policies and strategies. Customer attitudes. Price promotions
	Distribution	Adequacy of market coverage. Effectiveness of channel members. Switching channels
	Advertising, sales promotion, PR	Suitability of objectives. Effectiveness of execution format. Method of determining the budget. Media selection. Staffing levels and abilities
	Salesforce	Adequate size to achieve objectives. Territory organisation. Remuneration methods and levels. Morale. Setting quotas and targets

Source: Adapted from Kotler, P. (2003) *Marketing Management*, 11th edition, © 2003. Reprinted by permission of Pearson Education Inc., Upper Saddle River, NJ.

analysis, and may therefore either shade their reports to put themselves in a favourable light, or may tailor their activities to fit the requirements of the audit rather than the needs of the firm. Second, busy people may not be prepared to spend sufficient time on the process and may therefore simply write down the first thing they think of, on the assumption that the audit is simply a paper exercise. Third, junior executives might put information in the audit which will provoke a response from management that is favourable to themselves. Fourth, the analysis of the data is not always entirely objective – managers may themselves want to appear in a good light, and may therefore (perhaps unconsciously) bias their reading of the data.

To overcome these shortcomings, managers need to generate a 'no-blame' culture, something that is difficult to achieve in the commercial world, or indeed anywhere. Alternatively, different sources could be used for generating the same, or similar, information in order to triangulate on the true situation. This of course adds to the amount of work needed to generate a true picture of what is happening. A third alternative would be to allow each manager to conduct and analyse his or her own part of the audit without being required to pass the results on to anybody further up the organisation. This has the advantage of maintaining at least some degree of objectivity (by removing the office politics) but does not allow anyone to have the whole picture, which is of course part of the purpose of the audit.

A final problem with the marketing audit is that, by the time the data have been collected and analysed, the world has usually moved on considerably and the actual position is somewhat different from what appears in the audit. The true value of the audit is probably therefore that it forces managers to consider in some detail what they are doing and what they might do better. As General Eisenhower famously said, 'Plans are nothing. Planning is everything.'

See also: *strategic planning, marketing planning*

Competitive Advantage

Competitive advantage is the outcome of effective strategy whereby the organisation offers something that competitors are unable to match.

Strategy is concerned with competitive advantage, and for marketers the obvious corollary is to look for competitive advantage in the marketplace. Strategic planning is intended to create a 'road map' for the company in achieving the organisation's objectives.

Creating competitive advantages means developing some kind of competence within the firm which will enable it to carve out a market for itself against competition from other firms. There are (broadly) four types of competition, as shown in Box 1.1.

Box 1.1 Types of competition

Monopoly One company controls the market entirely, with no direct competitors. This type of situation is extremely rare, since it almost always results in higher prices and lower efficiency, so it is usually banned by government regulators

Oligopoly This is a situation where a few very large companies control the market between them, either by colluding with each other (which is illegal) or by a tacit agreement not to do anything that would upset the status quo (e.g. start a price war)

Pure competition A market in which all the players have perfect knowledge, and no single buyer or seller has the power to influence the market. Again, this is rare: the international money markets are one example, but there are few if any consumer markets that operate this way

Monopolistic competition This is the commonest form of competitive structure, in which one or two large companies have the lion's share of the market, but smaller companies do exist alongside them and can compete effectively

Remaining competitive within a monopolistic competition environment is the challenge facing most firms. There are four basic competitive positions available: market follower, market challenger, market nicher and, of course, market leader.

The **market leader's** position is always to be defending against challengers, but if the firm is to grow it has only two basic alternatives. First, the leader can try to win still more customers away from its smaller rivals (an action that might attract the attention of government regulators). This approach is likely to prove difficult as the smaller competitors fight back. Second, the large firm might decide to expand the overall market. Although this will also help the small firms, it may prove easier to attract new customers into the market than to steal customers from competitors. The objective of the exercise, from the market leader's viewpoint, is to run a successful business, not to out-compete smaller firms. Market leaders can also seek to improve profitability by cutting costs, negotiating strongly with suppliers, or seeking greater economies of scale.

Market challengers seek to increase their share of the market, usually by aggressive competitive tactics aimed at the market leader. Attacking the market leader is risky, since the leader not only has the most to lose but probably also has the most resources, but there is of course the most to gain from a successful attack. Attacking the market followers is probably easier, but the gains are less and the firm might still attract attention from the market leader, since it is of course difficult to acquire customers from only one source – the market leader is bound to lose some customers as well. Market challenger strategies are as shown in Box 1.2.

Box 1.2 Challenger strategies

Frontal attack The challenger matches the leader's efforts across the full range of products, attacking the leader's strengths rather than its weaknesses. In these circumstances, the company with the greatest resources usually wins, because this strategy leads to a war of attrition. It is usually only appropriate for large firms entering a foreign market, as domestic sales can help subsidise the cost of the 'war'

Flanking attack Here the competitor concentrates on the leader's weaknesses rather than its strengths. By seeking out a part of the leader's business

(Continued)

competitive
advantage

(Continued)

that is being poorly served, or could be served better, the challenger often manages to capture a segment without much of a fight. Market leaders will often let a marginal segment go rather than enter into a costly battle

Encirclement attack This strategy involves attacking from several directions at once. This strategy requires the attacker to have more resources than the defender, so it usually only works well when entering a foreign market

Bypass attack The challenger bypasses the market leader entirely and targets new markets. This might mean entering foreign markets that the competitor has not yet targeted, or it might mean using new technology to approach new groups of customers. Since the attack is indirect, retaliation by the market leader is unlikely

Guerrilla attack The challenger makes occasional attacks on the larger competitor, using different tactics each time in order to confuse the market leader and prevent effective retaliation. The constant switching of tactics prevents the market leader from organising a retaliatory attack

Market followers typically seek to avoid doing anything that will incur the wrath of the market leader. They will allow the market leader to make the most of the investment in developing a new market, then follow on to pick up any segments the leader does not find worth pursuing. The followers gain in terms of reduced risks and costs, and as a result they are often as profitable as the market leaders. They do not run the risk of new product failure (the majority of new products fail in the marketplace) because they learn from the mistakes of the market leader: although the largest share of the market usually goes to the innovator, the costs of innovation are so large that the profits often go to the follower.

Market nichers seek to concentrate on small segments of the market, usually segments that are so small and specialised that the market leaders cannot or will not service them. Competitors are often closed out of the niche because the market nicher develops an intimate knowledge of customer needs in a very specialised area. In addition, the niche is often too small to support more than one company, so there is little or nothing to be gained by trying to capture it from an established nicher. Box 1.3 shows the ways in which nichers can specialise.

Box 1.3 Ways to specialise

End-use specialist The firm specialises in meeting all the needs of one type of end-user. For example, Titleist aims to supply all the needs of golfers

Vertical-level specialist The firm specialises in one level of the production–distribution cycle. For example, Pickford’s heavy transport firm specialises in moving heavy machinery and abnormal loads. They not only have the specialist vehicles for doing this, they also have knowledge of procedures for alerting police, closing off roads, removing obstacles and so forth

Specific-customer specialist The firm specialises in supplying one or two much larger firms with specialist services or products. For example, Weber carburettors supply high-performance carburettors to most prestige car manufacturers. It is not worth while for the car manufacturers to produce their own carburettors

Geographical specialist The firm might stay within a small geographical area, as does the London Underground. Another example is Welsh-language publishing, which has virtually no market outside Wales and Argentina

Product or feature specialist These firms specialise in producing a particular product, or one with unique features. This strategy is typical for firms with strong intellectual property rights, such as a patent

Quality-price specialist These firms look for a niche at the bottom or the top of a market, either producing the cheapest, most basic version or (more commonly) supplying the highest-quality product. For example, the market for executive jet aircraft is dominated by Learjet

Service specialist These firms offer services that are not available elsewhere. The Russian Space Agency, for example, is the only organisation offering tourist trips into space at present – although other firms are expected to enter the market in the next few years

competitive
advantage

Gaining competitive advantage is not always appropriate. Some firms seek to collaborate with competitors, and where this is allowed by competition regulators it can prove extremely profitable. For example, Volkswagen, Ford and Seat collaborate on design of some vehicles (the

Ford Galaxy, Volkswagen Sharan and Seat Alhambra are essentially the same vehicle) but each firm competes for customers.

Competitive advantage, and strategy in general, are usually considered from the viewpoint of warfare, and indeed most of the thinking and almost all of the terminology is derived from warfare. However, in recent years there has been an increasing interest in collaborating with competitors, and that being the case we may see a scenario in future where co-operation rather than conflict becomes the norm.

See also: Porter's competitive strategies, strategic planning, positioning

Porter's Competitive Strategies

Porter's competitive strategies seek to explain the generic strategic positions a company can adopt in order to generate competitive advantage.

Porter (1985) suggests four basic competitive strategies: three of these are potentially winning strategies and the fourth is almost invariably a losing strategy:

- 1 **Overall cost leadership.** A company that minimises its costs can either reduce its prices or increase its profitability, thus obtaining a competitive advantage over other companies. Minimising costs may be a result of developing efficient systems, it may be a result of negotiating better supply prices, or it may mean moving production to lower-cost countries.
- 2 **Differentiation.** Companies that are able to offer products which their customers perceive as significantly different from competing products are able to charge premium prices (provided, of course,

that the customers believe the differences make the product better). Differentiation can be achieved in two ways: first, by creating real differences in the features and benefits the product offers, and secondly by creating strong promotional messages that publicise the differences and increase their importance to potential buyers. Both these routes absorb resources, so managers need to be sure that customers will be prepared to pay more for the differentiated product, at least enough to cover the extra costs.

- 3 **Focus.** Companies following this strategy concentrate on a few market segments rather than trying to compete in the whole market. Often firms concentrate on exclusive markets: the market for luxury yachts falls into this category. In other cases, firms will focus on people with very specific needs – the market for converting vehicles for disabled drivers is highly specialised, for example, with only a handful of firms involved.

The fourth, losing, strategy is to try to combine the strategies. This is impossible, because a differentiation strategy requires the company to commit to higher promotional and research costs, meaning that the firm cannot minimise costs. Likewise, combining low cost with focus will not work, because low cost depends on achieving high sales volumes across a very broad market in order to achieve economies of scale in production. Focus and differentiation may combine if the firm operates in several markets, but there are cost implications which may negate any extra profit that might otherwise accrue.

The essence of a successful strategy is to pursue a clear course of action with which customers can identify, so that the firm has a clear competitive position in the minds of the customers. Customers need to decide whether a firm is cheap, or is best at serving its market segment, or is offering the highest specifications, in order to make firm purchasing decisions.

If there is a lack of consensus among managers, this may result in trying to carry out more than one strategy at a time. Lack of consensus can happen at all levels in the organisation, usually as a result of poor communication of the corporate mission. Consensus among managers improves performance at the strategic business unit (SBU) level, especially for differentiation strategies (Homburg et al., 1999) but is less necessary if the firm is pursuing a low-cost strategy. Low-cost strategies are easy to understand, even if disagreements occur elsewhere.

Treacy and Wiersema (1993) provided an alternative to Porter's categorisation of strategies. Their categorisation identifies three strategies aimed at increasing customer value, as follows:

- 1 **Operational excellence.** Operationally excellent companies provide better value for customers by leading the industry in price and convenience. The firm tries to reduce costs and create an effective and efficient delivery system, in a similar way to the cost leadership approach.
- 2 **Customer intimacy.** This strategy requires the company to get as close as possible to its customers, usually by precise segmentation. Close relationships with customers are key to this approach, which in turn usually means empowering the grass-roots staff to make decisions when dealing with customers, and also developing very detailed knowledge of customers' needs and wants. Customers of such companies are usually prepared to pay substantial premiums to get exactly what they want, and tend to be loyal to companies who deliver exemplary service.
- 3 **Product leadership.** This approach means offering leading-edge, state-of-the-art products and services, aimed at making other products (including the company's own products) obsolete as quickly as possible. Companies following this strategy must be prepared to accept large R&D expenditure as part of the cost, as well as developing systems for getting new products to market as quickly as possible. Staff innovation programmes, and reward schemes based on innovation, are also likely to be needed. Examples of companies that seek product leadership are 3M and Sony, both of which have vigorous new product development systems and substantial rewards for innovative staff.

Treacy and Wiersema's categories are not mutually exclusive, unlike Porter's categorisation. It is perfectly feasible to pursue operational excellence and product leadership, for example.

In practice, senior managers will usually decide what the organisation should and should not be doing and strategy will develop from there: managers may not consciously decide to categorise the strategy according to either of these models. The categories are the result of observing reality, and are not necessarily intended to be prescriptive.

See also: *competitive advantage, strategic planning*

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Strategic Planning

Strategic marketing planning is the process of formulating corporate objectives and ideals, and developing approaches to achieving those objectives through marketing activities.

The idea that market has a strategic role in running any successful business is deeply embedded in marketing thought. That being the case, marketing has the same need for strategic planning as has any other aspect of strategy, and for the market-orientated company, the marketing strategy is identical to the corporate strategy anyway.

Figure 1.5 shows the levels of strategy in the firm. Marketing may find itself at any or all of the levels, although in many businesses it only occupies a functional level or at most a business level. In other words, marketing is frequently in a subordinate position to the corporate strategy, and is only regarded as a functional device for achieving corporate objectives.

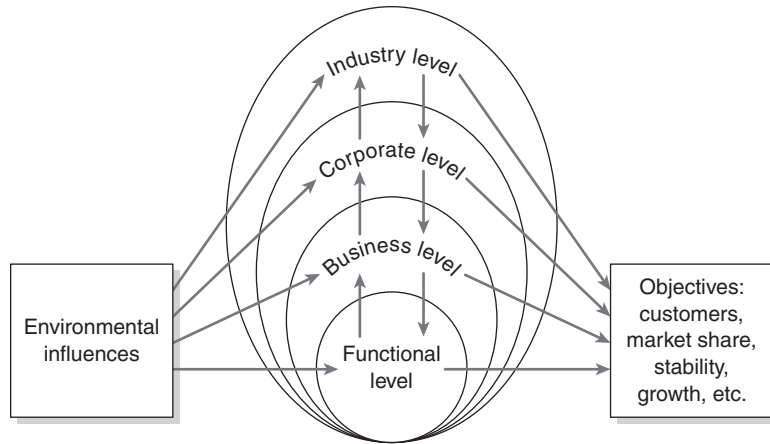


Figure 1.5 *Levels of strategy*

There are six dimensions of strategy (Hax, 1990):

- 1 Strategy as a coherent, unifying and integrative pattern of decision.
- 2 Strategy as a means of establishing an organisation's purpose in terms of its long-term objectives.
- 3 Strategy as a definition of the firm's competitive domain.
- 4 Strategy as a response to external opportunities and threats, and internal strengths and weaknesses.
- 5 Strategy as a logical system for differentiating management tasks at corporate, business and functional levels.
- 6 Strategy as a definition of the economic and non-economic contribution the firm intends to make to its stakeholders.

Ultimately, strategy is what binds an organisation together and gives it direction.

There is no single method for creating strategic plans: if there were, then all companies would end up with much the same strategic plan, which would of course mean that there would be no differentiation between companies. There is a view that planning is cyclical in nature, as shown in Figure 1.6.

In the cycle, strategy is translated into tactics which are implemented, and the evaluation of these tactics is fed back into the strategic planning stage to inform the new stage of planning. The plan is intended to create

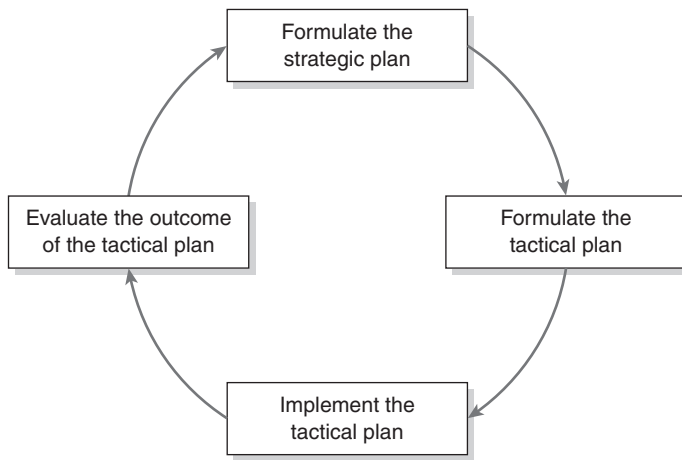


Figure 1.6 *Cyclical nature of planning*

a 'road map' for achieving the organisation's objectives. In most cases this means creating some kind of competitive advantage: corporate objectives may or may not be linked to profitability, since profit is frequently seen only as the means for corporate survival: in other words, profit allows us to stay in the game, but the real objectives lie elsewhere.

In general there are three approaches to planning. The **fully planned approach** details future plans down to the last detail. At the other extreme, the **adaptive approach** means that the organisation changes its strategy and tactics as circumstances dictate, while still maintaining the same general aims and ideals. This is most appropriate in conditions of rapid change. The third model is the **incremental approach**, in which an overall plan is in place, but there is sufficient looseness to accommodate changes if the marketing environment changes unexpectedly. Choice of approach is dictated partly by industry conditions (a volatile industry suggests the adaptive approach, a stable industry allows for the fully planned approach) and partly by the predilections of the corporate founders.

Setting objectives is usually the first stage in planning. There are only three basic marketing objectives (MacKay, 1972). These are:

- 1 Enlarge the market.
- 2 Increase share of the existing market.
- 3 Improve profitability within the existing market share.

According to McDonald (1984), we should move from the general to the particular, from the broad to the narrow, and from the long-term to the short-term. In this way objectives become more focused, and therefore more attainable. A major difficulty with objective-setting is that every problem impinges on every other problem.

Market strategies, whatever their level in the organisation, fall into specific categories. **Market scope strategies** are about coverage of the market, and fall into three categories: single-market strategies, in which the firm devotes all its resources to a single segment; multi-market strategies, in which the firm seeks to serve several segments; and total-market strategies, in which the firm seek to serve every segment of its chosen market.

Market geography strategies concentrate the firm's resources in a single geographic area. Sometimes this can apply to large businesses (the London Underground is an example) but it is often associated with small, local businesses. Regional-market strategy means that the firm operates within distinct geographical boundaries, but these go beyond the local area. This has the advantage that it is easier to identify the brand with a region than with an entire country, or a global market. National-market strategy might be adopted as the firm outgrows its local area, but even within relatively small countries like the UK or Spain cultural differences between different regions of the country can create problems for marketers: simply dealing with Catalan, Basque or Welsh-language issues can be enough to throw the planning off course.

Marketing strategies might also be considered in terms of the **timing** of market entry. First-in marketers gain the advantage of gaining a lead on competitors, but also carries the major risk of possible failure in the market. Early-entry strategy means that much of the risk has already been taken by the first in company: in most cases, early-entry companies were actually planning to be first in, but were beaten by a competitor. Laggard-entry strategy means entering the market when the basic product is in the maturity phase. This is the lowest risk strategy, and the chances of failure are extremely low (Calentone and Cooper, 1981), but of course the corresponding gains are likely to be lower as well.

Market-dilution strategies are ways of removing the firm from markets that are no longer viable, or do not fit the company's long-term strategy. Demarketing means reducing the marketing effort so that the customers eventually leave: this has the advantage of minimising costs while still extracting the last of the business. Pruning of markets means deliberately closing down operations in those markets, or perhaps selling them

to competitors. Key-market strategy is the corollary of pruning: it means diverting resources to the key markets, and losing the peripheral segments. Harvesting strategy means cutting investment in a given brand or market, and treating it as a cash cow. This is a common step when a product is reaching the decline stage of the product life cycle.

This type of careful planning may not be appropriate at all. Whittington (2001) questions the 'toolbox' approach to strategic planning, suggesting that there are four generic approaches to strategy, as shown in Box 1.4.

Box 1.4 Generic approaches to strategy

Classical Relies on rational planning methods, using environmental analysis as the basis for decision-making and planning for the long term

Evolutionary Assumes that only the fittest will survive: correct strategies will result from adapting to the environment, and ad hoc solutions are used in response to environmental pressures. Evolutionary strategic thought is about accommodating to the law of the jungle: long-term planning is therefore not feasible

Processualist Strategy accommodates to the fallible processes of both organisations and markets. Strategy is therefore a bottom-up process, coming from the exigencies of the situations faced by the firm

Systemic The ends and means of strategy are linked to the cultures and powers of the local social systems in that it takes place. Companies therefore follow policies that are predicated by their local social constraints rather than by strict business considerations

Classicists say that strategy is rational, and that a strategic plan can be developed and adhered to. Evolutionists believe that the business environment is too unpredictable for long-range planning, and business is about survival of the fittest. For processualists, strategy is developed as a series of compromises, ad hoc decisions and learning by mistakes: even though the environment is fairly stable. Systemic theorists believe that people can carry out rational plans, but the objectives and outcomes of strategy are embedded in the social systems from which they come.

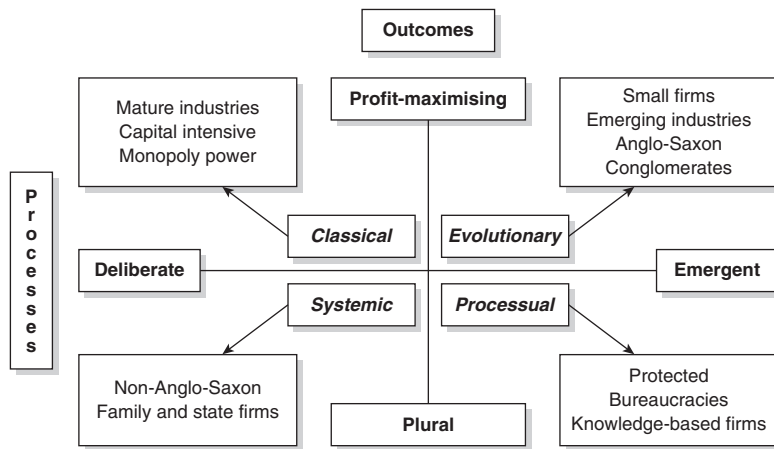


Figure 1.7 Generic strategies and their implications

As stated earlier, firms are not always entirely and exclusively profit maximisers. Outcomes can be anywhere on a continuum from profit maximising through to pluralistic outcomes. Likewise, the processes of business can occupy a continuum between deliberate (i.e. thought through) and emergent (i.e. resulting from circumstances) Figure 1.7 shows how the four generic approaches fit along these continua, and the types of business typified by each approach.

The differences between the generic strategies matter a great deal, because each offers a radically different recommendation for managers. For every manager, the panning process starts with a decision as to which theoretical picture of the world best fits with his or her own experiences, attitudes, circumstances and business situation. If the world the manager inhabits is orderly, with sufficient information and capacity to analyse, then the classical paradigm might be most suitable. For managers living in a world that is cut-throat and unpredictable, the evolutionist paradigm is more appropriate.

See also: *competitive advantage, strategic planning*

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Marketing Planning

Marketing planning is the development of strategies and tactics for approaching a group of customers. It is the process of creating an appropriate marketing mix.

Strategic planning is often likened to drawing up a 'road map' for achieving organisational objectives. This usually means creating a competitive advantage: objectives may or may not be linked to profit, since non-profit organisations also have strategies and seek competitive advantage, and even profit-making organisations often have other objectives as well. Objectives may be linked to growth in market share, or growth in shareholder value, or achieving stability in an unstable market, or any one of many possible outcomes.

The traditional view of planning is that it is cyclical in nature. The outcomes of previous plans and activities are evaluated and used to inform the new strategic planning, so the cycle continues indefinitely. The process may not always be tidy, of course, particularly when the business environment is subject to rapid change.

Given the current emphasis on change in many business environments, planning may seem like a futile exercise. Plans are likely to be upset by technological changes, by competitor activity, or by changes in legislation almost without any warning. On the other hand, without a plan of some sort the organisation may lose its way very rapidly, and

managers have no way of knowing whether their individual actions are helping or hindering if they do not have a clear idea of where the organisation needs to be.

Because of the volatile nature of most business environments, there is no single rule for creating strategic plans. All managers carry out some planning, simply because they must ensure that resources are directed effectively to ensure that objectives are reached. Equally, almost all managers are in the position of needing to manage change, since organisations must respond to changes in the environment. Managers therefore seek to exploit opportunities and avoid threats, by playing to the strengths of the organisation and minimising the effects of its weaknesses.

In general, there are three approaches to planning: first, the **fully planned approach**, in which the organisation's future activities are detailed down to the finest level. Second, the **adaptive model**, which suggests that organisations change the strategy rapidly in the face of environmental changes, and by implication do not plan in detail or very far ahead. This is at the opposite extreme of strategic planning, since it hardly involves planning at all. The third alternative is the **incremental approach**, in which an overall plan is developed but changes are made as circumstances dictate.

In the case of the fully planned approach, planning may be formal, with many of the decisions already made or with established decision-making rules in place, or it may be informal and therefore carried out on an ad hoc basis. Formal strategic planning works best in conditions of stability, where change is slow and where environmental conditions can be predicted fairly accurately.

Some organisations will empower managers throughout the organisation to seek out new opportunities: the organisation is thus characterised by adaptive strategic change. The result of this is an increase in innovation at the business level, with strategy developing from the bottom up: the rationale is that managers who are nearer to the customers (and other stakeholders) can respond much more quickly to changes in stakeholder needs. Adaptation to change will occur much more quickly in such organisations.

Many companies operating in an unstable environment rely on visionary leadership. Visionary leaders have a clear and personal plan of where the organisation is going and what the organisation stands for, and are able to communicate this to the rest of the organisation and its stakeholders.

Such leaders succeed by having a clear grasp of the products, services and activities which the organisation's stakeholders will find acceptable.

Incremental strategic change represents a half-way position between the fully planned system and adaptive change models. The organisation's leadership provides the overall strategy, but sub-strategies emerge from managers throughout the organisation. Managers meet regularly, both formally and informally, to discuss progress and to monitor environmental changes. They will plan new courses of action, and test them in small stages. Incremental strategy works best in organismic organisations in which managers communicate freely and operate on a team basis: hierarchical organisations are less effective for implementing change. An incremental strategy system implies that the organisation must be tolerant of mistakes, which is of course not always the case: Mintzberg (1989) also states that managers must have access to a large amount of appropriate information, and must also be empowered to make the necessary changes in the organisation.

The systems described above are not necessarily mutually exclusive within a large organisation: different divisions within the same organisation may be using different approaches. The management style of the people involved will also affect strategic planning: junior managers may well decide to ignore or pervert the overall strategic plan which has been handed down from the Board, perhaps on the grounds that what looks realistic in the boardroom is unworkable in the field. A rapid change in circumstances (for example, a major accident at a corporate factory) may result in the implementation of a predetermined crisis strategy, whereas another sudden crisis (entry of a foreign competitor into the market) may result in the scrapping of a detailed plan. Whatever happens, it is useful to remember that strategic planning does not happen in isolation: no battle plan ever survives first contact with the enemy, and no strategic plan is ever set in concrete. Planning is not a linear process, in other words.

See also: *strategic planning*

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The Boston Consulting Group Matrix

The Boston Consulting Group matrix is a model that seeks to offer a decision-making tool for managing a portfolio of products.

Virtually all firms have a portfolio of products; very few, if any, would have only one product. Therefore managers have a perennial problem in terms of resource allocation: deciding which products should be supported, which can safely be left alone, and which should be dropped altogether. In the early 1960s the Boston Consulting Group invented a matrix to help with this decision-making process. The matrix classified products according to their market share, and the rate of growth of the markets they were in.

Stars are products with a dominant share of a rapidly growing market. Maintaining growth and defending the product against competition means high investment levels, so that product usually absorbs more money than it generates, but eventually the company hopes that it will be the market leader and become profitable. The problem lies in judging whether the market will continue to grow, or whether it will shrink: this may happen if a new product comes onto the market. Even the most successful Star will eventually decline as it moves through the product life cycle.

Cash Cows have a dominant share of the market, but are now in the maturity phase of the product life cycle so the market is growing slowly or has levelled off. They are the former Stars, and are now generating cash which can be 'milked' to finance the present Stars. These are the products that have steady year-in year-out sales and are generating much of the firm's profits; examples might be the Big Mac hamburger, Coca-Cola and the Ford Mondeo.

Dogs have a low market share and low growth prospects. Dogs are often still profitable; the argument is about whether the firm could use its production facilities to make something that would be even more profitable. If this is the case, the Dog should be dropped from the portfolio.

The Problem Child has a small share of a high-growth market, and is problematic because the company needs to work out a way of building market share so as to turn the product into a Star. Ascertaining the reasons for the low share, and developing strategies to increase market share rapidly, create the major headaches. The Problem Child (or Question Mark) could be adapted in some way to fit the market better, or perhaps backed with a promotion campaign. Market research plays a crucial role in making these decisions, but the potential rewards are huge and adapting the product to meet people's needs better is almost always cheaper than increasing the advertising spend.

The following policy decisions arise from the BCG view of the firm's product portfolio:

- Which products should be dropped from the range entirely? This is not only about how profitable the product itself is; sales of one product often indirectly generate sales of another more profitable product.
- Which products should be backed with promotion campaigns? Advertising campaigns have no second-hand value, so if they do not work the money is just lost. Backing the wrong product can therefore be extremely expensive.
- Which products could be adapted to fit the market better, and in what ways? This is a market research question, but also relies on customer feedback.
- Which new products could be introduced, and what would this cost?

The BCG matrix is a simple model that helps marketers to approach strategic product decisions, but like the product life cycle model, it has a number of flaws. The BCG matrix relies on the following assumptions:

- Market share can be gained by investment in marketing. This is not always the case; sometimes markets disappear altogether so that products cannot be revived, no matter how much is invested.
- Market share gains will always generate cash surpluses. If, however, market share is gained by drastic price cutting, profits will be cut and cash may actually be lost.
- Cash surpluses will be generated when the product is in the maturity stage of the life cycle. Since mature products are likely to be operating on small margins due to competitive pressure, only small profits might be generated.

- The best opportunity to build a dominant market position is during the growth phase. This does not take account of competition. A competitor's product might be growing even faster, although in most cases the assumption would be true.

Even though it has proved popular with planners for many years, the BCG matrix has been widely criticised because of these limitations. Here are the main criticisms:

- An exclusive focus on market share and growth rates ignores competitive advantage, so it can be misleading. It is by no means certain that market share derives from competitive advantage: it might come from cost advantages, ownership of key assets and so forth, and a competitor might develop a new competency that could be missed by a manager who is concentrating on market growth rates.
- The assumption that cash flow is determined by the product's position in the matrix is not always true. Stars can sometimes show strong positive cashflows, and Dogs often do if there is little competition in the market (which is often the case).
- Market growth rate is not the same as market attractiveness. A small, stable market might be more attractive for a number of reasons than a rapidly growing, volatile market which is attracting large numbers of competitors.
- Building market share is not always a good idea, because it invites retaliation from competitors. This may well wipe out any gains made.
- Some products are interdependent, for example sales of a Cash Cow might depend on sales of a Dog. Equally, some members of the distribution chain may want to be provided with a full range of products, including Dogs. Some customers might become annoyed if a long-standing favourite product is dropped from the portfolio because it is a Dog, and seek revenge by boycotting other products.
- Some products have a very short life cycle, so will never become Cash Cows. They should perhaps be heavily exploited while still in the Star stage, but the matrix does not take this into account.
- The matrix does not consider potential competitive response. Whatever adjustments the firm makes in its portfolio, competitors are likely to retaliate.
- The matrix assumes that resources are limited, and although this is often the case, products that show substantial growth or profit or both can be funded relatively easily from borrowed money or capital

markets. The kind of choice the matrix implies does not always have to be made, in other words.

- The dividing lines between the boxes are arbitrary, and more than a little vague. How do we define high growth? How large is a large market share? We cannot even define with any certainty what we mean by a market.
- The matrix is based on cash flow (revenue) whereas profitability might be a better criterion.
- The matrix offers no guidance on how to deal with a Problem Child.
- The matrix does not take account of the possibility of shrinking markets, which are of course a reality, especially during periodic recessions when most markets are shrinking.

The BCG matrix suffers from another problem, in that it does not take account of markets that are not growing at all, but are in fact shrinking. In 1982 Barksdale and Harris proposed two additions to the BCG matrix to account for this possibility, as shown in Figure 1.9. **War Horses** have high market share, but the market has negative growth; the problem for management is to decide whether the product can be revived (perhaps by repositioning into another market) or whether it is in an irreversible decline. **Dodos** have a low share of a negative growth market and are probably best discontinued, unless this would have a negative effect on other products in the portfolio.

The BCG matrix has proved a useful tool for analysing product portfolio decisions, but it is really only a snapshot of the current position with the

		Relative market share	
		High	Low
Market growth	High	Star	Problem Child
	Low	Cash Cow	Dog
	Negative	War Horse	Dodo

Figure 1.9 Expanded BCG matrix

products it describes. Since most markets are to a greater or lesser extent dynamic, the matrix should be used with a degree of caution.

See also: *product life cycle, marketing planning*

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Globalisation

Globalisation is the process of extending an organisation's activities worldwide, ignoring national boundaries when segmenting markets, sourcing raw materials and components, and carrying out marketing activities.

International trade goes back a long way. In about 4000 BC a stone axe factory was established in the Langdale Pikes, in the English Lake District. This factory was so successful that axes from it have been found as far away as the South of France – evidence that international trade occurred even before there were true nation-states. Globalisation is the natural extension of international trade.

Globalisation of business has been a hot topic in recent years, with debates and demonstrations about the morality of domination of markets by giant corporations. It has been an important issue in world politics, since fully globalised companies are difficult to control and often act as if they are above government intervention. Protesters have complained about the homogenisation of cultures and the erosion of national diversity as globalised companies enter national markets, often forcing local businesses to close down.

The identification of market segments that cross national boundaries has proved to be a key driver for globalisation. Even if a product only

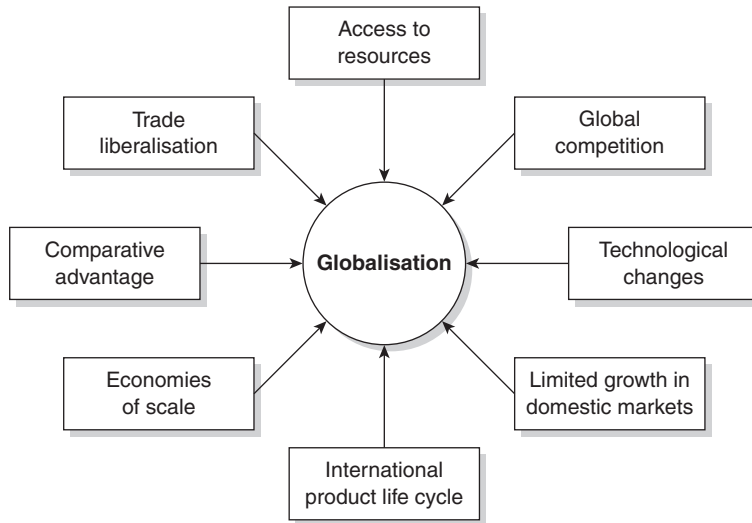


Figure 1.10 *Forces for globalisation*

appeals to 0.1% of the world's population, it would still have a market of around six million people worldwide. A company serving such a segment will obtain huge economies of scale in manufacturing, whereas the same segment (on a national basis) might not support development of the product (for example, in the UK the segment would only comprise 60,000 people).

In order to operate in global markets (or indeed in international markets) firms need to adapt the marketing mix to meet local conditions. For most global firms, this means making compromises. A single marketing message means that the firm benefits from economies of scale in its marketing activities, but a single message is extremely unlikely to convey meaning and appeal to the diversity of cultures that exist worldwide.

The thrust towards globalisation comes from the following factors (see Figure 1.10):

- **Comparative advantage.** Some countries are better-placed to produce certain products than are others – minerals such as oil and aluminium are obvious examples – but some countries develop expertise in service fields. For example, the Netherlands has expertise in building dams and in handling large bodies of water, developed through the construction of its famous dykes.

- **Economies of scale.** For some goods the costs of development are so high that they can only be realistically amortised over very large production runs. For example, products such as electronic games represent a huge cost in terms of research and development – only sales in the millions can justify the outlay, so a world market is essential. Automated production lines mean that manufacturing capacity has increased by orders of magnitude – few modern consumer-goods factories can function efficiently if only serving a domestic market.
- **Trade liberalisation.** For most of the nineteenth century free trade was a major plank in British government policy, because it was recognised that trade always creates wealth. In recent years the idea has received a new boost with the creation of trading blocs such as the North American Free Trade Area (NAFTA), and the reduction of barriers to trade worldwide as a result of the World Trade Organisation agreements.
- **International product life cycle.** As a product reaches the decline phase in one country, it can be introduced into a new country in order to prolong its life. Due to increased international travel, products frequently cross borders even without the supplier company aiming to internationalise. Because of rapid communications, ideas and designs are disseminated rapidly and copied by manufacturers in other countries.
- **Limited growth in domestic markets.** Most companies aim to grow, but clearly there will come a point at which the home market is saturated. Many firms become international because they cannot grow any more in their home markets, and eventually establish themselves as global markets.
- **Technological changes.** Improvements in air transport and telecommunications have made it much easier for firms to trade in other countries. International TV stations such as CNN and MTV have opened up possibilities to advertise to specific global segments (in the case of CNN, the travelling businessman, and in the case of MTV, the international youth market).
- **Global competition.** Even if a firm has no intention of leaving its domestic market, foreign competition will begin to make inroads into its market. Faced with this type of competition, companies often decide to narrow their target in terms of segmentation, but seek similar segments overseas.
- **Access to resources.** Companies that operate internationally not only sell goods overseas, they also access resources overseas. Manufacture can easily be relocated to low-wage countries, and components can

be sourced from overseas suppliers. Eventually firms realise that it is equally easy to sell finished product in those markets, provided they can meet the price/quality requirements of the markets.

A growing factor in globalisation is the existence of transnational market segments. These are groups of consumers with similar needs who inhabit different countries. This may occur because of migration (for example the substantial Malaysian and Chinese communities in Australia and British Columbia) or because of similarities of age (as in the world youth market) or because of similarities in lifestyle (the international executive market). It is far from easy to collect detailed information about these segments because each country operates as a separate entity for the collection of statistics. From a conceptual viewpoint, the truly marketing-orientated company that wishes to go international should be looking for global segments rather than dividing up its customers according to country of residence. Mass migrations and foreign travel are having profound effects on the tastes and needs of consumers throughout the world, with ethnic segmentation growing steadily less easy to apply (Jamal, 2003). Country of residence is becoming less and less relevant as time goes by.

Globalising firms might decide on a standardisation strategy, supplying basically the same products, and using the same attitudes, brands and promotion throughout the world, with global segments being identified. Conversely, the firm might decide on a customisation strategy whereby the company adapts its thinking (and marketing) to each new market. The companies that are most likely to seek a standardisation policy are those whose products are not culturally specific, and whose promotions can be readily understood throughout the world.

Globalisation will continue to be a major force in marketing thinking for the foreseeable future, since for large firms it is the only way forward as home markets become saturated and global markets open up. For the smaller firm, too, the existence of the Internet opens up world markets to niche products, an opportunity that cannot be ignored.

See also: *consumerism*

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Consumerism

Consumerism refers to the shift of power away from producers and towards consumers.

Consumerism has been a feature of marketing since the 1950s, when consumer organisations began to come into being: in the UK, the Consumer Association is the biggest organisation that campaigns on behalf of consumers: the organisation publishes the magazine *Which?*, containing member-generated reports on consumer goods, and the CA also acts as a lobbying and pressure group regarding legislation. In the United States, Ralph Nader's exposure of dangerous features of cars gave a strong impetus to the consumer safety movement, eventually resulting in extremely stringent product liability laws.

Consumer organisations have proliferated in recent years, with specialist groups (such as the Timeshare Consumers' Association) dealing with specific products or parts of the market. Besides taking up specific cases where consumers have been harmed or disadvantaged by companies, consumer organisations lobby government to have changes made in the legislation governing marketers. Consumer organisations also frequently carry out product testing, provide information about companies and products, and even 'blacklist' companies that do not conform to reasonable standards of corporate behaviour.

Some companies use consumer organisations as advisers in product development, since this is easier than changing the product later if the organisation discovers a problem with it. Managers should not therefore consider the consumer movement to be a threat to business: rather, consumerism offers an opportunity to gain more information about issues that concern consumers.

Consumer action groups sometimes arise from interaction with a specific product, or as a result of a common problem. Consumer action groups are grass-root movements rather than formal organisations, and range from neighbourhood watch schemes through to voluntary action to campaign against unethical advertising. Such groups may form for a specific campaign and then disband afterwards, or they may develop

into a more permanent consumer organisation which operates over an extended or indefinite timescale.

In an ideological sense, consumerism can be seen in five ways (Gabriel and Lang, 2006):

- 1 **As a moral doctrine in developed countries.** Consumption has replaced the Puritanical ethic of self-denial in most Western countries. It is seen as the route to happiness, freedom, power and the good life generally. The ability to choose and acquire products, and to consume services, is regarded as a right (which is one of the drivers for the welfare state).
- 2 **As an ideology of conspicuous consumption.** Social and status distinctions are generated by consumption patterns. People define themselves by what they consume rather than by what they produce: religion, work and political inclination are subsumed in the consumption ethic.
- 3 **As an economic ideology for global development.** The belief that progress means ever-higher standards of living for ever-more people is an ideological 'given' in most countries. Trade, aid and foreign policy are all informed by this ideal.
- 4 **As a political ideology.** The modern state is both a guarantor of consumer rights and a provider of many services (the UK's National Health Service being one example). governments seek to encourage choice in consumer goods, while at the same time investing taxpayers' money into providing better services for people to consume: in a welfare state, government also seeks to ensure that even those who (for whatever reason) do not produce anything can still participate in the consumption process.
- 5 **As a social movement seeking to promote and protect the rights of consumers.** Consumer advocacy dates back to the co-operative movements of the nineteenth century: interestingly, the consumerist movement has now developed something of a split personality as protection for unbridled consumer choice sits alongside a concern for the environment.

What has become known as the Fordist Deal has driven consumerism. The Fordist Deal was the unwritten contract pioneered by Henry Ford whereby workers are 'promised' ever-higher standards of living in exchange for de-skilled and (to an extent) de-humanised labour on production lines. Ford recognised the potential of his workers as possible customers, and believed that cutting wages simply resulted in cutting the number of potential customers. The result of this has been a tendency to equate success and happiness with material wealth (Lebergott, 1993),

and hence to move consumption from being an elite occupation to one that applies to everyone. governments have become parties to the Fordist Deal, because they try to guarantee full employment and stable currency: they therefore encourage consumption in order to increase employment levels. Some commentators refer to 'the Fordist State' (Hirsch, 1991; Jessop, 2001). Governments have even lost office as a result of failing to keep the promise of higher standards of living for all – the post-war Labour government of the UK was defeated by the Conservatives in 1951 as a direct consequence of their 'austerity' policy, which was swept away by the new government in favour of a consumer-led boom (Hennessy, 1992).

A central feature of consumerism is the separation of production and the circulation of products (often in a glamourised way). Consumers are, of course, the same people who produce goods, despite increased automation, but they will often prefer not to be reminded of the production process, and since the products each individual is involved in producing only represent a tiny proportion of the goods he or she consumes, there is little link between production and consumption.

Consumerism has a global dimension in that it shapes international trade, and even has an influence on war and peace (wars fought to protect supplies of raw materials such as oil are prime examples).

The mass media and advertising have further fuelled the consumerist ideology by linking products with sign values about happiness, identity, beauty, love and other intangible values. These meanings are attached to commodities in order to persuade people to buy, and although marketers do not have the ability to persuade people to buy things, such advertising certainly has an effect on people's tendency to purchase. This is, of course, the area that is of most interest to marketers.

See also: globalisation

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